ENERGINET

SUSTAINABLE ENERGY TOGETHER

ANNUAL REPORT 2016

ENERGINET.DK, TONNE KJÆRSVEJ 65 DK-7000 FREDERICIA, CVR NO.: 28980671

FOCUS ARTICLE

CUSTOMER CENTRICITY FOR A NEW ELECTRICITY MARKET

Electricity consumption will be more closely correlated with sustainable energy production.

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INTERCONNECTIONS FOR CHEAP, SECURE AND GREEN ENERGY

The energy systems are connected by means of gigantic interconnections..

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THE BIG PICTURE

THIS WILL GIVE YOU AN IDEA OF WHAT SORT OF COMPANY ENERGINET IS, WHAT WE ACHIEVED IN 2016 AND HOW WE LOOK AT THE FUTURE.

CHAIRMAN OF THE SUPERVISORY BOARD

KIM ANDERSEN

We contribute to greater integration of energy systems, ensuring that the green transition can be implemented in ways which are beneficial to the economy.

My first year as Chairman of the Supervisory Board of Energinet has been an eventful one for Energinet and for the energy sector both in Denmark and in the rest of the world.

Internationally, the green transition gained further momentum as world leaders at COP22 in November 2016 adopted a plan for the implementation of the historical climate agreement signed in Paris in 2015.

In Denmark, the stability of the framework conditions applying for the energy sector was maintained through the political negotiations and changes that characterised 2016: the appointment of a new Energy Commission, the changed financing of renewable energy subsidies through the phasing-out of the PSO scheme, the presentation and adoption of a new supply strategy as part of the Danish Finance Act and the Danish government's insistence that the green transition should support Denmark's role as a pioneering country and result in job creation.

In cooperation with the energy sector, Energinet has – since the Danish Parliament's establishment of the company in 2005 – been committed to converting both the energy markets and the energy infrastructure with the ultimate aim of ensuring that the Danish political objective of achieving independence of fossil fuels by 2050 can be realised. And of ensuring that the transition can be realised while maintaining a high level of security of supply and in ways which are beneficial to the economy.

2016 was no exception. The strategy which we are pursuing in close cooperation with other players in the energy sector is all about integration. Integration between countries in Europe. Integration of production and consumption. Integration of energy sources.

You can read more about this in our annual report for 2016. Enjoy your read!

PRESIDENT AND CEO

PEDER Ø. ANDREASEN

The integration of the European energy systems must be furthered. In 2016, Energinet took major steps towards even closer integration.

For those of us who work with energy, these are exciting, technically challenging and crucial times. In Energinet, we are acutely aware of this, and the same applies to all our colleagues in the energy sector.

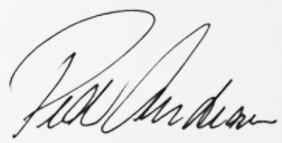
Integration and cooperation are, in fact, keywords to successfully overcoming the common challenge facing us in Denmark and everybody in Europe and which is of such decisive importance to our society – ensuring a secure supply of sustainable energy for citizens and enterprises. Now and in future.

Awareness of the importance of this issue permeates the most comprehensive package of legislative measures presented by the European Commission in decades, the so-called 'Winter Package', which was published on 30 November 2016. Several of the largest projects undertaken by Energinet in the past year follow the paths which the Winter Package sets out: the free movement of energy across borders as well as the development of energy markets that create balance between consumption and production. We are very proud of this.

We are proud of the wholesale model, and it is a pride we share with the hundreds of professionals from the grid companies and electricity suppliers who were involved in the launch of the model in April. We are proud of the Nordic RSC (Regional Security Coordinator) in Copenhagen, and it is a pride we share with our Nordic TSO colleagues in Finland, Sweden and Norway, with whom we entered into a cooperation agreement in 2016. We are proud of the new important interconnections which came closer to completion in the course of the year, and it is a pride we share with our partners in the UK, the Netherlands, Poland and Germany.

2016 was also a year of organisational changes. Energinet took over DONG Energy's gas distribution grid following the IPO of DONG Energy. The rationale behind the takeover is that critical infrastructure must remain in public hands. In 2016, it was also decided that our administration of statutory subsidies for environmentally friendly energy production will move to Esbjerg, and is expected to be part of the Danish Energy Agency from January 2018.

New employees in our subsidiary Dansk Gas Distribution A/S (formerly a part of DONG Energy) and those of our current employees who will be transferred to the Danish Energy Agency deserve immense recognition for the way they have tackled the forthcoming changes. Thank you!



HIGHLIGHTS OF THE YEAR 2016

5 FEBRUARY

KRIEGERS FLAK

Investment in submarine cables connecting Denmark and Germany via two offshore wind farms in the Baltic Sea is approved by the Danish Minister for Energy, Utilities and Climate. Read more on page 39.

1 APRIL

ELECTRICITY MARKET OF TOMORROW

The wholesale model is commissioned. This brings us closer to our customers and paves the way for innovation in the electricity market. Read more on page 32.

27 APRIL

NEW CHAIRMAN OF THE SUPERVISORY BOARD

The Danish Minister for Energy, Utilities and Climate appoints Kim Andersen new Chairman of Energinet's Supervisory Board. At the same time, three new members of the Supervisory Board are appointed: Niels Bergh-Hansen, Lars Clausen and Hans Duus Jørgensen. Read more about the Supervisory Board on page 64.

9-24 JUNE

RECOGNITIONS

International benchmark ranks Energinet's gas transmission top in Europe in terms of cost-effectiveness. Morten Gade Christensen is named IT Director of the year, and Energinet receives an international award for good citizen involvement.

10 MAY

DONG ENERGY'S GAS DISTRIBUTION GRID

Energinet signs an agreement for the purchase of the gas distribution grid, which is now called Dansk Gas Distribution A/S. Read more on page 55.

7 JULY

BIOGAS IN THE TRANSMISSION GRID

For the first time in Denmark, biogas is injected directly into the transmission grid at a large new biogas plant in Bevtoft in Southern Jutland. Read more on page 24.

10 OCTOBER

GROUND BROKEN FOR COBRA CABLE

Lars Christian Lilleholt, Danish Minister for Energy, Utilities and Climate, and Kim Andersen, Chairman of Energinet's Supervisory Board, break ground for Denmark's first interconnection to the Netherlands. Read more on page 39.

27 OCTOBER

HORNS REV 3

Energinet commissions the connection which will transport the power from the future offshore wind farm to shore at Blaavand and to the Endrup substation. Read more on page 40.

16 NOVEMBER

NORDIC RSC

CEOs from the Nordic TSOs (Statnett, Svenska Kraftnät, Fingrid and Energinet) sign a cooperation agreement on security of electricity supply and capacity utilisation with a joint office in Copenhagen. Read more on page 20.

25 NOVEMBER

APPLE DATA CENTRE

Energinet holds the topping-out ceremony for the high-voltage station in Foulum which will connect Apple's future data centre directly to the transmission grid – the new high-voltage station being the most complex of its kind in Denmark and offering the highest level of security of supply ever. Read more on page 40.

6 DECEMBER

GAS PIPELINE TO POLAND

In cooperation with the Polish company GAZ-SYSTEM S.A., Energinet invites all relevant stakeholders to comment on rules and procedures for a forthcoming so-called Open Season process, where market players can express their interest in buying capacity in a possible future gas pipeline connecting Norway, Denmark and Poland. Read more on page 28.

Energinet is engaged in wide-ranging and widely different areas of activity. Consequently, the events highlighted above are only a very small selection of all the interesting events which have characterised the past year. The highlighted milestones have been selected either because they concern relatively new projects or completed projects, or because of they are noteworthy for other reasons.

VALUE CHAIN

RESOURCES 2016

FINANCIAL

2.7 DKK BILLION GRID AND SYSTEM TARIFFS

7.9 DKK BILLION PSO TARIFFS

0.4 DKK BILLION GAS TRANSMISSION TARIFFS

24 DKK BILLION LOANS WITH DANMARKS NATIONALBANK

PHYSICAL

6,913 KM HIGH-VOLTAGE GRID

861 KM GAS PIPE (TRANSMISSION GRID)

7 INTERCONNECTIONS 2 GAS CONNECTIONS AND 5 ELECTRICITY CONNECTIONS

6,600 KM GAS DISTRIBUTION GRID

2 2 GAS STORAGE FACILITIES

HUMAN

953 GAVG. NO. OF EMPLOYEES

75* EMPLOYEE SATISFACTION

TARGET 2017: 76
AVG. FOR DANISH COMPANIES: 69

2.2% ABSENCE DUE TO ILLNESS

2015: 2.0 %
TARGET 2017: MAX. 2%

60 DIALOGUE MEETINGS WITH CITIZENS AND PLAYERS

ACHIEVEMENTS 2016

SECURITY OF SUPPLY

48 SEC. NON-SUPPLIED ELECTRICITY

TARGET: MAX. 60 SEC.
2015: 41 SEC.

ZERO GAS SUPPLY FAILURE

TARGET: ZERO
2015: ZERO

3,770 TWh-KM TRANSPORTED ELECTRICITY

2015: 3,865

4 BILLION Nm³ TRANSPORTED GAS

2015: 4

3.6 ON THE CMMI SCALE IT MATURITY

TARGET 2017: 4
2015: 3.1

RENEWABLE ENERGY

38% OF DANISH ELECTRICITY CONSUMPTION COVERED BY WIND POWER

147 DKK MILLION FUNDING RE RESEARCH PROJECTS

7.4 DKK BILLION SUBSIDIES FOR RENEWABLE ENERGY

43% GWh GROWTH IN BIOGAS PRODUCTION

53%** STAKEHOLDER SATISFACTION WITH CONTRIBUTIONS TO EFFECTIVE TRANSITION

2015: 58
TARGET 2017: 80

MARKET DEVELOPMENT

6% CHANGE OF ELECTRICITY SUPPLIER

2015: 7%

68 % OF DANISH GAS CONSUMPTION TRADED ON GASPOINT NORDIC

7 OF 10 RECOMMENDATIONS FROM MARKET MODEL 2.0 ARE ON SCHEDULE. 3 RECOMMENDATIONS ARE READY FOR AUTHORITY APPROVAL.

65%** STAKEHOLDER SATISFACTION WITH CONTRIBUTION TO HEALTHY INVESTMENT CLIMATE

2015: 57
TARGET 2017: 80

Energinet is a company that operates, develops and builds gas and electricity installations and systems. The above resources and results are simply a small selection of key examples of resources and results. Examples which are primarily intended to provide an immediate idea of what Energinet does. Some results are directly associated with Energinet's activities, while others are more indirectly related to Energinet's activities.

* Employees' assessment of satisfaction is from 2015. Employees answer questions about job satisfaction in a total of nine areas, with the index figure representing the aggregate employee satisfaction score. The model is called 'Global Employee and Leadership Index', which is a recognised and widely used method among Danish and international businesses. Energinet conducts an employee satisfaction survey every other year.

** The share of respondents scoring 7 or more on a scale from 1 to 10 for satisfaction with reputation for the commitment in question.

ENERGINET

– a brief presentation

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TRANSMISSION

Energinet operates and develops electricity and gas transmission grids and interconnections with neighbouring countries.

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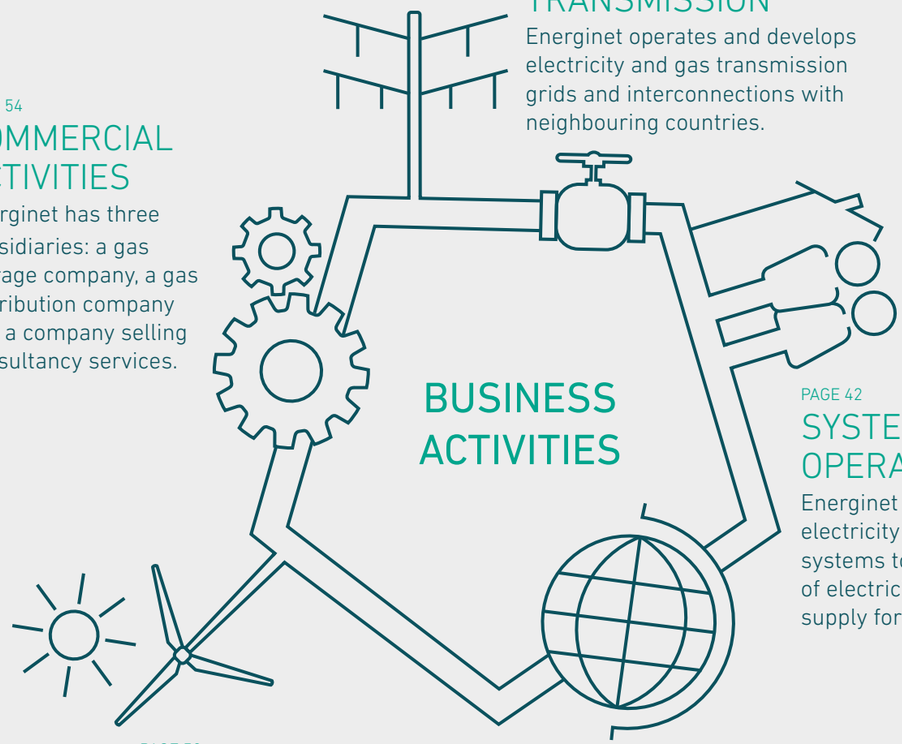
COMMERCIAL ACTIVITIES

Energinet has three subsidiaries: a gas storage company, a gas distribution company and a company selling consultancy services.



