European Energy Holding ApS

Annual report 2017

The annual report has been presented and approved at the Company's annual general meeting on 20 June 2018

Anne Wichmann
Dirigent

CVR no. 25 62 56 76
Gyngemose Parkvej 50, 2860 Søborg

Contents

Statement by the Executive Board

The Executive Board has today discussed and approved the annual report of European Energy Holding ApS for the financial year 1 January – 31 December 2017.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In my opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities and financial position at 31 December 2017 and of the results of the Group's and the Parent Company's operations and consolidated cash flows for the financial year 1 January – 31 December 2017.

Further, in my opinion, the Management's review gives a fair review of the development in the Group's and the Parent Company's activities and financial matters, of the results for the year and of the Group's and the Parent Company's financial position.

I recommend that the annual report be approved at the annual general meeting.

Søborg, 20 June 2018
Executive Board:

Knud Erik Andersen

Independent auditors' report

To the shareholder of European Energy Holding ApS

Opinion

We have audited the consolidated financial statements and the parent company financial statements of European Energy Holding ApS for the financial year 1 January – 31 December 2017 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for the Group as well as for the Parent Company and a cash flow statement for the Group. The consolidated financial statements and parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities and financial position at 31 December 2017 and of the results of the Group's and the Parent Company's operations and consolidated cash flows for the financial year 1 January – 31 December 2017 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the consolidated financial statements and the parent company financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditors' report

In preparing the consolidated financial statements and the parent company financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements unless Management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements

Our objectives are to obtain reasonable assurance as to whether the consolidated financial statements and the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of financial statement users made on the basis of these consolidated financial statements and parent company financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent auditors' report

- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the consolidated financial statements and the parent company financial statements, including the disclosures, and whether the consolidated financial statements and the parent company financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the consolidated financial statements and the parent company financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent company financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the consolidated financial statements or the parent company financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Independent auditors' report

Based on the work we have performed, we conclude that the Management's review is in accordance with the consolidated financial statements and the parent company financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 20 June 2018
KPMG
Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Lau Bent Baun	**Martin Eiler**
State Authorised	State Authorised
Public Accountant	Public Accountant
MNE No. 26708	MNE No. 32271

Management's review

Company details

European Energy Holding ApS
Gyngemose Parkvej 50
DK-2860 Søborg

CVR no.:	25 62 56 76
Established:	30 August 2000
Registered office:	Gladsaxe
Financial year:	1 January – 31 December

Executive Board

Knud Erik Andersen

Auditors

KPMG
Statsautoriseret Revisionspartnerselskab
Dampfærgevej 28
DK-2100 Copenhagen

Annual general meeting

The annual general meeting will be held on 20 June 2018.

Management's review

EUR'000	2017	2016	2015	2014 *	2013 *

Key figures

Revenue	187,065	143,632	73,559	62,947	29,963
Direct costs	-147,361	-107,281	-57,531	-44,115	-13,257
Gross profit	39,704	36,351	16,028	18,832	16,706
Operating profit	28,532	27,209	7,548	11,634	8,987
Loss from financial income and expense	-1,692	-6,647	-1,198	-5,542	-5,156
The Group's share of profit for the year	**14,212**	**14,108**	**2,747**	**5,175**	**2,558**
Total assets	284,742	213,729	215,683	191,602	137,780
Equity	**53,872**	**39,587**	**25,383**	**34,891**	**30,644**
Cash flow from operating activities	-14,133	6,785	-17,028	-6,161	-1,432
Net cash flow from investing activities	3,588	724	-5,484	-4,650	3,230
Portion relating to investment in property, plant and equipment, net	-815	-6,848	-98	-5,563	-7
Cash flow from financing activities	43,992	-8,022	20,004	18,860	-2,986
Total cash flow	**33,447**	**-513**	**-2,508**	**8,049**	**-1,188**
Financial ratios					
Gross margin	21,2%	25,3%	21,8%	29,9%	55.8%
Operating margin	15,3%	18,9%	10,3%	18,5%	30.0%
Equity ratio	18,9%	18,5%	11,8%	18,2%	22.2%
Return on equity	30,4%	43,4%	11,4%	15,8%	8.7%
Average number of full-time employees	74	64	53	46	41

*) Figures for 2013 - 2014 have not been adjusted to the changed revenue recognition implemented in 2016.

Financial ratios

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

The financial ratios have been calculated as follows:

Gross margin $$\frac{\text{Gross profit x 100}}{\text{Revenue}}$$

Operating margin $$\frac{\text{Operating profit x 100}}{\text{Revenue}}$$

Equity ratio $$\frac{\text{Equity at year end x 100}}{\text{Total equity and liabilities at year end}}$$

Return on equity $$\frac{\text{Profit after tax x 100}}{\text{Average equity}}$$

Management's review

Management Report for European Energy Holding ApS

The Company's Main Activities
The main focus of the European Energy Holding Group is developing and constructing wind turbines and solar parks. Another focus of the Group is purchasing existing renewable energy parks and the financing of these for either disposal or operation.

Development of Operations
The most significant part of the activities in the Group are related to the subsidiary European Energy A/S. European Energy Holding ApS has provided security in the form of parent company guarantees in order to secure certain subsidiaries' financial obligations towards third parties during the construction of facilities related to renewable energy projects in Brazil. The company has on the top of the activitites in the subsidiary European Energy A/S only a few other balance sheet items in the Group related to non-current assets (Other receivables), current assets (deferred tax asset) and to liabilities (Other payables).

Management's review

Business model

Since 2004, European Energy has acquired considerable know-how in all stages of the wind and solar power value chain. This expertise ranges from identifying new sites and securing financing to managing the actual construction process and ensuring the reliable operation of assets.

European Energy has three main business areas:

- development, construction and divestment of wind and solar farms
- sale of electricity from operational assets
- asset management

Development, construction and divestment

Generally, the process of creating a wind or solar farm can be divided in following stages:

1. Development and/or acquisition of the project
2. Construction of the project incl. project financing
3. Complete or partial divestment incl. securing bridge or long-term financing

Stage 1: Development and project acquisition

In the development phase, European Energy assesses the wind or solar resource at a potential site. This is an essential step in evaluating the financial viability of the project. If a site holds potential, European Energy secures the land rights, conducts environmental studies, obtains the requisite planning and building permits, investigates grid connection and prepares production estimates. When all the essential rights and permits necessary to initiate the construction phase have been acquired, the project is considered ready to build. All permits, rights and contracts necessary to construct and operate a project are typically placed in a special purpose vehicle (SPV), which facilitates project financing as well as the sales process.

The current development portfolio also includes the repowering of existing wind farms. Repowering involves replacing aging, small turbines with newer, more efficient ones. European Energy's development portfolio comprises a mix of solar farms as well as onshore and near-shore wind farms. In total, it consists of 2.036 MW (2016: 2.045 MW) of potential projects in eight countries. The geographical diversity, varying stages of development and focus on different technologies ensures a continuous cycle of activity and broad range of investment opportunities. In line with the strategy, European Energy is increasingly entering projects at a later stage of development and completing them in cooperation with the initial developer. Project screening, selection and completion are based on in-house competencies. The benefits of this approach include bigger certainty of project realisation, shorter investment cycles and significantly greater agility in entering new markets

Stage 2: Construction

A final decision regarding the design of a park, its technological specifications as well as the suppliers and construction contractors, is made in the construction phase. This is the area of European Energy's core competencies. The choice of technology significantly impacts wind or solar farm efficiency, bankability and demand from long-term investors. During this phase, European Energy manages the process from breaking the ground through to grid connection.

Management’s review

Financing is an integral part of the pre-construction and construction activities. European Energy has an expanding network of actual and potential financing partners. As its portfolio of successfully constructed and divested projects grows, so does trust among the financing partners, which in turn facilitates the process of securing further project financing.

Stage 3: Divestment of wind and solar farms

European Energy’s primary source of revenue and profit comes from divesting wind and solar farms. European Energy assesses each project individually and, taking the risk and reward profile into account, divests the project to long-term investors at the optimal time. In most cases, European Energy concludes sales agreements during the construction phase, generally on a fixed price, turnkey basis. This reduces the construction risks and maintains European Energy’s ability to participate in new development and construction activities.

To manage the complex process of developing and constructing wind and solar farms, European Energy has a strong legal department with detailed knowledge of the regulatory framework and incentive schemes in key markets, supplier contracts, financing agreements as well as sales and purchase agreements with long-term investors.

Production and sale of electricity

As an independent power producer, European Energy owns or co-owns 48 operational solar and wind farms in five countries with a total capacity of 386 MW of which the Group’s share of the net capacity amounts to 135 MW. The Group’s share of the renewable energy production from these operating assets was 266 GWh in 2017.
The sale of electricity contributes to European Energy’s revenue. However, as a substantial part of the sale of electricity is located in joint venture companies, associated companies or other investments, the main part of the sale of electricity is not recognised under “Revenue” in the “Consolidated statement of profit or loss and other comprehensive income”. Instead, the main part is included under the “Profit after tax from equity accounted investments, operating companies”.

Asset management

Revenue from wind and solar farms depends not only on the technology installed, weather conditions and electricity prices but also on the ability to ensure reliable operation of the farms. Consequently, European Energy has a dedicated asset management team tasked with minimising downtime at operating plants and dealing with incidents when they occur, including solar and wind farms managed on behalf of third parties. Asset management is integral to the core business of European Energy, whose customers are often institutional investors who prioritise choosing a business partner with the ability to construct a plant, optimise production output, and minimise operating costs on their behalf.

The accumulated number of operating plants under administration gives European Energy purchasing power, considerable knowledge and market insight. This adds significant value to the investors, and for European Energy it leads to new project opportunities (i.e. repowering projects) and additional sales potential. Furthermore, know-how from the operational phase is systematically integrated in the planning phase regarding new projects. In this way, the asset management business creates value for European Energy through collected fees, improved operational performance of the asset portfolio, and better access to financial investors and new business opportunities.

