DONG E&P A/S

Kraftværksvej 53
Skærbæk

Annual report for 2016

CVR no 73 34 96 13

Adopted at the annual general meeting on
23 May 2017

Ulrik Jarlov
Chairman

Contents

Statement by Management on the annual report

The Executive Board and Board of Directors have today discussed and approved the annual report of DONG E&P 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 financial position at 31 December 2016 and of the results of the the Company's operations for the financial year 1 January - 31 December 2016.

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

David B. Cook
managing director

Board of Directors

Marianne Wiinholt Chairman	Hanne Legardt Blume Levy	Jeppe Hoff Nielsen

Independent auditor's report

To the shareholder of DONG E&P A/S

Opinion

We have audited the financial statements of DONG E&P 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 A/S Kraftværksvej 53 Skærbæk 7000 Fredericia	
	Tel:	99 55 11 11
	Fax:	99 55 00 02
	Website:	www.dongenergy.com
	CVR no.:	73 34 96 13
	Reporting period:	1 January - 31 December
	Domicile:	Fredericia
Board of Directors	Marianne Wiinholt, Chairman Hanne Legardt Blume Levy Jeppe Hoff Nielsen	
Executive Board	David B. Cook, managing director	
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 2900 Hellerup	
Consolidated Financial Statements	The company is included in the Consolidated Financial Statements of the parent company. 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	

Financial highlights

5-year summary:

	2016	2015	2014	2013	2012
	MDKK	MDKK	MDKK	MDKK	MDKK
Key figures					
Profit/loss					
Revenue	1.332	1.113	2.002	1.825	2.896
Earnings Before Interest Taxes Depreciation and Amortization	258	-567	832	401	804
Profit/loss before financial income and expenses	679	-13.515	-2.768	-751	190
Net financials	522	-3.758	-5.281	-370	-538
Profit/loss for the year	157	-16.015	-7.276	-900	-307
Balance sheet					
Balance sheet total	15.021	14.733	17.190	16.870	14.465
Investment in property, plant and equipment	1.798	3.988	2.772	2.957	1.877
Equity	3.835	-13.018	-4.283	986	1.687
Number of employees	512	595	584	545	541
Financial ratios					
EBIT margin	51,0%	-1.214,3%	-138,3%	-41,2%	6,6%
Return on assets	4,6%	-84,7%	-16,3%	-4,8%	1,4%
EBITDA Margin	2,5%	-50,9%	41,6%	22,0%	27,8%

The financial ratios are calculated in accordance with the Danish Finance Society's recommendations and guidelines. For definitions, see the summary of significant accounting policies.

Management's review

Business activities

DONG E&P A/S is a member of the DONG Energy Group and a subsidiary of DONG Energy 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.

Market overview

Oil and gas production totalled 5,6 million boe, up 4% relative to 2016. The increase in production relates to high production efficiency on the fields Nini and Cecilie.

Business review

The Company's income statement for the year ended 31 December shows a profit of DKK 157 million, and the balance sheet at 31 December 2016 shows equity of DKK 3.835 million.

Revenue totalled DKK 1.332 million, which is 219 million higher than in 2015. The rise attributable primarily to higher oil and gas production. EBITDA increased by DKK 825 million to DKK 258 million in 2016. The increase was mainly due to higher oil and gas production, cost saving programs and the Siri Repair settlement and a part of the Hejre settlement.

EBIT increased by DKK 14.197 million to DKK 679 million. The increase was mainly due to the impairment losses of DKK 12.226 million in 2015, cost saving programs and the Siri Repair settlement and the settlement with the supplier consortium of Technip France SAS, Daewoo Shipbuilding and Marine Engineering Co. Ltd. related to Hejre. As part of the Hejre settlement the supplier consortium holds full ownership and obligations as regards to the topsides. DONG E&P A/S will have no further responsibilities ot liabilities with regard to the platform topsides. The Siri Repair settlement and the Hejre settlement has contribute with as positive impact of DKK 1.170 million.

Impairment losses amounted to DKK 781 million in 2016 relates to Hejre. The impairment on Hejre has been set off against the provision made in 2015, why the impairment losses of DKK 781 million haven't impacted EBIT in 2016. Further, the different between depreciation for the year in the income statement and above is an income of DKK 1.433 million in relation to reversal of part of the onerous contracts in respect of the Hejre platform, for which provisions were made in December 2015. A part of the reversal is related to the Hejre settlement with the supplier consortium.