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SYSTEM OPERATION

Energinet operates the electricity and gas systems to ensure security of electricity and gas supply for consumers.

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PUBLIC ADMINISTRATION

Energinet manages and provides regulated funding to promote environmentally friendly energy.

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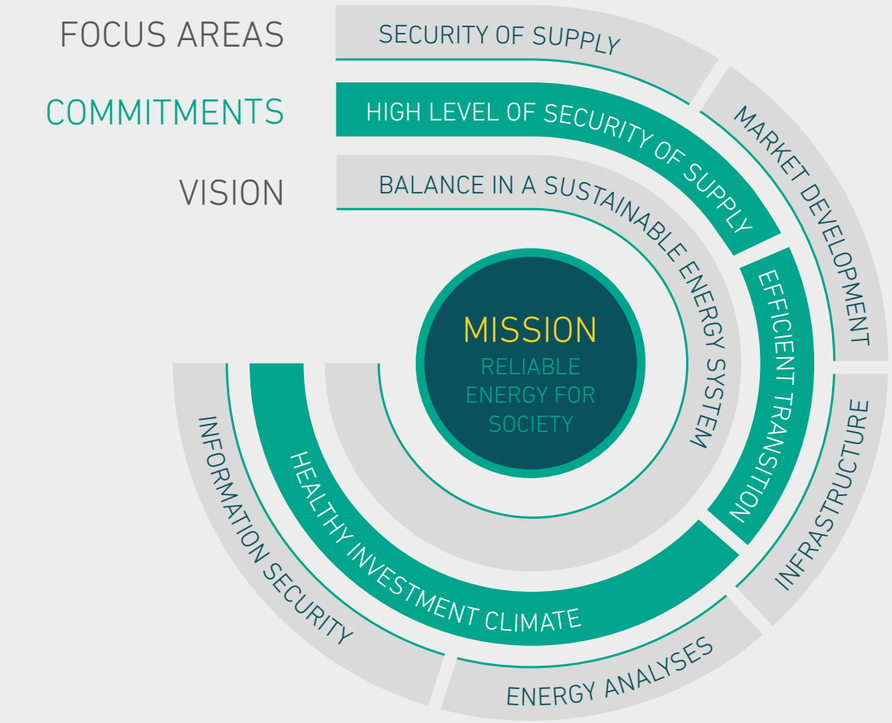
MARKET AND SYSTEM DEVELOPMENT

Energinet develops the electricity and gas markets to effectively handle the green transition.

THREE COMMITMENTS

Energinet's strategy is based on three commitments to Danish society by which we want to be judged.



Energinet's strategy 2015-2017 is called 'Integration' and is available here:*www.energinet.dk/sammentaenkning*.

WHAT IS ENERGINET?

Energinet is an independent public enterprise owned by the Danish Ministry of Energy, Utilities and Climate. We own and operate the main electricity and natural gas transmission grids in Denmark. We are charged with integrating renewable energy, ensuring equal access to the grids and ensuring security of supply in Denmark.

WHAT VALUE DOES ENERGINET CREATE?

In our strategy, we commit to guaranteeing a high level of security of supply, ensuring an efficient transition and contributing to a healthy investment climate. In so far as we deliver on our commitments, we create value for consumers, for the energy sector and for society as a whole.

HOW DOES ENERGINET CREATE VALUE?

Energinet engages in five business activities which support each other in various ways (see infographic above). The activities all contribute to delivering on Energinet's three commitments to society and the statutory tasks for which we are responsible.

HIGH LEVEL OF SECURITY OF SUPPLY

Energinet maintains and develops the transmission grids and the markets for the purpose of maintaining a high level of security of supply. This is done in close cooperation with all the players in the energy sector.

EFFICIENT TRANSITION

Energinet finds ways of realising a green transition which is economically viable for Danish society. This is done in close cooperation with all the players in the energy sector.

HEALTHY INVESTMENT CLIMATE

Energinet contributes to a healthy investment climate. It is desirable for the players in the energy sector to be able to make the most informed investment decisions possible.

TARGETS AND RESULTS

Energinet's corporate targets are indicators for whether our activities create value for society.

COMMITMENT:

HIGH LEVEL OF SECURITY OF SUPPLY

NON-SUPPLIED ELECTRICITY

48 SEC.

TARGET: MAX. 60 SEC.

Seconds of outage per consumer related to the transmission grid in a normal year.

GAS SUPPLY FAILURE

ZERO

TARGET: ZERO

Supply failure related to Energinet.

FUTURE ELECTRICITY SUPPLY INTERRUPTIONS

Eastern Denmark	Western Denmark
7 MIN.	0 MIN.

TARGET: MAX. 5 MIN.

We aim to develop the electricity system such that the expected outage minutes per consumer per year is max. 5 minutes due to lack of power over a five-year period.

COMMITMENT:

EFFICIENT TRANSITION

STAKEHOLDER SATISFACTION

53%

TARGET 2017: 80%

The share of respondents scoring 7 or more on a scale of 1 to 10 for satisfaction with reputation for the commitment in question.

COMMITMENT:

HEALTHY INVESTMENT CLIMATE

STAKEHOLDER SATISFACTION

65%

TARGET 2017: 80%

The share of respondents scoring 7 or more on a scale of 1 to 10 for satisfaction with reputation for the commitment in question.

Energinet's results are not evident from the bottom line of the company's financial statements as our operations are based on a break-even principle, and we are thus not required to generate a profit.

Rather, Energinet must create value for society. However, it is not possible to specifically measure the socio-economic value created by Energinet.

But it is possible to measure Energinet against a number of specific and objective targets which we defined in our Strategy Plan 2014. The targets, which are expected to be achieved at the end of the strategy period in 2017, measure the effect of our strategic efforts. They also work as a yardstick against which to determine where to focus our efforts in order to ensure the fulfilment of our commitments.

TARGETS, RESULTS AND OUTLOOK

Energinet must create value for society. Our operations are based on a break-even principle, and we thus do not have to generate a profit. We measure our performance on the basis indicators for the three commitments set out in our strategy: a high level of security of supply, an efficient transition and a healthy investment climate.

Energy integration in 2016
Energinet's strategic direction is defined in our strategy plan which cover the period from 2015 up until and including 2017. The strategy plan is entitled 'Integration', and in this annual report for 2016, we demonstrate that the integrated planning of energy across countries, across consumption and production and across different forms of energy actually shapes the activities for which Energinet is responsible.

High level of security of supply in 2016
The level of security of supply is very high in Denmark, and Denmark is in the top league of European countries. Energinet is committed to maintaining a high level of security of supply. With increasing volumes of wind power and a decreasing number of power stations to ensure balance in the electricity system, there is a need to bring new domestic means into play, like demand-response electricity consumption as well as closer cross-border cooperation. The wholesale model was introduced in April 2016 (read more on page 32), coinciding also with the start of closer cooperation between the Nordic TSOs (read more on page 20). In the longer term, the wholesale model is expected to lead to more flexible electricity consumption, while closer Nordic cooperation is expected to lead to a more cost-effective security of supply.

In 2016, Energinet took over DONG Energy's gas distribution grid following the IPO of DONG Energy. For the legislators as well as Energinet, the rationale is that the public ownership of critical infrastructure is maintained as Energinet is an independent public company owned by the Danish state. Energinet's acquisition of the company, which is now called Dansk Gas Distribution A/S, is therefore closely related to the security of supply.

Efficient transition in 2016
Energinet contributes to finding ways of realising a green transition which is economically viable for Danish society. In this process, we are not alone as we are engaged in ongoing cooperation with our owner, with the rest of the Danish energy sector and with international partners. In 2016 alone, we thus held at least 60 working and dialogue meetings with players in the electricity and gas industry (stakeholder meetings) and with citizens (citizen meetings) who are affected by our construction projects.

Via efficient operations, Energinet undertakes to lead the way with its own investments based on holistic energy analyses and by ensuring continued close integration in well-functioning, international markets. Energinet is obliged to carry out major investments as cost-effectively as possible, and in our strategy we have committed specifically to reducing the unit costs of new installations by 15% in 2017 relative to 2013. Through targeted efforts aimed at simplifying and standardising our procurement as part of our so-called SFI project, in Q3 we came a long way and realised very significant economies.

Healthy investment climate in 2016
Energinet wants to contribute to a healthy investment climate. A healthy investment climate means clear objectives and frameworks for developing the energy systems for which we are responsible. One of the most significant results in 2016, and one which the energy sector as a whole can see as an

effect of the healthy investment climate is the decision by Apple to invest in a large data centre in Denmark. This is a good example of how a country with the expertise required to maintain a high level of security of supply while concurrently incorporating a high proportion of green energy can attract investments for the benefit of growth as well as job creation. In November 2016, Energinet held the topping-out ceremony for the high-voltage station in Foulum which will connect Apple's future data centre directly to the transmission grid – the new high-voltage station being the most complex of its kind in Denmark and offering the highest level of security of supply ever.

The rationale behind several of the activities undertaken and milestones reached during the year was also to contribute to a healthy investment climate. This goes, for example, for the introduction of the wholesale model, which sees the customer as being at the centre of the electricity market and which provides more incentives for electricity suppliers to develop new products and business models (read more on page 32). It also goes for the development of the Energy DataStore which will make energy data available to researchers and product developers (read more on page 48), and it goes for the development of an international green gas certification system, which Energinet is heading (read more on page 48).

Stakeholder satisfaction in 2016
Energinet has high ambitions for stakeholder satisfaction. It is important that our stakeholders feel that we do a good job. We have therefore set a number of ambitious stakeholder satisfaction targets.

Energinet carries out a stakeholder satisfaction survey once a year. In 2016, our stakeholders acknowledged that we deliver a good product, and that we deliver on our core service – the security of supply. On the other hand, our stakeholder satisfaction score is lower when it comes to our reputation and conduct. In 2016, our stakeholder satisfaction score thus declined slightly for image and reputation when it comes to our commitment to an efficient transition, while our score was up slightly for our commitment to a healthy investment climate.

We must take the low stakeholder scores seriously and continually develop our focus on transparency and involvement. We realise that both committed and concerted efforts will be required to change our stakeholders' perception of us. In Energinet, we are going to maintain our focus on openness and involvement, and we are going to establish more new forums for cooperation and engage in further cooperation with the other players in the energy sector both in Denmark and internationally.

Looking ahead to 2017
2017 will be another important year for the energy sector as a whole and for Energinet. In Energinet, we look forward to the governmental Energy Commission presenting its report in the spring. This will mark the start of an extremely important process, which will probably result in a political agreement in autumn 2017 on the establishment of new long-term framework conditions. As the transmission system operator (TSO), Energinet hopes for broad political support for the establishment of stable and long-term framework conditions – something that is crucial for the whole sector. We also look forward to and recommend that the Danish focus on international and market-based solutions for the integration of sustainable and affordable energy continue.

The technological advances which – together with the stable framework conditions and well-functioning energy systems – drove the prices of offshore wind and solar power down further in 2016 than anybody would have imagined just a few years ago, will continue to impress. This bodes well for the future, and we believe that we now have the right conditions in Denmark to be able to develop into an even stronger energy hub. Through the continued intelligent development of our energy systems and the continued development of our interconnections for electricity and gas, Denmark can become a very strong energy hub and attract both large generators and large consumers of energy that is green, secure and cheap.

In 2017, a number of tasks closely related to Energinet's business will demand quite a lot from us, and we will give a high priority to these tasks. In its supply strategy, the Danish government has suggested the introduction of a new form of revenue cap regulation of Energinet, meaning that Energinet will no longer be regulated by a break-even principle, but instead by a revenue cap. In 2017, an important task for Energinet and for our regulator will be making sure that the regulation will be devised in a way which drives efficiency and the documentation of our efficiency upwards, while at the same time ensuring that we are still able to prioritise our operations and investments for the benefit of society and the Danish economy.

