Inter Terminals Denmark A/S

Holtengårdsvej 25, 4230 Skælskør

CVR No. 33 75 79 05

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

Company details

Name	Inter Terminals Denmark A/S
Address	Holtengårdsvej 25 DK-4230 Skælskør
CVR no.	33 75 79 05
Financial year	1 January – 31 December
Website	www.interterminals.com
Telephone	+45 2466 4353
Board of Directors	Martyn Joseph Augustine Lyons, chairman Hans Peder Krogh Mortensen Carsten Uffe Kirk
Executive Board	Carsten Uffe Kirk
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4 DK-2000 Frederiksberg

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Inter Terminals Denmark A/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 Company'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 Company'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

Board of Directors:

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

Independent auditor's report

We have audited the financial statements of Inter Terminals Denmark A/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 Company's financial position at 31 December 2016 and of the results of the Company'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 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.

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 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 - 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 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 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 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.

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 EUR'000	2015 EUR'000	2014 EUR'000	2013 EUR'000	2012 EUR'000
Statement of comprehensive income					
Other operating income	2	2	3	10	141
Gross margin	(131)	(129)	(162)	(277)	11
Operating profit/loss	(141)	(139)	(172)	(287)	(1,066)
Income from investments in subsidiaries	23,010	21,600	14,000	8,500	50,740
Net financials	(12,178)	(11,671)	(11,205)	(10,935)	(11,651)
Profit/loss for the year	13,099	12,389	5,126	(1,817)	41,732
Statement of financial position					
Total equity/(deficit)	212,253	213,404	219,765	219,639	225,509
Balance sheet total	400,046	398,034	395,406	393,427	393,989
Investments in property, plant and equipment	-	-	-	-	44
Investments in subsidiaries	-	-	-	-	388,693
Ratios (%)					
EBIT margin	1,143,450	861,853.1	522,497.8	85,349,2	35,229,8
Return on assets	3	3	1	(1)	11
Equity ratio	53	54	56	56	57
Return on equity	6	6	2	(1)	19

Management's review

Principle activities of the Company

The Company's core activity is to own shares in subsidiaries. The subsidiaries (Inter Terminals AOT ApS, Inter Terminals EOT ApS and Inter Terminals SGOT ApS) provide oil storage and trans-shipment services to a range of oil companies and oil trading companies using its storage terminals throughout Denmark.

Financial review

The income statement for 2016 shows a profit of EUR 13,099 thousand against EUR 12,389 thousand last year. The realised profit is in line with expectations.

Operating review

The Company's largest expense during the year is interest expenses on the loan from Inter Pipeline Luxembourg S.à r.l.

During the year, normal dividends were declared and paid by the Company's subsidiaries at the annual general meeting in February 2016 (EUR 4,000 thousand) and extraordinary general meetings in June, September and November 2016 (EUR 6,500 thousand, EUR 4,010 thousand and EUR 8,500 thousand respectively). The Company declared a dividend of EUR 4,000 thousand to its parent, Inter Terminals Denmark Partnership I/S, at the annual general meeting in February 2016, and further extraordinary dividend payments of EUR 6,500 thousand, EUR 1,250 thousand and EUR 2,500 thousand in June, September and November 2016 respectively.

2016 revenues for the three oil terminal companies were EUR 6,331 thousand higher than prior year, which is mainly reflected in higher utilisation rates at the Asnæs and Gulfhavn terminal and higher rental rates. At Ensted terminal revenue were lower than prior year, mainly due to maintenance of M8 tank and lower ship activity. The companies' realised profit after tax was EUR 1,230 thousand higher than prior year.

The subsidiaries (Inter Terminals AOT ApS, Inter Terminals EOT ApS and Inter Terminals SGOT ApS) are certified according to ISO 14001, OHSAS 18001 and are AEO - Authorized economic operator. All tanks are approved for Customs Warehousing.

Risk management

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

Capital management

The Company raises capital through its principle activities, intergroup financing, as well as external financing, where required. At December 31, 2016 loan from Inter Pipeline Luxembourg S.à r.l. amounted to EUR 166,700 thousand. Inter Terminals Denmark A/S' Management assesses on a regular basis that the Company's capital structure is consistent with its goals. The overall objective is to secure that the Company has a capital structure which supports economic growth, while maximizing returns. The Company'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 Company's strategy is to continue to provide its ultimate customers with safe, reliable, market responsive and innovative services and solutions.

