# DONG Energy Nearshore Wind ApS

**Kraftværksvej 53**
**Skærbæk**

## Annual report for 2016

**CVR no 31 08 02 23**

**(9th Financial year)**

Adopted at the annual general meeting on
29 May 2017

Ulrik Jarlov
Chairman

# Contents

## Statement by Management on the annual report

The Executive and Supervisory Boards have today discussed and approved the annual report of DONG Energy Nearshore Wind ApS for the financial year 1 January - 31 December 2016.

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

In our opinion, the financial statements give a true and fair view of the Company's  financial position at 31 December 2016 and of the results of the the Company's operations for the financial year 1 January - 31 December 2016.

In our opinion, Management's review includes a fair review of the matters dealt within the Management's review

We recommend the adoption of the annual report at the annual general meeting.

Skærbæk, 17 May 2017

**Executive Board**

Leif Winther

**Supervisory Board**

| | | |
|---|---|---|
| Robert Helms<br>Chairman | Michael Christensen<br>Deputy Chairman | Leif Winther |

# Independent auditor’s report

To the shareholder of DONG Energy Nearshore Wind ApS

## Opinion

We have audited the financial statements of DONG Energy Nearshore Wind ApS for the financial year 1 January - 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared under the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company´s financial position at 31 December 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016 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 financial statements” section of our report. We are independent of the company 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 requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Management’s Responsibilities 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 is not a guarantee that an audit conducted in accordance with ISAs and the 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 these Financial Statements

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

## Independent auditor’s report

- 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.

- 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 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 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 Management’s Review.

Our opinion on the Financial Statements does not cover 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 Management’s Review and, in doing so, consider whether 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 Management’s Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that Management’s Review is in accordance with the 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 Management’s Review.

## Independent auditor's report

Hellerup, 17 May 2017

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR-nr. 33 77 12 31

Kim Danstrup
State Authorised Public Accountant

Poul P. Petersen
State Authorised Public Accountant

# Company details

| | | |
|---|---|---|
| **The Company** | DONG Energy Nearshore Wind ApS<br>Kraftværksvej 53<br>Skærbæk<br>7000 Fredericia | |
| | Tel: | +45 99 55 11 11 |
| | Fax: | +45 99 55 00 02 |
| | Website: | www.dongenergy.com |
| | CVR no.: | 31 08 02 23 |
| | Reporting period: | 1 January - 31 December |
| | Domicile: | Fredericia |
| **Board of Directors** | Robert Helms, Chairman<br>Michael Christensen<br>Leif Winther | |
| **Executive Board** | Leif Winther | |
| **Auditors** | PricewaterhouseCoopers<br>Statsautoriseret Revisionspartnerselskab<br>Strandvejen 44<br>2900 Hellerup | |
| **Consolidated Financial Statements** | The Company is included in the consolidated financial statements of the ultimate parent company DONG Energy A/S , Fredericia, CVR nr. 36 21 37 28<br><br>The consolidated financial statement of the ultimate parent company DONG Energy A/S , Fredericia, CVR nr. 36 21 37 28 may be obtained at the following address:<br><br>www.dongenergy.com | |

# Management's review

### Business activities

The company's objects are to engage in activities in the energy sector and ancillary activities.

### Business review

The Company's income statement for the year ended 31 December shows a loss of TDKK 24.636, and the balance sheet at 31 December 2016 shows equity of TDKK 60.537.

### Net profit (loss) relation to expected development assumed in previous report

Gross profit is TDKK 7.764 and is in line with last year. The loss for the year is in line with expectations.

### Special risks apart from generally occurring risks in industry

*Operating risks*

Vindeby windfarm is scheduled for decommissioning in the beginning of 2017.

Middelgrunden windfarm receives the market price plus a variable subsidy which is available until 20 years of operations, being 2021.

The 2 Avedøre turbines receive the market price plus a fixed subsidy for approximately 7 years from the beginning of the operation plus a balancing subsidy for the lifetime of the park. The first Avedøre turbine utilised its fixed subsidy in Q3 2016 and the second is expected to do so in Q1 2018.

### Recognition and measurement uncertainties

The recognition and measurement of items in the financial statements is not subject to any uncertainty.

### Unusual matters

The Company's financial position at 31 December 2016 and the results of its operations for the financial year ended 31 December 2016 are not affected by any unusual matters.