Another important task will be the preparation of a new investment governance policy aimed at ensuring the involvement of our stakeholders, politicians and our owner at an earlier stage of the processes leading to investment decisions. This is a task which we are very much looking forward to as we believe that as much openness and dialogue as possible, as early in the processes as possible, actually create better solutions and a better common understanding as well as ensuring better ownership of the solutions.

A third important focus area is information security. Due to the increased digitalisation of the energy systems, we are becoming ever more vulnerable to breakdowns and hacking. In the past few years, Energinet has significantly increased its information security level, which in 2016 resulted in a substantially improved assessment by the auditors of Energinet's IT maturity (read more on page 49). The task of developing and improving information security will take up a lot of time in the coming years. This goes for Energinet's own information security, but in addition it has now been decided that from 2017, Energinet will be charged with monitoring information security in the whole sector.

Strategic risks for Energinet
Energinet's activities and investments are associated with significant strategic risks. Risks which the company management continuously identifies, analyses and assesses. The table below lists the most important strategic risks which will have the undivided attention of the organisation and the Energinet management in 2017. The table also includes examples of initiatives in which the company involves itself in order to minimise the strategic risks.

	SECURITY OF SUPPLY	EFFICIENT TRANSITION	HEALTHY INVESTMENT CLIMATE
RISKS	In 2015, Energinet had to cancel a call for tenders for a strategic reserve because it was deemed by the European Commission to be contrary to the rules on state aid. As a result of this, the high level of security of supply is challenged in Eastern Denmark. The gas supply may be challenged by the permanent shutdown of production from the Tyra field in the North Sea.	Constraints to the free movement of energy across national borders reduce the potential for integrating more renewable energy while at the same time maintaining a high level of security of supply. A topical problem is availability on the interconnection across the Danish-German border, which is less than it could be due to the non-expansion of the German electricity grid. In 2016, the average availability in the export direction on the interconnection declined further to 10.8% against 13.2% the year before. The average availability in the import direction was 85.9% in 2016.	The global gas price is very low, but the prices of competing fuel types are also low. The competitiveness of gas is therefore reduced. Moreover, a number of fuel types are subsidised or exempted from taxes. This also affects the utilisation of gas (read more on page 28). Any uncertainty about the long-term framework conditions for the green transition of the energy systems planned for the next few years will challenge the willingness to invest in the necessary technologies and solutions.
EXAMPLES OF MEASURES	Energinet works with other players in the energy sector on Market Model 2.0, on developing Nordic cooperation on security of supply and on planning network revisions, taking into account the mounting challenges to the security of supply in Eastern Denmark. The gas supply is robust, albeit more vulnerable without production from the Tyra field. If realised, the Baltic Pipe (read more on page 28) will strengthen the security of supply.	Energinet pursues the international and market-based energy solutions which serve the interests of Danish society best. The company is a member of major national and international bodies, for example under the auspices of ENTSO-E and ENTSOG.	Energinet works with the Polish TSO, GAZ-SYSTEM S.A., on a possible gas pipeline connecting Norway and Denmark with Poland. The connection will reduce the transport costs for gas and thereby improve competitiveness. Energinet is continuously working to create involvement, openness and information about the framework and conditions for the green transition in Denmark. For example, Energinet's analyses are prepared through formal involvement of the other players in the energy sector.

FOCUS ARTICLES

HERE YOU CAN READ FOUR FOCUS ARTICLES ON IMPORTANT PROJECTS UNDERTAKEN IN 2016 WHICH GIVE A PICTURE OF ENERGINET'S VALUE CREATION.

FOCUS ARTICLE

NEW NORDIC COOPERATION ON FREE MOVEMENT OF ENERGY

The integration of the energy systems in the Nordic countries must be greater.

125 employees from the Nordic transmission system operators (TSOs) are working to bring the regional cooperation on the safe and free movement of energy into a new era. Jens Møller Birkebæk from Energinet is responsible for establishing the Nordic RSC – Regional Security Coordinator – in Copenhagen.

Senior Manager Jens Møller Birkebæk from Energinet is responsible for establishing the Nordic RSC. In the background the Nordic RSC offices at Copenhagen Towers.

"We have enjoyed good and close working relations with the TSOs in the other Nordic countries for many years, but for the first time we are now actually establishing a joint office where employees from the four TSOs will be working together," explains Jens Møller Birkebæk on a chilly autumn day in Copenhagen outside Copenhagen Towers, where the Nordic RSC will be housed. It is not just a question of throwing a number of office chairs and a handful of computers into rented offices somewhere in Copenhagen because ultimately we need to be able to exchange very considerable volumes of data and information about capacity and the state of the grids across the borders of the Nordic countries.

Consequently, developing the IT systems which will make it all work is extremely time-consuming: "It is a complex and difficult task, but it is also a task to which the participating TSOs are strongly committed, and which we want to succeed," says Jens Møller Birkebæk. He continues: "The atmosphere is really good. Everyone can see that the Nordic RSC can strengthen our cooperation and optimise electricity system utilisation now and in future, and to put it slightly more bluntly, then it is also perfectly clear to us that in future it simply will not be possible for us to – individually and independently – handle the security of supply in a cross-border electricity market. In this way, we are an absolutely necessary community".

Better view of the road ahead increases efficiency

"The main purpose of establishing the Nordic RSC is to ensure that our electricity system will continue to work in a future characterised by ever-increasing volumes of green energy from so-called non-dispatchable or fluctuating sources, ie wind and solar power. At the same time, the flow in the market is increasing and over ever-increasing distances, not least in step with the establishment of more and more interconnections. This means that we need continuously updated

WHAT IS AN RSC?

The Nordic RSC is a cooperation between the TSOs in Norway, Sweden, Finland and Denmark (Statnett, Svenska Kraftnät, Fingrid and Energinet).

An RSC (Regional Security Coordinator) is managed and run by the TSOs taking part in the regional cooperation.

An RSC prepares advanced calculations and a regional grid model, which is to form the basis for more efficient cross-border grid operation.

An RSC does not have operational control of the individual TSO's grid.

figures, forecasts and calculations at regional level," explains Jens Møller Birkebæk.

The Nordic RSC will do the same types of calculations of electricity grid capacity, generation adequacy forecasts, security of electricity grid operations, security of supply etc. as the individual TSOs do today for their respective areas. The difference is that the Nordic RSC will perform the calculations and forecasts for the entire Nordic area and deliver continuously updated data to the various TSOs, thereby providing them with a better view of the road ahead for planning grid operations than they have today.

If you liken the control rooms of the individual TSOs to a car, you can say that the Nordic RSC provides the full-beam light. Hearing Jens Møller Birkebæk talk, you soon realise that the car metaphor is not entirely foreign to the professionals involved in operating and developing the electricity grid. "A better view of the road ahead in the form of better data covering the entire Nordic region means that we can drive that bit closer to the edge, as we like to put it." In this context, driving closer to the edge means being able to make a larger share of the potential capacity in the electricity grid available to the market than you would otherwise have done. Still using the car metaphor, you could say that it is possible to drive a bit faster – without risking your safety – using full-beam headlights than would be possible with dipped lights.

> We are now seeing a strong focus on cooperation in the Nordic region, which is long overdue. Our Nordic cooperation is based on trust and a common understanding of the market, and we must work together to prevent more micro-regulation and a narrowing of the market. It is therefore more important than ever to set a good example for Europe. The Nordic RSC in Copenhagen and our Nordic model for putting the customer first with intelligent electricity meters and the DataHub are examples of this.
>
> - Bente Hagem
> *Chair of the Board of ENTSO-E and Executive Vice President of European Affairs in the Norwegian TSO, Statnett*

Jens Møller Birkebæk can help us to translate back from the car metaphor because what exactly do the full-beam headlights mean? What kind of knowledge and data will be needed to guarantee the more effective management of the security of supply in the individual Nordic countries? "Many different kinds," he says, "but one example is that if the entire Nordic region can coordinate the times when power stations, high-voltage substations and other installations are taken out of operation for maintenance, then we can plan such outages much better and ensure the least possible impact on the electricity grid capacity which we make available to the market."

Big data equals new opportunities

Denmark is already connected to Germany, Sweden and Norway through several electrical interconnections. So why it is only now that the Nordic countries are establishing such regional cooperation on the exchange of data and information about the electricity supply across national borders, you might ask? Jens Møller Birkebæk explains: "It is only now that EU regulations have made it possible to create a common pan-European data model for the electricity system. At the moment, the various countries very much have their own standards, their own data models and IT protocols which cannot easily be coordinated or integrated." The value creation which will be the effect of the Nordic RSC is therefore largely made possible by new advances within data and communication technology. The new data and communication technologies are being established and to some extent developed by the project in accordance with the requirements laid down in EU regulations.

Nordic RSC creates value for society

What value does the Nordic RSC create for society? "Guaranteeing a well-functioning electricity system in a future with increasing volumes of renewable energy from fluctuating energy sources is not easy," says Jens Møller Birkebæk. He continues: "It requires that the energy can be traded and transported over long distances and flow to where the demand is. It means that although responsibility for the security of supply rests with the individual countries and the individual TSOs, security of supply cannot be handled properly without a close cooperation between neighbouring countries". And when asked about the value Nordic RSC creates for consumers – over and above strengthening the security of supply, Jens Møller Birkebæk says: "Market availability is improved through better utilisation of electricity grid capacity. It would strengthen competition and thus influence electricity prices relatively seen in a downward direction."

The plan is for the Nordic RSC to be fully implemented by the end of 2017.

THE NORDIC RSC HAS FIVE TASKS

1. COMMON GRID MODEL
   The Nordic RSC must establish a common grid model that provides an hourly overview of all significant assets in the grid in the entire Nordic region (in terms of production, transmission and consumption).

2. COORDINATED SECURITY CALCULATION
   The Nordic RSC must identify operational security risks and recommend preventive action to the individual TSOs.

3. COORDINATED CAPACITY CALCULATION
   The Nordic RSC must calculate cross-border transmission capacities and maximise the transmission capacity offered to the market.

4. COORDINATED OUTAGE PLANNING
   The Nordic RSC must keep a joint register of all planned outages for assets in the grid (high-voltage transmission lines, generators etc.) and streamline maintenance management.

5. COORDINATED CALCULATION OF AVAILABLE PRODUCTION CAPACITY
   The Nordic RSC must provide the market players with forecasts for production, consumption and the state of the grid up to several weeks in advance.

FOCUS ARTICLE

GREEN GAS AS PART OF NATURAL GAS BACKBONE

Biogas is linked to the natural gas infrastructure. Being a fossil fuel, natural gas is gradually being phased out in Denmark towards 2050. But the natural gas infrastructure will continue to play a key role in the green transition. On Thursday 7 July 2016, the first biogas entered the natural gas grid.

From left to right: Jesper Jørgensen, operations manager, Sønderjysk Biogas A/S, Torsten Hasle Nielsen, project manager, Energinet and Per Stangholm Jakobsen, Head of Gas Transmission, Energinet.

A former cornfield near Bevtoft in southern Jutland is now home to Denmark's largest biogas plant. The plant must produce 21 million cubic metres of upgraded biogas a year, equivalent to the annual energy consumption of 15,000 households or 570 buses.

The biogas plant, which is owned by Sønderjysk Biogas A/S and the energy company E.ON Danmark A/S, is far from the first biogas plant in Denmark, but a few hundred metres to the east of the plant there is a compressor station, which is in fact the first of its kind in Denmark: "The compressor station in Bevtoft increases the biogas pressure from 3.5 to 78 bar, which is the pressure needed to inject the gas into the transmission grid," says Per Stangholm Jakobsen, Head of Gas Transmission at Energinet.

The compressor station forms part of a large-scale plant established by Energinet in 2016 with the aim of feeding biogas from production at Sønderjyske Biogas A/S directly into the gas transmission grid. The mission was accomplished on Thursday 7 July 2016, when the first biogas from the plant entered the natural gas grid.

Biogas all year round

Jesper Jørgensen is operations manager at Sønderjysk Biogas A/S. He explains that the direct connection to the transmission grid is crucial to the business: "Our plant is the largest of its kind in Denmark and is designed to produce 21 million cubic metres of biogas. Especially in summer when gas consumption is considerably lower than in winter, it wouldn't be possible to feed such large volumes into the regional distribution grid. But the connection to the transmission grid provides us with a reliable, physical outlet for the gas thanks to the huge capacity in the transmission grid."

However, this also means that the connection to the transmission grid is

absolutely essential for us, as Jesper Jørgensen points out: "It's very simple, because it's the only outlet for us. If the connection to the grid is down, the system will break down within two hours. With an annual production of 21 million cubic metres of biogas, it doesn't take a math genius to understand the financial importance of a reliable transmission grid connection to us." Indeed, according to Per Stangholm Jakobsen from Energinet, the direct contact to an energy producer is an entirely new role for Gas Transmission: "If our plant is down, they don't make any money," says Per Stangholm Jakobsen and continues: "Normally we mainly supply gas to the regional companies HMN Naturgas, Nature Energy and Dansk Gas Distribution, but here in Bevtoft we work directly with an energy producer with a bottom line to consider. This makes this customer relationship slightly different to our other customer relationships," he says.

