

DONG E&P DK A/S

**Kraftværksvej 53
Skærbæk**

Annual report for 2016

CVR no 67 14 53 13

Adopted at the annual general meeting on
31 May 2017

Ulrik Jarlov
Chairman

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Statement by Management on the annual report

The Executive Board and the Board of Directors have today discussed and approved the annual report of DONG E&P DK A/S for the financial year 1 January - 31 December 2016.

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

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

In our opinion, Management's review includes a fair review of the matters dealt with in the Management's review.

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

Skærbæk, 23 May 2017

Executive Board

Flemming Horn Nielsen
managing director

Board of directors

David B. Cook
Chairman

Hanne Legardt Blume Levy

Jeppe Hoff Nielsen

Independent auditor's report

To the shareholder of DONG E&P DK A/S

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's Responsibilities for the Audit of the financial statements" section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibilities for the financial Statements

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

In preparing the Financial Statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Financial Statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements

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

Independent auditor's report

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent auditor's report

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

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

København, 23 May 2017

PricewaterhouseCoopers
statsautoriseret revisionspartnerselskab
CVR-nr. 33 77 12 31

Thomas Wraae Holm
State Authorised Public Accountant

Kim Danstrup
State Authorised Public Accountant

Company details

The Company

DONG E&P DK A/S
Kraftværksvej 53
Skærbæk
7000 Fredericia

Tel: 99 55 11 11
Fax: 99 55 00 02
Website: www.dongenergy.com

CVR no.: 67 14 53 13
Reporting period: 1 January - 31 December
Domicile: Fredericia

Board of Directors

David B. Cook, Chairman
Hanne Legardt Blume Levy
Jeppe Hoff Nielsen

Executive Board

Flemming Horn Nielsen, managing director

Auditors

PricewaterhouseCoopers
statsautoriseret revisionspartnerselskab
Strandvejen 44
2900 Hellerup

Consolidated Financial Statements

The Company is included in the consolidated Financial Statements of the ultimate parent company DONG Energy A/S.

The consolidated financial statements of DONG Energy A/S, Fredericia, CVR no. 36 21 37 28 may be obtained at the following address:

www.dongenergy.com

Management's review

Business activities

DONG E&P DK A/S is a member of the DONG Energy Group and a subsidiary of DONG E&P A/S, Fredericia. Reference is made to the annual report of DONG Energy A/S.

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

Business review

The Company's income statement for the year ended 31 December shows a profit of TDKK 37.314, and the balance sheet at 31 December 2016 shows equity of TDKK 201.766.

Financial performance for 2016 matched the expectations.

Recognition and measurement uncertainties

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

Unusual matters

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

Financial review

For 2017 we expect a profit before tax between DKK 0 million and DKK 5 million.

Accounting policies

The annual report of DONG E&P DK A/S for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected provisions as regards larger entities.

The company has implemented amendments to the Danish Financial Statements Act which come into effect on 1 January 2016, see Act no. 738 of 1 June 2015.

The amendments to the Danish Financial Statements Act have not affected the company's assets, liabilities and financial position at 31 December 2016, but have only resulted in additional information in the annual report.

The annual report for 2016 is presented in thousands of Danish kroner (DKK'000).

Basis of recognition and measurement

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

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

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

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

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

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

Accounting policies

Income statement

Revenue

Revenue from the sale of oil and gas is recognised in the income statement, when delivery and transfer of risk to the buyer has taken place before year end. Revenue is recognised exclusive of VAT and net of any trade discounts.

Other external expenses

Other external expenses include expenses related to administration, exploration, operating lease payments, etc.

Other external expenses also comprise cost for exploration and appraisal wells that do not qualify for capitalisation.

Amortisation, depreciation and impairment losses

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

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Net financials include interest income and expenses, financial expenses relating to realised and unrealised capital/exchange gains and losses on foreign currency transactions.

Tax on profit/loss for the year

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

DONG E&P DK A/S is comprised by the Danish Hydrocarbon Tax Act. Hydrocarbon taxes are recognised under tax on profit/loss for the year. DONG E&P A/S is the management company responsible for the carbon tax joint taxation and thus settles all hydrocarbon tax payments with the tax authorities.

