Inter Terminals Denmark Partnership I/S

Holtengårdsvej 25, 4230 Skælskør

CVR No. 33 75 70 93

Annual report for the financial year ended 31 December 2016

6th financial year

Adopted at the annual general meeting
on 17 March 2017

....
chairman

Contents

Partnership details

Name	Inter Terminals Denmark Partnership I/S
Address	Holtengårdsvej 25 DK-4230 Skælskør
CVR no.	33 75 70 93
Financial year	1 January – 31 December
Website	www.interterminals.com
Telephone	+45 2466 4353
Executive Board	Martyn Joseph Augustine Lyons Hans Peder Krogh Mortensen Carsten Uffe Kirk
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths vej 4 DK-2000 Frederiksberg

Statement by the Executive Board on the annual report

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Inter Terminals Denmark Partnership I/S for the financial year 1 January – 31 December 2016.

The annual report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

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

Further, in our opinion, the Management's review gives a fair review of the development in the Partnership's operations and financial matters and the results of its operations and financial position.

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

Skælskør, 17 March 2017

Executive Board:

....	....	....
Carsten Uffe Kirk	Martyn Joseph Augustine Lyons	Hans Peder Krogh Mortensen

Independent auditor's report

We have audited the financial statements of Inter Terminals Denmark Partnership I/S for the financial year 1 January – 31 December 2016, which comprise income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flow and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Partnership's financial position at 31 December 2016 and of the results of the Partnership's operations and cash flows for the financial year 1 January – 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in 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 Partnership 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.

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 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 concluded 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 misstatements of the Management's review.

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 International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in 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 Partnership'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 Partnership or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report - continued

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:

- 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 Partnership'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 Partnership'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 in-adequate, 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 Partnership 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.

Copenhagen, 17 March 2017
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Christian Schwenn Johansen
State Authorised Public Accountant

Financial highlights

Key figures

	2016	2015	2014	2013	2012
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Statement of comprehensive income					
Revenue	4,911	4,113	4,073	4,539	8,827
Gross margin	2,047	1,698	2,449	2,662	1,627
Operating profit/loss	182	141	110	140	211
Income from investments in subsidiaries	14,250	18,750	5,000	3,500	4,995
Net financials	15	28	-	(10)	5,003
Profit/loss for the year	14,447	18,919	5,110	3,630	5,214
Statement of financial position					
Total equity/(deficit)	192,154	192,707	192,788	195,123	196,548
Balance sheet total	193,573	193,542	193,443	195,658	197,362
Investments in property, plant and equipment	-	-	7	-	992
Investments in subsidiaries	-	-	-	-	191,100
Ratios (%)					
EBIT margin	293.9	459.3	125.5	80.2	2
Return on assets	7.5	9.8	2.6	1.8	3
Equity ratio	99.3	99.6	99.7	99.7	100
Return on equity	7.5	9.8	2.6	1.8	3

Management's review

Principle activities of the Partnership

The Partnership's core activity is to render management services to its subsidiaries and activities as a holding entity.

Financial review

The income statement for 2016 shows a profit of EUR 14,447 thousand against EUR 18,919 thousand last year. The realised profit is in line with the expectations.

Operating review

In February 2016, the Partnership received a dividend of EUR 4,000 thousand from its wholly-owned subsidiary, Inter Terminals Denmark A/S and further EUR 6,500 thousand, EUR 1,250 thousand and EUR 2,500 thousand in June, September and November 2016, respectively. In February 2016, the partners in the partnership, Inter Pipeline Europe Ltd and Inter Terminals Ltd, withdrew a total of EUR 4,500 thousand from the partners' capital account, and a further EUR 6,500 thousand, EUR 1,500 thousand and EUR 2,500 thousand in June, September and November 2016, respectively.

Risk management

The Partnership's approach to risk management is detailed further in the notes to the accompanying financial statements.