Financial performance for 2016 matched expectations.

Management's review

Activities outside Denmark

The Company is the parent company of DONG Energy's exploration and production activities, which is built around Denmark, Norway, UK, Faroe Islands and Greenland. The activities outside the Danish sector of the North Sea are placed in separate subsidiaries, and the activities are included in the Financial Statement as a share of income and investments in subsidiaries. The activities in UK and Norway are the most significant, and in 2016, the Norwegian activities contributed with a loss of DKK 197 million. We divested five Norwegian oil and gas fields to Faroe Petroleum in 2016, which contribute with a positive resultat. The resultat in Norway was impacted by tax provsion. The activities in the UK have contributed with a profit of DKK 323 million. In UK, we got the first gas from the Laggan-Tormore in February.

At the end of 2016, DONG E&P (including subsidiaries) had 50 licences; 14 in Denmark, 16 in the UK, 17 in Norway, 1 in Greenland and 2 in the Faroe Islands.

Special risks apart from generally occurring risks in industry

Financial risks

The current risk policy is based on a restricted hedging of currency, primarily the US dollar. Financial hedging is only entered into with the aim of reducing the financial risk. The primarily market risks is linked to the US dollar exchange rate and the price of oil and gas.

Recognition and measurement uncertainties

Recognition of Deferred Tax, Fixed Assets (impairments) and decommissioning liabilities are all inherent with a high degree of uncertainties due to the level of assumptions when estimating the outcome of subsequent events that has not yet occurred. Future outcome of financial impacts regarding these estimates includes, among other things on expectations with regard to:

- General price development or development in market prices
- Expected useful live of production assets
- Weighted average cost of capital (WACC)
- Exchange rates, etc.
- Development of existing technologies

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

Management's review

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, other than the 2 settlements regarding Siri Caisson and Hejre mentioned above.

Financial review

Production in 2017 is expected to be at the same level as for 2016. There are uncertain external factors such as the US dollar exchange rate and gas/oil prices which will have an effect on the result. For 2017 we expect a result before tax between DKK 0 million and DKK -1.000 million.

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

In 2016 DONG E&P discharged 0.9 tonnes of oil into the sea with the produced water from oil and gas activities in Denmark, which was 0.2 tonnes more than in 2015. Reinjection of produced water decreased to 99.2% from 99.5% in 2015. Gas flaring from platforms (flaring) increased from 7.3 million Nm3 in 2015, to 8.2 million Nm3 in 2016, mainly due to increase of production in 2016.

Statutory report on corporate governance

In pursuance of Section 99a (6) of the Danish Financial Statements Act, the company has omitted information on corporate social responsibility. Reference is made to the annual report and sustainability report 2016 of DONG Energy A/S.

Sustainability

For more information about the DONG Energy Group's sustainability work, we refer to the annual report for 2016 of DONG Energy A/S as well as our sustainability report for 2016.

Report on payments to authorities

In pursuance of Section 99c of the Danish Financial Statements Act, the company has omitted information on payments to authorities. Reference is made to the annual report 2016 of DONG Energy A/S and dongenergy.com/country-by-country-2016.

Accounting policies

The annual report of DONG E&P A/S for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

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 Thousand Danish Kroner (DKK '000).

In pursuant of Section 112 of the Danish Financial Statements Act, the company has not prepared consolidated financial statements.

In pursuance of Section 86(4) of the Danish Financial Statements Act, the company has omitted preparing a cash flow statement as the company is included in the cash flow statement of the DONG Energy Group.

In pursuance of Section 96(3) of the Danish Financial Statements Act, the company has omitted providing information on audit fees as the company is fully consolidated in DONG Energy A/S's consolidated financial statements, in which the audit fees for the Group as a whole are disclosed.

Basis of recognition and measurement

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

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

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

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

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

Accounting policies

Income statement

Segment information

Information is provided on business segments and geographical markets. The segment information is provided in consideration of the company's accounting policies, risks and management control.

Revenue

Revenue comprises sale of natural gas, crude oil and related services is recognised in the income statement when delivery and transfer of risk to buyer have taken place before year end.

Revenue is recognised exclusive of VAT and other duties relating to the sales amount.

Over-/under lift is recognised at fair value in revenue. Over-/under lift refers to the situation in which the company participates in producing fields with several participants and where the Company has lifted and sold more or less crude oil from a producing field than what the Company is entitled at the time of lifting.

Raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature relative to the company's activities.

Other external expenses

Other external costs comprise expenses for distribution, sales, advertising, administration, premises, bad debts, operating leases, etc.

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

Accounting policies

Employee costs

Employee costs comprise wages and salaries as well as payroll dependent expenses, including pensions, social security costs and other employee related costs.

The share programme is initially classified as an equity based scheme as the program settles in shares in DONG Energy A/S. The fair value of the performance based share units (PSUs) and estimates of the number of PSU's granted are measured at the time of granting and recognised:
- in the income statement under employee costs over the vesting period, and
- in the balance sheet under equity over the vesting period.

Depreciation, amortisation 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. Financial income and expenses comprise interest income and expense, gains and losses and liabilities and foreign currency transactions. It also includes realized and unrealized gains and losses on hedge interest rate and currency risks that are not hedges of net sales, cost of sales or fixed assets.

Income from investments in subsidiaries

The income statement includes the pro rata share of the net profit after the elimination of intercompany profit/losses and amortization of goodwill under the item "Results from investments in subsidiaries". Investments in subsidiaries are recognised and measured using the equity method.

Joint ventures

Joint venture represent contractually agreed arrangements on joint economic activities where there is no undertaking involved, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers). Each of the venturers recognises in its individual financial statements the assets that it controls and the liabilities and expenses that it incurs and its share of the income that it earns from the sale of goods and services. The Company’s exploration, development and production activities are generally conducted as co-licensee in joint operations with other companies (Joint Venture).

Accounting policies

Tax on profit 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.

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.

DONG E&P 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.

The company is jointly taxed with Danish Hydrocarbon group enterprises. The Hydrocarbon tax is distributed among the enterprises in proportion to their taxable incomes.

Balance sheet

Intangible assets

Software is measured at cost less accumulated depreciation or the recoverable amount, whichever is lower. Software is amortized over 3-5 years.

Cost includes direct and indirect costs associated with acquisition and implementation up to the date when the asset is ready for use.

Costs of development projects comprise salaries and other expensens directly or indirectly attributable to the Company's development activities. As of the date of completion, capitalised development cost are amortised on a straight-line basis.

Accounting policies

Tangible assets

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

Cost comprises the purchase price and any expenses directly attributable to the acquisition until the date the asset is ready for use. In the case of assets of own construction, cost comprises direct and indirect expenses for labour, materials, components and sub-suppliers.

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

Exploration comprises recognised expenses for drilling successful 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 Other external costs. Other exploration expenses are recognised in the income statement as Other external costs 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.

Exploration assets and production assets under construction is not depreciated until production of oile and gas is started.

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are capitalized over the period of construction. All indirectly attributable borrowing costs are recognised in the income statement.

The basis of depreciation is determined as cost reduced by any residual value, and depreciation is charged on a straight-line basis over the expected useful lives of the assets, which are:

Other fixtures and fittings, tools and equipment	5	years

Accounting policies

Investments in subsidiaries

Investments in subsidiaries and associates are measured at the proportionate share of the net asset value of the entities, calculated on the basis of the group's accounting policies, less or plus unrealised intra-group gains or losses and plus or less any remaining value of positive or negative goodwill made up according to the purchase method.

Investments in subsidiaries and associates with a negative net asset value are measured at DKK 0, and the carrying amount of any receivables from these entities is reduced to the extent that they are considered irrecoverable. If the parent company has a legal or constructive obligation to cover a deficit that exceeds the receivable, the balance is recognised under provisions.

Net revaluations of investments in subsidiaries and associates are taken to the net revaluation reserve according to the equity method to the extent that the carrying amount exceeds the cost. Dividends from subsidiaries which are expected to be declared before the annual report of DONG E&P A/S is adopted are not taken to the net revaluation reserve.

Acquisitions are accounted for using the purchase method.

Impairment of fixed assets

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

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

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

Receivables

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

Accounting policies

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

The item also includes underlift of crude oil, which is measured at realisable value. Because producing fields have several partners, situations may arise in which a partner has lifted and sold more or less oil than its relative entitlement at the point of lifting. Such situations are described as overlift or underlift, repectively. Overlift of crude oil is recognised as deferred income in current liabilities.

Equity

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

Provisions

Provisions are recognised when - in consequence of an event occurred before or on 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 the market. The change in present values for the financial year is recognised as financial expenses.