Events after the balance sheet date

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

Statement of comprehensive income
for the year ended 31 December

	Notes	2016 EUR'000	2015 EUR'000
Other operating income		2	2
General and administrative costs	4	(133)	(131)
Gross profit/(loss)		**(131)**	**(129)**
Depreciation property, plant and equipment		(10)	(10)
Operating profit/(loss)		**(141)**	**(139)**
Dividends from investments in subsidiaries		23,010	21,600
Financial expenses	5	(12,178)	(11,671)
Pre-tax profit/(loss)		**10,691**	**9,790**
Tax for the year	6	2,408	2,599
Profit/(loss) for the year		**13,099**	**12,389**
Other comprehensive income		**-**	**-**
Total comprehensive income/(loss)		**13,099**	**12,389**

A dividend of EUR 3,000 thousand was declared by the Company as 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		5	15
Total property, plant and equipment		**5**	**15**
Investments in subsidiaries	7	388,693	388,693
Deferred tax	8	5,666	5,084
Total investments		**394,359**	**393,777**
Total non-current assets		**394,364**	**393,792**
Current assets			
Receivables from group entities	14	5,675	4,057
Cash		7	185
Total current assets		**5,682**	**4,242**
Total assets		**400,046**	**398,034**

Statement of financial position at 31 December

	Notes	2016 EUR'000	2015 EUR'000
Equity and liabilities			
Equity			
Share capital	11	67	67
Share premium		184,100	184,100
Retained earnings		28,086	29,237
Total equity		**212,253**	**213,404**
Liabilities			
Non-current liabilities			
Payables to parent	14	166,700	166,700
Total non-current liabilities		**166,700**	**166,700**
Current liabilities			
Payables to group entities	14	21,090	17,928
Other payables		3	2
Total current liabilities	9	**21,093**	**17,930**
Total liabilities		**187,793**	**184,630**
Total equity and liabilities		**400,046**	**398,034**

	Notes
Financial assets and liabilities	9
Financial risks	10
Contingent liabilities, security for loans and other financial obligations	13
Related-party transactions	14
Events after the balance sheet date	15

Statement of changes in equity

EUR'000	Share capital (Note 11)	Share premium	Retained earnings	Total
Equity at 1/1 2015	67	184,100	35,598	219,765
Profit for the year	-	-	12,389	12,389
Dividends distributed (Note 12)	-	-	(18,750)	(18,750)
Equity at 31/12 2015	**67**	**184,100**	**29,237**	**213,404**
Equity at 1/1 2016	67	184,100	29,237	213,404
Profit for the year	-	-	13,099	13,099
Dividends distributed (Note 12)	-	-	(14,250)	(14,250)
Equity at 31/12 2016	**67**	**184,100**	**28,086**	**212,253**

Cash flow statement

	Notes	2016 EUR'000	2015 EUR'000
Pre-tax profit		**10,691**	**9,790**
Cash flow changes:			
Depreciation		10	10
Financial expenses	5	12,178	11,671
Changes in working capital:			
Changes in receivables		-	-
Changes in other current liabilities		3,371	9,002
		26,250	30,473
Interest paid	5	(12,178)	(11,671)
Cash flows from operating activities		**14,072**	**18,802**
Dividend distributed	12	(14,250)	(18,750)
Cash flows from financing activities		**(14,250)**	**(18,750)**
Net cash flow for the year		**-178**	**52**
Cash and cash equivalents			
Cash and cash equivalents at 1/1		185	133
Net cash flow for the year		(178)	52
Cash and cash equivalents at 31/12		**7**	**185**

Notes overview

Notes

Note 1. Accounting policies

Corporate information

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

The Company's ultimate parent is Inter Pipeline Limited based in Calgary, Alberta. Information on other related-party relationships of the Company is provided in Note 14.

Basis for preparation

The annual report of Inter Terminals Denmark A/S for 2015 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.

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

The annual report has been prepared according to the historical cost principle.

Consolidated financial statements

No consolidated financial statements have been prepared, in accordance with IFRS 10 Consolidated Financial Statements, as the Company'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 2015. None of these new or amended standards had an effect on the Company's financial statements. The Company has historically adopted standards relevant to the Company, 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.