Management’s review

Group structure of European Energy

European Energy A/S is the parent company of the Group and owns several subsidiaries, associates and joint-venture companies, which in turn own additional subsidiaries, associates or joint-venture companies.

The number of companies is relatively high because many of European Energy’s wind and solar farms are held by special purpose vehicles (SPV). The sole purpose of an SPV is the acquisition, financing and construction of particular wind and solar farms. The SPV usually has an asset/liability structure and legal status that makes its obligations secure even if the parent company becomes insolvent. Financing is obtained through the SPV, and, together with equity provided by its owners, this is how the SPV obtains funds to construct the assets. Since the SPV owns the assets, which are provided as collateral for external financing, the risk for the parent company is limited; however, European Energy may, in some cases, provide guarantees for an SPV’s debt during the construction phase. The SPVs take the form of either a limited company or a tax-transparent company.

Another advantage of using an SPV is when providing debt to the SPV, the financing bank evaluates the SPV’s assets and corresponding collateral, and does not need to evaluate the parent company or take into account any debt other than that of the SPV. This reduces the funding cost. The SPV structure also has the benefit of facilitating the divestment of wind and solar farms, since the projects can be sold as single, separate legal entities.

Management's review

Financial performance

European Energy's customer base is comprised of institutional investors and utilities that invests in stable cash flows generated by operational wind or solar farms. If the investor buys a completed and operational energy farm, the revenue is recognised when the asset is built, put into operation and the buyer has accepted takeover of the SPV.

It can take up to five years from the beginning of a project for the income generated by its sale to be recognised in the annual report.

Consequently, there will be a substantial difference between European Energy's value creation in the project and the point in time when the revenue is recognised as income.

In cases where a share of the transaction price is conditional on the delivery of a certain amount of electricity or on the cost of management not exceeding a given amount, the variable amount is only included if it is highly likely that a substantial part of the amount is not to be repaid subsequently. If not, the income is not recognised until a later point in time when all performance obligations have been satisfied.

To the extent that the price of the transaction is paid over a period of time, the present value is recognised with the discounted value of the future cash flows.

Profit and loss

2017 was a good year for European Energy Holding ApS. Earnings before interest, taxes, depreciation and amortisation (EBITDA) came to EUR 30.3 million (2016: EUR 28.8 million) and the profit for the year totalled EUR 22.1 million (up from EUR 18.3 million in 2016).

Revenue totalled at an all-time high EUR 187.1 million (up from EUR 143.6 million in 2016). The revenue was generated by the divestment of wind and solar farms, the sale of electricity, asset management and other fees.

European Energy's most important revenue source is the divestment of wind and solar farms. This revenue increased from EUR 56.9 million in 2016 to EUR 120.0 million in 2017. The wind and solar farms delivered in 2017 were larger than in 2016.

Revenue from electricity sales increased to EUR 10.1 million from EUR 8.9 million in 2016. This was mainly due to electricity sold in wind and solar farms in the period from the farms going into operation after construction until the farms were handed over to a buyer.

The asset management and other fees were stable in 2017, compared to 2016, at EUR 1.7 million for both years. There is a tendency towards increased asset management fees, and fewer non-recurring other fees.

European Energy also participated in development and construction through joint ventures (JVs) and associated companies. In 2017, the net results from this was EUR 0.6 million. The results are a net earning related to profit from sale of energy parks of EUR 2.8 million, minus write-offs for non-successful projects of EUR 2.2 million.

Management's review

The operating JVs and associated companies contributed with EUR 4.9 million compared to EUR 1.5 million in 2016. The increase is primarily due to the sale of turbines in repowering projects and improved wind conditions in both Germany and Denmark compared to the not so good wind year in 2016.

European Energy's other investments in shares includes share holdings of less than 20% in energy parks. These shares are evaluated to market value. One Italian wind park has been adjusted to market price, and due to the very good performance of the park, an income of EUR 1.4 million has been recognised in 2017 as other income.

With direct costs of EUR 147.4 million in 2017, the Company achieved a total gross profit of EUR 39.7 million. In 2016, the direct cost was EUR 107.3 million and the gross profit EUR 36.4 million. The profit before tax ended at EUR 26.8 million, up from EUR 20.6 million in 2016.

The balance sheet

The Company's aim is for all constructions or acquisitions undertaken to be for the purpose of sale. The vast majority of development, constructions and acquisitions are therefore presented in inventories. The value of plants on the balance sheet in Property, Plant & Equipment, PPE, only increases when investments are made with no immediate expectation of a future sale of the project, or when a completed site is not sold for strategic reasons. Acquired land which is not sold as a wind or solar farm, but which is kept for strategic reasons, will also increase the PPE.

PPE decreased from EUR 51.3 million in 2016 to EUR 50.3 million in 2017. The investment in PPE mainly covers solar farms in Spain. There have been no material additions of strategic assets to the PPE in 2017.

Equity-accounted investments (joint ventures and associates) totalled EUR 22.5 million, up from EUR 18.2 million in 2016. The increase is mainly due to the fact that the equity accounted companies realised a net income of EUR 5.4 million for 2017.

Loans to related parties increased by EUR 0.4 million to a total of EUR 0.4 million.

According to IFRS 15, receivables from customers which are regulated by a contract, and for which the exact size of the receivables depends upon future events, are recognised as contract assets. Earn-outs fall in this category.

Trade receivables and contract assets decreased to EUR 14.7 million in 2017 from a total of EUR 17.1 million in 2016. The long-term part hereof decreased to EUR 5.2 million from EUR 5.5 million in 2016.

Inventories increased to EUR 101.8 million from EUR 72.2 million in 2016. The Company is engaging in more fully owned projects and expects the inventory to increase along with the increased number of energy farms under construction. This was also the reason for the increase in inventory from 2016 to 2017 to EUR 98.5 million. The main part of the inventory at the end of 2017 was energy farms under construction.

Management's review

European Energy focuses on evaluating the likelihood of a project's success and reviews projects on an ongoing basis with the aim of making impairments, if needed. A special focus is placed on projects in the early development stages (before construction). The net value of inventory under development decreased from EUR 5.4 million in 2016 to EUR 3.3 in 2017. The decrease was due to scrapped project write-offs.

The total balance increased to EUR 284.7 million in 2017 (up from EUR 213.7 million in 2016).

Cash flow statement

The higher activity level has led to a negative cash flow from operations of EUR 14.1 million (EUR 6.8 million in 2016). The profit before tax of EUR 26.8 million (EUR 20.6 million in 2016) was counterbalanced by a change in net working capital of EUR -33.3 million (EUR -14.0 million in 2016), of which the increased investment in inventory counts for EUR 29.6 million.

Net cash flow from operations and from investing activities totalled EUR -10.5 million (EUR 7.5 million in 2016). Cash flow from financing activities was positive with EUR 44.0 million related to the proceeds from the issue and repayment of bonds of net EUR 13.8 million together with the net proceeds/repayment from project financing of EUR 20.4 million added to the loan from associated companies of EUR 4.0 million and capital increases/dividends paid from/to non-controlling interests of EUR 5.7 million, gave a total cash flow from financing activities of EUR 44.0 million in 2017.

This resulted in a positive net cash flow for 2017 of EUR 33.4 million.

Uncertainty with regard to recognition and measurement

Revenue recognition

Some sales contracts regarding power plants comprise of a fixed and variable consideration. The latter normally relates to an earn-out or production guarantee linked to an actual future production.

The uncertainty about measurement relates essentially to this variable consideration and allocation of revenue between different performance obligations. This measurement requires Management judgment applying assumptions and estimates.

Inventory/projects valuation

Evaluating inventory, especially projects still under development, involves a risk relating to the likelihood of a project's success. Management continuously evaluates all projects on the basis of their financial viability and feasibility. In 2017 this led to a EUR 3.9 million impairment of inventory (write-off or write-down).

Management's review

Divestment

The year was characterised by a high activity level on our core markets but we have also succeeded in developing and selling the first projects in Finland and Brazil.

The wind and solar farms divested by European Energy in 2017 had a cumulative enterprise value of approximately EUR 270 million, including third party equity interests, and had a total capacity of 212 MW. Divestments were concluded in wind farms in Denmark, Finland and Germany as well as six solar farms in UK. The projects represented a total capacity of 131 MW and they produce enough energy to supply more than 50,000 Danish households. Additionally, the joint venture Nordic Power Partner sold its project rights in an 81 MW solar farm in Brazil.

Divestments in Finland and Brazil show European Energy's ability to expand its activities into new markets and complete successful sales. These transactions are part of European Energy's goal of developing several projects in the Nordic markets and to become a more global company in the years to come.

At the end of 2017, European Energy had 230 MW of wind and solar farms under construction, of which sales agreements have been signed for 16 MW. The portfolio of ready-to-build projects has a capacity of 271 MW and includes both wind and solar farms. As such, 230 MW of projects under construction and 271 MW of projects ready to build, which total 501 MW collectively, constitute European Energy's sales pipeline in the short to medium term.

As in 2016, long-term project financing agreements were secured in 2017. For each project, European Energy considers whether external project financing is relevant and project financing is used if it contributes positively to the profit of a project. When obtaining project financing, the finance is secured prior to the transfer of wind and solar farms to institutional investors. All long-term project financing is on a non-recourse basis. European Energy cooperates with many local and international banks in order to choose the optimal loan package for each project.

Sale of electricity

At end-2017, the European Energy and associated companies owned wind and solar power generating assets with a net capacity of 135 MW, delivering renewable energy to consumers in Germany, Denmark, Italy, Bulgaria and Spain. The total electricity production amounted to 266 GWh in 2017, enough energy to power more than 60,000 households.

The sale of electricity grew by 16.1% to EUR 28.2 million in 2017. This growth is mainly due to the acquisition and construction of new capacity. The production from solar PV decreased in 2017 compared to the same period the year before. This is primarily due to the divestment of the UK Solar PV facilities during 2017. The wind production increased significantly compared to 2016 due to additions to the portfolio but fell short of expectations since the wind conditions in Germany and Denmark were less than average.