Provisions for decommissioning of production assets and restoration are measured at the present value of the future liability in respect of decommissioning and restoration 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 be attached to a provision, the estimated expenses are recognised. A discount rate is used that reflects the general interest rate level in the market. 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 within 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 net profit for the year as financial expenses.

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

Accounting policies

Income tax and defered 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.

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.

Mortgage debt is measured at amortised cost, which for cash loans corresponds to the debt outstanding. For bond loans, amortised cost corresponds to the debt outstanding calculated as the underlying cash value of the loan at the date of inception, adjusted for depreciation charged over the repayment period on the market value adjustment of the loan at inception.

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

Deferred income

Deferred income comprises payments received in respect of income in subsequent financial years.

Accounting policies

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 and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

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

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are recognised under other receivables and other payables, respectively.

Changes in the fair values of derivative financial instruments that are classified as and meet the criteria for hedging of future transactions are recognised directly in equity. On realisation of the hedged transactions, the accumulated changes are recognised in the relevant items.

Changes in the fair values of derivative financial instruments that are classified as and meet the criteria for hedging of the fair value of a recognised asset or a recognised liability are recognised in the income statement together with value adjustments of the hedged asset or the hedged liability.

For derivative financial instruments that do not meet the criteria for designation as hedging instruments, changes in fair value are recognised in the income statement.

Changes in the fair values of derivative financial instruments that are used to hedge net investments in separate foreign subsidiaries are recognised directly in equity.

Accounting policies

Financial Highlights

Definitions of financial ratios.

EBIT margin	$\frac{\text{Profit/loss before financials x 100}}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit/loss before financials x 100}}{\text{Total assets}}$
EBITDA margin	$\frac{\text{Earnings before interest, taxes, depreciation and amortisation x 100}}{\text{Revenue}}$

Income statement 1 January - 31 December 2016

	Note	2016 DKK '000	2015 DKK '000
Revenue	1	**1.331.563**	**1.113.456**
Other operating income		0	122.673
Raw materials and consumables		-40.655	-41.973
Other external expenses		-728.237	-1.436.134
Gross profit		**562.671**	**-241.978**
Staff costs	2	-305.092	-325.038
Earnings Before Interest, Taxes, Depreciation and Amortization		**257.579**	**-567.016**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	3	980.560	-12.944.243
Other operating costs		-559.134	-3.997
Profit/Loss before financial income and expenses		**679.005**	**-13.515.256**
Income from investments in subsidiaries		137.244	-2.356.098
Financial income	4	888.206	92.127
Financial costs	5	-503.373	-1.493.539
Profit before tax		**1.201.082**	**-17.272.766**
Tax on profit for the year	6	-1.043.936	1.257.597
Net profit/loss for the year		**157.146**	**-16.015.169**
Distribution of profit	7		

Balance sheet at 31 December 2016

	Note	2016 DKK '000	2015 DKK '000
Assets			
Software		0	0
Intangible assets	8	**0**	**0**
Exploration assets		0	0
Production assets		2.790.171	2.288.169
Production assets under construction		8.412	191.037
Tangible assets	9	**2.798.583**	**2.479.206**
Investments in subsidiaries	10	2.351.590	355.069
Fixed asset investments		**2.351.590**	**355.069**
Fixed assets total		**5.150.173**	**2.834.275**
Trade receivables		117.615	145.014
Receivables from group enterprises		4.091.266	1.769.816
Other receivables		4.782.889	7.020.580
Deferred tax asset	14	0	1.847.335
Prepayments	11	210.984	227.019
Receivables		**9.202.754**	**11.009.764**
Cash at bank and in hand	12	**667.618**	**889.226**
Current assets total		**9.870.372**	**11.898.990**
Assets total		**15.020.545**	**14.733.265**

Balance sheet at 31 December 2016

	Note	2016 DKK '000	2015 DKK '000
Liabilities and equity			
Share capital		1.380.000	720.000
Hedging reserves		-300.250	-345.321
Retained earnings		355.022	-13.392.787
Proposed dividend for the year		2.400.000	0
Equity	13	**3.834.772**	**-13.018.108**
Other provisions	15	5.179.715	6.579.777
Provisions total		**5.179.715**	**6.579.777**
Payables to group enterprises		0	10.500.000
Long-term debt	16	**0**	**10.500.000**
Other credit institutions		6	77.340
Trade payables		308.246	866.346
Payables to group enterprises	16	7.383	76.029
Corporation tax		26.609	120.079
Other payables		5.663.141	9.531.802
Deferred income		673	0
Short-term debt		**6.006.058**	**10.671.596**
Debt total		**6.006.058**	**21.171.596**
Liabilities and equity total		**15.020.545**	**14.733.265**

