

Vela Energy Finance S.A.

Financial statements as at 31 December 2017 and for the period

From 1 January 2017 to 31 December 2017

and report of the Réviseur d'Entreprises Agréé

46A, Avenue J.F. Kennedy
L-1855 Luxembourg
R.C.S. Luxembourg: B206543
Share capital: EUR 2,031,000

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Independent auditor's report

To the Shareholders of
Vela Energy Finance S.A.
46A, Avenue J.F. Kennedy
L-1855 Luxembourg

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Vela Energy Finance S.A. (the "Company"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Basis for Opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under those Law and standards are further described in the "responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements section of our report. We are also independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors and those charged with governance for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS and for such internal control as the Board of Directors 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, the Board of Directors 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 unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the “réviseur d'entreprises agréé” 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 a report of the “réviseur d'entreprises agréé” that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF 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 in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting 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 report of the "réviseur d'entreprises agréé" 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 report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Other matters

The comparative figures for the period ended 31 December 2016 were audited by another auditor which issued an unqualified opinion dated 26 June 2017.

Ernst & Young
Société anonyme
Cabinet de révision agréé



Olivier Lemaire

Luxembourg, 25 June 2018

Vela Energy Finance S.A.

Statement of profit or loss and other comprehensive income
for the period from 1 January 2017 to 31 December 2017

(All amounts in Euro unless otherwise stated)

	Notes	From 1 January 2017 to 31 December 2017	From 26 May 2016 to 31 December 2016
Administrative expenses	4	(102,303)	(95,584)
Operating loss		(102,303)	(95,584)
Finance income		12,757,299	6,918,481
Finance expense		(12,443,348)	(6,747,414)
Net finance income	5	313,951	171,067
Profit before tax		211,648	75,483
Income tax expense	6	(76,186)	(20,865)
Profit for the period		135,462	54,618
Other comprehensive income		-	-
Total comprehensive income for the period		135,462	54,618

The accompanying notes are an integral part of these financial statements.

Vela Energy Finance S.A.

Statement of financial position
as at 31 December 2017

(All amounts in Euro unless otherwise stated)

	Notes	2017	2016
ASSETS			
Non-current assets			
Loan to shareholder	7	351,079,860	383,384,141
Total non-current assets		351,079,860	383,384,141
Current assets			
Loan to shareholder	7	22,853,458	27,934,340
Other receivables		-	5,034
Cash and cash equivalents		16,558,024	618,807
Cash in transit	8	(15,746,451)	-
Net	8	811,573	618,807
Total current assets		23,665,031	28,558,181
Total assets		374,744,891	411,942,322
EQUITY AND LIABILITIES			
EQUITY			
Share capital	9	531,000	531,000
Share premium		1,500	1,500
Capital contribution		107,000	107,000
Legal reserve	9	2,731	-
Retained earnings		51,887	-
Net result of the year		135,462	54,618
Total equity		829,580	694,118
LIABILITIES			
Non-current liabilities			
Loans and borrowings	11	351,079,860	383,384,141
Total non-current liabilities		351,079,860	383,384,141
Current liabilities			
Loans and borrowings		38,428,843	27,763,273
Cash in transit		(15,746,451)	-
Net	11	22,682,392	27,763,273
Trade and other payables	12	46,608	79,925
Due to related party	13	9,400	-
Current tax liability		97,051	20,865
Total current liabilities		22,835,451	- 27,864,063
Total liabilities		373,915,311	411,248,204
Total equity and liabilities		374,744,891	411,942,322

The accompanying notes are an integral part of these financial statements

Vela Energy Finance S.A.

Statement of changes in equity
for the period from 1 January to 31 December 2017

(All amounts in Euro unless otherwise stated)

	Share capital	Share premium	Capital contribution	Legal reserve	Retained earnings	Net result of the year	Total equity
Balance as at 1 January 2017	531,000	1,500	107,000	-	-	54,618	694,118
Allocation of the preceding year result (note 9)	-	-	-	2,731	51,887	(54,618)	-
Profit for the period	-	-	-	-	-	135,462	135,462
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	135,462	135,462
Balance as at 31 December 2017	531,000	1,500	107,000	2,731	51,887	135,462	829,580

	Share capital	Share premium	Capital contribution	Retained earnings	Net result of the year	Total equity
Balance as at 26 May 2016	-	-	-	-	-	-
Issue of shares	531,000	1,500	-	-	-	532,500
Capital contribution	-	-	107,000	-	-	107,000
Profit for the period	-	-	-	-	54,618	54,618
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	54,618	54,618
Balance as at 31 December 2016	531,000	1,500	107,000	-	54,618	694,118

The accompanying notes are an integral part of these financial statements.

