

European Energy A/S

Interim Financial Report

Second quarter 2016

Interim report for Q2 2016 for European Energy Group

Highlights for European Energy Group					
EUR '000	Q2 2016	Q2 2015	H1 2016	H1 2015	2015
Key figures					
Revenue	3.449	9.966	42.027	12.867	58.799
Direct costs	-359	-5.437	-31.981	-6.488	-37.975
Gross profit	3.124	4.575	9.430	7.495	22.806
EBITDA	665	2.931	4.696	4.432	14.955
Operating profit (EBIT)	69	2.557	3.743	3.685	13.460
Financial income and expense, net	-2.228	-748	-3.637	-1.358	-2.904
Profit/loss before tax	-2.159	1.809	106	2.327	10.556
Tax	1.149	-1.905	403	-1.868	-4.301
The Group's share of profit for the year	-1.010	-96	509	459	6.255
Total assets	236.172	208.199	236.172	208.199	234.522
Equity	62.750	57.714	62.750	57.714	63.810
Cash flow s from operating activities	3.582	4.872	13.023	-3.490	-7.017
Net cash flow s from investing activities	-15.918	-3.794	-14.968	-3.879	-20.736
Cash flow s from financing activities	2.907	-4.466	2.270	2.922	26.750
Total cash flow s	-9.429	-3.388	325	-4.447	-1.003
Financial ratios					
Gross margin	90,6%	45,9%	22,4%	58,2%	38,8%
EBITDA margin	19,3%	29,4%	11,2%	34,4%	25,4%
EBIT margin	2,0%	25,7%	8,9%	28,6%	22,9%
Solvency ratio	26,6%	27,7%	26,6%	27,7%	27,2%
Return on equity	-1,7%	-0,2%	0,8%	0,8%	10,3%
Share Ratios					
Earning per share	-0,1	0,0	0,1	0,0	0,6
Book value per share	6,3	5,8	6,3	5,8	6,4
Cash flow from operating activities per share	0,4	0,5	1,3	-0,3	-0,7
Number of shares at the end of the year	10.000.000	10.000.000	10.000.000	10.000.000	10.000.000
Average number of full-time employees	61	51	61	51	53
The financial ratios have been computed in accordance with the latest Guidelines issued by the Danish Finance Society.					

Management Review

Development in financials for the Group in Q2 2016

Overall, the second quarter of 2016 (Q2) has been an active period for European Energy Group. Several projects are under construction and expected to become operational and divested in the second half of the year. In Q2 the Group sold a ready-to-build project developed in Jordan by Nordic Power Partners. This was the first sale recognised for this company, which since 2012 has been developing wind and solar farms in non-OECD countries all over the world.

The Group has continued the ongoing constructions of solar plants and wind plants in several European countries. In the United Kingdom a number of solar plants went into operation, and in Denmark the Group managed to take several wind turbines into operation.

During Q1 and Q2 the impairments made on inventory on a group level in 2015 have been recognized on a local company level. Some of the impairments have been booked in joint ventures or associated companies, transferring the decrease in value from inventory on a group basis to value of joint ventures or associated companies. This has resulted in less direct costs year-to-date for the group, and subsequently more deficit on results from equity accounted investments. The net effect on this reclassification on Profit after tax from equity accounted investments is EUR – 1,4m, making the results from the joint ventures and associated companies a minus of EUR 0,6m for the first half year.

The Gross profit amounted to EUR 3,1m for Q2 compared to EUR 4,6m in Q2 2015. However, comparisons between quarters are less pertinent for the Group, since the revenue consists of few but considerable sales transactions spread over the entire year.

EBITDA came in at EUR 0,7m, and Operating profit (EBIT) came in at EUR 0,1m for Q2.

The Net financial expense was EUR 2,2m, EUR 1,5m higher than last year. This is a result of higher currency losses compared to Q1 2015. The losses were caused by the declining pound after the Brexit vote in the United Kingdom.