IFRS 15 will primarily affect the timing of recognition under multiple element arrangements. Under multiple element arrangements, although the total revenue recognised during the term of the contract will be largely unaffected, the allocation of the transaction price to the delivered goods or services may result in revenue being deferred or accelerated from its associated cash flows. For short-term commodity-based arrangements, no significant changes are expected at adoption of IFRS 15.

Notes

Note 1. Accounting policies – continued

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.

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 1 January 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 an 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 statement of financial position and equity.

IFRS 16 Leases replaces IAS 17 Leases and shall be applied to annual periods beginning on or after 1 January 2019, with early adoption permitted. IFRS 16 establishes a single, on-balance sheet accounting model for lessees which will result in the recognition of a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. During 2016, Inter Terminals has performed an impact assessment of IFRS 16. Overall, Inter Terminals expects no significant impact on its statement of financial position and equity.

Foreign currency translation

A functional currency has been determined for the Company. The functional currency is the currency of the primary economic environment in which the Company 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

Other operating income

Income from the supply of services to group entities is recognised as revenue as services are rendered.

General and administrative costs

General and administrative costs include legal, consulting and other operating expenses.

Notes

Note 1. Accounting policies – continued

Amortisation/depreciation

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 as well as surcharges and refunds under the on-account tax scheme, etc.

Interest is recognised under the accrual basis of accounting.

Income from investments

Dividends from investments in subsidiaries are recognised in the statement of comprehensive income at the date of declaration.

Income tax expense

Income tax expense, which consists of current tax, joint taxation contribution for the year and changes in deferred tax, is recognised in the profit for the year in so far as it relates to the profit for the year, and directly in other comprehensive income in so far as it relates to entries directly in other comprehensive income.

Statement of financial position

Current versus non-current classification

The Company 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 Company classifies all other liabilities as non-current.

Notes

Note 1. Accounting policies – continued

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. Cost is written down to the recoverable amount whenever the cost exceeds the recoverable amount.

Property, plant and equipment

Property, plant and equipment comprise computer equipment. Items of 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.

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 period. 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 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.

Cash

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

Income tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for taxes paid on account.

Deferred tax is measured using the balance sheet liability method, providing for all temporary differences between the carrying amounts and the tax base of assets and liabilities. However, temporary differences are not provided for in respect of goodwill not deductible for tax purposes, office properties and other items – apart from business combinations – where temporary differences have arisen at the acquisition date without having any effect on either profit/loss or taxable income.

Deferred tax assets, including the tax base of tax loss carry-forwards, are recognised as other non-current assets at the value at which they are expected to be utilised either by elimination against tax on future earnings or by a set-off against deferred tax liabilities.

Notes

Note 1. Accounting policies – continued

Deferred tax assets and deferred tax liabilities are offset if the Company has a legally enforceable right to set off current tax assets and current tax liabilities or intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax is measured in accordance with the tax rules and tax rates that will apply under the legislation enacted at the balance sheet date when the deferred tax is expected to crystallise in the form of current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the profit for the year.

Equity

Dividend proposed for the year is disclosed in the notes to the financial statements and is therefore not recognised as a liability at 31 December. The Share Premium reserve is not distributable.

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 for the year under financial expenses over the term of the loan.

Other payables are measured at net realisable value.

Cash flow statement

The cash flow statement shows how cash and cash equivalents at the Company have changed over the reporting period. In accordance with IAS 7, cash flows 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.

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

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

Notes

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 Company'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 Company 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 an 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 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.

Estimating the value in use requires the Company 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 companies' 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:

Notes

Note 2. Significant accounting estimates and judgments - continued

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.

Note 3. Staff costs

The Company had no employees in the financial year.

The aggregate remuneration paid to members of the Executive Board and the Board of Directors, including amounts paid by other group entities, was EUR 48 thousand, excluding pension costs (2015: EUR 58 thousand). Pension contributions totalled EUR 1 thousand (2015: EUR 2 thousand).

