


VNG Danmark ApS

c/o Bech-Bruun Advokatfirma
Langelinie Allé 35
2100 København Ø

CVR no. 32 93 22 07

Annual report 2016

The annual report was presented and approved at the Company's annual general meeting	
on	26 MAY 20 17
	
chairman of the annual general meeting	

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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of VNG Danmark 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 assets, liabilities and financial position at 31 December 2016 and of the results of the Company's activities for the financial year 1 January – 31 December 2016.

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

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


Berlin, April 27th, 2017

Executive Board:


Atle Sonesen

Board of Directors:


Hans Joachim Polk
Chairman


Bodo Jens Rodeslock


Anton Peter Irmen


Mike Diekmann



Independent auditor's report

To the shareholders of VNG Danmark ApS

Opinion

We have audited the financial statements of VNG Danmark ApS for the financial year 1 January – 31 December 2016, comprising income statement, balance sheet 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 Company's assets, liabilities and 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 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 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 that 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.



Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to 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 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 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 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 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



Independent auditor's report

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 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 the work we have performed, 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 Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 27 April 2017

KPMG

Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

A handwritten signature in blue ink, appearing to read 'M. High-Petersen', with a horizontal line extending to the right.

Morten High-Petersen
State Authorised
Public Accountant

Management's review

Operating review

The Company

The Company is a 100 % owned subsidiary of VNG Norge AS. VNG Norge AS (VNG Norge) is a wholly owned subsidiary of the Leipzig-based Group, VNG – Verbundnetz Gas Aktiengesellschaft (VNG AG). The company is responsible for the VNG Group's oil and gas exploration and production activities. The activities of VNG Danmark is run by an established separate project organisation within VNG Norge.

VNG Danmark currently has an interest of 13.83 % in the Solsort Unit, with a 30-year production license period, together with DONG E&P (operator), Nordsøfonden, Bayerngas Danmark ApS, Hess Denmark ApS, Danoil Exploration A/S. VNG Danmark also owns 15% in the 3/09 exploration license and in the part of 4/98 license geographically and stratigraphically coinciding with the Solsort unit. DONG E&P (operator), Bayerngas Danmark ApS and Nordsøfonden are the other partners in those licenses.

VNG Danmark ApS work closely and constructively with the licence partners and the authorities in order to optimise development of the two licences.

Main activity

In 2010, the Solsort hydrocarbon accumulation was discovered by the Solsort-1 well in an area which extends over both the 3/09 and 4/98 licences. Since the discovery, focus has primarily been on assessing the potential of the hydrocarbon accumulation and the feasibility of a commercial development.

Evolution of the year

The income statement of the Company for 2015 shows a loss of TDKK 10,023, and at 31 December 2016 the balance sheet of the Company shows equity of TDKK 125,289.

2016 was also a challenging year for the oil & gas industry industry with volatile oil prices and uncertain market conditions. Throughout the year there has been an increased focus on studies planning for a joint development with the nearby Hejre license. This focus may give improved economy, but are also likely to cause further delays for the development of Solsort.

The Solsort development project is approaching a feasibility gate (DG2) in 1Q 2017. With a successful passing of this gate the plan is to continue work toward the concept selection gate (DG3) in mid 2017 (given a joint development, likely late 2017).

Management's review

Operating review

A deficit is expected in 2016 as the company does not have income-generating activities throughout the year.

The board is satisfied with the activity throughout the year and is well positioned to meet the challenging marked situation for the oil industry. The shareholder's parent company's (VNG – Verbundnetz Gas Aktiengesellschaft) financial position and long-term commitment in Norway and Denmark ensures that the opportunities for development of the business is good. The ultimate parent company has issued a parent company guarantee for the Danish state, which ensures the fulfilment of all existing and future obligations for the company as a joint holder of licenses. Furthermore, in February 2016, VNG Norge AS increased the company's equity through a capital increase of DKK 25 million including share premium to finance the company's ongoing activities. On this basis, the management considers the capital resources to be satisfactory.