Accounting policies

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

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

Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, including changes arising from changes in tax rates, is recognised in the income statement as regards the portion that relates to entries directly in equity.

Balance sheet

Production assets

Production assets are measured at cost less accumulated depreciation and impairment losses.

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

Cost is increased by estimated expenses for dismantling and disposing of the assets and restoration to the extent that they are recognised as a provision.

Exploration comprises recognised expenses for the successful drilling of exploration and appraisal wells where development of the field has yet to commence. Expenses are recognised using the successful efforts method. Under the successful efforts method, expenses for drilling specific exploration wells are recognised in the balance sheet. Acquired licences where discoveries have been made, including acquired reserves, are also recognised under exploration. General exploration expenses and expenses for unsuccessful exploration wells are recognised in the income statement. Recognition in the balance sheet is maintained pending determination of commercial viability. Where a discovery is found not to be commercially viable, the drilling expenses incurred are recognised in the income statement as exploration expenses. Other exploration expenses are recognised in the income statement as exploration expenses as incurred.

In the case of oil and gas production assets, cost is depreciated using the unit of production method based on the ratio of current production to estimated recoverable reserves by individual field.

Accounting policies

Impairment of fixed assets

The carrying amount of production assets is reviewed for impairment, other than what is reflected through normal amortisation and depreciation, on an annual basis.

Where there are indications of impairment, an impairment test is performed for each individual asset or group of assets, respectively. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

Receivables

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

Provisions

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

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

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

Income tax and deffered tax

Current tax payable and current tax receivable are recognised in the balance sheet as tax calculated on the taxable income for the year, adjusted for tax on previous years' taxable income and taxes paid on account.

Accounting policies

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

Deferred tax assets, including the tax base of tax loss carry forwards, are measured at the value at which the asset is expected to be realised, either through elimination against tax on future earnings or through offsetting against deferred tax liabilities.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation enacted at the balance sheet date when the deferred tax is expected to materialise as current tax. Where the tax base can be determined applying alternative tax rules, deferred tax is measured on the basis of the intended use of the asset or settlement of the liability, respectively.

Any changes in deferred tax due to changes to tax rates are recognised in the income statement. For the current year, a tax rate of 25% on Hydrocarbon activities and 22% on corporate tax has been applied.

Liabilities

Financial liabilities such as mortgage loans and loans from credit institutions are recognised at the date of inception at the proceeds received net of transaction costs. In subsequent periods, the financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. The difference between the proceeds received and the nominal value is recognised in the income statement over the term of the loan.

Other payables are measured at amortised cost, corresponding to nominal value.

Foreign currency translation

Transactions in foreign currencies are translated on initial recognition at the exchange rates applicable at the dates of transaction. Exchange differences arising between the exchange rate applicable at the transaction date and at the date of payment are recognised in the income statement as financial income or expenses.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates applicable at the balance sheet date. The differences between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the financial statements as financial income or financial expenses.

Non-current assets acquired in foreign currencies are measured at the transaction date rates.

Income statement 1 January - 31 December 2016

	<u>Note</u>	<u>2016</u> TDKK	<u>2015</u> TDKK
Revenue		14.953	251
Other external expenses		-5.421	-474
Gross profit		9.532	-223
Earnings Before Interest Taxes Depreciation and Amortization		9.532	-223
Depreciation, amortisation and impairment of property, plant and equipment and in tangible assets		-8.201	-640
Profit/loss from ordinary operating activities before gains/losses from fair value adjustments		1.331	-863
Profit/loss before financial income and expenses		1.331	-863
Financial income	1	266	2.229
Financial costs	2	-1.256	-3.385
Profit/loss before tax		341	-2.019
Tax on profit/loss for the year	3	36.973	-244.343
Net profit/loss for the year		<u>37.314</u>	<u>-246.362</u>

Distribution of profit

Proposed distribution of profit

Proposed dividend for the year	185.000	0
Retained earnings	-147.686	-246.362
	<u>37.314</u>	<u>-246.362</u>