### Outlook for the coming year

Gross profit for 2017 is expected to be reduced due to the first Advedøre turbine having utilised its fixed subsidy in 2016.

### Environment

Following the decommissioning of Vindeby environmental impact reports have to be submitted to the danish Energy Agency.

# Accounting policies

The annual report of DONG Energy Nearshore Wind ApS for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B.

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

The annual report for 2016 is presented in TDKK.

**Basis of recognition and measurement**

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

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

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

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any instalments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report are presented and which confirm or invalidate matters existing at the balance sheet date.

**Government grants**

Government grants comprise grants for environment-friendly generation. Government grants are recognised when there is reasonable assurance that they will be recoived.

Grants for electricity generation are recognised as revenue in step with the regognition of the related electricity revenue.

# Accounting policies

## Income statement

**Revenue**

Income comprises sales and distribution of electricity and grants for the sale of electricity. Revenue is recognised in the income statement, provided that the transfer of risk, usually on delivery to the buyer, has taken place and that the income can be measured reliably and is expected to be received.

Revenue is measured at fair value of the agreed consideration ex. VAT and taxes charged on behalf of third parties. Revenue is net of all types of discounts granted.

**Other operating income**

Other operating income comprises the expenses incurred be the Company to generate the revenue for the year. Such expenses are recognised in the income statement as incurred.

**Other external expenses**

Other external expenses include expenses related to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

**Amortisation, depreciation and impairment losses**

Amortisation, depreciation and impairment losses comprise the year's amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

**Financial income and expenses**

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Net financials include interest income and expenses, financial expenses relating to finance leases, realised and unrealised capital/exchange gains and losses on securities and foreign currency transactions, amortisation of mortgage loans and surcharges and allowances under the advance-payment-of-tax scheme, etc.

# Accounting policies

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

Tax on net profit for the year, consisting of current tax for the year and deferred tax for the year, is recognised in the income statement to the extent that it relates to net profit for the year and directly in equity to the extent that it relates to entries directly to equity. The Company is subject to the Danish rules on compulsory joint taxation of the DONG Energy Group's Danish companies, and the ultimate Parent Company, DONG Energy A/S, has also elected international joint taxation with the Group's foreign subsidiaries. Subsidiaries are included in the joint taxation from the date they are included in the consolidation in the Consolidated Financial Statements and up to the date on which they are no longer included in the consolidation.

The ultimate Parent Company, DONG Energy A/S, is the management company for the joint taxation and consequently settles all income tax payments to the tax authorities.

In connection with the settlement of joint taxation contributions, current Danish income tax is allocated among the jointly taxed Danish companies in proportion to their taxable income. In this connection Danish subsidiaries with tax losses receive joint taxation contributions from the Parent Company equivalent to the tax base of the tax losses utilised (full allocation), while companies that utilise tax losses in other Danish companies pay joint taxation contributions to the Parent Company equivalent to the tax base of the utilised losses.

## Balance sheet

**Property, plant and equipment**

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

The depreciable amount is cost less the expected residual value at the end of the useful life. Land is not depreciated.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and wages.

Sum-of-digits depreciation is provided on the basis of the following estimated useful lives of the assets:

| | Useful life | |
|---|---|---|
| Plant and machinery | 20 | years |

# Accounting policies

### Impairment of fixed assets

The carrying amount of property, plant and equipment are reviewed annually to determine whether there is any indication of impairment.

If there are indications of impairment, an impairment test is carried out for each asset or group of assets. Impairment is made to the lower of the recoverable amount and the carrying amount.

The recoverable amount of the asset is calculated as the higher of the net selling price and the value inuse. The value in use is calculated as the present value of expected net cash flows from the use of the asset or group of assets and the expected net cash flows from the sale of the asset or group of assets after the end of their useful lives.

Assets, for which revaluations have previously been made are impaired in equity, however, not exceeding the value of the revaluation reserve.

### Receivables

Receivables are measured at amortised cost, which normally corresponds to nominal value. Provisions for estimated bad debts are made.

### Equity

***Dividend***

Proposed dividends are disclosed as a separate item under equity. Dividends are recognised as a liability at the date of declaration by the annual general meeting.

# Accounting policies

### Provisions

Provisions are recognised when in consequence of an event occurring before or at the balance sheet date the company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

In measuring provisions, the expenses required to settle the liability are discounted to net present value, if this has a significant effect on the measurement of the liability. A pre-tax discount rate is used that reflects the general interest rate level in society. The change in present values for the financial year is recognised as financial expenses.