An element in the green transition

If we view the connection of the Bevtoft biogas plant to the transmission grid in a Danish energy-political context, 7 July 2016 is one of many days to remember in the story of the green transition. The event can be seen in light of a future where green gases become increasingly important as natural gas is slowly being phased out. According to the projections of the Danish Energy Agency, natural gas consumption in Denmark will be fully replaced by green gas by 2050, and the volume of green gas which in 2050 will cover the Danish consumption will correspond to approx. half of the volume of natural gas produced today. "I see our plant in Bevtoft as a small contribution to the political goal of being independent of fossil fuels in Denmark by 2050," says Torsten Hasle Nielsen, project manager responsible for overseeing the establishment of the plant. He continues: "On my travels in Europe, I feel it's important to be able to say that the transition to biogas is well under way in Denmark which has traditionally lagged a bit behind Germany and Sweden where biogas upgrading grants were introduced earlier than in Denmark."

The Danish gas transmission and distribution system is extremely valuable for society in terms of making the transition to fossil-free gas by 2050 and beyond. Energinet's plant for transferring biogas from the biogas plant in Bevtoft to the transmission grid, which was originally designed exclusively for natural gas, is the small story in the big story about the value creation being delivered by the gas system now and in the years to come – assuming that the progress of the green transition follows the current political goals. Energinet's calculations show that the entire gas transmission and distribution grid provides annual net savings of DKK 2-3 billion for society as compared to a hypothetical situation where biogas would have to be produced and used locally without access to transmission and distribution options.

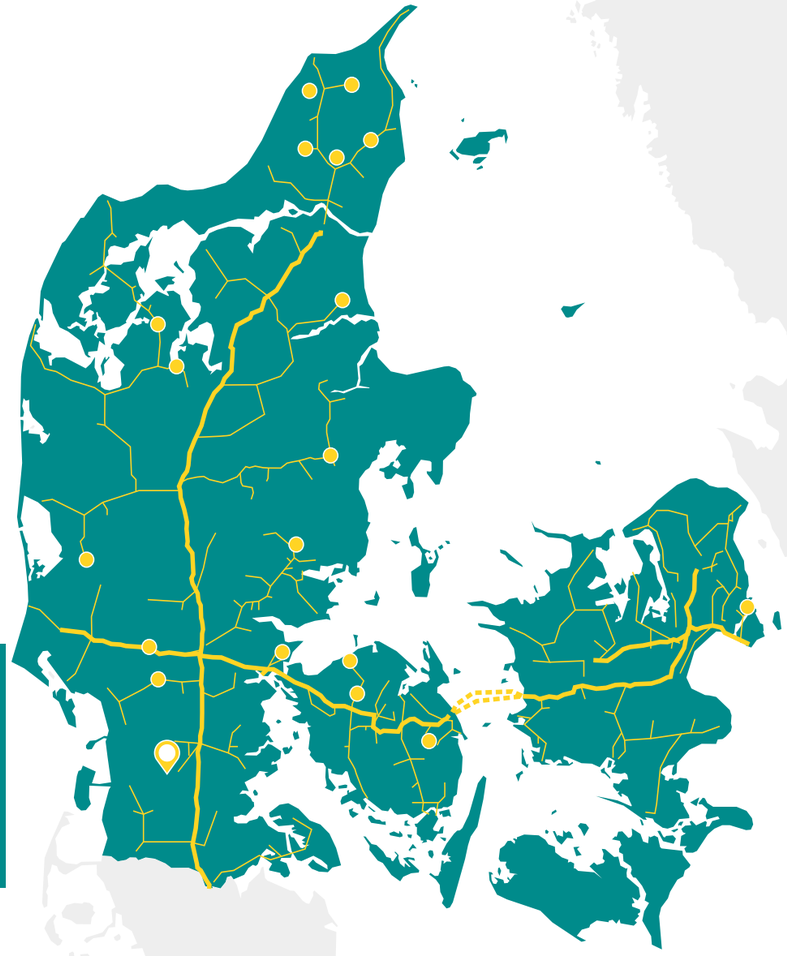
In terms of consumption methods, initiatives and technologies, the tale of the gas system's role in the green transition is just as compelling: "The transmission grid plays a crucial role in turning biogas into a flexible energy source – now and in future – that can be transported from rural to urban areas, ie from where the biogas is produced, to the waste collection trucks or industrial facilities in urban areas where the biogas can be used," says Jeppe Bjerg, a senior analyst at Energinet. It also connects Denmark to a more closely integrated European gas market.

Along with the development of green gases, the gas infrastructure will also help to tackle some of the challenges that the green transition poses to the electricity system: "In 2035, it is not unlikely that we will be able to use electrolysis to convert wind power into hydrogen which can then be mixed with biogas. This means that the gas infrastructure can be used to store surplus wind power that cannot be exported," says Jeppe Bjerg and continues: "Even in a world where the green transition and electrification have been fully implemented, there will still be a need for storable fuels, not least in the area of heavy transport. This is where biogas comes in because it has the rare quality of being both storable and renewable."

ENERGINET'S PLANT AT BEVTOFT

The key functional unit in Energinet's plant is the compressor and measuring station. Bio natural gas or upgraded biogas from the biogas plant is fed into the plant. The plant has three important functions:

- The quality and volume of gas is measured and recorded. It is checked that the gas is of the right quality to be transported in the transmission grid. The gas volume is recorded for billing purposes, among other things.
- In the compressor, the pressure is increased from 3.5 bar to approx. 78 bar, which is the pressure necessary for the gas to be transported in the transmission grid.
- Some of the gas in the plant bypasses the compressor and is directed back into a distribution grid following the addition of an odorant. This part of the gas is used for process heating by the biogas plant.



Since 2011, 19 upgrading plants have been connected to the gas grid. The plants have a total capacity of 100 million Nm^3/year. The volume of biogas being fed into the gas system is steadily growing, and accounted for 2.5% of gas consumption in 2016. Energinet currently knows of around 10 projects involving the upgrading of biogas which may be realised within the next couple of years. Most upgrading plants are still expected to be connected to the distribution grids.

FOCUS ARTICLE

INTER-CONNECTIONS

CHEAP, SECURE AND GREEN ENERGY

The energy systems are connected by means of gigantic interconnections.

Denmark and its neighbouring countries lead the way when it comes to solutions for the extensive transformation of Europe's energy systems. Solutions that involve huge construction projects. In 2016, a gas connection to Poland and an electrical connection to the UK took a significant leap forward towards construction start.

From left: Søren Damsgaard Mikkelsen, Viking Link project manager in Energinet, Henrik Riis,director of Planning in Energinet, and Sofie Leweson, Baltic Pipe project manager in Energinet.

Viking Link: A 760-kilometre 1,400 MW electricity connection between Denmark and the UK. The annual transmission capacity of Viking Link corresponds to the total annual electricity consumption of all Danish households. Investment on the Danish side: DKK 8 billion. Baltic Pipe: A gas pipeline from Norway via Denmark to Poland with a capacity equivalent to three times the current gas consumption in Denmark. Investment on the Danish side: Somewhere between DKK 5 and 10 billion.

Unlike the electrical interconnections to Norway, Sweden and Germany already in service, and unlike the two new electricity connections to the Netherlands (COBRAcable) and Germany (Kriegers Flak CGS), which are under construction, no final political decision to go ahead with the Viking Link and Baltic Pipe projects has yet been made in the countries concerned.

However, if a decision is made to go ahead with the projects, they will be the two single largest construction projects that Energinet has been involved in to date. A look behind the scenes of the projects in 2016 gives a good idea of the value that the gigantic interconnections are believed to generate for Denmark, despite the high investment costs.

Baltic Pipe is good for Poland, Europe and Denmark

Henrik Riis is director of Planning at Energinet and responsible for construction projects in the so-called maturity phase, which includes the very extensive surveys and negotiations that always precede a decision to go ahead with projects of this magnitude.

"If the Baltic Pipe can be completed by 2022, Poland will be less dependent on Russian gas and be in a better position to renegotiate their supply agreement with the Russian gas company Gazprom in 2019," says Henrik Riis, and continues: "The Baltic Pipe is therefore also attracting international political focus, even though Denmark focuses on the economic benefits of the project."

In December 2016, Energinet and the Polish TSO GAZ-SYSTEM S.A.

completed a feasibility study, which was partially funded by the EU. The study assesses the technical and financial feasibility of the Baltic Pipe which in Denmark will involve the laying of a 120-kilometre offshore pipeline from the Norwegian upstream system to Nybro in western Jutland, the addition of a new 210-kilometre gas pipeline from Egtved in Jutland to the south-eastern part of Zealand at the expected landing point of the pipeline to Poland as well as a compressor station.

The Baltic Pipe paves the way for greater integration of the European energy systems. But what else is in it for Denmark? Henrik Riis says: "Without the Baltic Pipe, the transportation costs for natural gas will increase significantly in the coming years, because the total volume of natural gas in the system will fall and there are fewer customers. However, with the Baltic Pipe, Energinet forecasts a slight fall in transport costs as compared to their current level." Lower transport costs will benefit Danish gas consumers and the producers in the North Sea. In addition to lower prices, the Baltic Pipe will also strengthen the security of gas supply in Denmark, as the Danish gas production in the North Sea declines.

Viking Link enables exchange of green energy

The planning of the large electricity connection between Denmark and the UK gained momentum in 2014 when Energinet and National Grid in the UK signed a cooperation agreement on the project. In 2016, seabed surveys, the preparation of tender documents for the main parts of the installation, environmental impact assessments onshore and public consultations for the project were carried out in both countries.

From a Danish perspective, the socio-economic benefit of the Viking Link is partially dependent on the electricity grid along the west coast being expanded with overhead lines and not underground cables as set out in the cable action plan adopted by the Danish Parliament in 2008.

WHAT WORK WAS DONE ON THE BALTIC PIPE IN 2016?

"We spent a lot of time working on the feasibility study, but the preparations for the Open Season process were also very important. The process is expected to begin in February, and in the course of spring 2017 we will know whether enough large transit customers will be bidding on the transport capacity in the Baltic Pipe.

- Sofie Leweson

Baltic Pipe project manager, Energinet

WHAT WORK WAS DONE ON THE VIKING LINK IN 2016?

"Seabed surveys were a very significant and extensive activity. All through the summer, 11 vessels surveyed the seabed along the 630-kilometre cable route corridor. The surveys will be used as part of the environmental impact assessment report and form the technical basis for the tender documents on which supplier bids must be based.

- Søren Damsgaard Mikkelsen

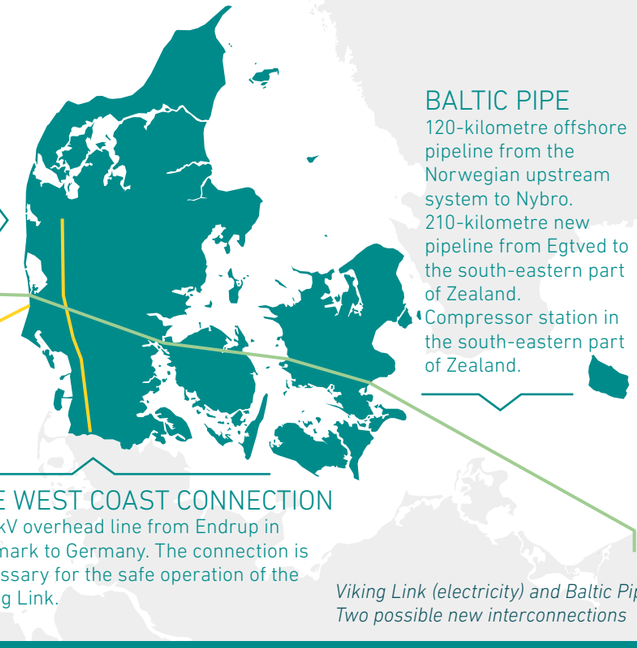
Viking Link project manager, Energinet

On 17 November 2016, the Danish government entered into a broad political agreement backed by a majority of the Danish Parliament. The agreement primarily concerned the abolition of the PSO tariff, but it also endorsed new principles enabling the establishment of the overhead lines that determine whether the Viking Line project will make economic sense for Denmark.

"The additional cost associated with cable laying would eliminate a large chunk of the socio-economic benefit of the Viking Link," says Henrik Riis and points out that the method is also subject to technical uncertainty and that transporting alternating current via underground cables along the west coast requires visible surface installations. It would for example require a number of parallel cables and large substations for every 20-30 kilometres.