Note 4. Audit fees

	2016 EUR'000	2015 EUR'000
Ernst & Young		
Fee for statutory audit	4	3
Other assurance engagements	8	8
Tax consultancy	-	6
	12	**17**

Note 5. 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 paid to group entities	12,177	11,670
Interest expense, bank	1	1
	12,178	**11,671**

Notes

Note 6. Income taxes

Income tax expense recognised in the statement of comprehensive income:

	2016 EUR'000	2015 EUR'000
Current income tax benefit	-	-
Compensation for use of tax losses	(946)	(56)
Compensation for prior year tax losses	(881)	-
Change in deferred tax	(582)	(2,543)
	(2,408)	**(2,599)**

A reconciliation between the tax expense and the product of the profit for the year, multiplied by Denmark's domestic tax rate for the period ended 31 December 2016, is as follows:

	2016 EUR'000	2015 EUR'000
Pre-tax profit for the period	**10,691**	**9,790**
Estimated tax charge based on Danish income tax rate of 22% (2015: 23.5%)	2,352	2,301
Permanent differences	(4,664)	(4,956)
Adjustments in respect of current income tax rate of previous years deferred tax	(91)	(2)
Adjustments in respect of current income tax of previous years	(5)	-
Effect on deferred tax on reduction of Danish income tax rate from 23.5% to 22%	-	58
Income tax expense at the effective income tax rate of 22% (2015: 23.5%)	(2,408)	(2,599)

Notes

Note 7. Investments in subsidiaries

EUR'000	Inter Terminals SGOT ApS	Inter Terminals EOT ApS	Inter Terminals AOT ApS	Total Group enterprises
Cost				
Balance at 1/1 2016	187,598	92,997	108,098	388,693
Additions of entities	-	-	-	-
Cost at 31/12 2016	**187,598**	**92,997**	**108,098**	**388,693**
Write-downs				
Balance at 1/1 2016	-	-	-	-
Write-downs in the year	-	-	-	-
Write-downs at 31/12 2016	-	-	-	-
Carrying amount at 31/12 2016	**187,598**	**92,997**	**108,098**	**388,693**

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

	Domicile	Currency	Nominal capital	Ownership (%)	Equity	Profit/ (loss)
Subsidiaries						
Inter Terminals Denmark SGOT ApS	Denmark	EUR	17	100%	162,397	10,132
Inter Terminals Denmark EOT ApS	Denmark	EUR	17	100%	76,571	2,406
Inter Terminals Denmark AOT ApS	Denmark	EUR	11	100%	93,313	6,064

The Company 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. Deferred tax

Deferred tax relates to the following:

	Statement of financial position		Statement of comprehensive income	
EUR'000	**2016**	**2015**	**2016**	**2015**
Property, plant and equipment	(3)	(3)	-	(2)
Tax lossess carried forward	-	(784)	784	677
EBIT-limitation carried forward	(5,663)	(4,297)	(1,366)	797
Adjustment to prior years	-	-		(4,015)
Deferred tax *(expense/income)*			**(582)**	**(2,543)**
Deferred tax, net	**(5,666)**	**(5,084)**		

Reflected in the statement of financial position as follows:

	2016 EUR'000	**2015 EUR'000**
Deferred tax assets	(5,666)	(5,084)
Deferred tax liabilities	-	-
Deferred tax, net	**(5,666)**	**(5,084)**

Reconciliation of deferred tax, net:		
At 1 January	(5,084)	(6,556)
Tax income recognised in the statement of comprehensive income	(582)	(2,543)
Adjustment to prior years	-	4,015
At 31 December	**(5,666)**	**(5,084)**

Notes

Note 8. Deferred tax – continued

Analysis of valuation and recoverability shows that all deferred tax assets and liabilities will be realised within a reasonable time. Consequently, all deferred tax assets and liabilities have been recognised at 31 December, 2016.

Companies of Inter Terminals Denmark Group offset tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Note 9. Financial assets and liabilities

	Note	2016 EUR'000 Carrying amount	2014 EUR'005 Carrying amount
Loans and receivables measured at amortised cost			
Receivables from group entities	14	5,675	4,057
Total loans and receivables measured at amortised cost		**5,675**	**4,057**
Financial liabilities measured at amortised cost			
Payables to group entities	14	187,790	184,628
Other payables		3	2
Total financial liabilities measured at amortised cost		**187,793**	**184,630**

Refer to the maturity analysis above for a comparison of the fair value and amortised cost of the loan.