Provisions for the decommissioning of production assets and restoration are measured at the present value of the future liability in respect of decommissioning and shutdown as estimated at the balance sheet date. The amount provided is determined on the basis of existing requirements and estimated expenses, which are discounted to present value. If specific risks are deemed to attach to a provision, the estimated expenses are recognised. A discount rate is used that reflects the general interest rate level in society. These liabilities are recognised as they arise and are adjusted on a regular basis to reflect changes in requirements,price level, etc. The value of the provision is recognised in property, plant and equipment and depreciated together with the relevant assets. The increase in time of the present value of the provision is recognised in profit/loss for the year as financial expenses.

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are lower than the unavoidable cost of meeting the obligations existing under the contract. If it is considered unlikely that an outflow from the enterprise of economic resources will be required to settle a liability, or if the liability cannot be measured reliably, the liability is accounted for as a contingent liability that is not recognised in the balance sheet. Material contingent liabilities are disclosed in the notes.

### Income tax and deferred tax

Current tax liabilities and current tax receivables are recognised in the balance sheet as the estimated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and tax paid on account.

Deferred tax is measured according to the liability method in respect of temporary differences between the carrying amount of assets and liabilities and their tax base, calculated on the basis of the planned use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss allowed for carry forward are measured at the value to which the asset is expected to be realised, either by elimination against tax on future earnings or through offsetting against deferred tax liabilities within the same legal tax entity. Any deferred net tax assets are measured at net realisable value.

# Accounting policies

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax adjustments resulting from changes in tax rates are recognised in the income statement, with the exception of items taken directly to equity.

**Foreign currency translation**

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Foreign-exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses. If foreign currency transactions are considered cash flow hedges, the value adjustments are taken directly to equity.

# Income statement 1 January - 31 December 2016

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | TDKK | TDKK |
| **Revenue** | | **22.902** | **25.206** |
| Operating expenses | | -703 | -1.178 |
| Other external expenses | | -14.435 | -16.870 |
| **Gross profit** | | **7.764** | **7.158** |
| Depreciation, amortisation and impairment of property, plant and equipment | | -37.324 | -57.166 |
| **Profit/loss before financial income and expenses** | | **-29.560** | **-50.008** |
| Financial expenses | | -2.167 | -3.836 |
| **Profit/loss before tax** | | **-31.727** | **-53.844** |
| Tax on profit/loss for the year | 1 | 7.091 | 17.639 |
| **Net profit/loss for the year** | | **-24.636** | **-36.205** |
| Retained earnings | | -24.636 | -36.205 |
| | | **-24.636** | **-36.205** |

# Balance sheet at 31 December 2016

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | TDKK | TDKK |
| **Assets** | | | |
| Plant and machinery | | 104.088 | 141.722 |
| **Property, plant and equipment** | 2 | **104.088** | **141.722** |
| **Fixed assets total** | | **104.088** | **141.722** |
| Trade receivables | | 567 | 1.257 |
| Receivables from group enterprises | 3 | 35.568 | 27.675 |
| Deferred tax asset | 4 | 13.680 | 8.426 |
| Corporation tax | | 1.711 | 1.707 |
| **Receivables** | | **51.526** | **39.065** |
| **Current assets total** | | **51.526** | **39.065** |
| **Assets total** | | **155.614** | **180.787** |

# Balance sheet at 31 December 2016

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | TDKK | TDKK |
| **Liabilities and equity** | | | |
| Share capital | | 500 | 500 |
| Retained earnings | | 60.037 | 84.673 |
| **Equity** | 5 | **60.537** | **85.173** |
| Other provisions | 6 | 93.790 | 94.875 |
| **Provisions total** | | **93.790** | **94.875** |
| Payables to group enterprises | | 1.148 | 689 |
| Other payables | | 139 | 50 |
| **Short-term debt** | | **1.287** | **739** |
| **Debt total** | | **1.287** | **739** |
| **Liabilities and equity total** | | **155.614** | **180.787** |

| | |
|---|---|
| Subsequent events | 7 |
| Contingent assets, liabilities and other financial obligations | 8 |
| Related parties and ownership | 9 |