Profit before tax ended up at EUR -2,2m. The tax for the period ended with a tax income of EUR 1,1m. The tax contribution comes partly from the brought forward tax losses for the period due to the negative result but there have also been corrections on taxes from previous years.

The solar plants made operational in Q2 have together with the already operational solar plants in the United Kingdom, built in 2015, been classified as Assets held for sale in the balance sheet. Total Assets held for sale comprise EUR 32,5m and the liabilities regarding Assets held for sale amount to EUR 20,1m. Closing on the sale of the parks is expected to take place during Q3 and Q4. The recognition of the revenue from the sale is expected to be included in the Q3 report.

The Net change in cash has for the period been negative with EUR 9,4m. During Q3 the Group will hand over companies sold in the period and in previous periods to the investors, and this is expected to generate a substantial positive net change in cash.

The management considers the results of Q2 2016 to be satisfactory, taken into account that it has been a quarter with only one project sale.

Full-year expectations 2016

In terms of revenue and profit, we expect our performance in 2016 to resemble that of 2015.

Sale of Electrical Power

By the end of Q2 2016, our gross portfolio of power generating assets amounted to 400,0 MW of which 151,0 MW was owned by European Energy Group and the rest by investors and partners. Wind turbines comprised 79% of our operational asset capacity, while the remaining 21% was in solar PV. The majority of our assets (66%) are located in Germany. The rest of our power generating assets are located in Denmark, Italy, Bulgaria, UK and Spain.

Technology/Country	Gross capacity [MW]	Net capacity [MW]	Gross production [GWh]	Net production [GWh]
Solar PV	42,2	31,5	10,7	7,6
Italy	1,0	0,5	0,4	0,2
Spain	11,7	7,6	5,3	3,5
United Kingdom	29,5	23,4	5,0	3,9
Wind	357,8	119,5	110,4	35,6
Bulgaria	14,4	6,2	5,6	2,7
Denmark	16,0	7,5	11,2	5,2
Germany	293,8	99,9	77,9	24,7
Italy	33,6	5,9	15,7	3,0
Grand Total	400,0	151,0	121,1	43,2

The total production in Q2 2016 of our power generating assets amounted to 43.2 GWh (up from 37,6 GWh in Q2 2015) corresponding to an increase of 5.6 GWh (15%) as compared to Q2 2015. The gross production for the first half year of 2016 amounted to 121.1 GWh.

Solar PV

The total realised solar PV electrical power production in Q2 2016 was 86% of the expected production. The split per country was:

- Denmark: 86%
- Italy: 77%
- Spain: 98%
- UK: 61%

Wind

The total realised wind electrical power production was 84% of the expected production. The split per country was:

- Bulgaria: 84%
- Denmark: 55%
- Germany: 83%
- Italy: 132%

Power prices have generally been low in the first quarter of 2016 and will probably remain at the same level throughout the year. Due to PPAs and long-term subsidies, low power prices will have a limited effect on our profit from the sale of electrical power.

Asset Management

Assets managed on behalf of third parties comprised 132 MW in Q2 2016 (compared to 45 MW in Q2 2015). European Energy receives commercial management fees in exchange for our services.

Activities

In Q2 2016 the high activity level from Q1 2016 continued. As described below, we expect activities to continue to be record high throughout 2016, and we plan to be able to conclude a number of turn-key project sales allowing us to have a profit for 2016 in line with expectations. This even though the outcome of the Brexit vote in the United Kingdom and the following weakening of the British Pound have reduced the expected profit from the UK portfolio significantly.

Constructions

In Q2 2016 we grid-connected another two 5 MW plants in the UK. With the completion of construction on these two sites all of our UK projects that have obtained pre-accreditation, in total 29,5 MW, have been constructed and are operational. We are currently working on adjustments towards seeing the plants going into normal operation.

Construction in Denmark of 17 x Vestas V117 turbines and one x Vestas V126 turbine on the island of Lolland is going according to schedule, including the wind farm Rødby Fjord, consisting of 11 x Vestas V117 turbines, which has been grid-connected during Q2 and Q3 2016.