Management’s review

European Energy often co-owns assets with partners ranging from utilities to private Danish investors. The portfolio primarily consists of assets constructed by European Energy as well as older operational parks acquired with the aim of repowering. The repowering process involves replacing aging, small turbines with newer, more efficient ones. Power prices were generally low in 2017 but were, however, significantly higher than 2016. Due to long-term power purchase agreements and long-term subsidies, low power prices will have a limited effect on the profit from the sale of electricity. To the extent possible and where economically feasible, European Energy sells the electricity produced by way of power purchase agreements. At the same time, most German wind turbines, representing 77% of European Energy’s power generating assets, receive a predetermined feed-in tariff for 20 years after commissioning.

Asset management

Revenue from wind and solar farms is contingent upon factors beyond the technology installed, weather conditions and electricity prices. Since renewables are long-term investments, their overall return also greatly depends on reliable asset operation and maintenance. To this end, European Energy’s asset management team dedicates its resources to optimising the operation of wind and solar farms. The asset management department offers investors a full spectrum of asset management services. Investors can therefore make passive investments without worrying about the operation and maintenance of the wind or solar farm concerned.

2017 results

In 2017, European Energy managed a portfolio of power generating assets totalling 336 wind turbines and 23 solar farms. The power generating assets under management produced a total of 1,3 GWh in 2017, which is enough energy to power more than 300,000 Danish households. The capacity of power generating assets under management amounts to 764 MW, of which 135 MW are owned directly and indirectly by European Energy. The revenue generated from asset management amounted to EUR 1.5 million in 2017.

How European Energy carries out asset management

European Energy’s approach to asset management is to monitor and analyse asset performance with a view to implementing the optimal strategies regarding production, cost structure, refinancing and repowering. European Energy also ensures legal, technical and safety compliance and consistent reporting to stakeholders such as investors and financing banks. Services range from ensuring access to turbines requiring maintenance, through conducting operation and management tasks, to financial reporting, accounting and taxmanagement, legal compliance and negotiating with insurance companies and power traders.

European Energy aims to identify risks early and thus to reduce the impact on hardware as well as on the performance and production of the assets. This is achieved through a combination of remote monitoring and site visits.

Management's review

Development and construction

2017 was also a busy year at European Energy with regard to development and construction activities. European Energy constructed and grid-connected wind and solar farms with an investment value of EUR 291 million. In total, European Energy has developed, constructed and acquired approximately 950 MW valued at more than EUR 1,318 million since the company's foundation in 2004. European Energy's dedicated employees have developed the majority of these projects from the green-field stage. The construction of several other projects is well underway, and with an increasing development portfolio, construction activities are set to expand in the years to come.

Construction activities in 2017

By the end of 2017, European Energy had construction activities covering five countries: Denmark, Sweden, Germany, Italy and Brazil. Projects with a capacity of 146 MW at 12 different sites had been constructed during the year. In total, the capacity connected to the grid in 2017 delivers more than 450,000 MWh per year of renewable energy. This is enough to power more than 100,000 Danish households.

Projects with a capacity of 230 MW were under construction at the end of 2017, and are expected to become grid-connected in 2018.

Wind farms

In 2017, European Energy finished the construction and grid-connected of 12 wind farms. One major wind farm, Kappel, with a capacity of 25 MW was constructed and grid-connected in Denmark. In Finland, three wind parks with a total capacity of 17 MW, consisting of 5 Vestas V126 3.45 MW turbines, was grid-connected and divested. These wind farms are the first constructed by European Energy in Finland, but European Energy has a pipeline of more than 100 MW that may be built in the years to come.
In Germany, European Energy continued its construction activities and connected the Lüdersdorf, Werneuchen, Westendahl, Gilmerdingen, Schochodde, Vormark and Uppum wind farms with a total capacity of 84 MW to the grid.

At the end of 2017, European Energy has 86 MW under construction in Denmark. The construction activities are divided into 3 sites, Nøjsomheds Odde, Holmen II and Svindbæk. All turbines under construction in Denmark were constructed in due time in 2018 to secure the tariff.

In Sweden, European Energy began the construction of one wind farm at the Västanby site with a capacity of 10 MW. All these projects are expected to become operational during the second half of 2018. Other interesting opportunities will unfold in the Swedish market during 2018 and 2019.

In Germany, several wind farms were grid-connected and divested in 2017. As a result, only one wind farm was under construction by the end of 2017. However, European Energy expects to develop new wind farms in Germany in the years to come, based on the strong project pipeline and secured tariffs from participation in auctions during the year. In the first auction in 2018, European Energy was able to secure a tariff for the project Viertkamp consisting of 4 turbines.

Management's review

In Italy, the Oppido wind farm became operational a few days into 2017. The wind farm has been operational throughout the year. The wind farm is divested to an international investor. Due to a subsequent condition, the farm will not be financially accounted for before 2018. Another project in Italy, Bosco le Paine, with a total capacity of 39 MW was acquired in the second half of 2017. This project is under construction and is expected to be in operation during the second half of 2018. In general, the Italian market currently presents interesting opportunities, which are being carefully monitored and could lead to additional engagements in the market.

All in all, European Energy had construction activities with regard to wind farms with a total capacity of 147 MW at the end of 2017.

Solar farms

The Danish Government decided, in 2016, to cap the distribution of subsidies for new solar farms. Before the solar programme was closed down, European Energy managed to secure feed-in tariffs for 3 solar farms with a total capacity of 22 MW. All sites were under construction at year-end but are now grid-connected and in operation.

European Energy has activities in emerging markets through its joint venture, Nordic Power Partners, with the Danish Climate Investment Fund (DCIF). The Investment Fund for Developing Countries (IFU) manages the DCIF. The underlying logic of the partnership is that Nordic Power Partners benefits from the project development experience of European Energy and from the access to local knowledge in the developing countries as well as additional financing from IFU/DCIF.

European Energy has ongoing construction on two of three 30 MW solar farms in Paraíba, a state in north-eastern Brazil, and the last solar farm is ready to build. The projects have been developed together with a local partner and have secured a 20-year power purchase agreement with the Brazilian government.

Ready-to-build projects and development activities

European Energy is on the constant lookout for new development projects. The aim is to maintain a broad range of future investment opportunities by growing a geographically and technologically diverse portfolio. By the end of 2017, European Energy has a project portfolio of 2,001 MW divided into 9 countries and a portfolio of ready-to-build projects of 271 MW in several European countries and Brazil.

Ready-to-build projects

Among the projects ready to build are solar farms with a capacity of 50 MW in Denmark. European Energy will construct the solar farms in the first half of 2018.

A pipeline of nearly 90 MW in Sweden is ready to build and is expected to be constructed during 2019 and 2020.

Brazil has become an increasingly interesting market for European Energy. European Energy has one 30 MW solar farm in Paraíba that is ready to build. Furthermore, in the 4th quarter of 2017, the Group successfully participated and won a power purchase agreement for wind projects in Brazil with a capacity of 82 MW. This establishes the Group's first wind project in Brazil and continues the Group's activities in Brazil. European Energy will participate in further auctions in Brazil in 2018 in order to expand its activities further in the area.

Development activities

At end-2017, European Energy's main markets for development projects are Denmark, Finland, Germany, Sweden and Brazil. The project portfolio comprises both solar power as well as onshore and near-shore wind farms. European Energy expects the same high level of activity in 2018, with construction of development portfolio projects already in progress and new projects in the pipeline.

European Energy is likely to enter new market opportunities such as Mexico, Australia or other focus areas. European Energy is constantly looking for projects and is ready to take on new projects even when they are not part of the existing development portfolio.

Near- and offshore wind

European Energy expects to develop its near-shore portfolio under the Danish government's "Open Door" procedure, initiated in 2012. The two sites of Omø South and Jammerland Bay, with a combined capacity of up to 560 MW, are in the process of obtaining Environment Impact Assessment approval. European Energy has also applied to develop the near-shore site Mejl Flak, situated off the coast of Aarhus, Denmark's second largest city.

As part of the strategy to expand the near-shore wind activities, European Energy has, after the financial year, acquired the near-shore site Sprogø, which consists of seven turbines.

Outlook and expectations

Revenue for 2018 is expected to be in the region of EUR 190-210 million. The profit before tax is expected to be in the region of EUR 26-28 million. Management is looking forward to another year with good results. However, the risk factors associated with developing and constructing solar and wind projects may cause delays. The overall performance will also depend on factors such as environmental impact assessments, building permits, sudden changes in incentive schemes and the Group's success in renewable-energy auctions.

Significant events after the reporting period

European Energy A/S has increased its senior secured callable floating rate bonds due 2021 by a principal amount of EUR 25 million. The subsequent bonds have an issue price of 103.423% and settled on 20 March 2018. The proceeds will be used to help fuel further growth and support European Energy's construction and development pipeline and for general corporate purposes. The subsequent bonds have been listed on Nasdaq Copenhagen A/S. Please refer to Company Announcement 3/2018.

The Board has decided to introduce an incentive scheme for management, board members and selected staff members in the Group. The scheme is based on issuance of warrants that give the right to apply for new shares in European Energy in the future.

For 2018, the board has approved the first issuance of warrants up to a total of 1% of the shares equal to 3 million shares.

Management's review

The fair value of the warrants at grant date, EUR 0.3 million, will be recognized as an expense in the income statement over the vesting period. A corresponding amount will be recognized in share holders' equity as the warrant programme is designated as an equity-settled share-based programme. The warrant programme will increase staff costs in 2018 by approximately EUR 0.2 million.

As part of the strategy to expand the near-shore wind activities, European Energy has, after the financial year, acquired the near-shore site Sprogø. The wind farm is the most recognised offshore wind farm in Denmark, as it can be seen from the bridge connecting Zealand and Funen. Approximately 25 million people pass the farm every year. Sprogø wind farm consists of seven 3 MW wind turbines, which produce power equivalent to 16,000 Danish households per year. The takeover is expected to be completed by 1 June 2018, pending the necessary approvals by the authorities.