Vela Energy Finance S.A.

Statement of cash flows
for the period from 1 January 2017 to 31 December 2017

(All amounts in Euro unless otherwise stated)

	Notes	From 1 January 2017 to 31 December 2017	From 26 May 2016 to 31 December 2016
Cash flows from operating activities			
Profit before tax		211,648	75,483
<i>Adjustments for:</i>			
Finance income	5	(12,757,299)	(6,918,481)
Finance expense	5	12,443,148	6,747,414
Operating loss before working capital movements		(102,503)	(95,584)
<i>Working capital movements:</i>			
Other receivables		5,075	(5,034)
Trade and other payables	12	(33,317)	79,925
Due to related party		9,400	-
<i>Other cash flows from operating activities</i>			
Interests paid		(19,262,343)	-
Interests collected		19,576,454	-
Net cash flows used in operating activities		192,766	(20,693)
Cash flows from investing activities			
Loan to shareholder		-	(404,400,000)
Repayment from shareholder		30,637,748	-
Net cash flows used in investing activities		30,637,748	(404,400,000)
Cash flows from financing activities			
Proceeds from issue of shares		-	532,500
Proceeds from issue of corporate bonds		-	404,400,000
Contribution from shareholder		-	107,000
Repayment bonds		(14,891,297)	-
Cash in transit (repayment bonds)		(15,746,451)	-
Net cash flows from financing activities		(30,637,748)	405,039,500
Net (decrease) / increase in cash and cash equivalents	8	192,766	618,807
Less: Restricted cash	8	(500,000)	(500,000)
Net	8	311,573	118,807
Cash in transit	8	15,746,451	-
Sum (net of the Restricted cash)	8	16,058,024	118,807

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements

1. Company information

Vela Energy Finance S.A. (the “Company”) was incorporated on 26 May 2016 as a “société anonyme” for an unlimited period and is governed under the laws of Grand Duchy of Luxembourg.

The object of the Company is the acquisition, holding and disposal of interests in Luxembourg and/or in foreign companies and undertakings, as well as the administration, development and management of such interests.

The Company may provide loans and financing in any other kind or form or grant guarantees or security in any other kind or form, in favour of the companies and undertakings forming part of the group of which the Company is a member.

The Company may also invest in real estate, in intellectual property rights or any other movable or immovable assets in any kind or form.

The Company may borrow in any kind or form and issue bonds, notes or any other debt instruments as well as warrants or other share subscription rights.

In a general fashion, the Company may carry out any commercial, industrial or financial operation, which it may deem useful in the accomplishment and development of its purposes.

The registered office of the Company is established in Luxembourg, 46A, Avenue J.F.Kennedy, L-1855 Luxembourg and the Company is registered with the Registre de Commerce under the number B206543.

The financial year of the Company starts on 1 January and ends on 31 December of each year, except for the first financial year, which starts on 26 May 2016 and ends on 31 December 2016.

The financial statements of the year 2017 were approved by the Board of Directors on June 25, 2018.

2. Summary of significant accounting policies

2.1. Basis of presentation

These financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, (“IFRS”), on an unconsolidated basis, and with the applicable Luxembourg legal and regulatory requirements.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

2.1. Basis of presentation (continued)

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. Details on significant accounting judgements, estimates and assumptions are provided under Note 3.

These financial statements have been prepared on a historical cost basis. These financial statements have been prepared on a going concern basis.

2.2. Financial instruments

a) Non-derivative financial assets

Initial recognition and measurement

Non-derivative financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Management determines the classification of its financial assets at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise "Loan to shareholder" and "Other receivables" in the statement of financial position.

After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss.

The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

2.2. Financial instruments (continued)

a) Non-derivative financial assets (continued)

Impairment of non- derivative financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset. Evidence of impairment may include indications that the debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

b) Non-derivatives financial liabilities

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

2.2. Financial instruments (continued)

b) Non-derivatives financial liabilities (continued)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include accrual liabilities and amounts owed to related party.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective rate method.

The effective rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

2.2. Financial instruments (continued)

b) Non-derivatives financial liabilities (continued)

Other financial liabilities (continued)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

2.3. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position may comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

2.4. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Notes to the financial statements

2. Summary of significant accounting policies (continued)

2.4. Fair value measurement (continued)

- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

2.5. Finance income and finance cost

Interest income and expense is recognised using the effective interest method.

2.6. Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

2.6. Taxes (continued)

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change.