Events after the balance sheet date

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

Financial statements 1 January – 31 December

Income statement

DKK'000	Note	2016	2015
Revenue			
Other operating income		1,846	3,063
Exploration costs	3	-7,819	-18,186
Other external expenses		-4,146	-9,619
Gross profit/loss		-10,119	-24,742
Financial income	4	981	4,887
Financial expenses	5	-885	-1,789
Profit/loss before tax		-10,023	-21,644
Tax on profit/loss for the year	6	0	0
Profit/loss for the year		-10,023	-21,644
Proposed profit appropriation/distribution of loss			
Proposed dividends for the financial year		0	0
Retained earnings		-10,023	-21,644
		-10,023	-21,644

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	<u>2016</u>	<u>2015</u>
ASSETS			
Fixed assets			
Intangible assets			
Capitalised exploration costs	7	<u>101,179</u>	<u>101,179</u>
		<u>101,179</u>	<u>101,179</u>
Receivables			
Trade receivables		520	317
Other receivables	8	<u>2,262</u>	<u>2,585</u>
		<u>2,782</u>	<u>2,902</u>
Cash at bank and in hand		<u>23,598</u>	<u>10,011</u>
Total current assets		<u>26,380</u>	<u>12,913</u>
TOTAL ASSETS		<u>127,559</u>	<u>114,092</u>

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	2016	2015
EQUITY AND LIABILITIES			
Equity			
Share capital	9	68,655	62,405
Share premium account		205,725	186,975
Reserve capitalised Intangibles		0	0
Retained earnings		-149,091	-139,068
Total equity		125,289	110,312
Current liabilities other than provisions			
Trade payables		185	46
Payables to group entities		1,181	220
Other payables	10	904	3,514
		2,270	3,780
Debt		2,270	3,780
TOTAL EQUITY AND LIABILITIES		127,559	114,092

Financial statements 1 January – 31 December

Statement of changes in equity

DKK'000	Share capital	Share premium account	Retained earnings	Total
Equity at 1 January 2016	62,405	186,975	-139,068	110,312
Capital increase	6,250	18,750		25,000
Net profit/loss for the year			-10,023	-10,023
Equity at 31 December 2016	<u>68,655</u>	<u>205,725</u>	<u>-149,091</u>	<u>125,289</u>

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Notes

1 Accounting policies

The annual report of VNG Danmark ApS for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to entities of reporting class B as well as selected rules applying to reporting class C.

As from 1 January 2016, the Company has implemented Act no. 738 of 1 June 2015.

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.

Assets are recognized in the balance sheet when, as a result of a past event, is probable that future economic benefits will flow, and the value of the asset can be measured reliably.

Liabilities are recognized in the balance sheet when the entity, as a result of a past event, has a legal or constructive obligation and it is probable that future economic benefits will flow from the company, and the value of the liability can be measured reliably.

On initial recognition assets and liabilities are measured at cost. Measurement after initial recognition is effected as described for each item below.

Recognition and measurement consider foreseeable risks and losses that arise before the presentation of the annual report, and that confirm or deny conditions that existed at the balance sheet date.

Translation policies

Transactions in foreign currencies are translated initially at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at balance date, are translated at the exchange rate on the balance date. Exchange differences arising between the transaction date and payment date, are recognized in the income statement as financial items.

Income Statement

Exploration costs

Exploration costs comprise the raw materials and consumables consumed to achieve revenue for the year

Other external expenses

Other external costs include the costs of distribution, sales, marketing, administration, premises, bad debts etc.

Other external expenses also include research costs and costs of development that do not meet the criteria for capitalization.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the core activities of the enterprise.

Financial income and expenses

Financial items include interest income and expenses, realized and unrealized gains and losses on payables, foreign currency transactions, amortization and deductions for mortgage debt etc. and surcharges and refunds under the tax regime.

Interest expense and other financing costs for manufacturing of assets are not included in the cost of assets, but recognized in the income statement at the time of their organization.

Income tax

Income tax for the year comprises current tax and change in deferred tax expense, in the income attributable to this year's profit or loss, and in equity by the portion attributable to entries directly on equity.

Current tax payable or receivable is recognized in the balance sheet as tax calculated on the taxable income, adjusted for prepaid tax.

Deferred tax is recognized on all temporary differences between book and tax values of assets and liabilities.

Deferred tax assets, including the tax value of tax loss carry forwards are recognized in the balance sheet with the amount the asset is expected to be realized at, either against deferred tax liabilities or as net assets.

Balance sheet

Intangible assets, capitalised exploration costs

The costs of exploration licences are capitalised as an intangible asset and include external fees which are directly attributable to the acquisition of the licenses.

Exploration costs are spent to determine whether there are deposits of oil or gas.

Exploration expenditure for the accomplishment of drilling which demonstrated deposits of hydrocarbons are carried at cost to intangible fixed assets. When a decision of field development is made, the exploration cost is transferred to production plant as tangible assets.