Risk management

As a developer and asset manager of renewable energy projects, European Energy faces a number of risks, which are a natural part of its business and value creation.

European Energy's risk management is intended to continuously identify, assess and manage the business and financial risks in order to minimise their level and number.

While these risks can take on different forms and dimensions, they can broadly speaking be divided into market risks, operational risks, financial risks and political, regulatory and legal risks. The primary risks and the associated risk management measures are addressed below in line with these risk categories.

Market risk

The sale of electricity and the divestment of wind and solar farms involve exposure to fluctuating electricity prices in the market. In order to mitigate this market risk, European Energy enters into long-term power purchase agreements (PPAs) or secures long-term feed-in tariffs for its projects. Furthermore, geographical diversification of both development and operating projects ensures that the electricity market price risk is spread out across various different electricity markets.

Another decisive uncertainty, as well as opportunity, in European Energy's market is the consistent and fast-paced development of both solar and wind energy production technologies requiring constant adaptation and responsive project development. In order to limit its exposure to potential technological changes which favour one technology over the other, European Energy follows a dual development strategy covering both wind and solar technology. In addition, European Energy limits counterparty and technology dependency risk by contracting with varying technology suppliers across different projects.

Operational risk

European Energy develops green-field projects, acquires pre-developed renewable energy projects, which are at different stages of their development cycle, and participates in repowering projects.

Management's review

In order to be able to continuously realise new profitable projects, European Energy relies on a broad worldwide project development pipeline which ensures cross-border market intelligence and agility and responsiveness in the instance that market conditions change in individual markets. European Energy limits its risk exposure to specific projects or countries by selectively entering into partnerships, ensuring that development risks are appropriately shared between European Energy and its partners, which, for example, can be the original project developers.

Development costs usually constitute a minor part of the total project costs, and European Energy is typically able to discontinue a project if circumstances so warrant.

Once development projects enter into the construction phase, European Energy faces construction risks such as potential delays due to unfavourable weather conditions, cost overruns or supplier dependencies. European Energy reduces these risks by conservative construction planning, which makes provisions for contingencies, and by conservative construction budgeting, which incorporates an appropriate reserve for unforeseen expenses. Furthermore, it builds on established and proven relationships with only top-tier technology providers.

Financial risks

Liquidity

As a developer of large-scale renewable energy projects, European Energy naturally relies on sufficient and large amounts of liquid capital to finance construction activities. In particular, when projects enter into construction, they rely on timely construction financing with both equity capital, which is normally provided by the parent company, European Energy, and debt capital, which is normally provided by a bank through bridge financing facilities, which are subsequently refinanced with long-term non-recourse project loans once the project is operational. If sufficient capital is unavailable, the development and construction of some projects may be delayed or jeopardized all together.

In order for European Energy to mitigate the underlying liquidity risks, it dedicates considerable efforts in ongoing liquidity monitoring and forecasting of the financing needs at both Group and project level. In addition, particularly at the project level, European Energy reduces liquidity risks related to construction activities by spreading and evening out supplier payments over the whole construction cycle and by early securing of construction financing with renowned and trusted banks.

Foreign currency risks

European Energy's activities abroad expose the company to fluctuations in exchange rates. The majority of European Energy's foreign exchange operations are linked to the Euro. European Energy does not hedge this risk, since the Danish fixed exchange rate policy is considered unlikely to change. Furthermore, to mitigate foreign currency risk, especially at project level, European Energy may partially finance projects in the local currency. European Energy assesses the need for hedging purchase orders from suppliers if the orders have substantial value and are not in local currency. This is to ensure that budgeted construction costs are not exceeded. When projects are being divested, European Energy assesses the need and possibility for hedging the entire enterprise value of the project.

Management's review

Interest rates

At both the Group and individual project level, European Energy relies on interest-bearing debt financing which exposes it to interest rate risks. European Energy counters these risks by balancing its portfolio of fixed and variable rate loans and borrowings. At project level in particular, it often avoids interest rate risks all together by engaging in interest rate hedges that cover the full maturity of the project-related loans.

Political, regulatory and legal risks

The successful development of renewable energy projects is dependent on the political and regulatory environment. While renewable energy has already reached market price competitiveness with conventional forms of energy production in favourable climate conditions, it still relies on state subsidies in many regions and countries. In order to reduce European Energy's exposure to country-specific changes in government policies and subsidy-related regulation, it follows geographic and technological diversification. In 2017, European Energy was active in 13 different countries across the globe. Furthermore, in order to decrease its political risks in relatively higher risk countries outside Europe, European Energy strives for joint venture developments in collaboration with local partners.

Responsibilities and compliance

Responsibility

A review of European Energy's position on corporate social responsibility according to section 99a and section 99b of the Danish Financial Statements Act is available at European Energy's website: https://www.europeanenergy.dk/en/financial-reports/

Management diversity

A disclosure of European Energy's diversity policy, targets and current performance is available at European Energy's website:
https://www.europeanenergy.dk/en/financial-reports/

Corporate governance

A description of the internal control and risk management system relating to section 107b, 2, of the Danish Financial Statements Act is available at European Energy's website:
https://www.europeanenergy.dk/en/financial-reports/

Management's review

Use of judgements and estimates

In preparing the consolidated and separate financial statement, Management has made judgements, estimates and assumptions that affect how the Group's accounting policies are applied and the amount of assets, liabilities, income and expenses reported. The actual results may deviate from these estimates.

Judgements

The following provides information about judgements made in applying those accounting policies that most significantly impact the amounts recognised in the consolidated and separate financial statements:

Revenue recognition

Some sales contracts regarding power plants comprise of a fixed and variable consideration. The latter normally relates to an earn-out or production guarantee linked to an actual future production.

The uncertainty about measurement relates essentially to this variable consideration and allocation of revenue between different performance obligations. This measurement requires Management judgment applying assumptions and estimates.

Assessment of classification – whether the Group has control, significant influence or joint control

To have control over an investee, European Energy (EE) must have all of the following:

a) power over the investee;
b) exposure, or rights, to variable returns from its involvement with the investee; and
c) the ability to use its power to affect the amount of its returns.

The assessment of control is based on European Energy's actual ability to direct the activities of the project rather than on the legal form of the ability. Consequently, the determination of whether EE has substantive rights over the project does not distinguish between rights arising from EE as a shareholder of the project or as an operator.

In certain circumstances, the decision-making rights over the investee are delegated to a general partner. Particular emphasis is put on assessing control over an investee. When European Energy acts as commercial manager under a commercial management agreement (CMA), European Energy assesses whether it is using the power provided under the CMA for its own benefit (European Energy has control); or merely using this power for the benefit of other investors (European Energy is acting as an agent).

The classification of a joint arrangement under IFRS 11 depends on the parties' rights and obligations arising from the arrangement in the normal course of business. Key factors considered relate to whether the investors have the direct rights to the output (assets) and obligation as to the liabilities of the wind or solar farm. The following critical factors are included in the analysis of other facts and circumstances that could affect classification: whether co-investors are allocating their share of the output to the utility company or only entitled to a net cash flow, and whether the wind or solar farm relies solely on the partners for financing.

Management's review

Assumptions and estimation uncertainties

When preparing the consolidated financial statements of the Group, management makes a number of accounting estimates and assumptions on which the recognition and measurement of the Group's assets and liabilities are based.
The following provides information about assumptions and estimation uncertainties with a significant risk of resulting in a material adjustment in the year ending 31 December 2017:

Impairment test property, plant and equipment

The key assumptions supporting recoverable amounts mainly comprise discount rate (WACC) and expectations regarding future production and unit prices.

Inventories

Inventories, comprising projects under development, under construction and completed projects are initially measured at cost.

An impairment test is performed on the carrying amount.

The impairment test is based on assumptions regarding strategy, market conditions, discount rates and budgets etc., after the project has been completed and production commenced. If market-related assumptions etc. are changed, projects may have to be written down. Management examines and assesses the underlying assumptions when determining whether the carrying amount should be written down.

Tax

Uncertainties exist with respect to the interpretation of tax regulations in the different countries in which the Group operates, to changes in tax law and to the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could potentially cause adjustments to tax income and expense already recorded. Management reviews deferred tax assets annually, which are recognised only to the extent considered sustainable in the future, taking the timing and the level of future taxable profits into account, together with Group's future tax planning strategies.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Income statement

		Consolidated		Parent company	
EUR'000	Note	2017	2016	2017	2016
Revenue	2	187,065	143,632	1,966	13,395
Direct costs		-147,361	-107,281	-449	-10,544
Gross profit		39,704	36,351	1,517	2,851
Other income		1,400	0	0	0
Staff costs	3	-6,970	-4,949	0	0
Other external costs	4	-3,879	-2,583	-22	-5
Depreciation		-1,723	-1,610	0	0
Operating profit		28,532	27,209	1,495	2,846
Profit from subsidiaries		0	0	13,341	11,425
Profit from associates		5,432	-1,043	0	0
Financial income	5	2,698	3,384	339	101
Financial expenses	6	-9,822	-8,988	-779	-290
Profit before tax		26,840	20,562	14,396	14,082
Tax	7	-4,784	-2,234	-184	26
Profit for the year		22,056	18,328	14,212	14,108
Non-controlling interests' share of profit for the year		-7,844	-4,220	0	0
The Group's share of profit for the year		14,212	14,108	14,212	14,108

Proposed profit appropriation

Net revaluation according to the equity method	13,341	11,425
Retained earnings	871	2,683
	14,212	14,108