In Germany, we have grid-connected five turbines in the wind park of Vetschau. We are now preparing the project for financial close with the end-investor of the project. We expect to receive a number of building permits of both small and larger wind farms as repowering projects on own operational projects within the third quarter of 2016. These will be subject to the rather preferential current German renewable energy law (EEG) with long tariff certainty. In total, this could add up to app. 50 MW.

In Finland, we have acquired the right to construct another turbine additional to the four already in construction. Thereby we are now constructing five turbines in Finland in total. Hence, we keep seeing interesting opportunities unfolding in the Finnish market on the short to medium term.

In Italy, we have together with a partner started the construction of 10 x Vestas V110 2MW turbines in the wind park of Oppido situated in the region of Basilicata. The wind park is expected to be in operation during Q2 2017. The Italian market presents continued interesting opportunities that we monitor carefully.

Sales

The M&A team has been active in securing debt and equity partners for the projects under construction. Consequently, the vast majority of projects have already secured long-term project financing and long-term equity ownership prior to completion of the construction process.

The joint venture vehicle Nordic Power Partner co-owned on 51/49 basis with the Danish Climate Fund managed by IFU, sold its entire 20% ownership share in the 82MW onshore wind development project, Al Rajef, in Jordan to a local industrial buyer. The transaction is profitable for the Group and substantiate the ability to successfully sell projects not just in the most merchant markets, but also in somewhat more distant geographies, Jordan.

We expect to finalize a number of successful and profitable sales during the second half of 2016.

Nordic Power Partners

The project in Jordan was the first recognized revenue of NPP. NPP stepped into the project in 2013 and co-developed the project with the original developer, mainly contributing with knowhow, both from the technical and the procedural side as well as regarding preparing the project for the

future financing process. In October 2015, the project successfully signed a PPA with the Jordanian national utility, Nepco.

During the financing process, the owners of “Al Rajef” had the opportunity to sell off the project to a third party investor. This deal was signed and executed in Q2 2016. The first payment tranche has been paid out, whereas subsequent payments are connected to the project reaching future milestones. Most other projects in the pipeline of Nordic Power Partners are developing positively, whereas others need more work and patience than expected. The overall picture is very positive.

Consolidated statement of comprehensive income

For the quarter ended 30 June 2016

Unaudited EUR'000	Q2 2016	Q2 2015	H1 2016	H1 2015	2015
Revenue	3.449	9.966	42.027	12.867	58.799
Profit after tax from equity-accounted investments	16	37	-634	819	1.713
Other income	18	9	18	297	269
Direct costs	-359	-5.437	-31.981	-6.488	-37.975
Gross profit	3.124	4.575	9.430	7.495	22.806
Staff costs	-1.637	-1.168	-3.288	-2.115	-5.780
Other external costs	-822	-476	-1.446	-948	-2.071
EBITDA	665	2.931	4.696	4.432	14.955
Depreciation & impairment	-596	-374	-953	-747	-1.495
Operating profit	69	2.557	3.743	3.685	13.460
Finance income	236	658	881	1.491	3.676
Finance expenses	-2.464	-1.406	-4.518	-2.849	-6.580
Profit/loss before tax	-2.159	1.809	106	2.327	10.556
Tax	1.149	-1.905	403	-1.868	-4.301
Profit/loss for the year	-1.010	-96	509	459	6.255
Attributable to:					
Shareholders of the Company	-1.948	-70	137	529	6.438
Non-controlling interests	938	-26	372	-70	-183
Profit/loss for the year	-1.010	-96	509	459	6.255
Statement of comprehensive income					
Profit/loss for the year	-1.010	-96	509	459	6.255
Items that may be reclassified to profit or loss	-	-	-	-	-
Other comprehensive income in equity accounted investments	-	-170	-	-170	-9
Value adjustments of hedging instruments	51	-	-106	-	205
Tax of value adjustments of hedging instruments	-13	318	26	318	-92
Currency differences on translating foreign operations	-1.673	-49	-1.686	-95	-113
Other comprehensive income for the period	-1.635	99	-1.766	53	-9
Comprehensive income for the year	-2.645	3	-1.257	512	6.246
Attributable to:					
Shareholders of the Company	-3.138	6	-1.183	560	6.407
Non-controlling interests	492	-3	-74	-48	-161
Comprehensive income for the year	-2.646	3	-1.257	512	6.246