Capital management

The Partnership raises capital through its principle activities as well as through external financing, where required. Inter Terminals Denmark I/S' management assesses on a regular basis that the Partnership's capital structure is consistent with its goals. The overall objective is to secure that the Partnership has a capital structure which supports economic growth, while maximizing returns. The Partnership's overall strategy remains unchanged from last year.

Environmental matters

The subsidiaries have a responsibility to restore the site of the oil terminals to its original nature by way of decommissioning tanks e.g. provisions are made in the subsidiaries' financial statements in order to fulfil this responsibility.

Outlook

The Partnership's strategy is to continue to provide its ultimate customers with safe, reliable, market responsive and innovative services and solutions. Management expects the Partnership to realise a profit for the coming year.

Events after the balance sheet date

No events have occurred after the financial year-end, which could significantly affect the Partnership's financial position.

Statement of comprehensive income
for the year ended 31 December

	Notes	2016 EUR'000	2015 EUR'000
Revenue		4,911	4,113
Other external costs		(2,864)	(2,415)
Gross profit		**2,047**	**1,698**
Staff costs	3	(1,690)	(1,366)
Depreciation of property, plant and equipment		(175)	(191)
Operating profit		**182**	**141**
Dividends received from investments in subsidiaries		14,250	18,750
Financial income	5	17	30
Financial expenses	6	(2)	(2)
Pre-tax profit		**14,447**	**18,919**
Tax for the year		-	-
Profit for the year		**14,447**	**18,919**
Other comprehensive income		-	-
Total comprehensive income		**14,447**	**18,919**

A dividend of EUR 3,000 thousand was declared by the Partnership at the date of the report.

Statement of financial position
at 31 December

	Notes	2016 EUR'000	2015 EUR'000
Assets			
Non-current assets			
Property, plant and equipment		158	299
Total property, plant and equipment		**158**	**299**
Investments in subsidiaries	7	191,167	191,167
Total investments		**191,167**	**191,167**
Total non-current assets		**191,325**	**191,466**
Current assets			
Other receivables from group entities	8,14	1,844	1,105
Prepayments		13	3
Cash		391	968
Total current assets		**2,248**	**2,076**
Total assets		**193,573**	**193,542**

Statement of financial position
at 31 December

	Notes	2016 EUR'000	2015 EUR'000
Equity and liabilities			
Equity			
Capital accounts		192,154	192,707
Total equity/(deficit)	10,11	**192,154**	**192,707**
Current liabilities			
Trade payables		9	56
Other payables to subsidiaries	14	542	180
Other payables		868	599
Total current liabilities	8	**1,419**	**835**
Total liabilities		**1,419**	**835**
Total equity and liabilities		**193,573**	**193,542**

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Contingent liabilities, security for loans and other financial obligations	12
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Statement of changes in equity

Share EUR'000	Capital account Inter Terminals Ltd (99.9% ownership)	Capital account Inter Terminals Denmark Ltd (0.1% ownership)	Total
Equity at 1/1 2015	192,594	194	192,788
Profit for the year (Note 10)	18,900	19	18,919
Other comprehensive income for the year	-	-	-
Transaction with owners:			
Capital increase	-	-	-
Capital account withdrawal (Note 11)	(18,981)	(19)	(19,000)
Equity at 31/12 2015	**192,513**	**194**	**192,707**
Equity at 1/1/2016 (Note 10)	192,513	194	192,707
Profit for the year	14,433	14	14,447
Other comprehensive income for the year	-	-	-
Transaction with owners:			
Capital increase	-	-	-
Capital account withdrawal (Note 11)	(14,986)	(14)	(15,000)
Equity at 31/12 2016 (Note 10)	**191,960**	**194**	**192,154**