Notes to the financial statements

2. Summary of significant accounting policies (continued)

2.6. Taxes (continued)

Deferred tax (continued)

The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in Other Comprehensive Income (OCI) or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.7. Foreign currencies

The financial statements are presented in Euro, which is also the Company's functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Company's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

2.8. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the

Notes to the financial statements

2. Summary of significant accounting policies (continued)

2.8. Provisions (continued)

reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.9. Dividends and appropriation of reserves

Dividends / appropriation of reserves to holders of equity instruments are recognised as liabilities in the period in which they are declared.

Dividends / appropriation of reserves to holders of equity instruments, or of the equity component of a financial instrument issued by the company, are recognised directly in equity.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Company's exposure to risks and uncertainties includes:

- Capital management	Note 15
- Financial risk management	Note 14

3.1. Judgements

In the process of applying the Company's accounting policies, the management did not have to make any judgements which have significant effect on the amounts recognised in the financial statements. The management has not identified any impairment in the recoverability of the loan.

4. Administrative expenses

	From 1 January 2017 to 31 December 2017	From 26 May 2016 to 31 December 2016
	EUR	EUR
Accounting and other professional fees	34,850	22,354
Legal and notary fees	31,896	7,655
Tax Advising	9,281	
Auditors' remuneration	12,025	15,000
Bank commission and charges	14,250	50,575
Total administrative expenses	102,303	- 95,584

Vela Energy Finance S.A.

Notes to the financial statements

5. Net finance income

	From 1 January 2017 to 31 December 2017	From 26 May 2016 to 31 December 2016
	EUR	EUR
Finance income on loan to shareholder (note 7)	12,757,299	6,918,481
Finance expense on corporate bonds (note 11)	(12,443,348)	(6,747,414)
Net finance income	313,951	171,067

6. Income tax expense

	From 1 January 2017 to 31 December 2017	From 26 May 2016 to 31 December 2016
	EUR	EUR
Current tax expense	97,051	20,865
Reversal tax expense previous year	(20,865)	-
Income tax expense for the period	76,186	20,865

Tax applying the corporate income tax rate and the income tax expense for the period are reconciled as follows:

	From 1 January 2017 to 31 December 2017
	EUR
Profit before tax	211,648
Adjustment for Net Wealth Tax	4,815
<i>Accounting result as at year end</i>	<i>216,463</i>
<i>Reintegration of non- deductible charges</i>	
Tax expenses	87
Reintegration of unrealized margin on financing activity	179,982
<i>Taxable result</i>	<i>396,532</i>
Tax losses carried forward incurred before 2017	(33,753)
<i>Taxable basis</i>	<i>362,779</i>
CIT basis (rounded)	362,750
CIT rate	19%
Contribution to employment fund - basis	68,922
Contribution to employment fund - rate	7%
Contribution to employment fund for the year	4,825
CIT for the year	73,747
MBT basis rounded (after set-off of the EUR 17,500 allowance)	345,250
MBT rate	7%
MBT for the year	23,304
Reversal tax expense previous year	(20,865)
Income tax expense for the period	76,186

There is no unrecognized deferred tax asset.

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Notes to the financial statements

7. Loan to shareholder

	2017	2016
	EUR	EUR
Loan granted	411,318,481	404,400,000
Interest accrued	171,067	6,918,481
Collections	(37,556,230)	-
	373,762,252	411,318,481
Current portion of long term loan to shareholder	(22,682,392)	(27,934,340)
Long term loan to shareholder	351,079,860	383,384,141

On June 22, 2016 the Company entered into an agreement with Vela Energy Equityco, S.L.U. (parent company) to advance all proceeds raised from the issuance of corporate bonds to the parent company. The redemption of loan and the interest payments are directly associated with terms of the corporate bonds, as disclosed in note 10.

As at 31 December 2016 the interests accrued amount to EUR 6,918,481 at 3.195% plus a margin as at 31 December 2016, and the principal repayments in the 12 months following the balance sheet date amount to EUR 21,015,859.

As at 31 December 2017 the interests accrued and pending collections amount to EUR 171,067, and the principal repayments in the 12 months following the balance sheet date amount to EUR 22,682,392.

The last instalment will be repaid on June 30, 2036.

8. Cash and cash equivalents

Cash in transit represents a payment of 15,746,451 for which the Company has requested a bank to process on 29 December 2017 and which has been processed by the bank only on January 2, 2018. Such payment is in relation to the partial reimbursement of the loan described in note 7.