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Statement of Changes in Equity

	Share capital	Hedging reserves	Retained earnings	Proposed dividend for the year	Total
	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000
Equity at 1 January	720.000	-345.321	-13.392.787	0	-13.018.108
Exchange adjustments, foreign	0	0	206.395	0	206.395
Cash capital increase	660.000	0	15.840.000	0	16.500.000
Other equity movements	0	60.095	-66.334	0	-6.239
Tax on other equity movements	0	-15.024	10.602	0	-4.422
Net profit/loss for the year	0	0	-2.242.854	2.400.000	157.146
Equity at 31 December	**1.380.000**	**-300.250**	**355.022**	**2.400.000**	**3.834.772**

Notes to the Annual Report

		2016	2015
		DKK '000	DKK '000
1	**Revenue**		
	Revenue	1.331.563	1.113.456
	Total revenue	**1.331.563**	**1.113.456**
	Business segments		
	Crude Oil and Natural Gas	1.170.267	924.580
	Other revenue	161.296	188.876
	Total revenue	**1.331.563**	**1.113.456**
	Geographical segments		
	Denmark	374.907	239.447
	Rest of EU	866.369	704.203
	Rest of world	90.287	169.806
	Total revenue	**1.331.563**	**1.113.456**

2	**Staff costs**		
	Wages and salaries	556.865	541.285
	Pensions	39.118	42.321
	Other social security costs	1.170	1.274
	Other staff costs	8.432	9.261
		605.585	**594.141**
	Transfer to assets	-300.493	-269.103
		305.092	**325.038**
	Average number of employees	512	595

According to section 98 B(3) of the Danish Financial Statements Act, Remuneration to the Executive Board has not been disclosed.

Notes to the Annual Report

		2016	2015
		DKK '000	DKK '000
3	**Depreciation, amortisation and impairment of intangible assets and property, plant and equipment**		
	Depreciation tangible assets	452.314	718.144
	Impairment of tangible assets	-1.432.874	12.226.099
		-980.560	**12.944.243**
4	**Financial income**		
	Interest received from Group companies	29.005	14.667
	Other financial income	30.911	827
	Exchange gains	22.832	76.633
	Fair value adjustments of financial instrumentations	805.458	0
		888.206	**92.127**
5	**Financial costs**		
	Financial expenses, group entities	163.956	215.146
	Other financial costs	1.702	33.926
	Exchange loss	86.946	53.704
	Fair value adjustments of financial instrumentations	0	1.076.426
	Loss on disposal of financial instruments	16.619	0
	Interest element, provision	234.150	114.337
		503.373	**1.493.539**
6	**Tax on profit for the year**		
	Current tax for the year	-754.436	407.320
	Deferred tax for the year	1.997.631	-1.678.677
	Adjustment of tax concerning previous years	-29.922	-133.623
	Adjustment of deferred tax concerning previous years	-169.337	147.383
		1.043.936	**-1.257.597**

Notes to the Annual Report

		2016	2015
		DKK '000	DKK '000
7	**Distribution of profit**		
	Proposed distribution of profit		
	Proposed dividend for the year	2.400.000	0
	Retained earnings	-2.242.854	-16.015.169
		157.146	**-16.015.169**

		Software
8	**Intangible assets**	DKK '000
	Cost at 1 January	27.571
	Cost at 31 December	27.571
	Impairment losses and amortisation at 1 January	27.571
	Impairment losses and amortisation at 31 December	27.571
	Carrying amount at 31 December	**0**

Notes to the Annual Report

9 Tangible assets

	Exploration assets	Production assets	Production assets under construction	Total
	DKK '000	DKK '000	DKK '000	DKK '000
Cost at 1 January	0	15.135.639	9.405.027	24.540.666
Additions for the year	245.091	158.731	1.393.873	1.797.695
Disposals for the year	-245.091	0	0	-245.091
Transfers for the year	0	795.585	-795.585	0
Cost at 31 December	0	16.089.955	10.003.315	26.093.270
Impairment losses and depreciation at 1 January	0	12.847.470	9.213.990	22.061.460
Impairment losses for the year	0	0	780.913	780.913
Depreciation for the year	0	452.314	0	452.314
Impairment losses and depreciation at 31 December	0	13.299.784	9.994.903	23.294.687
Carrying amount at 31 December	**0**	**2.790.171**	**8.412**	**2.798.583**
Interest expenses recognised as part of cost of assets	0	119.441	0	119.441