Cash flow statement

	Notes	2016 EUR'000	2015 EUR'000
Pre-tax Profit		**14,447**	**18,919**
Cash flow changes:			
Depreciation		175	191
Financial income	5	(17)	(30)
Financial expenses	6	2	2
Changes in working capital:			
Changes in receivables		(529)	(266)
Changes in other current liabilities		364	180
		14,442	**18,996**
Interest received		17	30
Interest paid		(2)	(2)
Cash flows from operating activities		**14,457**	**19,024**
Additions of property, plant and equipment		(34)	-
Cash flows from investing activities		**(34)**	**-**
Capital account withdrawal		(15,000)	(19,000)
Cash flows from financing activities		**(15,000)**	**(19,000)**
Net cash flow for the year		**(577)**	**24**
Cash and cash equivalents			
Cash and cash equivalents at 1/1		968	944
Net cash flow for the year		(577)	24
Cash and cash equivalents at 31/12		**391**	**968**

Notes overview

Notes

Note 1. Accounting policies

Corporate information

The financial statements of Inter Terminals Denmark Partnership I/S for the year ended 31 December 2016 were authorised for issue in accordance with the resolution of the Executive Board on 17 March 2017. Inter Terminals Denmark Partnership I/S (further: "the Partnership") is a general partnership incorporated and domiciled in Denmark. The registered office is located at Holtengårdsvej 25, Skælskør.

The Partnership's core activity is to render management services to subsidiaries and activities as a holding entity. The Partnership's ultimate parent is Inter Pipeline Limited based in Calgary, Alberta. Information on other related party relationships of the Partnership is provided in Note 14.

Basis for preparation

The annual report of Inter Terminals Denmark Partnership I/S for 2016 has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

The annual report is presented in EUR (thousands), which is the Partnership's functional currency.

Consolidated financial statements

No consolidated financial statements have been prepared, in accordance with IFRS 10 *Consolidated Financial Statements*, as the Partnership's ultimate parent prepares consolidated financial statements under IFRS, which may be obtained from: http://www.interpipeline.com.

New and amended standards and bases for conclusion

Standards effective in 2016

A number of new standards and amendments to standards and interpretations were issued by the IASB that became effective during 2016. None of these new or amended standards had an effect on the Partnership's financial statements. The Partnership has historically adopted standards relevant to the Partnership, when they become effective.

Future accounting pronouncements

Certain new standards, interpretations and amendments to existing standards were issued by the IASB that are mandatory for accounting periods beginning on or after January 1, 2017 or later periods with early adoption permitted. The standards impacted are as follows:

IFRS 9 Financial Instruments (IFRS 9): IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and shall be applied to annual periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. During 2016, Inter Terminals has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to Inter Terminals in the future. Overall, Inter Terminals expects no significant impact on its balance sheet and equity.

Notes

Note 1. Accounting policies – continued

Foreign currency translation

A functional currency has been determined for the Partnership. The functional currency is the currency of the primary economic environment in which the Partnership operates. Transactions in other currencies than the functional currency are accounted for as transactions in foreign currencies.

On initial recognition, transactions in foreign currencies are translated into the functional currency at the exchange rates at the transaction date. Exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the profit for the year as financial income or expenses.

Receivables, payables and other monetary items in foreign currencies are translated into the functional currency 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 profit for the year as financial income or expenses.

Statement of comprehensive income

Revenue

Revenue is recognised in the statement of comprehensive income when it is probable that future economic benefits will flow to the Partnership and the revenue can be reliably measured.

Income from the supply of services to subsidiaries is recognised as revenue. Revenue is recognised in the statement of comprehensive income as services are rendered.

Other operating expenses

Other operating expenses include legal, consulting, recruitment and other operating expenses.

Staff costs

Staff costs represent costs relating to the employee employed during the year.

Amortisation/depreciation and impairment losses

The item includes amortisation/depreciation and impairment of property, plant and equipment. Amortisation/depreciation is provided using the straight-line method on the basis of the cost and the below assessments of the useful life and residual value of the assets.

IT equipment – 4 years

Financial income and expenses

Financial income and expenses comprise interest income and expense, capital gains and losses relating to receivables, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities.

Interest is recognised under the accrual basis of accounting.