Balance sheet at 31 December 2016

	<u>Note</u>	<u>2016</u> TDKK	<u>2015</u> TDKK
Assets			
Production assets		31.090	39.044
Property, plant and equipment	4	<u>31.090</u>	<u>39.044</u>
Fixed assets total		<u>31.090</u>	<u>39.044</u>
Receivables from group enterprises		150.272	159.939
Other receivables		0	274
Deferred tax asset		0	4.987
Income tax		41.808	0
Receivables		<u>192.080</u>	<u>165.200</u>
Cash		<u>105</u>	<u>101</u>
Current assets total		<u>192.185</u>	<u>165.301</u>
Assets total		<u><u>223.275</u></u>	<u><u>204.345</u></u>

Balance sheet at 31 December 2016

	<u>Note</u>	<u>2016</u> TDKK	<u>2015</u> TDKK
Liabilities and equity			
Share capital		9.500	9.500
Retained earnings		7.266	154.952
Proposed dividend for the year		185.000	0
Equity		<u>201.766</u>	<u>164.452</u>
Other provisions		18.974	17.920
Provisions total		<u>18.974</u>	<u>17.920</u>
Trade payables		21	0
Payables to group enterprises		1.691	21.830
Other payables		262	143
Deferred income		561	0
Short-term debt		<u>2.535</u>	<u>21.973</u>
Debt total		<u>2.535</u>	<u>21.973</u>
Liabilities and equity total		<u><u>223.275</u></u>	<u><u>204.345</u></u>
Subsequent events	5		
Contingent assets, liabilities and other financial obligations	6		
Related parties and ownership	7		

Statement of Changes in Equity

	Share capital	Retained earnings	Proposed dividend for the year	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January	9.500	154.952	0	164.452
Net profit/loss for the year	0	-147.686	185.000	37.314
Equity at 31 December	9.500	7.266	185.000	201.766

Notes to the Annual Report

	<u>2016</u> TDKK	<u>2015</u> TDKK
1 Financial income		
Exchange gains	266	2.229
	<u>266</u>	<u>2.229</u>
2 Financial costs		
Financial expenses, group entities	350	285
Other financial costs	807	66
Exchange loss	99	3.034
	<u>1.256</u>	<u>3.385</u>
3 Tax on profit/loss for the year		
Current tax for the year	0	196
Deferred tax for the year	3.157	244.313
Adjustment of tax concerning previous years	-41.960	0
Adjustment of deferred tax concerning previous years	1.830	-166
	<u>-36.973</u>	<u>244.343</u>

Notes to the Annual Report

4 Property, plant and equipment

	Production assets <hr/> TDKK
Cost at 1 January	39.684
Additions for the year	<hr/> 247
Cost at 31 December	<hr/> 39.931
Depreciation and impairment losses at 1 January	640
Depreciation for the year	<hr/> 8.201
Depreciation and impairment losses at 31 December	<hr/> 8.841
Carrying amount at 31 December	<hr/><hr/>31.090

5 Subsequent events

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

6 Contingent assets, liabilities and other financial obligations

DONG E&P DK A/S has deferred tax assets of DKK 3.818 million (2015: DKK 3.829 million) that have not been recognised and related primarily to unutilised losses in hydrocarbon income. It is considered unlikely that these losses can be utilised in the foreseeable future.

According to legislation, DONG E&P DK A/S are liable to pay compensation for damage caused by their oil and gas activities, even where there is no proof of negligence (strict liability). The usual insurance has been taken out to cover any such claims.

7 Related parties and ownership

Controlling interest

DONG Energy A/S, Kraftsværksvej 53, 7000 Fredericia.

Notes to the Annual Report

7 Related parties and ownership (continued)

Other related parties

The Danish State (Ministry of Finance)

The Board of Directors, The Executive board and other executive staff

Subsidiaries and associated companies in DONG Energy Group

Goldman Sachs Group

Ownership

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

DONG E&P A/S

DONG E&P DK A/S is included in the Consolidated Financial Statements of the ultimate parent company DONG Energy A/S. The Consolidated Financial Statements of DONG Energy A/S, Fredericia, CVR no. 36 21 37 28 may be obtained at www.dongenergy.com.