# Shell Olie- og Gasudvinding Danmark Pipelines ApS

Midtermolen 3, 4., DK-2100 Copenhagen

Annual Report for 1 January - 31 December 2018

CVR No 27 97 75 61

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 9/5/2019

Yara Young Ramirez-Groenhuizen

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## Management's Statement

The Executive Board has today considered and adopted the Annual Report of Shell Olie- og Gasudvinding Danmark Pipelines ApS for the financial year 1 January - 31 December 2018.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2018 of the Company and of the results of the Company operations for 2018.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen, 9 May 2019

Executive Board

Bob Apthony Tulleken

Lee James Hodder

Michael Lund Jensen

## Independent Auditor's Report on the Financial Statements

To the Shareholder of Shell Olie- og Gasudvinding Danmark Pipelines ApS

#### Opinion

We have audited the Financial Statements of Shell Olie- og Gasudvinding Danmark Pipelines ApS for the financial year 1 January - 31 December 2018, which comprise an income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The Financial Statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountant' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

#### Management's Responsibility for the Financial Statements

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

In preparing the Financial Statements, Management is responsible for assessing the 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 Financial Statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 it not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can 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 users taken on the basis of the Financial Statements.

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

- Identify and assess the risks of material misstatement of the 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 Company's internal control.

## Independent Auditor's Report on the Financial Statements

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the 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 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 Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- > Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

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 Management's Review

Management is responsible for the Management's review.

Our opinion on the 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 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 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.

Based on our procedures, we conclude that the Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's Review.

Copenhagen, 9 May 2019

**Ernst & Young** 

Godkendt Revisionspartnerselskab

CVR No 30/70 02 28

Ole Hedemann State Authorised Public Accountant mre14949

Kennet Hartmann State Authorised Public Accountant mne40036

## **Company Information**

**The Company** Shell Olie- og Gasudvinding Danmark Pipelines ApS

Midtermolen 3, 4. DK-2100 Copenhagen

CVR No: 27 97 75 61

Financial period: 1 January - 31 December

Financial year: 14th financial year Municipality of reg. office: Copenhagen

Parent company Shell Olie- og Gasudvinding Danmark B.V. (Holland)

**Executive Board** Bob Anthony Tulleken

Lee James Hodder Michael Lund Jensen

Auditors Ernst & Young

Godkendt Revisionspartnerselskab

Osvald Helmuths Vej 4 2000 Frederiksberg CVR No: 30 70 02 28

## Management's Review

#### Main activity

The activities and purpose of the Company is to provide an alternative distribution channel to the European gas market and thereby increase competition. The Company currently provides pipeline transportation capacity to the gas producers from Danish fields to the NOGAT pipeline. The parent company thereby is able to distribute part of the Danish gas production to the western European market. The Company has a 41.4% interest in the pipeline. The other investors in the pipeline are Total Danmark Pipelines A/S (previously APM Pipelines) (35.1%), Chevron Pipeline (13.5%, acquired by Total in 2019) and the North Sea Fund (10%).

#### Development in the year

The income statement of the Company for 2018 shows a profit of TDKK 90 (2017: TDKK 75,228), and at 31 December 2018, the balance sheet of the Company shows equity of TDKK 186,853 (2017: TDKK 186,763). Profit is lower due to lower use of the pipeline due to the pipeline being shut in from July 2018 as a part of the redevelopment plan for the Tyra field (Tyra Redevelopment Project) by the Danish Underground Consortium. The pipeline is expected to be in use again from end September 2019. Secondly, 2017 included a tax credit as provision for an ongoing tax case which was resolved in 2018 with a true-up to the provision recognised in 2018 upon resolution.

On 23 November 2017, the Company agreed to increase its share of the asset and associated liabilities in the pipeline. All conditions precedent for the sale were completed on 21 December 2018. The new ownership structure is:

	2017	2018
The Company	23.0%	41.4%
Total Danmark Pipelines	19.5%	35.1%
Chevron Pipeline	7.5%	13.5%
North Sea Fund	-	10.0%
Ørsted Pipelines	50.0%	-

The effect of the purchase of the pipeline has resulted primarily in an additional decommissioning provision. The purchase price was negative MDKK 25 and is presented as other receivables on the balance sheet. The amount was paid in January 2019. See notes 6 and 8 for more details.