Borrowing costs relating to general borrowing or loans directly attributable to the acquisition, construction or development of qualifying assets form part of the cost of such assets.

Income from investments

Dividends from investments are recognised in the statement of comprehensive income once declared.

Notes

Note 1. Accounting policies – continued

Income tax expense

Tax is charged to the partners, Inter Terminals Ltd. and Inter Terminals Denmark Ltd., and is settled by the partners. On this basis, taxes are not recognised in the financial statements.

Statement of financial position

Current versus non-current classification

The Partnership presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period;
- Or, cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period
- Or, there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Partnership classifies all other liabilities as non-current.

Property, plant and equipment

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

An impairment test is made for property, plant and equipment if there are indications of decreases in value. The impairment test is made for each individual asset or group of assets, respectively. The assets are written down to the higher of the value in use and the net selling price of the asset or group of assets (recoverable amount) if it is lower than the carrying amount.

If there is objective evidence of impairment of an individual receivable, the receivable is written down individually. Alternatively, an assessment is made on a portfolio basis.

Impairment losses are calculated as the difference between the carrying amount and the net present value of estimated future cash flows, including the realisable value of any collateral received. The discount rate used is the effective interest rate for the individual receivable or portfolio.

Investments in subsidiaries

Investments in subsidiaries are measured at cost. Impairment testing is carried out as described in connection with impairment of non-current assets if there is any indication of impairment. It constitutes an indicator of impairment if dividends exceed profit in subsidiaries, or the cost price exceeds the carrying amount of assets in subsidiaries. Cost is written down to the recoverable amount whenever the cost exceeds the recoverable amount.

Notes

Note 1. Accounting policies – continued

Loans and receivables

Receivables from subsidiaries and other receivables are classified as "loans and receivables" and recognised as current assets, except for maturities greater than 12 months after the end of the reporting year. These are classified as non-current assets.

Loans and receivables are initially recognised at fair value. Subsequent to initial recognition, loans and receivables are measured at amortised cost, less any impairment losses.

If there is any objective evidence of impairment of an individual receivable, the receivable is written down individually. Alternatively, an assessment is made on a portfolio basis.

Cash

Cash in the statement of financial position comprises cash at banks and in hand.

Equity

Equity consists of the partners' capital accounts at the beginning of the financial year plus the year's transactions with owners and the profit/loss for the year.

Financial liabilities

Financial liabilities comprise payables to subsidiaries and are recognised on borrowing at the proceeds received net of transaction costs. On subsequent recognition, financial liabilities are measured at amortised cost using the effective interest-rate method so that the difference between the proceeds and the nominal value is recognised in the profit or loss for the year under financial expenses over the term of the loan.

Other payables are measured at net realisable value.

Share-based payments

Cash-settled transactions

The fair value basis of accounting is used for share-based payments plans whereby changes in the liability are recorded in each period based on the number of awards outstanding and the current market price of Inter Pipeline Limited's shares plus an amount equivalent to cash dividends declared to date.

The expense is recognised over the vesting periods of the respective awards. The market-based value of the award approximates the intrinsic value as the awards have no exercise price.

Cash flow statement

The cash flow statement shows how cash and cash equivalents at the Partnership have changed over the reporting period. In accordance with IAS 7, cash flows are divided into cash flows from operating activities, from investing activities and from financing activities. The cash and cash equivalents shown in the cash flow statement comprise cash on hand and demand deposits with banks and other financial institutions.

Cash flows from operating activities are determined using the indirect method as profit (loss) before depreciation, amortisation and impairment losses adjusted for changes in provisions, change in net working capital, interest received and interest paid, and income tax paid. Trade payables relating to purchases of intangible assets and property, plant and equipment are not recognised in change in net working capital.

Cash flows from investing activities comprise payments in connection with the purchase and sale of property, plant and equipment and other non-current assets, as well as payments in connection with the divestment of enterprises and activities.