But why is the Viking Link good for Denmark? "It's about security of supply and the integration of the increasing volumes of renewable energy in the electricity grid. The Viking Link will make it even easier for us to direct the energy from where it's produced to where it's needed and can be sold," says Henrik Riis. From a UK perspective, an electricity connection to Denmark will provide access to a well-developed energy market with low prices based on energy from across Scandinavia and northern Germany.

For Danish electricity generators, an electrical connection to the UK will provide access to a market with higher prices. When there is a surplus of wind power in Denmark, the surplus can be exported via the Viking Link to the UK and vice versa. In both countries, this will support the markets based on renewable energy, reduce the need for limiting wind power production and positively impact electricity prices.



Viking Link (electricity) and Baltic Pipe (gas) Two possible new interconnections

"The Confederation of Danish Industry is a strong advocate of a common European energy market. Interconnections are necessary to facilitate the transition to renewable energy, to maintain the security of supply and to ensure lower energy prices. The energy transition entails substantial export opportunities for wind turbines, cabling, substations and other technologies, where Danish companies are world leaders.

- Troels Ranis

Director, DI Energy

FOCUS ARTICLE

CUSTOMER CENTRICITY

FOR A NEW ELECTRICITY MARKET

Electricity consumption will be more closely correlated with sustainable energy production.

The so-called wholesale model which came into force in April 2016 is one of the benefits of the new framework for the electricity market. Other benefits are enhanced competition and more innovative products for consumers. That is if everything works out the way we expect it to...

31 March 2016, shortly just before midnight. For the past 18 months, detailed preparations have been under way for the moment when nothing must go wrong. The project group, operating staff and IT suppliers are gathered in the large, open atrium at Energinet's head office in Fredericia. The employees of grid companies and electricity suppliers across Denmark hold their breath. It is the moment of truth. The moment when it is revealed if approx. 100 external IT systems can communicate with the DataHub. The DataHub that will be handling 42 billion data readings from millions of electricity meters in future.

Signe Horn Rosted remembers the moment vividly. No wonder, because she is the retail market manager responsible for the Energinet department tasked with developing the wholesale model in a unique collaboration with players in the energy sector. "When I got up on the morning of 31 March, I felt excited and nervous, but in a good way," she explains and continues: "The planned disconnection of the old DataHub in the preceding week had far exceeded our expectations. So, of course, I was incredibly excited when I went down into the atrium that afternoon to meet with all the other members of the team."

It was time to switch it on. The upgraded DataHub. The wholesale model would be launched at 00.00 on 1 April 2016. And it was – without a hitch. Quite an achievement in itself.

Forward-looking politicians
For the purpose of boosting competition and innovation, in 2012 Danish legislators decided to introduce new frameworks in the electricity market which would turn the electricity supplier into the consumer's single point of contact.

For this purpose, the Danish Parliament passed the Act on the Wholesale

Model, and according to Signe Horn Rosted, this act was perhaps even more forward-looking than the politicians realised at the time. Even though it is only four years ago, developments within solar and wind energy and digital technologies have taken a giant leap forward since then. And there are no signs of developments slowing down.

"This may be an unforeseen and quite significant benefit of the wholesale model, which may turn out to be one of the most important benefits," says Signe Horn Rosted. You take developments within solar cells, electric vehicles and intelligent energy technologies in homes and industry. Then you add the wholesale model's real-time data for energy consumers hour by hour – and soon also the hour-by-hour flex settlement option available to all consumers. Signe Horn Rosted explains that this cocktail may turn consumers with solar cell systems and electric vehicles into suppliers of surplus energy which can be utilised in the distribution and transmission grid: "If an electricity supplier has many household customers, it may be possible for us as TSOs or grid companies to buy flexibility services from them whenever there's a power shortage in the grid." But even without looking to the future, the wholesale model will mean that the price signal will reach electricity consumers who will benefit financially from consuming electricity when the wind is blowing and power is cheap.

New product types

In the medium to long term, the wholesale model will create value, both because it brings the price signal to electricity consumers, and because it may potentially contribute to balancing the grid. The new framework for the market is therefore another step towards the improved integration of the renewable energy which is blowing in the wind, so to speak.

However, the immediate purpose of the wholesale model is to enhance competition in the electricity market. The enhanced competition generated by the wholesale model will drive the development of brand new product types which may create increased interest and awareness among consumers: "The option of hourly settlement and building closer customer relations will motivate electricity suppliers to develop new types of electricity products or new business models where the sale of electricity forms part of a wider range of offerings, such as controlling household energy consumption using data and IT technologies integrated into the home," says Signe Horn Rosted and continues: "Electricity suppliers are already launching exciting new apps that use DataHub data to predict the expected electricity consumption of a specific household, allowing customers to track their electricity consumption and prevent it from getting out of hand.

Louise Hahn, who is Vice President of Sales B2C in DONG Energy A/S, predicts that the wholesale model and new technological advances will spawn a multitude of new products: "The important thing is that the customer now receives one bill from the electricity supplier – that the sale of electricity is separated completely from the grid companies. Although it may seem illogical now, in future it will be more common for electricity to be sold as part of a package of other products," says Louise Hahn and continues: "In future, your bank, your insurance company, your telecom provider or large supermarket chains may want to sell electricity together with other services."

The project has become known for its successful cooperation with Danish electricity players. Could you elaborate on that?

Our cooperation with the 130 players or so and the IT suppliers was fantastic. This can be ascribed to a number of factors. We had just completed the implementation of the DataHub in cooperation with the industry, so the lessons learned from that were still fresh in everyone's minds. We hired one of the electricity players' project managers from the first project to be in charge of the cooperation with the players. This helped ensure that the players were heard and involved in the decisions made during the project.

- Anders Dalgaard

Head of the IT Project Office, Energinet. Former project manager of the wholesale model project, which successfully commissioned the upgraded DataHub at Easter 2016.

You spent 18 months preparing for the upgrade of the DataHub which took place at Easter 2016. Why?

I think it was one of the largest IT projects since the local government reform in Denmark. It took 18 months of careful planning, preparation and practice to get ready for Easter 2016 and all the processes that needed changing and which involved so many parties. Some processes could be stopped and then restarted, while other changes had to be implemented while the systems were running – a bit like running a marathon and having to change your shoes while you were running. The plan was in place 12 months prior to the upgrade, which gave us plenty of time to practise for the big event. When the day arrived, the careful preparations meant that we were able to stay calm and deal with the unexpected challenges that invariably arise.

- Anders Dalgaard

Head of the IT Project Office, Energinet. Former project manager of the wholesale model project, which successfully commissioned the upgraded DataHub at Easter 2016.

Louise Hahn is Vice President of Sales B2C at DONG Energy A/S. She predicts that the wholesale model will result in the introduction of a large number of new products and services.

2010

The Danish Parliament passes the Danish Act on the DataHub. Energinet is given responsibility for its development in cooperation with industry players.

2012

The Danish Parliament passes the Danish Act on the Wholesale Model.

2013

The DataHub is commissioned. Data from 3.3 million electricity meters.

2014

Amendment of the Danish Act on the Wholesale Model concerning the termination of the universal service obligation and the introduction of a new service obligation.

2015

Amendments of the Danish Act on the Wholesale Model concerning the collection of electricity taxes

2016

The wholesale model is commissioned.

2020

All electricity meters have been replaced with remotely read meters. The DataHub handles 42 billion meter readings a year. By comparison, Danes send DKK 8 billion text messages each year.

THE WHOLESALE MODEL IN A NUTSHELL

- Consumption data are consolidated in the DataHub
- The electricity supplier is the customer's single point of contact to the electricity market.
- The electricity supplier settles tariffs and taxes as wholesale services with the grid company and Energinet (hence the name wholesale model).
- Consumers have direct access to their own consumption data.
- Option of hourly flex settlement from 2017.

BUSINESS ACTIVITIES

HERE YOU CAN READ ABOUT THE MAIN RESULTS AND PROJECTS UNDER EACH OF ENERGINET'S FIVE ACTIVITIES IN 2016.

1.8

DKK BILLION

TOTAL COSTS

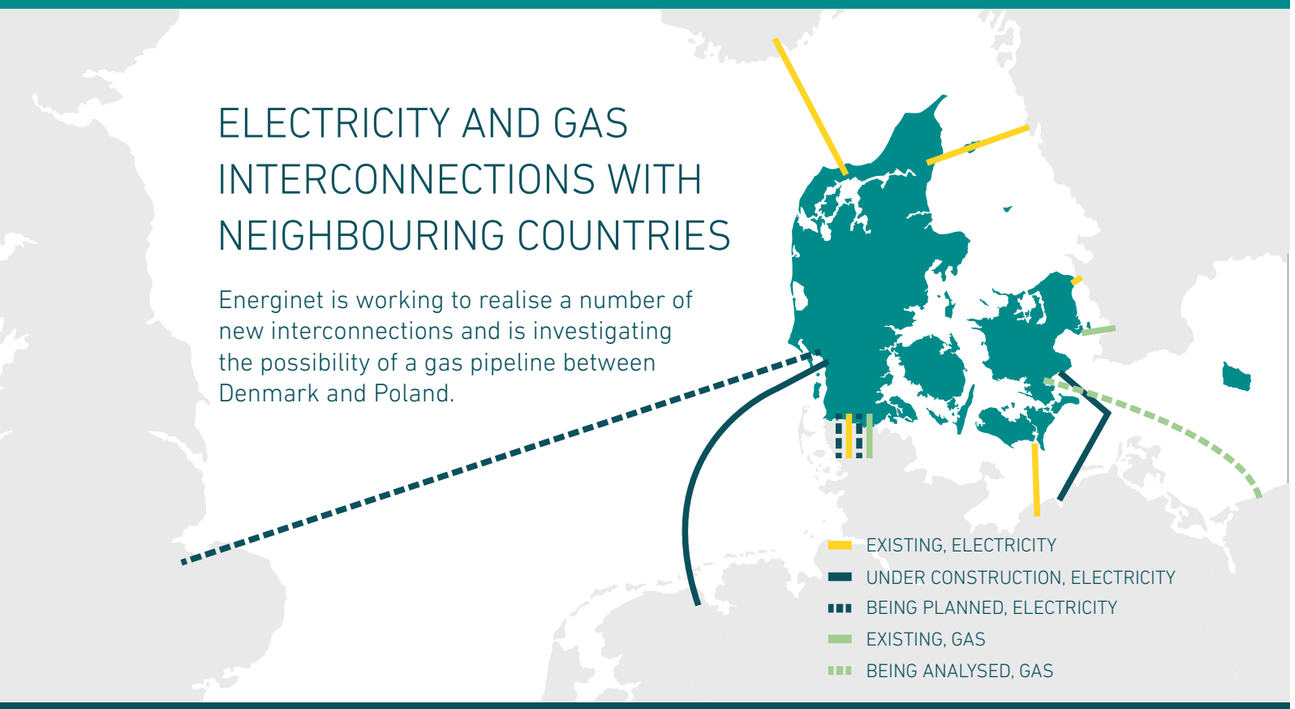
2015: 2.0

TRANSMISSION

Energinet owns, operates and develops the transmission grids for electricity and natural gas.

ELECTRICITY AND GAS INTERCONNECTIONS WITH NEIGHBOURING COUNTRIES

Energinet is working to realise a number of new interconnections and is investigating the possibility of a gas pipeline between Denmark and Poland.



REDUCTION OF UNIT COSTS

16%

2015: 4%

TARGET 2017: 15%

Energinet is working to reduce the unit costs for construction projects by optimising processes relating to re-investment and investment in new plants.

RATE OF COST

2.1%

2015: 2.3%

TARGET 2017: 2.0%

Energinet measures the efficiency of the operation of the electricity and gas transmission grids by comparing operating expenses with the value of the transmission grids measured by the carrying amount of the assets.

TRANSMISSION

The most important Transmission activities are the planning, establishment, operation and maintenance of the transmission grids, including the electricity and gas interconnections to neighbouring countries.

Energinet ensures the efficient operation and expansion of the main electricity and gas infrastructure as well as ensuring open and equal access for all users of the grids.

Establishing and developing transmission grids that contribute to an efficient green transition require major investments. Transmission activities thus account for the largest portion by far of Energinet's total costs. Energinet's Transmission costs fell from DKK 2.0 billion in 2015 to DKK 1.8 billion in 2016.

Energy across borders

At the moment, approx. 38% of electricity consumption in Denmark is covered by wind power, and Energinet's interconnections to Norway, Sweden and Germany help to balance the Danish wind power-based electricity system. (Read more about Energinet's interconnections in the focus article on page 28).