Consolidated statement of financial position

As of 30 June 2016

Unaudited EUR'000	H1 2016	H1 2015	2015
ASSETS			
Non-current assets			
Property, plant and equipment	47.014	48.557	63.009
Joint Venture investments	6.231	6.807	8.746
Associated companies investments	11.228	12.467	10.195
Other investments	3.621	3.588	3.622
Loans to related parties	18.859	19.717	19.993
Trade receivables	6.778	9.479	9.047
Other receivables	7.568	7.819	7.634
Deferred tax	4.275	5.678	4.239
Total non-current assets	105.574	114.112	126.485
Current assets			
Inventories	26.547	20.780	41.507
Trade receivables	52.160	60.675	46.476
Other receivables	5.107	3.460	5.919
Prepayments	1.617	291	1.810
Cash and cash equivalents	12.650	8.881	12.325
Assets held for sale	32.517	-	-
Total current assets	130.598	94.087	108.037
TOTAL ASSETS	236.172	208.199	234.522

Unaudited EUR'000	H1 2016	H1 2015	2015
EQUITY AND LIABILITIES			
Equity			
Share capital	1.340	1.340	1.340
Retained earnings	58.775	54.112	59.958
Equity attributable to owners of the Company	60.115	55.452	61.298
Non-controlling interests	2.635	2.262	2.512
Total Equity	62.750	57.714	63.810
Liabilities			
Bond loan	52.243	51.885	52.040
Project financing	49.998	38.344	55.780
Other debt relating to the acquisition of companies	1.033	1.479	4.275
Deferred tax	1.619	1.735	1.735
Total non-current liabilities	104.893	93.443	113.830
Credit institutions	5.116	3.424	6.759
Other debt relating to the acquisition of companies	4.041	6.761	4.720
Trade payables	23.720	35.681	29.705
Payables to related parties	74	57	408
Corporation tax	767	2.509	1.866
Provisions	2.975	3.040	3.040
Other payables	11.720	5.570	10.384
Liabilities regarding assets held for sale	20.116		
Total current liabilities	68.529	57.042	56.882
Total liabilities	173.422	150.485	170.712
TOTAL EQUITY AND LIABILITIES	236.172	208.199	234.522

Consolidated statement of cash flow

For the quarter ended 30 June 2016

Unaudited

EUR'000

	Q2 2016	Q2 2015	H1 2016	H1 2015	2015
Cash flow from operating activities					
Profit/loss before tax	-1.413	1.809	106	2.327	10.556
Adjustments for:	-	-	-	-	-
Financial income	-236	-658	-881	-1.491	-3.676
Financial Expenses	2.464	1.406	4.518	2.849	6.580
Depreciations	596	374	953	747	1.495
Other non-cash movements	-16	-46	634	-738	-1.713
Change in networking capital	4.531	3.162	12.212	-5.454	-14.651
Other non-cash items	-18	-	-18	-15	-269
Cash generated from operation before financial items and tax	5.908	6.047	17.524	-1.775	-1.678
Taxes paid	-168	-486	-1.027	-492	-2.203
Interest paid and realised currency losses	-2.298	-1.347	-4.142	-2.714	-6.577
Interest received and realised currency gains	140	658	668	1.491	3.441
Cash flow from operating activities	3.582	4.872	13.023	-3.490	-7.017
Cash flow from investing activities					
Purchase of Property, plant and equipment	-16.853	-360	-16.853	-596	-18.225
Proceeds from disposal of subsidiaries, equity-accounted investments	451	835	661	835	1.796
Investment/loans in equity-accounted investments	394	-4.269	1.134	-4.118	-4.395
Dividends	90	-	90	-	88
Cash flow from investing activities	-15.918	-3.794	-14.968	-3.879	-20.736
Cash flow from financing activities					
Proceeds from borrowings	12.467	800	13.611	9.215	33.957
Repayment of borrowings	-9.671	-5.266	-11.118	-6.293	-7.886
Changes in payables to associates	-	-	-334	-	351
Non-controlling interests' share of capital increase in subsidiary	111	-	111	-	328
Cash flow from financing activities	2.907	-4.466	2.270	2.922	26.750
Change in cash and cash equivalents	-9.429	-3.388	325	-4.447	-1.003
Cash and cash equivalents at beginning of period	22.079	12.268	12.325	13.328	13.328
Cash and cash equivalents end of period	12.650	8.880	12.650	8.881	12.325
Of which restricted cash and cash equivalents	-2.908	-1.241	-2.908	-1.241	-3.029
Non-restricted cash and cash equivalents end of year	9.742	7.639	9.742	7.640	9.296