Notes

Note 1. Accounting policies – continued

Cash flows from financing activities comprise changes in the size or composition of the share capital, expenses associated with such changes and dividend payments to owners. Cash flows from financing activities also include the raising of loans and instalments on loans.

Cash flows in currencies other than the functional currency are translated at the average exchange rates for the month in question, unless these differ significantly from the rates at the transaction date.

Financial highlights

EBIT margin:
Profit before net financials (EBIT) / revenue * 100

Return on assets:
Profit for the year / total assets * 100

Equity ratio:
Total equity / total equity and liabilities * 100

Return on equity:
Profit for the year / equity * 100

Note 2. Significant accounting estimates and judgments

In connection with the preparation of the financial statements, management makes a number of judgments and estimates, which form the basis of the recognition and measurement of income, expenses, assets, liabilities and disclosures of contingent assets and liabilities at the balance sheet date. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments related to the application of accounting policies

In the process of applying the Partnership's accounting policies, management exercises judgments which may have a significant effect on the amounts recognised in the financial statements.

Impairment testing of investment

The Partnership tests investments for impairment if there is an indication that they may be impaired. This also applies to other assets if there are indications that the may be impaired.

Impairment indicators include, but are not limited to, a significant decline in an asset's market value, significant adverse changes in the technologic, market, economic or legal environment in which the assets are operated, evidence of obsolescence or physical damage of an asset, significant change in the planned use of asset, or ongoing underperformance of an asset. Application of these factors to the facts and circumstances of a particular asset requires a significant amount of judgment.

The impairment testing of investments in subsidiaries is performed on an aggregated group of cash-generating units constituting the entity as a whole.

Impairment exists when the carrying amount of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

Note 2. Significant accounting estimates and judgments – continued

Estimating the value in use requires the Partnership to make estimates of the expected future cash flows. Those cash flows do not include significant future investments that will enhance the asset's performance of the CGU being tested. Estimation of the value in use of the overall business and other intangible assets also requires the use of a suitable discount rate in order to calculate the present value of those cash flows and the growth rate used for extrapolation purposes.

For the purpose of the Partnership's impairment testing of investments in subsidiaries, fair value is estimated using a discounted cash flow methodology. This method estimates fair value in use using a discounted ten-year forecasted cash flow with a terminal value, based on the Inter Pipeline Ltd. Group assessment of the long-term outlook of each business. Cash flows are estimated from several sources including internal budgets and long-term contractual agreements with customers. Observable market data are used to develop discount rate, which approximates the discount rate from a market participant's perspective. The fair value measurement is classified within level 3 of the fair value hierarchy.

Management believes, at 31 December 2016, that there are no reasonably possible changes in any of the key assumptions that would lead to the recoverable amounts being below the carrying amounts. The principles explained under 'Investment in subsidiaries', note 7, are applied.

The key assumptions used in the 2015 calculation of the recoverable value are as follows:

Revenues
Revenues are based on management's best estimates, taking into consideration existing contracts, timing of contract renewals, as well as relevant market factors such as contango (future prices of a commodity exceed expected spot price) and backwardation (future prices of a commodity below expected spot price) in the oil products markets served by Inter Terminals. The market in which Inter Terminals operates was impacted by contango market situation for most of 2016.

Discount rates
Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow forecasts. The discount rate or weighted average cost of capital (WACC) is based on the specific circumstances of each CGU.

The WACC calculation takes into account appropriate debt and equity weightings. The cost of equity is derived from the expected risk-free rate of return plus an appropriate equity risk premium and the after-tax cost of debt is based on expected borrowing rates for each CGU. Company-specific risks are also considered and are evaluated annually based on publicly available market data.

Notes

Note 3. Staff costs

	2016 EUR'000	2015 EUR'000
Analysis of staff costs, etc.:		
Wages and salaries	1,524	1,240
Costs related to Restricted Share Units	56	25
Pension costs	112	101
Total	**1,690**	**1,366**

The aggregate remuneration for the directors, including amounts paid by other group entities, was EUR 171 thousand (2015: EUR 162 thousand), excluding pension costs. Pension contributions totalled EUR 5 thousand (2015: EUR 7 thousand).