Impairment losses amounted to DKK 781 million in 2016 relates to Hejre. The impairment on Hejre has been set off against the provision made in 2015, why the impairment losses of DKK 781 million haven't impacted EBIT in 2016. Further, the different between depreciation for the year in the income statement and above is an income of DKK 1.433 million in relation to reversal of part of the onerous contracts in respect of the Hejre platform, for which provisions were made in December 2015. A part of the reversal is related to the Hejre settlement with the supplier consortium

The recoverable amount of cash-generating units is determined based on a value in use calculations. The calculation of the values in use is based on discount rates after tax of 7,5-8,0%.

In 2015, tangible assets were impaired by DKK 8.710 million.

Notes to the Annual Report

		2016	2015
		DKK '000	DKK '000
10	**Investments in subsidiaries**		
	Cost at 1 January	15.655.750	11.800.080
	Additions for the year	2.215.638	3.855.670
	Disposals for the year	-507	0
	Cost at 31 December	17.870.881	15.655.750
	Revaluations at 1 January	-15.300.681	-11.492.104
	Exchange adjustment	206.395	-243.408
	Net profit/loss for the year	137.244	-2.356.098
	Dividend to the Parent Company	-562.249	-1.209.071
	Revaluations at 31 December	-15.519.291	-15.300.681
	Carrying amount at 31 December	**2.351.590**	**355.069**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Votes and ownership	Equity	Net profit/loss for the year
DONG UK Ltd.*	London, United Kingdom	100%	-1.344.208	-2.444.377
DONG E&P (Siri) UK Ltd.*	London, United Kingdom	100%	81.745	-66.656
DONG E&P Services UK Ltd.*	London, United Kingdom	100%	15.977	502
DONG E&P Norge AS*	Stavanger, Norway	100%	1.205.985	578.291
DONG E&P DK A/S*	Fredericia, Denmark	100%	164.452	-246.362
DONG E&P Grønland A/S*	Nuuk, Greenland	100%	78.823	-11.935
DONG E&P Føroyar P/F*	Torshavn, Faroe Islands	100%	107.233	-11.293

*The Annual Report for 2016 haven't been finalizised why the numbers is from the 2015 official Annual Report.

11 Prepayments

Prepayments consist of prepaid expenses and recognized underlift of crude oil.

Notes to the Annual Report

	2016	2015
	DKK '000	DKK '000
12 Cash at bank and in hand		
Cash pool arrangement	11.528	18.627
Licenses and bound cash	656.090	870.599
	667.618	**889.226**

13 Equity

The share capital consists of 1.380.000 shares of a nominal value of DKK '000 1. No shares carry any special rights.

The share capital has developed as follows:

	2016	2015	2014	2013	2012
	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000
Share capital at 1 January	720.000	420.000	300.000	300.000	300.000
Additions for the year	660.000	300.000	120.000	0	0
Share capital	**1.380.000**	**720.000**	**420.000**	**300.000**	**300.000**

Notes to the Annual Report

	2016	2015
	DKK '000	DKK '000
14 Provision for deferred tax		
Property, plant and equipment	0	-1.179.627
Other assets	0	-11.615
Other liabilities	0	-567.569
Tax loss carry-forward	0	-88.524
Transferred to deferred tax asset	0	1.847.335
	0	**0**
Deferred tax asset		
Calculated tax asset	0	1.847.335
Carrying amount	**0**	**1.847.335**

Notes to the Annual Report

	2016 DKK '000	2015 DKK '000
15 Other provisions		
Balance at beginning of year at 1 January	6.579.777	2.278.535
Provisions made during the year	1.014.155	3.547.999
Provision used during the year	-1.028.497	0
Provision reversed during the year	-1.670.874	0
Change in estimates, interest and other factors	285.154	753.243
Balance at 31 December	**5.179.715**	**6.579.777**

	2016 DKK '000	2015 DKK '000
The expected due dates of other provisions are:		
Within one year	171.872	761.536
Between 1 and 5 years	1.561.921	2.754.464
Over 5 years	3.445.922	3.063.777
	5.179.715	**6.579.777**

Other provisions comprises of decommissioning obligations relating to demolition and decommissioning of the Company's oil and gas fields and provision for onerous opex and capex contracts. Decommissioning obligations are measured at the present value of the future liability in respect of decommissioning and restoration as expected at the balance sheet date. The value of the decommissioning provision is recognised in property, plant and equipment and depreciated together with the associated asset. The values of the provision for onerous capex contracts is recognised in the Income Statement as impairment of tangible assets.