Consolidated statement of changes in equity

As of 30 June 2016

EUR '000	Share capital	Translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total
Equity at 1 January 2016	1.340	-58	-697	60.713	61.298	2.512	63.810
Profit/loss for the period	-	-	-	137	137	372	509
Other comprehensive income							
Value adjustments of hedging instruments	-	-	-77	-	-77	-29	-106
Tax of value adjustments of hedging instruments	-	-	19	-	19	7	26
Currency differences on translating foreign operations	-	-1.262	-	-	-1.262	-424	-1.686
Other comprehensive income	-	-1.262	-58	-	-1.320	-446	-1766
Total comprehensive income	-	-1.262	-58	137	-1.183	-74	(1.257)
Transactions with owners							
Share of capital increases	-	-	-	-	-	111	111
Additions	-	-	-	-	-	59	59
Disposals	-	-	-	-	-	27	27
Total transactions with owners	-	-	-	-	-	197	197
Equity at 30 June 2016	1.340	-1.320	-755	60.850	60.115	2.635	62.750

EUR '000	Share capital	Translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total
Equity at 1 January 2015	1.340	63	-787	54.275	54.891	2.546	57.437
Profit/loss for the period	-	-	-	6.438	6.438	-183	6.255
Other comprehensive income							
Other comprehensive income in equity accounted investments	-	-8	-	-	-8	-1	-9
Value adjustments of hedging instruments	-	-	163	-	163	42	205
Tax of value adjustments of hedging instruments	-	-	-73	-	-73	-19	-92
Currency differences on translating foreign operations	-	-113	-	-	-113	-	-113
Other comprehensive income	-	-121	90	-	-31	22	-9
Total comprehensive income	-	-121	90	6.438	6.407	-161	6.246
Transactions with owners							
Share of capital increases	-	-	-	-	-	328	328
Additions	-	-	-	-	-	26	26
Disposals	-	-	-	-	-	-227	-227
Total transactions with owners	-	-	-	-	-	127	127
Equity at 31 December 2015	1.340	-58	-697	60.713	61.298	2.512	63.810

The share capital consists of nom. 10,000,000 shares of DKK 1 each, corresponding to EUR 1,340 thousand.
The share capital has remained unchanged for the last five years. The share capital is fully paid in.

Basis for preparation

These unaudited consolidated financial statements for the second quarter of 2016 have been prepared in accordance with IAS 34 'Interim Financial Reporting' and on the basis of the same accounting policies as were applied in the Annual Report 2015 of European Energy Group. Furthermore, the financial report including the consolidated financial statements for the second quarter of 2016 and the management's review have been prepared in accordance with additional Danish disclosure requirements for the interim reports of listed companies. European Energy Group has adopted all new, amended or revised accounting standards and interpretations ('IFRS') as published by the IASB, and also those that are endorsed by the EU effective for the accounting period beginning on 1 January 2016. These IFRS's have not had a significant impact on the consolidated financial statements for the second quarter of 2016.