The average number of employees during the year was 15 (2015: 13).

Note 4. Audit fees

	2016 EUR'000	2015 EUR'000
Ernst & Young		
Fee for statutory audit	4	3
Other assurance engagements	38	35
Tax consultancy	-	23
	42	**61**

Note 5. Financial income

Financial income originates from loans, advances and other amounts due, measured at amortised cost, and may be analysed as follows:

	2016 EUR'000	2015 EUR'000
Interest received from group entities	17	30
	17	**30**

Note 6. Financial expenses

Financial expenses originate from financial liabilities measured at amortised cost and may be analysed as follows:

	2016 EUR'000	2015 EUR'000
Interest expense, bank	2	2
	2	**2**

Notes

Note 7. Investments in subsidiaries

EUR'000	Total Group enterprises
Cost	
Balance at 1/1 2016	191,167
Additions of entities	-
Cost at 31/12 2016	**191,167**
Write-downs	
Balance at 1/1 2016	-
Write-downs in the year	-
Write-downs at 31/12 2016	-
Carrying amount at 31/12 2016	**191,167**

Analysis of the Partnership's results of operations and equity, according to the most recent financial statements:

	Domicile	Currency	Nominal capital	Ownership (%)	Equity	Profit/ (loss)
Subsidiaries						
Inter Terminals Denmark A/S	Denmark	EUR	67	100%	212,253	13,099

The Partnership assesses the value of the investments in subsidiary for impairment on a value in use basis by discounting projected future cash flows generated by the subsidiary's assets at a weighted average cost of capital that reflects the relative risk of the asset.

For the purpose of impairment testing of investments in subsidiary, the recoverable value of CGU calculated in preceding year may be used in the current year if certain conditions are met. These conditions include: that the carrying amount has not changed significantly since the recoverable value was previously calculated; the most recent recoverable value calculation exceeded the carrying amount by a substantial margin; and based on the analysis of events that have occurred and circumstances that have changed since the most recent recoverable value was calculated, the likelihood that a current recoverable value calculation would be less than the current carrying amount of the CGU is remote.

The recoverable value calculated in 2015 exceeded the carrying amount of investments in subsidiaries by a substantial margin, and based on the analysis performed, it was determined that there was no impairment of investment in subsidiaries in 2016.

The key assumptions used in the 2015 calculation of the recoverable value are as follows:

Valuation is based on cash flow projections that incorporate best estimates of revenue, operating and maintenance expenditures, administrative expenses and capital expenditures over 10 years. The cash flow projections are then aggregated with a terminal value, representing the value of cash flows beyond the tenth year incorporating an annual growth rate of 2%. An after-tax discount rate of 7,5% has been applied to after-tax cash flows. The calculation of fair value less costs of disposal is most sensitive to assumptions about discount rate and revenue.

Notes

Note 7. Investments in subsidiaries – continued

The discount rate or weighted average cost of capital (WACC) is based on specific circumstances of each CGU. The WACC calculation takes into account appropriate debt and equity weightings. The cost of equity is derived from the expected risk-free rate of return plus an appropriate equity risk premium, and the after-tax cost of debt is based on expected borrowing rate of the CGU. Management performed a sensitivity analysis by increasing WACC to 9%. As a result, the recoverable amount to the CGU is still above the carrying amount.

Revenues are based on management's best estimates, taking into consideration existing contracts, timing of contract renewals, as well as relevant market factors.

Note 8. Financial assets and liabilities

	Note	2016 EUR'000 Carrying amount	2015 EUR'000 Carrying amount
Loans and receivables measured at amortised cost			
Other receivables from group entities	14	1,844	1,105
Prepayments		13	3
Total loans and receivables measured at amortised cost		**1,857**	**1,108**
Financial liabilities measured at amortised cost			
Trade payables		9	56
Other payables to subsidiaries	14	542	180
Other payables	14	868	599
Total financial liabilities measured at amortised cost		**1,419**	**835**

The carrying amount reflects the fair value of financial assets and liabilities.