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Balance sheet

		Consolidated		Parent company	
EUR'000	Note	2017	2016	2017	2016
ASSETS					
Non-current assets					
Property, plant and equipment	8				
Land and buildings		352	0	0	0
Wind power generating assets		4,309	4,526	0	0
Solar power generating assets		45,423	46,683	0	0
Tools and equipment		256	111	0	0
		50,340	51,320	0	0
Investments					
Investments in subsidiaries	9	0	0	58,020	44,605
Investments in associates	10	22,485	18,208	0	0
Other investments	11	4,961	3,512	0	0
Loans to related parties	12	445	20	445	20
Receivables from subsidiaries		0	0	0	3,684
Receivables from associates	12	11,041	13,158	0	0
Trade receivables and contract assets	13	5,153	5,547	0	0
Other receivables	14	11,156	10,587	2,501	2,446
		55,241	51,032	60,966	50,756
Total non-current assets		105,581	102,352	60,966	50,756
Current assets					
Inventories	15	101,797	72,201	0	0
Receivables					
Trade receivables and contract assets		9,534	11,552	0	2
Deferred tax asset	16	3,083	4,371	257	439
Other receivables		15,430	5,938	0	0
Prepayments		453	1,896	0	0
		28,500	23,757	257	441
Cash and cash equivalents		48,864	15,419	685	342
Total current assets		179,161	111,377	942	783
TOTAL ASSETS		284,742	213,729	61,908	51,539

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

		Consolidated		Parent company	
EUR'000	Note	2017	2016	2017	2016
EQUITY AND LIABILITIES					
Equity					
Share capital		17	17	17	17
Reserve for net revaluation according to the equity method		0	0	55,651	42,237
Retained earnings		53,855	39,570	-1,796	-2,668
Equity attributable to the shareholder of the Company		53,872	39,587	53,872	39,587
Non-controlling interests	17	32,985	19,401	0	0
Provisions					
Other provisions	18	798	556	0	0
Deferred tax	16	2,201	2,618	0	0
Total provisions		2,999	3,174	0	0
Liabilities other than provisions					
Non-current liabilities other than provisions	19				
Bond loan		58,924	44,700	0	0
Credit institutions, project financing		53,310	55,501	0	0
Amount owed to subsidiaries		0	0	6,916	11,630
Other payables		1,260	1,402	663	0
		113,493	104,777	7,579	11,630
Current liabilities other than provisions					
Bond loan	19	7,600	7,600	0	0
Credit institutions, project financing	19	38,363	15,726	0	0
Other debt, partnerships	19	1,624	4,782	0	0
Trade payables		16,391	11,740	327	308
Payables to associates		4,848	835	0	0
Corporation tax		811	934	51	14
Other payables		11,755	8,347	79	0
		81,392	49,964	457	322
Total liabilities other than provisions		194,886	151,567	8,036	11,952
TOTAL EQUITY AND LIABILITIES		284,742	213,729	61,908	51,539

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Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Equity

Consolidated EUR'000	Share capital	Retained earnings	Total
Equity at 1 January 2016	17	25,366	25,383
Profit for the year	0	14,108	14,108
Value adjustments of hedging instruments	0	35	35
Other adjustments	0	61	61
Equity at 31 December 2016	17	39,570	39,587
Equity at 1 January 2017	17	39,570	39,587
Profit for the year	0	14,212	14,212
Value adjustments of hedging instruments	0	131	131
Other adjustments	0	-57	-57
Equity at 31 December 2017	17	53,855	53,872

Parent company EUR'000	Share capital	Reserve for net revaluation according to the equity method	Retained earnings	Total
Equity at 1 January 2016	17	30,716	-5,350	25,383
Profit for the year	0	11,425	2,683	14,108
Value adjustments of hedging instruments	0	35	0	35
Other adjustments	0	61	0	61
Equity at 31 December 2016	17	42,237	-2,668	39,587
Equity at 1 January 2017	17	42,237	-2,668	39,587
Profit for the year	0	13,341	871	14,212
Value adjustments of hedging instruments	0	131	0	131
Other adjustments	0	-57	0	-57
Equity at 31 December 2017	17	55,651	-1,796	53,872

The share capital consists of nom. 125,000 shares of DKK 1 each, corresponding to EUR 17 thousand.

The share capital has remained unchanged for the last 5 years.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Cash flow statement

EUR'000	Consolidated 2017	Consolidated 2016
Profit/Loss before tax	26,840	20,562
Adjustments for:		
Financial income	-2,698	-3,384
Financial expenses	9,822	8,988
Depreciations	1,723	1,610
Profit from equity-accounted companies	-5,432	1,043
Change in net working capital	-33,327	-14,031
Other non-cash items	-1,400	0
Cash generated from operation before financial items and tax	-4,472	14,786
Taxes paid	-3,260	-1,469
Interest paid and realised currency losses	-8,874	-8,495
Interest received and realised currency gains	2,473	1,963
Cash flow from operating activities	-14,133	6,785
Purchase of Property, plant and equipment	-815	-6,848
Proceeds from disposal of equity-accounted investments	69	1,999
Investment/loans in equity-accounted investments	4,303	5,521
Dividends	31	52
Cash flow from investing activities	3,588	724
Proceeds from issue of bonds	58,785	0
Repayment of bonds	-45,000	0
Proceeds from borrowings	125,974	40,437
Repayment of borrowings	-105,527	-39,998
Changes in payables to associates	4,013	427
Non-controlling interests' share of capital increase or disposal of subsidiaries	5,747	-8,888
Cash flow from financing activities	43,992	-8,022
Change in cash and cash equivalents	33,447	-513
Cash and cash equivalents at beginning of period	15,419	15,931
Cash and cash equivalents end of period	48,865	15,419
Of which restricted cash and cash equivalents	-6,429	-5,169
Non-restricted cash and cash equivalents end of year	42,436	10,250

The cash flow statement cannot be directly derived from the other components of the consolidated and parent company financial statements.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes

1 Accounting policies

The annual report of European Energy Holding ApS has been prepared in accordance with the provisions applying to reporting class C (large) enterprises under the Danish Financial Statements Act.

The annual report is presented in EUR, and all values are rounded to the nearest thousand (EUR ’000), except when otherwise indicated. Each amount is rounded individually, and therefore minor differences between total amounts and the sum of underlying amounts may occur. At 31 December 2017, the EUR/DKK rate was 7.44 (31 December 2016: 7.43).

The accounting policies used are consistent with those of last year.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Group and the value of the asset can be reliably measured.

Liabilities are recognised in the balance sheet when an outflow of economic benefits is probable and when the liability can be reliably measured.

On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described below for each individual item.

In recognising and measuring assets and liabilities, any gains, losses and risks occurring prior to the presentation of the interim financial statements that evidence conditions existing at the balance sheet date are taken into account.

Income is recognised in the income statement as earned. Equally, costs incurred to generate the period's earnings are recognised, including depreciation, amortisation, impairment and provisions as well as reversals as a result of changes in accounting estimates of amounts which were previously recognised in the income statement.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest annual report is recognised in the income statement as financial income or financial expenses.

Non-current assets acquired in foreign currencies are translated at the exchange rate at the transactions date.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables and payables, respectively.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of the fair value of a recognised asset or liability are recognised in the income statement together with changes in the fair value of the hedged asset or liability.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future assets or liabilities are recognised as other receivables or other payables in equity. If the hedged forecast transaction results in the recognition of assets or liabilities, amounts previously recognised in equity are transferred to the cost of the asset or liability, respectively. If the hedged forecast transaction results in income or expenses, amounts previously recognised in equity are recognised in the income statement in the period in which the hedged item affects the profit/loss for the year.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the income statement on a regular basis.

Consolidated financial statements

The consolidated financial statements comprise the parent company, European Energy Holding ApS, and subsidiaries in which European Energy Holding ApS directly or indirectly holds more than 50% of the voting rights or which it, in some other way, controls. Enterprises in which the Group holds between 20% and 50% of the voting rights and over which it exercises significant influence, but which it does not control, are considered associates.

On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends, and realised and unrealised gains and losses on intra-group transactions are eliminated.

Investments in subsidiaries are set off against the proportionate share of the subsidiaries' fair value of net assets or liabilities at the acquisition date.

Enterprises acquired or formed during the year are recognised in the consolidated financial statements from the date of acquisition or formation. Enterprises disposed of are recognised in the consolidated income statement until the date of disposal. The comparative figures are not adjusted for acquisitions or disposals.

Acquisitions of enterprises are accounted for using the purchase method, according to which the identifiable assets and liabilities acquired are measured at their fair values at the date of acquisition. Provision is made for costs related to adopted and announced plans to restructure the acquired enterprise in connection with the acquisition. The tax effect of the restatement of assets and liabilities is taken into account.

Any excess of the cost over the fair value of the identifiable assets and liabilities acquired (goodwill), including restructuring provisions, is recognised as intangible assets and amortised on a systematic basis in the income statement based on an individual assessment of the useful life of the asset, not exceeding 20 years.

Non-controlling interests

In the consolidated financial statements, the items of subsidiaries are recognised in full. The non-controlling interests' proportionate shares of the subsidiaries' results and equity are adjusted annually and recognised separately in the income statement and balance sheet.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Income statement

Revenue

The Group has the following income-generating activities:

- Sale of energy farms and projects
- Sale of electricity
- Asset management and Other fees

Revenue is recognised when the Group has fulfilled its contractual performance obligations towards the buyer.

The following further explains revenue recognition for the Group's revenue streams:

Sale of energy farms and projects

The group develops and sells power generating assets mainly as turnkey projects. The solar and wind power generating assets are developed, but their construction does not commence until all relevant permits have been obtained. Special purpose vehicles (SPVs) organised as subsidiaries in the Group carry out development and construction.

The Group's performance obligations in turnkey projects include an agreement for the development and construction of a grid-connected power generating asset and an agreement for the transfer of the shares in the SPV, which holds all relevant permits. These two agreements are connected and are accounted for as one performance obligation.

Revenue from turnkey projects is recognised when control has been transferred to the buyer and European Energy has an enforceable right to payment. This occurs at the point in time when the buyer accepts the takeover.

The revenue is measured as the transaction price for the power generating asset agreed under the contract. The transaction price normally includes a fixed and a variable consideration, determined by the project's expected future cash flow based on buyer's and seller's agreement on expected return on invested capital (ROIC).