16 Long term debt

	2016 DKK '000	2015 DKK '000
Payables to group enterprises		
Between 1 and 5 years	0	10.500.000
Non-current portion	0	10.500.000
Other short-term debt to subsidiaries	7.383	76.029
Other short-term debt to credit institutions	7.383	76.029
	7.383	**10.576.029**

Notes to the Annual Report

17 Subsequent events

No other events but the once mentioned below have occurred after the balance sheet date which could signicantly affect the company's financial position.

In March 2016, DONG Energy and Bayerngas terminated the contract for the engineering, procurement and construction (EPC) of the Hejre platform with the supplier consortium. Subsequently, disputes around the termination of contract arose.

In May 2017, DONG Energy and the supplier consortium consisting of Technip France SAS and Daewoo Shipbuilding and Marine Engineering Co. Ltd (DSME) have entered into a settlement agreement regarding the dispute, including the arbitral claims, related to the EPC contract.

According to the agreement, the supplier consortium holds full responsibility for the disposal of the Hejre platform, which will be dismantled by DSME. DONG Energy will have no further responsibilities or liabilities with regard to the platform.

Furthermore, an ongoing dispute over cost for repair of the Siri Platform settled. The result of both matters has been recognised in the annual report.

18 Contingent assets, liabilities and other financial obligations

Contingent assets

DONG E&P A/S has deferred tax assets of DKK 16.688 million (2015: DKK 17.293 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.

Contingent liabilities

According to legislation, DONG E&P A/S are liable to pay compensation for any environmental accidents or other types of damage caused by our oil and gas activities, even when there is no proof of negligence (strict liability). We have taken out insurance to cover any such claims.

Guarantees

DONG Energy A/S has furnished the Danish Ministry for Economic Affairs and the Interior with guarantees for fulfilment of obligations and liability in damages towards the Danish State or third parties incurred by DONG E&P A/S in connection with the company’s participation in exploration and production licences, irrespective of whether the obligations and liability rest on DONG E&P A/S alone or jointly and severally with others. The guarantees are not capped, but cannot exceed a sum corresponding to twice DONG E&P’s share of each obligation or liability.

As a condition for approval of its participation in gas and oil exploration and production on the Norwegian, UK, Greenland and Faroese continental shelves, DONG E&P A/S has provided a guarantee under which it assumes primary liability as normally required by the local authorities. The guarantees cover obligations and liability incurred or assumed by DONG E&P A/S in connection with its exploration and production activities. The guarantees are not capped, and DONG E&P A/S is jointly and severally liable with the other partners for obligations and liabilities.

Notes to the Annual Report

18 Contingent assets, liabilities and other financial obligations (continued)

Capital commitments

DONG E&P A/S has entered into agreements on investments in property, plant and equipment (primarily offshore Licences) for DKK 98 million (2015:DKK 1.729 million) at 31 December 2016.

19 Financial instruments

Included in receivables from group companies and payables to group companies is a net financial instrument debt of 200.697 TDKK.
The Company uses various financial instruments to hedge currency rates with a horizon of 0-5 years to reduce cash flow fluctuations.

20 Related parties and ownership

Controlling interest

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

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 Energy A/S

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

Notes to the Annual Report

21 Licens overview

Country	Licence	Ownership Interest
Denmark	7/86 Luita Part	80,00%
Denmark	7/89 Syd Arne Field	36,79%
Denmark	1/90 Luita	40,00%
Denmark	4/95 Nini Field	57,14%
Denmark	6/95 Siri	100,00%
Denmark	9/95 Xana	70,00%
Denmark	4/98 Solsort	35,00%
Denmark	4/98 Xana east	70,00%
Denmark	5/98 Hejre	60,00%
Denmark	16/98 Cecilie Field	56,41%
Denmark	1/06 Hejre Extension	48,00%
Denmark	3/09 Solsort	35,00%
Denmark	15/16 Lappedykker	60,00%
Denmark	16/16 Nattergal	30,00%