Note 9. Financial risks

At the balance sheet date, the Partnership identified credit risks, liquidity risks and foreign currency risks as factors of relevance to the business.

Credit risk

Credit exposure on financial instruments arises from counterparties' inability or unwillingness to fulfil their obligations to the Partnership. The Partnership's credit risk exposure relates primarily to financial counterparties holding cash. Partnership's exposure to credit risk arises from default of a customer or counterparty's obligations, with a maximum exposure equal to the carrying amount of these instruments. Credit risk is managed through credit approval and regular monitoring procedures.

With respect to credit risk on cash and deposits, the Partnership believes the risks of non-performance of counterparties are minimal as cash and deposits are predominantly held with major financial institutions.

Liquidity risk

Liquidity risk is the risk that suitable sources are not available to fund business operations, commercial strategies or meet financial obligations. The Partnership manages its liquidity risks through regular monitoring of funding and cash generation and utilisation.

Notes

Note 9. Financial risks – continued

The table below summarises the contractual maturity profile of the Partnership's financial liabilities at 31 December on an undiscounted basis:

EUR'000	Falling due within 1 year	Falling due between 1 and 5 years	Falling due after more than 5 years	Total	Carrying amount
2016					
Trade and other payables	1,419	-	-	1,419	1,419
	1,419	-	-	1,419	1,419
2015					
Trade and other payables	835	-	-	835	835
	835	-	-	835	835

Interest-rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument that will fluctuate as a result of a change in market interest rates. The Partnership manages interest rate risk through regular monitoring of its funding facilities. At 31 December 2016, the Partnership considers the exposure to interest rate risk minimal, as no debt obligations with floating interest rates were withdrawn by the Partnership.

Foreign currency risks

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Partnership has transactional currency exposures that arise from sales or purchases of services and goods in currencies other than respective functional currency. The Partnership manages its foreign currency risk through regular monitoring of its foreign currency exposures. Transactional foreign currency risk exposures have not been significant historically, therefore are not hedged.

Analysis of the Partnership's currency exposure at 31 December:

EUR'000	Assets	Liabilities	Net
Currency			
2016			
DKK	230	(16)	214
GBP	-	(7)	(7)
2015			
DKK	315	(17)	298
GBP	-	-	-

Notes

Note 9. Financial risks – continued

Sensitivity analysis at 31 December

The impact in thousands of euros on the results of operations and changes in equity resulting from a change of the Partnership's primary foreign currencies are shown below. The changes in exchange rates are based on the year's actual foreign exchange rate movements.

		31 December 2016		31 December 2015	
	Possible Change	Profit/loss before tax	Equity	Profit/loss before tax	Equity
GBP	+/- 5/10%	(2)	(2)	(3)	(3)

Danish kroner is significantly linked to the Euro; therefore significant fluctuations are not expected.

Capital management

For the purpose of the Partnership's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders. The primary objective of the Partnership's capital management is to maximise the shareholder value. The Partnership manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Partnership may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 2016.

Note 10. Share capital

Share capital

The Partnership capital was DKK 500 thousand (EUR 60 thousand) at the time of incorporation. The profit attributable to the partners was EUR 14,447 thousand during the year (2015: EUR 18,919 thousand). The Partnership's interest is split as follows: 99.9% to Inter Terminals Limited and 0.1% to Inter Terminals Denmark Ltd.

Note 11. Capital account withdrawal and dividend

Capital withdrawal of EUR 15,000 thousand has been proposed at 31 December 2016 (2015: EUR 19,000 thousand). Dividend in the amount of EUR 3,000 thousand is proposed at the annual general meeting in February 2016. Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability at 31 December 2016.

Note 12. Contingent liabilities, security for loans and other financial obligations

Lease obligations (operating leases) falling due within 5 years total EUR 11 thousand (2015: EUR 23 thousand).