Note 10. Financial risks

At the balance sheet date, the Company 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 Company. The Company's credit risk exposure relates primarily to financial counterparties holding cash. Company'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 Company 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 Company manages its liquidity risks through regular monitoring of funding and cash generation and utilisation.

Note 10. Financial risks – continued

The table below summarises the contractual maturity profile of the Company's financial liabilities at 31 December 2016 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					
Payables to group entities	10,835	199,474	-	210,309	166,700
2015					
Payables to group entities	10,835	43,342	162,773	216,950	166,700

The maturity profile above includes interest payable on the EUR 166,700 thousand loan up until its maturity on 10 January 2021.

Interest-rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of a change in market interest rates. The Company manages its interest rate risks through regular monitoring of its funding facilities. The long-term loan held with Inter Pipeline Luxembourg S.á.r.l. has a fixed interest rate. At 31 December 2016, the Company considers the exposure to interest rate risk minimal, as no debt obligations with floating interest rates were withdrawn by the Company.

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 Company manages its foreign currency risks through regular monitoring of its foreign currency exposures. The Company's functional and presentation currency is Euro. Both the long-term loan and investments are denominated in Euro. Therefore, foreign currency risk exposure is accordingly accessed as minor.

Capital management

For the purpose of the Company's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders. The primary objective of the Company's capital management is to maximise the shareholder value. The Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company 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 2016 and 2015.

Notes

Note 11. Share capital

	No. of shares	EUR'000
Ordinary shares issued and fully paid-in:		
At 1 January 2016	500,001	67
Capital increase	-	-
At 31 December 2016	**500,001**	**67**

No special rights are attached to the shares.

Analysis of changes in the share capital:

	2016 EUR'000	2015 EUR'000
At 1 January	67	67
Capital increase	-	-
At 31 December	**67**	**67**

Note 12. Dividend

Dividend paid out to parent company during the year ending 31 December 2016 amounted to EUR 14,250 thousand, representing EUR 28 per share (2015: EUR 18,750 thousand). A dividend of EUR 3,000 thousand, representing EUR 6 per share, is proposed at the annual general meeting in March 2017. 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 13. Contingent liabilities, security for loans and other financial obligations

As administration company in the joint taxation agreement, the Company is jointly taxed with other Danish group entities and is jointly and severally with other jointly taxed group entities for payment of income taxes for the income year 2016 onwards as well as withholding taxes on interest, royalties and dividends falling due for payment on or after 1 July 2012.

The Company has no future lease obligations (operating leases) falling due within 5 years.

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 Denmark Partnership I/S	Holtengårdsvej 25 4230 Skælskør, Denmark	Parent company

On 10 January 2013, the parent, Inter Terminals Denmark Partnership I/S, subscribed for DKK 1.00 equity at a rate of EUR 1,420,600 thousand per share of DKK 1.00 in the Company. On the same date, the Company received a EUR 203,100 thousand loan from the majority shareholder, Inter Pipeline Ltd. A portion of this principal amount was repaid during 2013, with EUR 166,700 thousand outstanding at 31 December 2015.

Notes

Note 14. Related-party transactions - continued

The investment in subsidiaries has been accounted for at historical cost, with the dividend received of EUR 23,010 thousand being recognised in the statement of comprehensive income during the financial period.

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

The Company 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	(166,700)	(21,090)
Amounts receivable from related parties	-	5,675
Interest expenses on loans from related parties	(10,835)	(1,342)
Interest income on loans to related parties	-	-
Dividends to parent company	-	(14,250)
Dividends from subsidiaries	-	23,010
Management charge expenses	-	(114)
Purchase of goods and other services from related parties	-	-
Sale of goods and other services to related parties	-	2
2015		
Amounts payable to related parties	(166,700)	(17,928)
Amounts receivable from related parties	-	4,057
Interest expenses on loans from related parties	(10,835)	(836)
Interest income on loans to related parties	-	-
Dividends to parent company	-	(18,750)
Dividends from subsidiaries	-	21,600
Management charge expenses	-	(88)
Purchase of goods and other services from related parties	-	-
Sale of goods and other services to related parties	-	2

Note 15. Events after the balance sheet date

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