In October 2018, it was announced that the Royal Dutch Shell group would sell its interest in Shell Olie og Gasudvinding Danmark B.V., including the Company to Noreco, a Norwegian listed company. On 29 April 2019 the Danish Energy Agency granted its approval for the transaction. The sale is expected to complete in 2019.

#### Targets and expectations for the year ahead

The Company expects revenue to be lower in 2019 as the pipeline will not be in use until October 2019 due to the Tyra Redevelopment Project. Higher production costs are expected because of additional maintenance work.

#### **Unusual events**

The financial position at 31 December 2018 and the results of the activities for the financial year 2018 of the Company have not been affected by any unusual events other than what has already been described above.

#### Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

# Income Statement 1 January - 31 December

	Note	2018	2017
		TDKK	TDKK
Revenue	1	13,856	55,383
Productions costs	2	-5,552	-5,113
Gross profit/loss		8,304	50,270
Depreciation and impairment of property, plant and equipment	3	-1,479	-9,139
External costs		-1,064	-482
Profit/loss before financial income and expenses		5,761	40,649
Financial income	4	1	_
Financial expenses		-474	-90
Profit/loss before tax		5,288	40,559
Tax on profit/loss for the year	5	-5,198	34,669
Net profit/loss for the year		90	75,228
Distribution of profit			
Proposed distribution of profit			
Retained earnings		90	75,228
		90	75,228

## **Balance Sheet 31 December**

## **Assets**

	Note	2018	2017
		TDKK	TDKK
Property, plant and equipment	6	12,364	37,555
Deferred tax assets	7 _	8,028	8,580
	_		
Non-current assets	_	20,392	46,135
Receivables from group enterprises		147,074	116,628
Corporate tax receivable		_	31,111
Other receivables (including Ørsted receivable)		25,086	•
Other receivables (including bisted receivable)	-	23,000	
Current assets		172,160	147,739
	-		•
Assets	_	192,552	193,874
Liabilities and equity			
		2018	2017
	_	TDKK	TDKK
Share capital		500	500
Retained earnings	_	186,353	186,263
Equity		186,853	186,763
	_	100,033	100,703
Decommissioning provision	8	4,616	3,172
Non-curent liabilities	_	4,616	3,172
	-	4,010	0,172
Trade payables		225	2,749
Payables to group enterprises		-	1,190
Corporation tax	_	858	-
Current liabilities	_	1,083	3,939
Liabilities	=	5,699	7,111
Equity and liabilities	_	192,552	193,874
	Note		
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# **Statement of Changes in Equity**

Equity at 31 December	500	186,353	186,853
Net profit/loss for the year	0	90	90
Equity at 1 January	500	186,263	186,763
	TDKK	TDKK	TDKK
	Share capital	Retained earnings	Total

The share capital consists of 5,000 shares of a nominal value of DKK 100. No shares carry any special rights.

There have been no changes in the share capital during the last five years.

### 1 Revenue

The Company's revenue comes from selling pipeline capacity in Denmark to the Parent Company.

### 2 Staff costs

The Company has no employees. No wages or salaries were paid in the financial year.

No fees were paid to members of the Executive Board in the year.

	2018	2017
Depreciation and impairment of property, plant and equipment	TDKK	TDKK
Pipeline depreciation	1,479	9,229
	1,479	9,229
Tax on profit/loss for the year		
Current tax for the year	858	12,140
Deferred tax for the year	552	-4,249
Adjustment of tax concerning previous years	3,788	-42,560
	5,198	-34,669
In 2017 the adjustment relates to provision for a tax case, resolved in 2018. In 2018 the adjustment relates to the 2017 tax expense true up and a true up aforementioned tax case.	resulting from resolution	on of the
Financial income and expenses		

## 5 Financial income and expenses

Financial income

	474	90
- Foreign exchange loss	11	-
<ul> <li>Pipeline decommissioning accretion expense</li> </ul>	132	90
- Interest on tax expense	331	-
Financial expenses		
- Foreign exchange gain	1	-

### 6 Property, plant and equipment

	Pipeline
	TDKK
Cost at 1 January	330,105
Assets acquired	2,117
Restoration costs, adjustment	-25,829
Cost at 31 December	306,393
Impairment losses and depreciation at 1 January	292,550
Depreciation for the year	1,479
Impairment losses and depreciation at 31 December	294,029
Carrying amount at 31 December	12,364

On 23 November 2017, the Company agreed to increase its share of the asset and associated liabilities in the pipeline. This is a proportionate share of the pipeline from Ørsted Pipelines. The sale completed on 21 December 2018 and the Company now owns 41.4%. The purchase price was negative MDKK 25.