Interconnections to our neighbouring countries benefit both consumers and generators. They give electricity generators access to a bigger market in which to sell their electricity, and they make it possible for electricity traders in a country with high electricity prices to buy electricity from a country with lower prices, concurrently with improving the security of supply by allowing imports of electricity from other countries.

Balancing wind power production and demand across borders and closer integration between electricity systems are two factors which are of decisive importance to the efficient transition to a green future. The green transition entails a number of major capital investments to create new market outlets for the increasing volumes of offshore wind power being generated while maintaining the security of supply.

Increasing volumes of wind power in the electricity system increase the need for interconnections to neighbouring countries. Together with transmission companies in neighbouring countries, Energinet is working to build electricity interconnections to the Netherlands, Germany and the UK.

In October 2016, the Danish Minister for Energy, Utilities and Climate, Lars Christian Lilleholt, and Chairman of the Supervisory Board of Energinet, Kim Andersen, cut the first sod for one of Denmark's new electricity interconnections – the COBRAcable. The 700 MW interconnection consists of two parallel, approx. 300-kilometre-long submarine cables running between Endrup near Esbjerg and Eemshaven in the Netherlands.

Energinet has also come a step closer to realising the new Kriegers Flak interconnection, which will transport the electricity generated by the future Danish 600 MW offshore wind farm to shore in Denmark and also connect the Danish wind farm to German offshore wind farms in the Baltic Sea.

In 2016, Energinet entered into an agreement on delivery of the large foundations which will carry the offshore transformer platforms. The platforms will collect the electricity generated by the future Kriegers Flak offshore wind farm, transport the electricity to shore in Denmark and connect the Danish 220 kV electricity system

PROJECTS OF COMMON INTEREST

The COBRAcable, Kriegers Flak, Viking Link and Baltic Pipe projects are all on the European Commission's list of important infrastructure projects contributing to the interconnection of the European electricity and gas grids, the so-called Projects of Common Interest (PCI). The projects have all received financial aid from the EU.

with the German 150 kV electricity system. This will lead to the establishment of an interconnection between the Eastern Danish and German electricity grids.

Finally, in 2016 Energinet and the UK TSO National Grid plc investigated the feasibility of establishing an approx. 760-kilometre-long 1,400 MW interconnection between the Revsing substation in southern Denmark and Bicker Fen in Lincolnshire in the UK.

The connection is named the Viking Link, and a final investment decision is expected to be made in 2018. (Read more about Energinet's work with the Viking Link in 2016 in the focus article on page 28).

Together with the Polish TSO GAZ-SYSTEM S.A., Energinet in 2016 started looking into the feasibility of establishing a gas pipeline between Denmark and Poland – the so-called Baltic Pipe. The project involves a pipeline between Denmark and Poland, a pipeline between the Danish gas system and the Norwegian offshore pipeline system as well as a compressor station in Denmark and Poland. (Read more about Energinet's involvement in the Baltic Pipe project in the focus article on page 28).

The COBRAcable, Kriegers Flak, Viking Link and Baltic Pipe projects are all on the European Commission's list of important infrastructure projects contributing to the interconnection of the European electricity and gas grids, the so-called Projects of Common Interest (PCI). The projects have all received financial aid from the EU.

Other investments
Expansions are also needed in the national electricity transmission grid in order to be able to maintain the high level of security of electricity supply and integrate the increasing volumes of wind power.

Among other things, in 2016, Energinet completed the installations which are to transport the electricity from the Horns Rev 3 offshore wind farm to the electricity grid. The 400 MW wind farm will be able to generate electricity for 400,000 households.

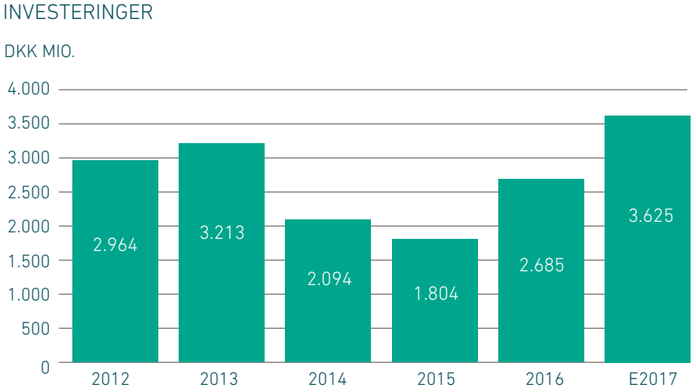
Power station capacity in Copenhagen is expected to be reduced in the coming years due to the market situation, resulting in a need for alternative electricity supply options for Copenhagen. The electricity supply for the capital must be ensured through new electricity connections as well as the replacement of obsolete cables with a view to establishing a strong and future-proof transmission grid.

Energinet has therefore undertaken an analysis of the future electricity supply of Copenhagen and how this can best be coordinated with the replacement and maintenance of and reinvestments in the 132 kV cable grid which are expected to take place in the next five to 20 years.

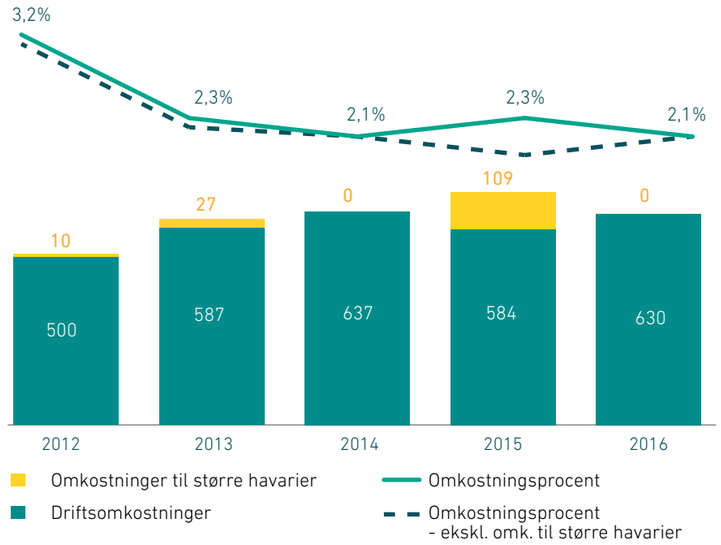
Investments in Transmission totalled DKK 2.7 billion in 2016. Energinet expects an investment level in 2017 of approx. DKK 3.6 billion.

Apple data centre
Energinet believes that the high level of security of electricity supply in Denmark is part of the reason why Apple decided to establish a large data centre near Energinet's high-voltage substation in Tjele. The decision put Denmark and the Danish transmission grid on the world map. Data centres contain a large number of servers and other IT equipment and, given their high electricity usage, they need a strong and reliable grid connection.

INVESTERINGER



DRIFTSOMKOSTNINGER OG ANLÆGSAKTIVER



Energinet will be establishing a new high-voltage substation for Apple and revising the electricity infrastructure around the station in order to maintain the highest possible level of security of supply. All expenses associated with the establishment of the data centre and its connection to the transmission grid will be borne by Apple, and the move therefore entails no additional costs for Danish electricity consumers.

Apple's decision to establish a data centre in Denmark has demonstrated a potential for attracting large-scale electricity users requiring a high degree of stability, high security of supply and favourable operating conditions. A future scenario which includes more large-scale electricity users adds a new and exciting dimension to the development of the future transmission grid.

The US company Facebook has also decided to establish a large data centre near Tietgenbyen south of Odense on Funen. Energinet has thus entered into an agreement with Facebook on the establishment of a new high-voltage substation as well as the two new electricity connections from the data centre to the high-voltage substations near Fraugde and the Fyn Power Station.

Efficiency
Energinet is obliged to carry out major investments as cost-effectively as possible, and we have therefore committed specifically to reducing the unit costs of new installations by 15% in 2017 relative to 2013.

In 2016, Energinet registered economies of DKK 374 million. This equates to a 16% reduction in unit costs, which is primarily attributable to lower unit costs for the procurement of electrical cables. Energinet expects to meet the target of efficiency improvement of 15% in 2017.

Furthermore, Energinet has defined a number of internal efficiency targets, including a target for the efficient operation of the electricity and gas transmission grids. The aim is for Energinet's operating expenses to amount to a maximum of 2% of the value of fixed assets in 2017. This is measured as the operating expenses to value of fixed assets ratio (book value of fixed assets). Energinet reduced its operating expenses from 4.2% of the value of fixed assets in 2010 to 2.1% in 2016. There were no major breakdowns in 2016.

Significant risks
From a regional, socio-economic perspective, interconnections to our neighbouring countries are a bonus although significant challenges may be involved in realising such interconnections. Firstly, several of the European TSOs are subject to various types of financial regulation, and unlike Energinet several of the TSOs are expected to generate a profit for their owners.

Secondly, investments of this nature are long-term, and predicting the economic foundation for the projects throughout their useful lives is difficult. Finally, in wanting to establish interconnections with neighbouring countries, Denmark is often up against other countries which are also keen to establish interconnections with the same country.

These challenges mean there is a risk of Denmark losing considerable socio-economic benefits and a risk of investments being postponed until solutions are found that meet the investment requirements of absolutely all parties concerned. To minimise these risks, Energinet is represented in international forums of cooperation that work for the integration of the European infrastructure and markets, including ENTSO-E, which is a legally mandated body of electricity TSOs headquartered in Brussels.

Over the next few years, a final investment decision will be made concerning the Viking Link to the UK. Before an agreement has been reached on Britain's exit from the EU, the uncertainty about Brexit and future trading with energy markets outside the EU may affect the final decision about the Viking Link connection in 2018.

1.0

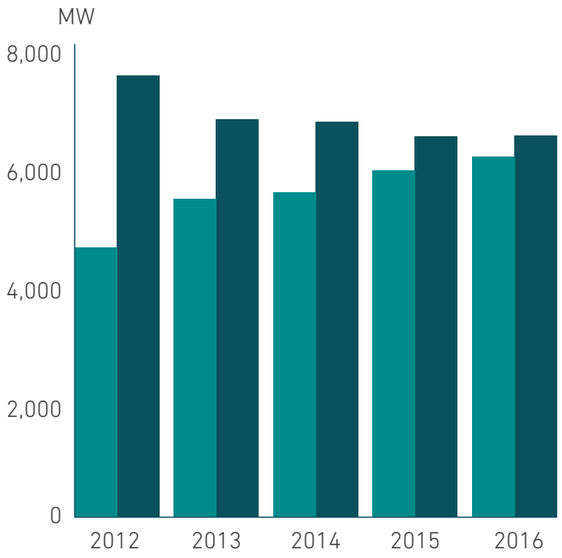
DKK BILLION

TOTAL COSTS

2015: 0.9

SYSTEM OPERATION

Energinet is in charge of the day-to-day operation of the electricity and gas systems in Denmark with a view to maintaining the security of supply.



DEVELOPMENT IN POWER STATION AND WIND TURBINE CAPACITIES

Solar and wind power (fluctuating generation)

Power stations (dispatchable generation)

The increasing number of wind turbines has put the conventional power stations under financial pressure, and several have been decommissioned in recent years. This poses new challenges in respect of Energinet's efforts to create balance in the electricity system and maintain the security of supply, regardless of whether or not the wind is blowing.

COSTS OF ANCILLARY SERVICES, ELECTRICITY

DKK MILLION

757

2015: 592

Energinet buys ancillary services in the form of spare capacity, regulating power etc in order to maintain the balance and technical quality of the electricity system.

COSTS OF EMERGENCY SUPPLIES, GAS

DKK MILLION

45

2015: 60

Energinet buys emergency supply services from the gas storage facilities and from Germany in order to secure gas supplies in the event of failures.

SYSTEM OPERATION

Through its System operation activity, Energinet is in charge of the day-to-day operation of the electricity and gas systems in Denmark.

In the electricity system, Energinet constantly balances the consumption, generation and transmission of electricity between Denmark and our interconnected neighbouring countries. The balance is maintained, among other things, through the procurement and use of ancillary services, including various types of reserve capacity.

The overall gas system is monitored round the clock to maintain supplies. To ensure sufficient gas in the event of, for example, gas supply failures, Energinet is responsible for procuring emergency supply services in accordance with applicable legislation.

New ancillary services strategy
To maintain balance in the electricity market and the overall stability of the electricity system, Energinet purchases various types of ancillary services in the form of reserve capacity and regulating power. In the event of system imbalance, Energinet also has the option of ordering the forced operation of power stations against payment.

In close dialogue with the market players, Energinet has prepared a new ancillary services strategy, as the procurement and use of ancillary services has an impact on the businesses of commercial players. With the new strategy, Energinet will contribute to optimising the level of ancillary services from a socio-economic perspective. The strategy will ensure that power stations, wind turbines, large-scale electricity consumers and other market players continue to have an interest in making their services available. The strategy focuses on internationalisation, competition and transparency.