## Statement of Changes in Equity

| | Share capital | Retained earnings | Total |
|---|---|---|---|
| | TDKK | TDKK | TDKK |
| Equity at 1 January | 500 | 84.673 | 85.173 |
| Net profit/loss for the year | 0 | -24.636 | -24.636 |
| **Equity at 31 December** | **500** | **60.037** | **60.537** |

# Notes to the Annual Report

| | | 2016 | 2015 |
|---|---|---|---|
| | | TDKK | TDKK |
| 1 | **Tax on profit/loss for the year** | | |
| | Current tax for the year | -1.735 | -1.707 |
| | Deferred tax for the year | -5.239 | -10.132 |
| | Adjustment of tax concerning previous years | -102 | -5.878 |
| | Adjustment of deferred tax concerning previous years | -15 | 78 |
| | | **-7.091** | **-17.639** |

| | | Plant and machinery |
|---|---|---|
| 2 | **Property, plant and equipment** | TDKK |
| | Cost at 1 January | 213.073 |
| | Disposals for the year | -310 |
| | Cost at 31 December | 212.763 |
| | Impairment losses and depreciation at 1 January | 71.351 |
| | Depreciation for the year | 37.324 |
| | Impairment losses and depreciation at 31 December | 108.675 |
| | **Carrying amount at 31 December** | **104.088** |

**3 Receivables from group enterprises**

Included in receivables from group companies is a cash pool of DKK 32.198 thousand with the ultimate Parent Company, DONG Energy A/S. (2015: DKK 24.920 thousand).

# Notes to the Annual Report

| | 2016 | 2015 |
|---|---|---|
| | TDKK | TDKK |
| **4 Provision for deferred tax** | | |
| Property, plant and equipment | -13.533 | -8.295 |
| Tax loss carry-forward | -147 | -131 |
| Transferred to deferred tax asset | 13.680 | 8.426 |
| | **0** | **0** |
| **Deferred tax asset** | | |
| Calculated tax asset | 13.680 | 8.426 |
| **Carrying amount** | **13.680** | **8.426** |

**5 Equity**

The share capital consists of 500 shares of a nominal value of TDKK 1.000. No shares carry any special rights.
The share capital has developed as follows:

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| | TDKK | TDKK | TDKK | TDKK | TDKK |
| Share capital at 1 January | 500 | 500 | 500 | 80 | 80 |
| Additions for the year | 0 | 0 | 0 | 420 | 0 |
| **Share capital** | **500** | **500** | **500** | **500** | **80** |

# Notes to the Annual Report

| | | 2016 | 2015 |
|---|---|---|---|
| | | TDKK | TDKK |
| **6** | **Other provisions** | | |
| | Balance at beginning of year at 1 January | 94.875 | 84.043 |
| | Interest element | -309 | 7.037 |
| | Change in other abandonment factors | -2.870 | 0 |
| | Used during the year | 2.094 | 3.795 |
| | **Balance at 31 December** | **93.790** | **94.875** |
| | The expected due dates of other provisions are: | | |
| | Within one year | 48.460 | 48.200 |
| | Over 5 years | 45.330 | 46.675 |
| | | **93.790** | **94.875** |

Other provisions comprise warranties and the expected future costs for decommissioning and shutdown of the companys windfarms.

**7 Subsequent events**

No events have occurred after the balance sheet date which could significantly affect the financial position.

**8 Contingent assets, liabilities and other financial obligations**

The Group's Danish companies are jointly and severally liable for tax on the Group's jointly taxed income, etc. Reference is made to the Annual Report DONG Energy A/S, the company responsible for the administration of the joint taxation arrangement.

The Danish companies of the Group are jointly and severally liable within the jointly VAT registration.

**9 Related parties and ownership**

**Controlling interest**

DONG Energy Wind Power Holding A/S, Kraftværksvej 53, 7000 Fredericia. (Parent company)

# Notes to the Annual Report

**9 Related parties and ownership** (continued)

**Other related parties**

DONG Energy A/S, Kraftværksvej 53, 7000 Fredericia
The Danish State represented by the Ministry of Finance
Goldman Sachs Group
Group enterprises and associates
Board of Directors, Executive Board and senior employees

**Ownership**

According to the Company's register of shareholders, the following shareholders hold a minimum of 5% of the voting rights or a minimum of 5% of the share capital:

DONG Energy Wind Power Holding A/S