VNG Danmark ApS uses the "successful efforts" method for the consideration of exploration and development costs. All exploration costs, excluding costs associated with drilling of exploration wells, are expensed consecutively. Costs associated with the drilling of exploration wells are temporarily recognised until an evaluation of possible discoveries of oil and gas reserves has occurred. Drilling Costs related to findings declared dry or which are not considered technically or commercially extractable, are expensed.

Capitalised licenses and exploration costs are amortized based on the unit of production method from the time where the field is put into operation.

For exploration licences the acquisition cost is impairment tested based on a potential value assessment whereby estimated recoverable resources are assigned a value per barrel.

Receivables

Receivables are measured at amortized costs, which usually correspond to the nominal value less write-downs for bad debts.

Other financial liabilities

Other financial liabilities are measured at amortized costs, which usually correspond to the nominal value.

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2 Going concern

The Company relies on the Group to continuously provide financing which allows the Company to keep meeting its obligations as they fall due. Management assesses that the Company has sufficient liquidity to honour all of its commitments throughout 2017 and thus the 2016 Annual Report has been prepared under the going concern assumption.

	2016	2015
DKK'000		
3 Exploration costs		
Exploration costs from licences	7,819	17,410
Seismic, well data and field studies	0	776
	<u>7,819</u>	<u>18,186</u>
4 Financial income		
Other financial income	6	578
Exchange rate gain	975	4,309
	<u>981</u>	<u>4,887</u>
5 Financial expenses		
Other financial cost	0	1
Exchange rate loss	885	1,788
	<u>885</u>	<u>1,789</u>
6 Income tax		
Actual tax	0	0
Change in deferred tax	0	0
	<u>0</u>	<u>0</u>

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7 Intangible assets

DKK'000	Capitalised exploration costs
Cost at 1 January	101,179
Additions/(Disposals) for the year	0
	<u>101,179</u>
Impairment losses and amortisation at 1 January	0
Impairment losses for the year	0
Impairment losses and amortisation at 31 December	
Carrying amount at 31 December	<u>101,179</u>

8 Other receivables

DKK'000	2016	2015
Over-/undercall licences	2,011	2,130
VAT receivable	51	263
Other short-term receivables	200	192
	<u>2,262</u>	<u>2,585</u>

9 Equity

DKK'000	2016	2015	2014	2014	2013
Share capital at 1 January	68,655	62,405	55,505	30,205	20,080
Capital increase	6,250	0	6,900	25,300	10,125
Capital decrease	0	0	0	0	0
Share capital at 31 December	<u>68,655</u>	<u>62,405</u>	<u>62,405</u>	<u>55,505</u>	<u>30,205</u>

10 Contingent assets

Deferred tax is not recognised as a tax asset as the Company's short-term budgets, not with high probability, indicate that this can be exploited. The value of the asset is reviewed in accordance with the development of the licences.

Financial statements 1 January – 31 December

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11 Other current liabilities		
DKK'000	2016	2015
Working capital licences	386	2,625
Other short-term liabilities	521	889
	<u>907</u>	<u>3,514</u>

12 Related parties and ownership

Controlling interest

VNG Norge AS, Stavanger Norge	Parent company 100%
VNG Verbundnetz Gas Aktiengesellschaft, Leipzig, Germany	Owns 100% of the shares in the Parent Company

The Company has chosen only to disclose transactions that are not carried out on an arm's length basis in accordance with section 98c (7) of the Danish Financial Statements Act. There are no such transactions in the reported periods.

Ownership

The Company has registered the following shareholder as holding more than 5% of the share capital voting rights or nominal value:

VNG Norge AS, Laberget 22, 4020 Stavanger, Norge (100%)

Consolidated financial statements

The Company is included in the Group Annual Report of Verbundnetz Gas Aktiengesellschaft in Germany.

The Group Annual Report of may be obtained at the following address:

Verbundnetz Gas Aktiengesellschaft
Braunstraße 7
04347 Leipzig
Deutschland

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13 Contingent liabilities and other financial obligations

VNG Danmark ApS, which is involved in two exploration licenses on the Danish Continental Shelf, is according to approved work programs for exploration and development of the licenses, required to invest substantial amounts in the years to come. The company is joint and severally liable with the other license participants from obligations under the licenses.

VNG Danmark ApS' share of agreed-to commitments relating to exploration and development through licensing agreements amount to DKK 5,980k as per 31 December 2016.