Larger and more efficient markets open up for the supply of ancillary services from other countries and also ensure better sales opportunities for Danish electricity suppliers. Competition is promoted by providing better opportunities for new technologies and suppliers to participate in the markets, which ensures that the ancillary services are priced correctly. Greater transparency enables market players to make the most informed investment decisions.

Nordic RSC established
In 2016, Statnet, Svenska Kraftnät, Fingrid and Energinet established a joint office in Copenhagen, the so-called Nordic RSC (Regional Security Coordinator) for electricity transmission.

The new office will solve the tasks defined in the European Commission's new regulation establishing a guideline on electricity transmission system operation. The tasks include the coordination of capacity calculations, outage planning and system security analysis as well as the development of joint Nordic grid models and generation adequacy forecasts in the short and medium term across the four countries.

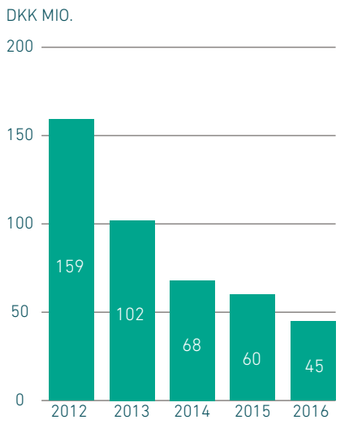
The office will be fully implemented by the end of 2017 and will predominantly be staffed by the four operators' employees. Energinet acts as the host TSO and is responsible for the establishment and ongoing operation of the office. (Read more about Energinet's Nordic RSC activities in the focus article on page 20).

Fall in gas emergency supply costs
Energinet buys emergency supply services to secure the supply of gas.

Emergency supply situations may arise due to the occurrence of extraordinary events having a substantial impact on gas supplies to Denmark. In such situations, Energinet seeks to restore the supply from other sources – for example via the emergency pipeline in the North Sea, the gas storage facilities or imports from Germany. The costs of emergency supply services in the gas system have been reduced in recent years. In 2016, the costs of gas emergency supply services totalled DKK 45 million against DKK 60 million in 2015.

Comparing the costs in 2016 with the costs in 2012, Energinet has reduced the costs by 72% during this period, primarily as a result of the changed payment model for the Syd Arne submarine pipeline and more favourable emergency supply agreements with the gas storage facilities.

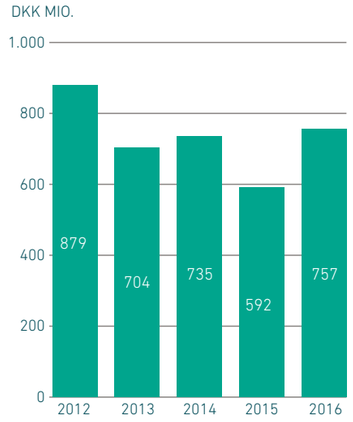
OMKOSTNINGER TIL NØDFORSYNING FOR GAS



Development in costs of ancillary services for electricity
Total System operation costs were up from DKK 0.9 billion in 2015 to DKK 1.0 billion in 2016, primarily due to the purchase of electricity ancillary services in the amount of DKK 757 million in 2016 relative to DKK 592 million in 2015. One reason was the revision of the Kyndby Power Station in September and October, which meant that Energinet had to buy highly priced manual reserves, thus pushing up the costs of manual reserves in Eastern Denmark.

However, all in all, the costs of electricity ancillary services decreased by 14% in 2016 relative to 2012, due primarily to economies obtained through the strengthening of the regional cooperation on sharing reserve capacity and fewer requests for forced operation of power stations.

OMKOSTNINGER TIL SYSTEMYDELSER FOR EL



Significant risks
Many of the installations in the 132/150 kV electricity transmission system are nearing the end of their expected useful lives. This can challenge the security of supply, since spare parts are no longer available for these installations.

At the same time, Energinet is working in various ways to ensure sufficient capacity in Eastern Denmark until 2019, as the European Commission found Energinet's call for tenders for a strategic reserve to ensure the security of supply in Eastern Denmark to be contrary to the rules on state aid.

The rupturing of submarine cables is still a significant risk as the number of submarine cables is increasing all the time. There has been a considerable focus on submarine cables in recent years, and thorough pre-establishment seabed analyses, trenching of submarine cables as well as increased communication with ships in areas with submarine cables are contributing to avoiding damage and faults on the cables.

Electricity transmission
The security of supply of electricity in Eastern Denmark is under pressure and relies on interconnections and the older installations which must transmit the electricity from the interconnections to consumers. Intense efforts are therefore going into planning and prioritising the mutual dependencies of new installations and the renovation of existing installations so as to ensure the security of supply.

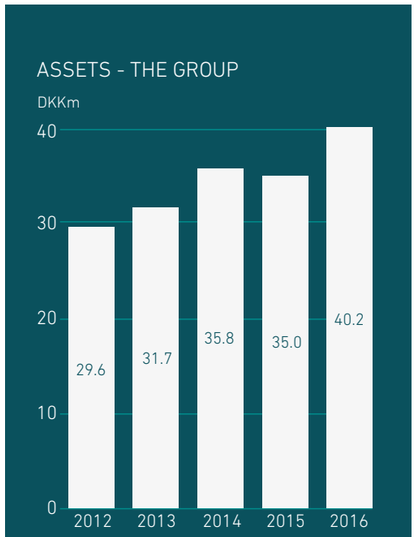
In the long term, a reduction is expected in the number of dispatchable power stations which contribute to maintaining the high security of supply of electricity.This is because the low electricity prices in Northern Europe cannot cover the power stations' electricity generation costs, which means that the power stations generate electricity for fewer and fewer hours.

The realisation of the new interconnections to other countries is contributing to supporting the power stations and thus maintaining the long-term security of supply.

Gas transmission
The permanent shutdown of the Tyra platform in 2018 will lead to challenges for the security of supply of gas in case of a longer period of extreme cold weather with a high level of gas consumption, but it will still be possible for the Danish gas system to receive gas from the North Sea, via the gas storage facilities and from Germany. Following the shutdown of Tyra, the primary sources of supply will be gas from Germany and gas from the Danish storage facilities. There will thus still be sufficient capacity in the gas system to supply the Danish and Swedish markets.

The supply situation and the status of the gas storage facilities are continuously being analysed to prevent an increased crisis level. Investigations are ongoing concerning a connection to Poland and the Norwegian offshore pipeline system as a way of minimising the long-term risk.

ASSETS - THE GROUP



In 2016, consolidated non-current assets totalled DKK 40.2 billion, including electricity infrastructure of DKK 26.9 billion, and gas transmission infrastructure of DKK 4.8 billion.

In 2016, new electricity infrastructure included Horns Rev 3, the interconnection to Germany via Kriegers Flak and the cabling of the sections Han Herred, Thy, Mors, Sallling and Storstrømmen.

Electricity Transmission operates and maintains the electricity grids, thereby ensuring that the value of the grids is maintained.

0.1

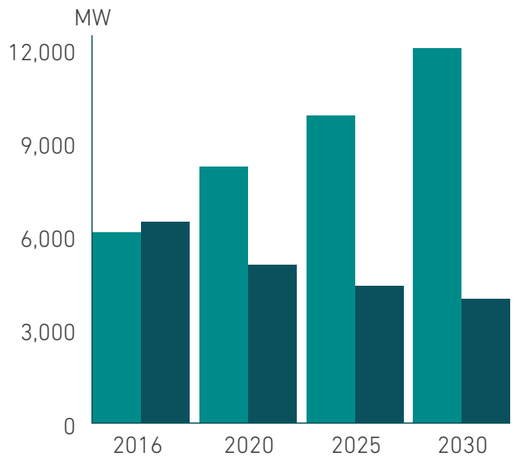
DKK BILLION

TOTAL COSTS

2015: 0.1

MARKET AND SYSTEM DEVELOPMENT

Energinet develops the Danish electricity and gas system and the related markets.



FUTURE ELECTRICITY GENERATION CAPACITY

Solar and wind power (fluctuating generation)

Power stations (dispatchable generation)

A much greater share of the future electricity generation is expected to derive from solar and wind power rather than from CHP plants.

TRADING ON GASPOINT NORDIC

68%

2015: 58%

Volume traded on the gas exchange in % of the Danish consumption.

CHANGE OF ELECTRICITY SUPPLIER

6%

2015: 7%

The share of customers who change electricity suppliers during the year.

SAME ELECTRICITY PRICE AS ABROAD

Western Denmark:	2016:	92%
	2015:	89%
Eastern Denmark:	2016:	99%
	2015:	94%

The share of hours during which the price in Denmark is the same as in one or more neighbouring countries.

MARKET AND SYSTEM DEVELOPMENT

Through its Market and system development activity, Energinet monitors and develops the electricity and gas markets with a view to ensuring well-functioning competition. The objective is, among other things, to ensure even closer integration with our neighbouring countries by creating common markets and integrated infrastructure.

The wholesale model

With the launch of the wholesale model on 1 April 2016, Denmark became the first country in Europe to take the full step of implementing a customer-centric market design with the electricity supplier as the customer's single point of access to the electricity market.

Read more about Energinet's work with the wholesale model in 2016 in the focus article on page 32.

The electricity supplier is responsible for sending a single bill to the customer covering both the distribution and purchase of electricity as well as all associated tariffs and taxes. The tariffs and taxes are collected by the electricity supplier on behalf of the grid company and Energinet, respectively.

Energinet's involvement in the implementation of the wholesale model comprised:

- Upgrading the DataHub to enable the handling of new requirements, the new division of roles and increased data volumes in the electricity market.
- Revising market and metering regulations in conformity with the new legal framework and in cooperation with the market players, including training the market players in the new market rules in cooperation with the Danish Energy Association.
- Coordinating the implementation of the new DataHub and connecting the approx. 100 external IT systems of the Danish market players.

The purpose of introducing the wholesale model is, among other things, to create the best possible conditions for competition in the electricity market through greater transparency for customers about electricity consumption and price, and through the simplification of business processes with the electricity supplier as the customer's single point of access to the electricity market.

Similarly, the DataHub and the wholesale model can contribute to creating the framework for more flexible electricity consumption, when seen in combination with the roll-out of remotely read meters, increased automation in private homes and industry as well as new services from market players. In a future characterised by increasing volumes of electricity from renewable energy sources, this will contribute to balancing the Danish electricity system and thereby to strengthening the security of supply.

Market model 2.0 – one year on

A well-functioning electricity market with healthy competition is important for both electricity generators and consumers and their ability to act in future. We will see more renewable energy, greater fluctuations in production and more hours with very high levels of electricity generation from wind turbines and solar cells. New rules and incentives must make sure that we buy more electricity when it is plentiful, and less when output is low.

Furthermore, there is a need to clarify the need and create incentives for the critical properties required to maintain electricity system stability and security and which the power stations today provide. In step with the integration of more renewable energy in the electricity system, the commissioning of

new interconnections to neighbouring countries and power stations that operate for fewer hours, needs are changing. It is therefore necessary to create new opportunities.

This was the main background against which Energinet in 2015 presented 13 specific recommendations on how to ensure capacity, flexibility and system critical properties with a view to maintaining a high level of security of supply and well-functioning markets across national borders. Energinet has now for a year spearheaded the work with 10 of the 13 recommendations with the involvement of all stakeholders, while the Danish Energy Association is responsible for three of the recommendations.

Energinet presented a status on the recommendations to the stakeholders in 2016. The conclusion is that seven of the recommendations are following the plan laid up until 2017, and three recommendations have resulted in concrete proposals for new rules and amendments which the authorities now have to consider.

However, for three of the recommendations, the solution is still not in place. This goes, for example, for Energinet's proposal for a strategic reserve as a way of maintaining the same high level of security of supply in Eastern Denmark.

Energy data
Both in Denmark and internationally, large volumes of data from the energy sector exist, but it can be difficult to access this information. Data held by Energinet include production data, consumption data, environmental data, electricity prices, analysis data and data from its own infrastructure.

Energinet has therefore decided to establish an energy database for making energy data available to everyone. It is hoped that both commercial and public players will be able to use the data for new business models and to make more informed decisions. The energy database is being created in cooperation with interested stakeholders and is expected to go live in mid-2017.

Working with Statistics Denmark, Energinet has also made it possible for researchers to access DataHub data. Many researchers, universities etc. have expressed their interest in getting access to the huge volumes of detailed data (eg hourly data) on the consumption of electricity in Denmark.

The researchers will be able to analyse and compare data from the DataHub with data from other registers, eg property data, socio-economic information etc.The DataHub is a central and independent IT system, which is owned and operated by Energinet. In addition to gathering tonnes of information about customers, consumption and prices, the DataHub handles all data communication between the players in the electricity market.