The estimated amount of variable consideration will be included in the transaction price only to the extent that a significant reversal in revenue recognised is highly unlikely to occur when the uncertainty associated with the variable consideration is subsequently resolved.

Payments deferred more than 12 months are adjusted for the time value of money.

In projects where the Group does not act as a turnkey project developer e.g. when the Group establishes transformer stations and building foundations, the revenue is recognised when control of the project has been transferred to the buyer, European Energy's performance obligations has been satisfied and European Energy is entitled to receive payment.

Sale of electricity

Revenue from sale of produced electricity is recognised when supplied to the purchaser's network provided that the electricity generation has taken place before year end and that the income can be reliably measured and is expected to be received. Revenue is measured ex. VAT and taxes charged on behalf of third parties.

Government grants for sale of electricity are intended as a compensation for the price of power and recognized under revenue in step with the power generation and the related revenue. Government grants are recognized when there is reasonable assurance that the grants will be received.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Asset management and Other fees

Revenue from Asset management and Other fees is recognised when the services are delivered. The services include commercial management and operational facility supervision on behalf of a third party. Revenue is measured ex. VAT and taxes charged on behalf of third parties.

Direct costs

Direct costs comprise costs incurred in generating the revenue for the year.

On disposal of energy farms and projects, direct costs comprise the construction costs plus costs directly related to the disposal.

Direct costs also comprise operating costs related to wind and solar power generating assets.

Other income

Other income comprises items secondary to the activities of the group.

Staff costs

Staff costs comprise wages and salaries, remuneration, pensions and other costs regarding the Company's employees, including members of the Executive Board.

Other external costs

Other external costs comprise administrative expenses.

Depreciation and amortisation

Depreciation and amortisation comprise depreciation on property, plant and equipment as well as gains and losses on the disposal of other non-current assets than energy projects and wind and solar energy farms.

Financial income and expenses

Financial income and expenses comprise interest income and expense, gains and losses on securities, payables and transactions denominated in foreign currencies as well as surcharges and refunds under the on-account tax scheme, etc.

Tax

The parent company is subject to the Danish rules on joint taxation of the Group's Danish companies.

On payment of joint taxation contributions, the current Danish corporation tax is allocated between the jointly taxed companies in proportion to their taxable income. In this relation, companies with tax loss carryforwards receive joint taxation contributions from companies that have used these losses to reduce their own taxable profits (full absorption).

Tax for the year comprises tax on profit for the year, joint taxation contributions for the year and changes in deferred tax, including changes as a result of a change in the tax rate. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to changes directly recognised in equity is recognised directly in equity.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Wind power-generating plant (Wind farms)	25 years
Solar power-generating plant (Solar farms)	40 years
Fixtures and fittings, tools and equipment	3-5 years

On disposal of property, plant and equipment, the net selling price is recognised as revenue and the carrying amount of the assets is recognised as direct costs.

Investments in subsidiaries and associates

Income statement

The proportionate share of the individual subsidiaries' profit/loss after tax is recognised in the parent company's income statement after the full elimination of intra-group gains/losses and less amortisation of goodwill.

The proportionate share of the individual associates' profit/loss after tax is recognised in the income statement after elimination of the proportionate share of intra-group profits/losses.

Balance sheet

Subsidiaries and associates are measured at the proportionate share of the entities' net asset values calculated according to the Group's accounting policies plus or minus unrealised intra-group gains or losses and plus or minus the residual value of positive and negative goodwill calculated according to acquisition method.

Subsidiaries and associates with negative net asset values are measured at EUR 0, and any receivables from these entities are written down by an amount equivalent to the negative net asset value if the amount owed is deemed irrecoverable. To the extent that the negative net asset value exceeds the receivable, the residual amount is recognised under provisions if the parent company has a legal or a constructive obligation to cover the subsidiary´s deficit.

Net revaluation of investments in subsidiaries and associates is transferred to the reserve for net revaluation in equity according to the equity method to the extent that the carrying amount exceeds cost.

Enterprises acquired or formed during the year are recognised in the financial statements from the date of acquisition or formation. Enterprises disposed of are recognised up to the date of disposal.

On disposal of subsidiaries and associates containing energy projects or wind and solar farms, the net selling price of the equity investments is recognised in the income statement as revenue, and the carrying amount of the equity investments is recognised in the income statement as direct costs.

Gains or losses on disposal of other subsidiaries and associates are stated as the difference between the sales amount and the carrying amount of net assets at the date of disposal plus anticipated disposal costs. These gains and losses are recognised as a separate line item in the income statement.

Other investments

Other investments recognised under non-current assets are measured at fair value with value adjustments recognised in the income statement.

Other investments are recognised at cost if the fair value cannot be determined reliably. If cost exceeds the net realisable value, write-down is made to this lower value.

Impairment of assets

The carrying amount of property, plant and equipment and investments is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

When there is an indication of impairment, each asset or a group of assets is impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the expected net income from the use of the asset or the group of assets and expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Inventories

Inventories comprise energy farm projects under development and construction and as well as energy farms that have been developed for the purpose of sale and not for revenue generation from the sale of electricity production. The projects can be categorised as follows:

- Projects under development
- Projects under construction
- Operating projects for the purpose of sale

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price less estimated costs of completion and estimated selling costs. Changes in inventory write-downs are recognised in direct costs.

On disposal of projects, the net selling price is recognised as revenue, and the carrying amount of the project is recognised as direct costs.

Projects under development comprise projects for which construction has not yet been commenced. Cost comprises direct and indirect costs incurred in respect of development of projects, including interest in the project period.

Projects under construction comprise projects for which construction has begun but has not yet been completed. Cost comprises costs incurred in the development phase (projects under development) and costs in relation to the construction phase, which comprises direct and indirect costs for Subcontractors, project management and financing as well as interest in the construction period.

Operating projects for the purpose of sale comprise projects for which construction has completed. Cost comprises costs incurred in the development phase and in the construction phase.

Receivables

Receivables are measured at amortised cost. Write-down is made for expected losses at the net realisable value.

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

Equity – dividends

Proposed dividends are recognised as a liability at the date when they are adopted at the annual general meeting (declaration date). The expected dividend payment for the year is disclosed as a separate item under equity.

Provisions

Provisions are recognised when, as a result of past events, the Company has a legal or a constructive obligation, and it s probable that there may be outflow of resources embodying economic benefits to settle the obligation. Provisions are determined by discounting expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Corporation tax and deferred tax

In accordance with the Danish joint taxation rules, the administration company assumes the liability for payment to the tax authorities of the Group's corporation taxes as the joint taxation contributions are received.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities.

Deferred tax assets, including the tax value of tax loss carry forwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities.

Deferred tax is measured at the tax rates expected to apply in the year when the asset is realised or the liability is settled on the basis of the tax rates (and tax legislation) in force at the date of the statement of financial position.

Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Liabilities other than provisions

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, financial liabilities are measured at amortised cost.

Other liabilities are measured at net realisable value.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Cash flow statement

The cash flow statement shows the Group's cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as the Company's cash and cash equivalents at the beginning and end of the year. Pursuant to section 86(4) of the Danish Financial Statement Act, information on the cash flow statement for the parent company has been omitted.

Cash flow from operating activities

Cash flow from operating activities are determined using the indirect method and stated as the consolidated profit before tax adjusted for non-cash operating items, including depreciations and impairment losses, provisions and changes in working capital, interest received and paid and corporation tax paid.

Cash flow from investing activities

Cash flow from investing activities comprise payments connected with the purchase and sale of non-current assets, including energy farms classified as property, plants and equipment and equity-accounted investments.

Cash flow from financing activities

Cash flow from financing activities include proceeds from bond issues, drawdowns, new project loans and repayment on borrowings from credit institutions.

Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term deposits with maturity of three months or less and an insignificant risk of changing value.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes

2 Segment information

Segment information has been prepared in accordance with the Group accounting policies.
Segment income comprise those items that can be directly attributed to each individual segment on a reliable basis.

2017	Consolidated				
EUR'000	Wind	Solar	Total before elim.	Elim.	Total
Sale of energy farms and projects	120,027	56,891	176,918	-1,617	175,301
Sale of electricity	2,918	7,149	10,067	0	10,067
Asset management	1,005	575	1,580	0	1,580
Other fees	112	6	118	0	118
Revenue to external customers	124,061	64,621	188,682	-1,617	187,065
Inter-segment revenue	4,218	2,684	6,902	-6,902	0
Revenue	128,279	67,305	195,584	-8,519	187,065

2016	Consolidated				
EUR'000	Wind	Solar	Total before elim.	Elim.	Total
Sale of energy farms and projects	127,389	16,168	143,557	-10,552	133,005
Sale of electricity	414	8,468	8,882	0	8,882
Asset management	806	372	1,178	0	1,178
Other fees	501	65	566	0	566
Revenue to external customers	129,110	25,074	154,184	-10,552	143,632
Inter-segment revenue	2,466	195	2,661	-2,661	0
Revenue	131,576	25,268	156,844	-13,213	143,632

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes

		Consolidated	
	EUR'000	2017	2016
2	**Geographical information**		
	Denmark	53,928	59,288
	Northern/Central Europe	111,557	78,896
	South America	16,089	0
	Southern Europe (incl Maldives)	5,491	5,448
	Total revenue	187,065	143,632
3	**Staff costs**		
	Wages, salaries and remuneration	9,061	7,043
	Pensions	50	48
	Other social security costs	86	67
	Other staff costs	418	385
	Capitalised salaries on inventories	-2,645	-2,594
	Total staff costs	6,970	4,949
	Average number of full-time employees	74	64
	Number of full-time employees end of perid	77	67

Pursuant to section 98b(3)(ii) of the Danish Financial Statements Act, information on remuneration of the Executive Board has been omitted.