	2017	2016
		EUR
Cash and cash equivalents	16,558,024	618,807
Cash in transit	(15,746,451)	-
Net	811,573	618,807

	2017	2016
		EUR
Cash at banks	16,558,024	618,807
Less: Restricted cash	(500,000)	(500,000)
Total cash and cash equivalents	16,058,024	118,807

Restricted cash represents an amount of EUR 500,000 maintained with a financial institution relating to a debt service reserve fund, in relation to the Bonds issued as described in Note 11.

Notes to the financial statements

9. Share capital

As at 31 December 2017 and 31 December 2016, the authorised and issued share capital of the Company amounted to *EUR 2,031,000* which represents 2,031,000 shares with a nominal value of one Euro (EUR 1).

As at 31 December 2017 and 31 December 2016, the Company has received *EUR 500,000* against the issue of 2,000,000 shares of EUR 1 each and therefore an amount of *EUR 1,500,000* remains unpaid against the issued share capital.

All shares of the Company held by the parent have been pledged against the issuance of corporate bonds (note 10) under the share pledge agreement entered into between the parent company as "Pledgor" and BNP Paribas Trust Corporation UK Limited as "Trustee".

Legal reserve

Under Luxembourg law the Company is required to transfer to a legal reserve a minimum of 5 % of its net profits each year until this reserve equals 10 % of the issued share capital. This reserve is not available for distribution.

On 20 September 2017 the Board of Directors approved to add to the legal reserve an amount of *EUR 2,731* from the Profits made during the period beginning 26 May 2016 and ending 31 December 2016 (*EUR 54,618*).

10. Capital contribution

During the financial period 2016 the shareholder contributed an amount of *EUR 107,000* in cash as capital contribution without issuing any shares. This capital contribution is distributable to the shareholder subject to availability of the funds.

No other movements during the financial year 2017.

11. Loans and borrowings

	2017	2016
	EUR	EUR
Corporate bonds	411,147,414	404,400,000
Interest accrued	-	6,747,414
Payments *	(37,385,162)	-
	373,762,252	411,147,414
Short-term portion of loans and borrowings*	(22,682,392)	(27,763,273)
Non-current loans and borrowings	351,079,860	383,384,141

*Net of cash in transit of EUR 15,746,451 described in note 8.

On June 16, 2016, the Company entered into the following agreements for issuance of the corporate bonds:

- The Company as Issuer entered into a trust deed with BNP Paribas Trust Corporation UK Limited as Trustee, for benefit of the bond holders.
- The Company as Issuer entered into a Subscription Agreement with CaixaBank S.A. and Deutsche Bank AG, London Branch as Joint Lead Managers (JLM), whereby the JLM agreed to subscribe Class A1 and Class A2 bonds issued by the Company.

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- The Company as Issuer entered into a Bond Purchase Agreement with Massachusetts Mutual Life Insurance Company as Bond Purchaser (BP) and Deutsche Bank AG, London Branch as Settlement Agent (SA), whereby the BP agreed to purchase Class A3 Bonds and appointed the Settlement Agent SA to act on its behalf.
- The Company as Issuer entered into a Placement Agreement with Merrill Lynch International as a Placement Agent, for the purpose of co-ordinating the placing of the bonds, together with the Joint Lead Managers, without underwriting or subscribing any bonds in its personal capacity.

All bonds bear an interest at the rate of 3.195% payable semi-annually in arrears on the outstanding principal amount from June 22, 2016, on June 30 and December 31 except for the first payment which is due on January 2, 2017.

The bonds are listing in the Frankfurt Stock Exchange in the "open market" segment.

The Company did not incur in any debt issuance cost in relation to this financing.

The principal amount is redeemable under the amortisation schedule as per the trust deed, where the first repayment is scheduled on January 2, 2017 and all future repayments semi-annually on June 30 and December 31. The latest repayment date is June 30, 2036.

The trust deed establishes the causes of early repayment as any non-payment, unless attributable to administrative causes with payment being made in the following 3 working days of the maturity of the issue, the debt servicing coverage ratio for the range of companies financed by the bond dropping beneath 1.05 and any regulatory change that may result in a reduction in EBITDA equal to or in excess of 15%.

12. Trade and other payables

	2017	2016
	EUR	EUR
Accrued liabilities	46,608	79,925
Total trade and other liabilities	46,608	79,925

13. Related party transactions

Vela Energy EquityCo S.L.U., incorporated in Spain, holds 100% shares of the Company and is therefore the parent company.

The Company entered into a loan agreement with the shareholder as disclosed in note 7.

During the period the Company has received a short term advance from the related party Vela Energy Luxembourg Holdco 1 S.C.A. amounting to *EUR 9,400*. This balance is non-interest bearing.