The Group's main operations comprise project development, financing, construction, sales and acquisition as well as management of wind and solar energy farms. Our geographical focus is on Northern European markets.

The parent company is a limited liability company incorporated and domiciled in Denmark. The address of its registered office is Gyngemose Parkvej 50, Dk-2860 Søborg.

Corporate bonds issued by the parent company are listed on OMX Stockholm.

On 31 August 2016, the Board of Directors approved these interim consolidated financial statements.

The interim consolidated financial statements are presented in EUR, and all values are rounded to the nearest thousand (EUR'000), except when otherwise indicated.

Segment information

Operating segments are recognised in the manner that corresponds to the internal reporting to the chief operating decision maker ('CODM'). The CODM is the function responsible for allocating the Group's resources and assessing the performance of the operating segments. The Group's CODM has been identified as the Board of Directors. European Energy's segments are:

- Wind
- Solar

Segment information has been prepared in accordance with the Group accounting policies. Segment income and segment costs as well as segment assets and liabilities comprise those items that can be directly attributed to each individual segment on a reliable basis.

EUR '000

	Wind	Solar	Total before elimination	Eliminations	Q2 2016 Group
Sale of energy farms and projects	31.342	-	31.342	-	31.342
Sale of electricity	41	3.240	3.281	-	3.281
Construction	6.418	-	6.418	-	6.418
Asset management & other fees	440	546	986	-	986
Revenue to external customers	38.241	3.786	42.027	-	42.027
Inter-segment revenue	144	-	144	-144	-
Revenue	38.385	3.786	42.171	-144	42.027
Profit/loss before tax	1.149	-899	250	-144	106
Total assets	128.174	107.998	236.172	-	236.172
Total liabilities	80.673	92.749	173.422	-	173.422

	Wind	Solar	Total before elimination	Eliminations	2015 Group
Revenue to external customers	29.523	29.276	58.799	-	58.799
Inter-segment revenue	4.740	557	5.297	-5.297	-
Revenue	34.263	29.833	64.096	-5.297	58.799
Profit/loss before tax	5.835	10.018	15.853	-5.297	10.556
Total assets	116.147	118.375	234.522	-	234.522
Total liabilities	67.065	103.647	170.712	-	170.712

Write down of inventories

During Q1 and Q2 the impairments made on inventory on a group level in 2015 have been recognized on a local company level. Some of the impairments have been booked in JV's or associated companies, transferring the decrease in value from inventory on a group basis to value of JV's or associated companies. This has resulted in less direct costs YTD for the group, and subsequently more deficit on results from equity accounted investments.
The net write down on inventory for the Group in 2016 amounts to EUR 1,0m.

Events after the balance sheet date

There have not been any significant events after the balance sheet date.

Statement by the Board of Directors and the Management

The Board of Directors and the Management have considered and adopted the Interim Report of European Energy A/S for the period 1 January - 30 June 2016. The Interim Report is presented in accordance with the International Accounting Standard IAS 34 on Interim Financial Reporting. The accounting policies applied in the Interim Report are consistent from those applied in the Group's Annual Report 2015.

We consider the accounting policies appropriate, the accounting estimates reasonable and the overall presentation of the Interim Report adequate. Accordingly, we believe that the Interim Report gives a true and fair view of the Group's financial position, results of operations and cash flows for the period.

In our opinion, the Interim Report includes a true and fair account of the matters addressed and describes the most significant risks and elements of uncertainty facing the Group.

The Interim Report has not been audited or reviewed by the auditors.

Søborg, 31 August 2016

Management:


Knud Erik Andersen
CEO


Jonny Jonasson
CFO

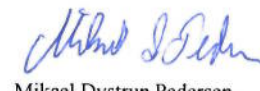
Board of Directors:


Jens-Peter Zink
Chairman


Claus Dyhr


Knud Erik Andersen
CEO


Jesper Helmuth Larsen


Mikael Dystrup Pedersen
CTO