4	**Audit fees**		
	Statutory audit	287	219
	Tax advice	22	15
	Other non-audit services	174	118
	Total to the auditors appointed by the Annual General Meeting	483	352

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes

EUR'000	Consolidated 2017	Consolidated 2016	Parent company 2017	Parent company 2016
5 Financial income				
Interest income, financial assets measured at amortised costs	1,225	1,091	241	83
Interest income, group enterprises and associates	626	353	98	18
Interest income, bonds	32	16	0	0
Dividends	31	52	0	0
Currency gains	784	1,872	0	1
	2,698	3,384	339	101

EUR'000	Consolidated 2017	Consolidated 2016	Parent company 2017	Parent company 2016
6 Financial expenses				
Interest on bonds	4,202	3,759	0	0
Interest expense, bank	2,895	2,619	0	0
Interest expense, subsidiaries and associates	0	0	722	278
Financial expenses that have been capitalised on inventories	-987	-536	0	0
Amortisation of debt issue costs	571	452	0	0
Other financial expenses	1,378	807	57	11
Currency losses	1,763	1,886	0	0
	9,822	8,988	779	290

EUR'000	Consolidated 2017	Consolidated 2016	Parent company 2017	Parent company 2016
7 Tax				
Tax on profit for the year	3,365	651	51	0
Change in deferred tax	1,359	328	145	-40
The financial effect related to IFRS 15 adjustments in European Energy A/S group	0	1,422	0	0
Adjustment to tax relating to previous years	60	-167	-11	14
	4,784	2,234	184	-26

Notes

8 Property, plant and equipment

Consolidated

EUR'000	Land and Buildings	Wind power generating assets	Solar power generating assets	Tools and equipment	Total
Cost at 1 January 2017	0	4,888	58,102	835	63,824
Exchange rate adjustments	0	-6	-66	0	-72
Additions	0	0	277	203	480
Additions of the year (transferred from inventory)	352	0	0	0	352
Disposals	0	-17	0	0	-17
Transfer	0	0	118	0	118
Cost at 31 December 2017	352	4,865	58,431	1,038	64,686
Depreciation and impairment losses at 1 January 2017	0	-362	-11,419	-724	-12,505
Depreciation	0	-194	-1,471	-58	-1,723
Transfer	0	0	-118	0	-118
Depreciation and impairment losses at 31 December 2017	0	-556	-13,008	-782	-14,346
Carrying amount at 31 December 2017	352	4,309	45,423	256	50,340
Depreciated over		25 years	40 years	3-5 years	

9 Investments in subsidiaries

	Parent company	
EUR'000	2017	2016
Cost at 1 January	2,372	2,362
Additions for the year	0	11
Cost at 31 December	2,372	2,372
Value adjustments at 1 January	42,233	30,714
Additions for the year	0	-3
Share of profit for the year	13,341	11,425
Hedges, net of tax	131	35
Other value adjustments	-57	61
Value adjustments at 31 December	55,648	42,233
Carrying amount at 31 December	58,020	44,605

9 Investments in subsidiaries (continued)

Investments in subsidiaries at 31 December 2017 comprise:

EUR'000 Name	Country of place of business	Ownership %	Profit/loss for the year	Equity
European Energy A/S	DK	76.00%	17,575	75,313
European Solar Farms A/S *)	DK	13.88%	-104	5,600
Komplementarselskabet Sydlolland Vindmøllelaug ApS	DK	100,00%	-2	6

*) The company's directly owned share capital of European Solar Farms A/S amounts to 13,88%. Through the subsidiary European Energy A/S the company has majority control of European Solar Farms A/S.

10 Investments in associates

	Consolidated	
EUR'000	2017	2016
Cost at 1 January	16,940	16,204
Additions for the year	40	11,656
Disposals for the year	-710	-10,785
Transfer	1,474	-133
Cost at 31 December	17,745	16,940
Value adjustments at 1 January	399	2,798
Profit for the year	5,432	-1,043
Reversed value adjustments on disposal	0	90
Other adjustments	-3,271	-1,447
Value adjustments at 31 December	2,559	399
Carrying amount at 31 December	20,304	17,339
Investment in associates	22,485	18,208
Set-off against receivables from associates	-2,180	-869
Total	20,304	17,339

Notes

10 Investments in associates (continued)

Investments in associates at 31 December 2017 comprise:

EUR'000 Name	Country of place of business	Ownership %	Profit/loss for the year	Equity
EEA Stormy ApS	DK	50,0%	7,345	7,790
Jammerland Bay Nearshore A/S	DK	50,0%	-19	3,567
GWE Contractors K/S	DK	50,0%	1,900	1,900
Windpark Hellberge GmbH & CO KG	DE	50,0%	-109	1,278
EE Sieben Null GmbH & Co. KG	DE	50,0%	100	1,249
EEA Renewables A/S	DK	50,0%	1,161	1,074
EWF Fünf Vier GmbH & Co. KG, Wittstock	DE	50,0%	60	1,029
EWF Eins Sieben GmbH & Co. KG, Germany	DE	50,0%	17	866
EEA SWEPOL A/S	DK	50,0%	-1,817	631
EE Sieben Zwei GmbH & Co. KG	DE	50,0%	165	543
EE Sieben Drei GmbH & Co. KG	DE	50,0%	165	543
EEGW Persano ApS	DK	50,0%	-13	327
Solarpark Vandel Services ApS	DK	50,0%	49	156
Greenwatt Koiramäki Oy Ab	FI	50,0%	1	100
Greenwatt Mustalamminmäki Oy Ab	FI	50,0%	1	100
EEA Verwaltungs GmbH	DE	50,0%	15	83
Mexico Partnership P/S	DK	50,0%	0	67
Greenwatt Ahvenneva Oy Ab	FI	50,0%	-1	50
Greenwatt Honkakangas Oy Ab	FI	50,0%	-1	50
Omø South Nearshore A/S	DK	50,0%	1	29
Komplementar EEOC ApS	DK	50,0%	1	8
Komplementar EENC ApS	DK	50,0%	1	8
Komplementarselskabet GWE Contractors ApS	DK	50,0%	0	7
Mexico Ventures ApS	DK	50,0%	0	7
European Energy Offshore Consortium P/S	DK	50,0%	319	2
Vergil ApS & Co KG	DE	50,0%	-3	-3
Energy 3 DOO	BA	50,0%	-29	-76
European Energy Nearshore Consortium P/S	DK	50,0%	-196	-186
Windcom Sp. z o.o.	PL	50,0%	-2,760	-4,096
Driftsselskabet Heidelberg ApS **)	DK	49,5%	-	-
Wind Energy OOD	BG	49,0%	-344	954
Wind Power 2 OOD	BG	49,0%	-324	860
Wind Systems OOD	BG	49,0%	-347	729
Wind Stream OOD	BG	49,0%	-348	605
Måde Wind Park ApS	DK	47,0%	1,921	3,755
Solarpark Vandel GmbH	DE	42,5%	97	215
Västanby Vindbruksgrupp i Fjelie AB	SE	40,0%	0	5
UW Lohkamp ApS & Co KG	DE	40,0%	-3	-3
UW Gilmerdingen GmbH & C. KG	DE	40,0%	-7	-9
WK Ottenhausen GmbH & Co. KG	DE	34,3%	431	6,087
Nøjsomheds Odde Wind Park ApS	DK	33,5%	78	84
Parco Eolico Carpinaccio Srl.	IT	26,3%	1,348	9,307
EWF Fünf Eins GmbH & Co. KG	DE	25,0%	113	3,255
ESF Spanien 0424 GmbH	DE	20,8%	186	2,908
Windpark Unseburg Nord GmbH & Co. KG	DE	20,0%	573	7,154
Windpark Wriezener Höhe GmbH & Co. KG *)	DE	15,0%	1,866	8,795
GWE Stormy ApS *)	DK	13,9%	7,316	2,212

* The company is included as an associated company due to the exercise of significant influence.

** The parent company is not liable for the negative equity in Driftsselskabet Heidelberg ApS, and consequently the company has not been consolidated.

Notes

11 Other investments

	Consolidated	
EUR'000	2017	2016
Cost at 1 January	3,512	3,505
Additions for the year	219	8
Disposals for the year	-170	-1
Cost at 31 December	3,561	3,512
Value adjustments at 1 January	0	0
Value adjustments during the year	1,400	0
Value adjustments at 31 December	1,400	0
Carrying amount at 31 December	4,961	3,512

12 Loans to related parties

Non-current receivables have no specific repayment terms. The loans are established as a part of the financing of wind and solar farms, and will typically be repaid when a project is sold.

13 Trade receivables and contract assets

Out of non-current trade receivables EUR 759 thousand (2016: EUR 946 thousand) is expected to be recovered more than 5 years after the balance sheet date.

14 Other receivables

	Consolidated		Parent company	
EUR'000	2017	2016	2017	2016
Interest-bearing loan to MDP Invest ApS and JPZ Assistance ApS	1,837	2,446	1,837	2,446
Interest-bearing loan to Vores Sol Nakskov I-VI K/S	663	0	663	0
Interest-bearing loan to business partner for the acquisition of energy farms	8,656	8,141	0	0
Total other receivables (non-current assets)	11,156	10,587	2,501	2,446

There is no exact repayment date of loans in the parent company.