14. Financial risk management

The Company's principal financial assets include loan to a parent company and cash at bank. The Company's principal financial liabilities comprise corporate bonds and accrued expenses. The main purpose of these financial liabilities is to finance the Company's operations

Notes to the financial statements

The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk. The Company does not hold any equity instruments and is therefore not subject to any equity price risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not hold any financial instruments at variable interest rate therefore it is not exposed to such risk as at 31 December 2017.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. All Company's assets and related financing are denominated in EUR and consequently the Company is not exposed to any significant foreign currency risk.

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its financing activities, including long term loan to shareholder, receivable from shareholder and deposits with banks and financial institutions. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period was as follows:

-----all amounts in EUR-----

	less than 12 months	greater than 1 year less than 5 years	more than 5 years	Total
Loan to shareholder	6,918,481	21,015,859	383,384,141	411,318,481
Cash and cash equivalents	618,807	-	-	618,807
Other receivables	5,034	-	-	5,034
Total as at 31 December 2016	7,542,322	21,015,859	383,384,141	411,942,322
Loan to shareholder	6,124,562	16,728,896	351,079,860	373,933,318
Cash and cash equivalents	16,558,024	-	-	16,558,024
Cash in transit (note 8)	(15,746,451)			(15,746,451)
Total as at 31 December 2017	6,936,135	16,728,896	351,079,860	374,744,891

Notes to the financial statements

14. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Prudent liquidity risk management is achieved through maintaining sufficient cash and the availability of funding through the Company's investments via shareholder loans and dividends received.

The following are the remaining undiscounted contractual maturities at the end of the reporting period of financial liabilities as at 31 December 2017:

	-----all amounts in EUR-----			
	less than 12 months	greater than 1 year less than 5 years	more than 5 years	Total
Corporate bonds	6,747,414	21,015,859	383,384,141	411,147,414
Accrued liabilities	79,925	-	-	79,925
Current tax liability	20,865	-	-	20,865
Total as at 31 December 2016	6,848,204	21,015,859	383,384,141	411,248,204
Corporate bonds (net of cash in transit – note 8)		16,728,896	351,079,860	373,933,318
Accrued liabilities	46,608	-	-	46,608
Due to related party	9,400	-	-	9,400
Current tax liability	97,051			97,051
Total as at 31 December 2017	153,059	16,728,896	351,079,860	374.083,933

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Notes to the financial statements

The new standard requires the Company to revise its accounting processes and internal controls related to reporting financial instruments. The Company is currently performing an assessment of the impact of such implementation.

The following new or amended standard is not expected to have a significant impact on the Company's financial statements.

- IFRS 15 – Revenue from Contracts with Customers applicable date the 1st of January 2018
- IFRS 16 – Leases applicable date the 1st of January 2019
- IFRS 17 – Insurance Contracts applicable the 1st of January 2021

20. Subsequent events

On February 27, 2018 the Company made a repayment of other capital contributions in an amount of *EUR 107,000*.

Draft of the Annual Accounts

The draft of the Annual Accounts was approved by the Board of Directors on June 25, 2018 and comprises: Statement of profit or loss and other comprehensive income, Statement of financial position, Statement of changes in equity, Statement of cash flows and the Notes to the financial statements.



Manager A

Miguel A. García Mascuñán



Manager B

Domenico Latronico

Notes to the financial statements

15. Capital management

For the purpose of the Company's capital management, capital includes issued capital, share premium and all other reserves attributable to the equity holders of the Company. The primary objective of the Company's capital management is to maximise the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the legal requirements of the Luxembourg Regulatory Framework. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital to ensure that the net equity does not fall below more than 50% of subscribed share capital of the Company.

	2017	2016
	EUR	EUR
Share capital	531,000	531,000
Share premium	1,500	1,500
Capital contribution	107,000	107,000
	639,500	639,500
Net equity	829,580	694,118
Percentage	130%	109%

16. Staff

The Company employed no staff during the years 2016 and 2017.

17. Emoluments granted to the members of the managing and supervisory bodies and commitments in respect of retirement pensions for former members of those bodies

In 2017 and 2016 no remuneration was paid to the executives or key management personnel of the Company.

18. Commitments and contingencies

The Company has no commitments and/or contingencies as at 31 December 2017, except for the shares pledged against the issuance of corporate bonds and future contractual payments of interest on corporate bonds, which have been disclosed in note 7 and 11, respectively.

19. Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and recognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods on or after 1 January 2018, with early adoption permitted.