Notes

Note 13. Restricted Share Units (RSU) plan

Effective 1 January 2014, the Partnership implemented a shadow Restricted Share Unit Plan (RSU Plan) that defines how awards made to the senior executives will be determined and administered. A Restricted Share Unit (RSU) is granted under the RSU Plan. It is valued based on Inter Pipeline Limited's share unit price plus credit for cash distributions paid to unit holders during the period the RSUs are held. Unless otherwise provided in an individual grant agreement, the RSU will vest one-third on each of the successive anniversary dates from the date of the grant. The life of RSUs granted is three years. Upon exercise of a RSU, the amount owing will be paid out in cash, net of the appropriate payroll taxes.

At 31 December 2016, the current portion of the liability included in other payables was EUR 172 thousand (2015: EUR 64 thousand). At 31 December 2016, 3,306 RSUs are exercisable (2015: 2,612 RSUs). Inter Pipeline Limited's five-day simple average closing price at 31 December 2016 was CAD 29.75 (2015: CAD 22.46).

For the year ended 31 December 2016, staff costs included EUR 56 thousand related to RSUs (2015: EUR 25 thousand).

The following table illustrates the status of the Partnership's RSUs at 31 December 2016:

	Number of RSUs
Balance, 1 January 2016	5,309
Granted during the year	4,356
Exercised during the year	(2,527)
Forfeited during the year	-
Balance, 31 December 2016	**7,138**

Note 14. Related-party transactions

Information about related parties with a controlling interest:

Related party	Domicile	Basis for control
Inter Pipeline Ltd.	3200, 215 – 2nd Street SW Calgary, Alberta, T2P 1M4 Canada	Ultimate parent
Inter Terminals Limited	Priory House, Station Road 60 Redhill, RH1 1PE Surrey United Kingdom	Partner (99.9% owner)
Inter Terminals Denmark Ltd.	Priory House, Station Road 60 Redhill, RH1 1PE Surrey United Kingdom	Partner (0.1% owner)

On 10 January 2012, Inter Terminals Denmark Partnership I/S, as the immediate shareholder of Inter Terminals Denmark A/S, subscribed for DKK 1.00 equity at a rate of EUR 1,420,600 thousand per share of DKK 1.00 in the Partnership.

On 11 January 2012, Inter Terminals Denmark A/S completed the acquisition of the three oil terminal companies from DONG Energy Power A/S. The final purchase of all outstanding shares was EUR 388,700 thousand.

Notes

Note 14. Related-party transactions – continued

Remuneration and salaries to the Executive Board are reflected in note 3.

The Partnership is included in the Group Annual Report of the ultimate parent company Inter Pipeline Ltd. The Group Annual Report of Inter Pipeline Ltd. (ultimate parent) may be obtained at the following address: 3200, 215 – 2nd Street SW, Calgary, Alberta, T2P 1M4, Canada, and at the Group's website http://www.interpipeline.com.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

EUR'000	Inter Pipeline Ltd.	Inter Terminals Denmark Group
2016		
Amounts payable to related parties	-	(542)
Amounts receivable from related parties	-	1,844
Interest income on loans to related parties	-	17
Capital withdrawal by partners	(15,000)	-
Dividends from subsidiary	-	14,250
Management income	-	1,134
Management charge and personnel recharge expenses	(404)	-
Purchase of goods and other services from related parties	-	(62)
Sale of goods and other services to related parties	-	1,124
2015		
Amounts payable to related parties	-	(180)
Amounts receivable from related parties	-	1,105
Interest income on loans to related parties	-	30
Capital withdrawal by partners	(19,000)	-
Dividends from subsidiary	-	18,750
Management income	-	2,947
Management charge and personnel recharge expenses	(168)	-
Sale of goods and other services to related parties	-	1,076

Note 15. Events after the balance sheet date

No events have occurred after the financial year-end which could significantly affect the Partnership's financial position.