15 Inventories

EUR'000	Consolidated 2017	Consolidated 2016
Cost at 1 January	79,532	82,911
Additions for the year	158,680	90,317
Disposal of the year (transferred to Property, Plant and Equipment)	-352	0
Disposal of the year (recognised as direct cost)	-126,625	-93,421
Transfer/reclassification	-162	0
Write offs of the year	-375	-275
Cost at 31 December	110,698	79,532
Write-downs at 1 January	-7,331	-7,232
Transfer/reclassification	162	0
Transferred to associates	1,809	1,993
Write-downs for the year	-3,541	-2,091
Write-downs at 31 December	-8,901	-7,331
Carrying amount at 31 December	101,797	72,201

Inventory at 31 December comprises:

	2017	2016
Operating	0	37,369
Under development	3,292	5,394
Under construction	98,505	29,438
Total inventory at 31 December	101,797	72,201
Total wind farms	62,623	32,045
Total solar farms	39,174	40,156
Total inventory at 31 December	101,797	72,201

Notes

16 Deferred tax

	Consolidated		Parent company	
EUR'000	2017	2016	2017	2016
Deferred tax at 1 January	1,753	4,331	439	406
Change in deferred tax recognised in income statement	-1,360	-1,750	-145	40
Deferred tax on changes in equity	-59	-14	0	0
Adjustment relating to the disposal/purchase of equity-accounted investments	748	-61	0	0
Other equity regulation / joint taxation contribution	-198	-754	-37	-6
	882	1,753	257	439

Deferred tax is recognised as follows:

	2017	2016	2017	2016
Deferred tax asset	3,083	4,371	257	439
Deferred tax liability	-2,201	-2,618	0	0
	882	1,753	257	439

The recognition of deferred tax assets is based on an analysis of future income in the next three to five years. The analysis is based on an expectation of steady development and, in general, reasonable assumptions.

Deferred tax assets are substantially attributable to tax losses carried forward.

Tax losses carried forward not recognised in the balance sheet amounts to EUR 1.7 mio. (2016: EUR 1.0 mio.).

Deferred tax liabilities are substantially attributable to temporary differences on wind and solar power generating assets.

17 Non-controlling interests

EUR'000	Consolidated	
	2017	2016
Balance at 1 January	19,401	23,731
Additions	252	1,435
Disposals	-755	-11,839
Non-controlling interests' share of capital increases	6,228	1,849
Non-controlling interests' share of profit for the year	7,844	4,220
Non-controlling interests' share of other changes in equity	15	5
	32,985	19,401

Notes

18 Other provisions

Demolition costs

The provision relates to expected demolition costs to dismantle and remove wind and solar farms. These provisions are recognised when the Company has a legal and constructive obligation at the date of the statement of financial position and it is probable that there may be outflow of resources embodying economic benefits to settle the obligation. Provisions that are expected to be settled more than a year from the date of the statement of financial position are measured at net realisable value. The value of the dismantling costs is recognised in the value of non-current assets and is depreciated together with the relevant assets. The financial statements include a provision for future costs arising from the demolition costs and removal of wind and solar farms. Based upon Management's expectations for the maturity of the provisions, the provision is recognised as a non-current liability.

19 Financial liabilities

Consolidated EUR'000	Debt at 1/1 2017	Total debt at 31/12 2017	Current portion	Non-current portion	Outstanding debt after 5 years
Issued bonds	52,300	66,524	7,600	58,924	0
Project financing	64,825	91,390	38,363	53,027	14,607
Other debt to credit institutions	6,402	283	0	283	0
Other debt relating to acquisitions of companies	6,183	2,221	1,624	597	304
Other debt	0	663	0	663	0
	129,711	161,081	47,587	113,495	14,911

In 2008, the Group issued its own bond series with a total nominal value of EUR 7.6 million to mature mid-2018. The issued bonds carry variable interest of 4-11% per year. The interest rate depends on the sale of electricity of certain German wind farms.

In 2017, the Group has successfully refinanced the outstanding 03/2018 EUR 45 million bond loan with a larger EUR 60 million bond loan. Final maturity of the new bond loan is 05/2021. The new bond loan carries a lower coupon of Euribor 3M + 7.0% and is registered at NASDAQ Copenhagen 12/2017.

Parent company EUR'000					
Amount owed to subsidiaries	11,630	6,916	0	6,916	0
Other debt	0	663	0	663	0
	11,630	7,579	0	7,579	0

No specific conditions for repayment of outstanding balances with subsidiaries have been agreed.

20 Mortgages and collateral

Contingent Liabilities and Other Financial Liabilities

EUR million	Consolidated	
	2017	2016
Guarantees related to contracts with deferred payments (excl. VAT)	86	0
Guarantees related to financing agreements	24	76
Guarantees, warranties and other liabilities related to SPA's	3	3
	113	79

Comparative figures are adjusted in 2016 for EUR 6 million regarding leases, which has decreased the contingent liabilities.

Leases

EUR million	Consolidated	
	2017	2016
0-1 year	0.6	0.5
1-5 years	1.3	1.7
After 5 years	3.9	4.2
	5.8	6.4

Leases that substantially transfer all risks and rewards incidental to ownership of the asset to the Group are finance leases. All other leases are operating leases. Lease payments under operating leases are recognised in the income statement as an expense on a straight-line basis over the term of the lease. The Group has only leases classified as operating leases.

Operating leases have been recognised in the income statement for 2017 at the amount of EUR 676 thousand (2016: EUR 558 thousand), with contingent rents constituting EUR 367 thousand (2016: EUR 358 thousand). The rental contract related to European Energy's main office has to be extended and renegotiated in 2020. The terms for land lease contracts are typically 25 years and have to be extended 6 months before the original lease ends.

Security for debt

Assets provided as security

Wind and solar farms with a carrying amount of EUR 42 million (2016: EUR 44 million) are pledged as security for the Group's debt to Credit Institutions, etc., a total of EUR 28 million, (2016: EUR 30 million). Moreover, investment in Associates of EUR 1 million (2016: EUR 1 million) and specific cash at bank of EUR 2 million (2016: EUR 2 million) have been provided as collateral.

The Group has provided a pledge in shares of local SPV's for the project financing loan of EUR 77 million (2016: EUR 65 million). Investment in equity-accounted investments with a carrying amount of EUR 2 million (2016: EUR 2 million) were pledged as security for second priority financing in German Limited Partnerships.

Notes

21 Contractual obligations and contingencies

Contingent liabilities

Pending lawsuits

The Group is a party in pending lawsuits regarding the Group's current operations. In Management's opinion, the outcome of these lawsuits will not affect the Group's financial position to any significant extent other than that already recognised in the assets and liabilities in the Group's balance sheet at the end of the period.

Guarantees, warranties and other liabilities related to divestments

When selling directly owned subsidiaries, the company provides customary warranties and guarantees to the purchaser, including warranties and guarantees related to the corporate status of the subsidiary, taxes, environmental matters, rights and permits of the project concerned etc. The warranties and guarantees are often provided for a period of two to five years. Furthermore, the company has in some instances provided similar customary warranties and guarantees in favour of the purchaser when indirect subsidiaries have been sold. In these cases, the warranties and guarantees are provided in addition to similar warranties and guarantees provided by the selling subsidiary itself.

In some cases, in addition to customary warranties and guarantees the company may also provide a buyer with specific indemnities that relate to specific issues that cannot be resolved until the sale is completed. This could, for instance, be related to the company's ensuring that certain project-related contracts are amended.

Guarantees, warranties and specific indemnities are only recognized with an amount to the extent they relate to circumstances that the company either cannot control or is unaware of or where the company knows that an obligation exists, but its amount is unknown (for instance, an indemnity related to a reduction in a wind farm's production in those cases where a reduction is certain to occur, but the exact size is uncertain).

The subsidiary European Energy A/S has in 2017 entered a contract obligating the company for a 15-year period to deliver green certificates and guarantee the counterparty's fixed price for buying electricity (financial instrument). Necessary permits for building the associated renewable energy plants have not been received and could delay and breach European Energy A/S performance obligations. Given the uncertainty linked with the outstanding permits execution of the financial instrument is uncertain and has not been recognized in the consolidated financial statements as at 31 December 2017. The Company has provided the counterparty with guarantees of EUR 2.1 million in cover of the Company's performance obligations.

Earn-outs included in sales agreements that relate, e.g., to the performance of a park are not treated as contingent liabilities but affect the valuation of the corresponding receivables.

Pledges and guarantees related to financing agreements

The Company has provided security (in the form of parent company guarantees and share pledges) in order to secure certain subsidiaries' financial obligations towards third parties during the construction of facilities related to renewable energy projects. Additionally, the Company has also guaranteed other loans obtained by certain subsidiaries to the extent permitted by the terms and conditions governing the bonds issued by the Company.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes

21 Contractual obligations and contingencies (continued)

A number of the company's subsidiaries that act as project vehicles (i.e., subsidiaries in which the development and construction of wind farms and PV plants take place) have provided security to their lenders in order to secure their debt. The securities typically encompass all assets of the company itself, including pledges regarding the operating assets; reserve accounts; trade receivables, including insurance pay-outs; VAT receivables; real estate, if any; and right of subrogation into agreements covering the project construction and operation, including agreements regarding land leases, cable rights and grid connection. In some cases, the security provided may be less inclusive and only cover a specific asset or asset class

Contractual obligations

The parent company is jointly taxed with the Danish subsidiaries and the parent company. The companies included in the joint taxation have joint and unlimited liability for Danish corporation taxes, etc. The corporation tax payable by the parent company is EUR 1 million in 2017 (2016: EUR 1 million).

Contingent assets

A number of Group companies that own solar photovoltaic plants in Spain have dispatched a notice to the Spanish government under Article 26 of the Energy Charter Treaty, requesting the government to settle an alleged breach amicably. Should the dispute not be possible to settle amicably, the Group companies may submit the dispute for resolution in accordance with the Energy Charter Treaty. The size of the claims has not been ultimately established but will likely be in the range of EUR 40-60 million. However, if the companies are successful, the anticipated financial impact on the Group will be less than the aggregate size of the claims, as the costs associated with arguing the case are substantial, possibly as much as 30-40% of the damages awarded. The notice to the Kingdom of Spain regarding the Group's lost revenue due to retroactive changes in the legislative system for solar PV is not recognised as an asset in the balance sheet at the end of the period.

22 Related party disclosures

Related parties in European Energy Holding ApS include the following:

- Subsidiaries in European Energy Holding
- Subsidiaries and associates in European Energy Group
- Board members in European Energy A/S

Related party transactions are made on arm's length terms.

European Energy Holding ApS is included in the consolidated financial statement for KEA Holding I ApS, Gyngemose Parkvej 50, 2860 Søborg.