The accounting for the purchase is in line with the accounting policy per note 11 whereby acquisition of an asset is recognised by allocating the cost of the purchase across the individual identifiable assets and liabilities in proportion to their relative fair values at the purchase date. The effect of the purchase has resulted in an additional asset and decommissioning provision. See note 8 for the decommissioning provision component.

#### 7 Deferred tax assets

	8,028	8,580
Decommissioning	1,016	486
Property, plant and equipment	7,012	8,094
	TDKK	TDKK
	2018	2017

#### 8 Decommissioning provision

The Company together with the other consortium participants has an obligation to dismantle the pipeline and associated facilities by end of pipeline life. The consortium participants have to develop a plan and a budget for the decommissioning of the pipeline. When the time for decommissioning of the pipeline approaches, application for approval will be sent to the Danish Energy Authority.

Due to the uncertainty of the final removal cost estimates, these Financial Statements contain an estimate of the obligation and equivalent capitalised asset. Reviews of estimated decommissioning and restoration costs are carried out annually. The discount rate applied in both years is 4%.

	4,616	3,172
Accretion	132	90
Adjustments in the year	-25,829	210
Acquired through asset acquisition	27,141	-
Decommissioning provision beginning of the year	3,172	2,873
	TDKK	TDKK
	2018	2017

#### 9 Contingent assets, liabilities and other financial obligations

The Company is jointly taxed with other Danish group entities and is jointly and severally unlimited liable for payment of Danish income taxes.

There are no other contingencies or other financial obligations.

#### 10 Group information

Shell Olie og Gasudvinding Danmark Pipelines ApS is included in the consolidated Financial Statements of Royal Dutch Shell plc, The Hague, the Netherlands, which is the ultimate Parent Company. Consolidated Financial Statements of Royal Dutch Shell plc can be found at the website, <a href="www.shell.com">www.shell.com</a>.

#### 11 Accounting Policies

#### **Basis of Preparation**

Financial Statements of Shell Olie- og Gasudvinding Danmark Pipelines ApS for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

In accordance with section 110(1) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements.

The accounting policies applied remain unchanged from the prior year.

Financial Statements for 2018 are presented in TDKK.

#### Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

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

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

#### 11 Accounting Policies - continued

#### Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

#### Revenue

Income from the sale of pipeline capacity is recognized in revenue at the time of delivery, provided that the income can be made up reliably. VAT, indirect taxes and discounts are excluded from the revenue.

#### **Production costs**

Production costs include the costs incurred to obtain revenue for the year.

#### **Depreciation and impairment losses**

Depreciation and impairment losses comprise depreciation and impairment of pipeline.

#### **External costs**

External costs comprise overhead expenses of a secondary nature to the core activities of the enterprise.

#### Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement.

The Company is jointly taxed with the Danish Shell Companies. The tax effect of the joint taxation is allocated to Danish enterprises in proportion to their taxable incomes.

#### Property, plant and equipment

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

Acquisition of an asset is recognised by allocating the cost of the purchase across the individual identifiable assets and liabilities in proportion to their relative fair values at the purchase date. No goodwill is recognised.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful life of the asset. Remaining useful life of the pipeline: 23 years

The depreciation period and the residual value are determined at the time of acquisition and are reassessed annually.

Assets costing less than DKK 12,800 are expensed in the year of acquisition.

#### 11 Accounting Policies - continued

#### Impairment of fixed assets

The carrying amounts of property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

#### Receivables

Receivables are recognised in the balance sheet at amortised cost, which substantially corresponds to nominal value. Provisions for estimated bad debts are made.

#### Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

#### Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

#### **Financial liabilities**

Financial liabilities are measured at amortised cost, substantially corresponding to nominal value.

#### Provisions

Provisions comprise expected expenses relating to restructurings. Provisions are recognised when, at the balance sheet date, the enterprise has a legal or constructive obligation and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions expected to be settled after more than one year after the balance sheet date are measured at the net present value of the expected payment. Other provisions are measured at the net realisable value.