Network codes
The European Commission is working to create an internal European market for energy, and the aim is to make it easier to trade and transport electricity and gas across the borders so as to promote competition for the benefit of consumers in Denmark and the rest of Europe.

This will be achieved by implementing a number of new EU regulations establishing common European guidelines and rules with a view to creating fair competition and equal opportunities.

In May 2016, a regulation was adopted which lays down common European rules and definitions for system operation, security of supply and operational planning. The regulation provides the basis for trading electricity on market-based terms in an interconnected European electricity system and will help to ensure fair competition in the internal market for electricity as well as integration of electricity from renewable energy sources. The regulation will be directly applicable in the EU member states.

In addition, a Commission Regulation establishing a guideline on capacity allocation and congestion management has been adopted. The regulation concerns methods for calculating the planned cross-border exchange of electricity, and it has had a substantial impact on Energinet's work with ensuring the security of supply and decision-making processes together with authorities and other European transmission operators.

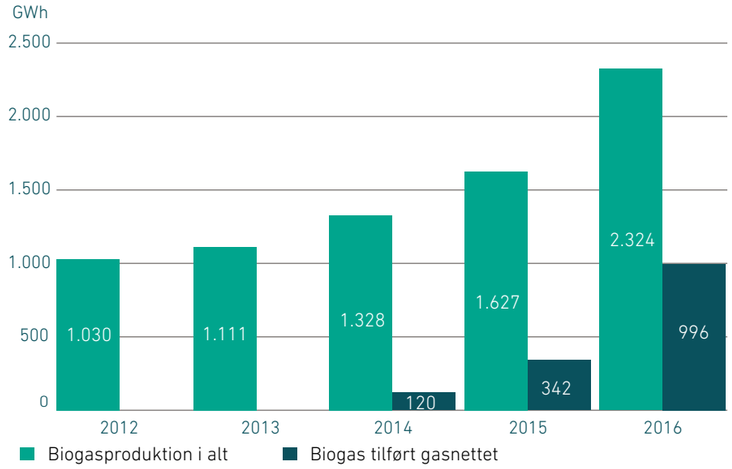
Green gas market development in Europe
Energinet has in recent years been working with certificate registries in other countries to establish a system capable of documenting the cross-border trade in green gases in the European gas network with a view to ensuring a well-functioning European market for green gases. In September 2016, this cooperation was formalised with the establishment of the European Renewable Gas Registry – ERGaR.

ERGaR is an independent European registry for green gas certificates, which contributes to the integration of the European market for green gas, where the gas can be traded efficiently and credibly across national borders. Moreover, the system makes it possible to trace the green gases through the supply chain and thus guarantee to consumers that the green value is only sold once.

The system was established jointly by the European Commission, six European countries (Denmark, France, Switzerland, the UK, Germany and Austria) as well as important European NGOs in the gas sector, including the European Biogas Association and Consortio Italiano Biogas. The Netherlands is expected to join the initiative at a later time, and ERGaR will then cover all important registers for biogas in Europe.

Energinet was asked to head the ERGaR initiative, and it is Energinet's ambition to develop the market model to enable green gas to be traded via the gas network in all sectors and across borders in the European market.

BIOGASPRODUKTION I DANMARK



Increase in biogas production
Biogas production in Denmark has been steadily increasing since 2012, and with the continuous commissioning of upgrading facilities, the volume of upgraded biogas injected into the natural gas system almost tripled from 2015 to 2016. Nineteen upgrading facilities are currently connected to the gas network, including a single installation at Bevtoft which is directly connected to the transmission grid. The facilities have a total capacity of 100 million Nm^3 a year.

In 2016, biogas accounted for approx. 3% of total gas consumption in Denmark, a figure which is expected to increase in the coming years. Based on the Danish Energy Agency's most recent forecast for the expansion of biogas and Energinet's analysis assumptions for gas consumption, the share is expected to increase to approx. 5% in 2018.

A well-functioning European gas market
The European gas market is well-functioning, and ever-increasing gas volumes are traded at market-based and transparent prices via the PRISMA platform, a pan-European capacity platform for the purchase and sale of capacity at the border points in the EU. Energinet has established the platform in cooperation with the TSOs in Austria, Belgium, Germany, France and Italy.

Energinet is responsible for ensuring an efficient and flexible gas market in Denmark as well as increased competition among the Danish and foreign players trading in gas. A good indicator of the gas market developing positively is the players' use of the gas exchange in Denmark – Gaspoint Nordic.

In 2016, approx. 10,000 transactions were completed at the exchange, and a total of 22 TWh gas was traded, representing an increase of approx. 30% over 2015. The volume traded corresponds to 68% of Danish gas consumption.

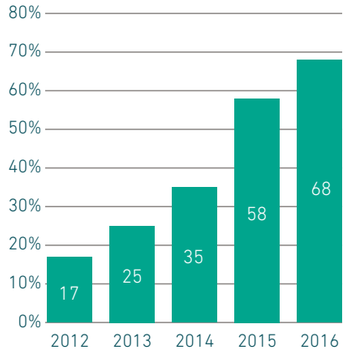
Significant risks
A high level of maturity within IT and information security is a significant prerequisite for Energinet being able to protect production, consumption, analysis and infrastructure data. It is important that these data cannot be manipulated or misused in ways which affect the security of supply and the settlement systems.

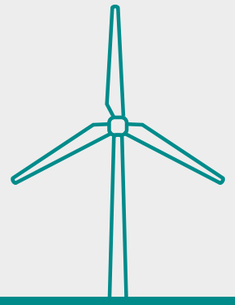
The energy industry in Denmark and elsewhere is targeted by so-called ransomware and hacker attacks, and in future we will see more threats of this kind against which Energinet must protect itself.

Energinet has therefore stepped up its efforts and upgraded its IT systems as well as its physical facilities so as to further increase information security and reduce the likelihood of hacker attacks and ransomware.

Energinet's information security maturity level was assessed by the audit and consulting firm PwC in 2016, and was deemed to have been improved from 3.1 at the end of 2015 to a maturity level of 3.6 at the end of 2016 on the so-called CMMI (Capability Maturity Model Integration) scale. Energinet's target is an improvement to a level of 4.0 in 2017.

HANDEL PÅ GASPOINT NORDIC I % AF DET DANSKE GASFORBRUG





5,247 MW

WIND POWER CAPACITY

2015: 5,072

PUBLIC ADMINISTRATION

Energinet undertakes a number of statutory tasks that contribute to strengthening environmentally friendly energy.

AVG. ELECTRICITY MARKET PRICE, DKK 0.01 PER KWH

20.6

2015: 17.6

PSO TARIFF DKK 0.01 PER KWH

23.3

2015: 22.5

STAKEHOLDER SATISFACTION WITH RE ADMINISTRATION

Energinet administers the disbursement of subsidies for, for example, solar cells and has in this context conducted a satisfaction survey among the roughly 100,000 solar cell customers. The analysis showed that 53% were satisfied or very satisfied with Energinet's administration of the area. The target is for Energinet to reach a satisfaction level of 80% in 2017.

SUBSIDIES FOR RENEWABLE ENERGY

DKK

7.4 BILLION

2015: DKK 8 BILLION

Energinet administers subsidies for wind turbines, local CHP plants as well as biomass and solar cell plants in connection with the production of environmentally friendly energy.

DEVELOPMENT IN SOLAR CELLS

850 MW

2015: 783 MW

The installed capacity for the Danish solar cell plants is now 850 MW, corresponding to the capacity of two large wind farms.

ELECTRICITY PRICE COMPOSITION

Taxes and VAT:	57%
PSO:	10%
Grid payments:	18%
Electricity price:	15%

Breakdown of USO electricity prices for consumers and enterprises in Denmark.

MANAGEMENT TASKS

Through its Management tasks activity, Energinet provides statutory funding for environmentally friendly electricity generation which cannot compete on market terms and for research and development activities within environmentally friendly electric technologies and energy efficiency measures. These tasks are known as PSOs or Public Service obligations.

Subsidies for renewable energy
In 2016, Energinet disbursed subsidies totalling DKK 7.4 billion to generators of environmentally friendly energy, DKK 3.7 billion of which related to subsidies for wind turbines, DKK 2.0 billion to subsidies for local CHP plants and DKK 1.7 billion to subsidies for the generation of electricity from biomass and solar cell plants.

In 2015, Energinet disbursed subsidies totalling DKK 8 billion, and the DKK 0.6 billion decline is primarily attributable to fewer subsidies for offshore and onshore wind turbines and local CHP plants due to higher electricity prices and a lower level of wind power generation, equivalent to DKK 1.1 billion. On the other hand, subsidies totalling DKK 1.7 billion were disbursed to generators of electricity from biomass and solar cells in 2016 against DKK 1.2 billion in 2015, the reason being an increase in the number of connected plants.

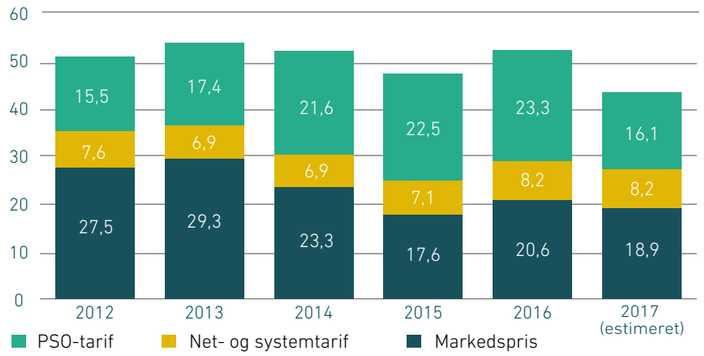
In 2017, the average PSO tariff for electricity is expected to be DKK 0.161/kWh relative to DKK 0.233/kWh in 2016. This figure factors in the effects of Growth Package 2014, which reduced the PSO tariff paid by consumers by approx. DKK 0.03/kWh, as well as the Danish government's agreement of 17 November 2016 on the abolition of the PSO tariff.

Renewable energy (RE) facilities
Energinet handles the administration of renewable energy (RE) facilities, including the administration of the subsidy scheme for solar cell plants and privately owned wind turbines producing 25 kW or less etc. In this capacity, Energinet is the point of contact for close to 100,000 customers.

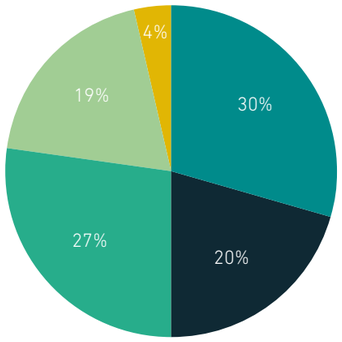
Accounting for more than 95% of the RE facilities installed, solar cell plants make up the largest share by far of these facilities, but account for a mere 5% or so of total capacity.

In 2016, 2% of Denmark's electricity consumption was covered by solar cells.

NET- OG SYSTEMTARIF, PSO-TARIF OG MARKEDSPRIS



TILSKUD TIL VEDVARENDE ENERGI



- Havvindmøller DKK 2.196 mio.
- Landvindmøller DKK 1.508 mio.
- Decentrale kraftvarmeværker DKK 2.024 mio.
- Biomasse mv. DKK 1.420 mio.
- Solceller mv. DKK 264 mio.

Temporary suspension of applications
In November 2016, the Danish Minister for Energy, Utilities and Climate tabled a bill to end all processing of applications for subsidies for new solar cell plants, privately owned wind turbines producing 25 kW or less and other RE technologies by the end of 2016.

The rationale for the bill is that the exemption granted to Denmark from the EU state aid rules expires on 31 December 2016. Given that no new solution has been devised for how to subsidise solar cells, privately owned wind turbines producing 25 kW or less etc., it will be illegal to continue subsidising new plants. Consequently, under the bill, Energinet must suspend the processing of all applications from the turn of the year.

The Danish Energy Agency will seek to win the European Commission's approval for a continuation of the subsidy schemes and the transitional rules from 2017 onwards, but, to Energinet's knowledge, no decision has been made at the time of presentation of the annual report.

PSO tariff to be replaced by funding under the Danish Finance Act
In 2014, the European Commission reviewed the EU countries' competition law rules, including the rules on state aid, and concluded that the Danish PSO system is discriminatory towards imported electricity. The European Commission argued that the Danish PSO tariff is levied on all electricity consumed in Denmark, while only the domestically generated electricity has access to the funding schemes financed by the PSO tariff.

Against that backdrop, a majority of the members of the Folketing (Danish parliament) has decided to gradually phase out the PSO tariff during the period from 2017 to 2021. Instead, subsidies for renewable energy will be funded under the Danish Finance Act in future. The PSO system will be fully abolished by 1 January 2022.

Moving administrative workplaces to the provinces
Energinet's PSO tasks were included in the Danish government's plans to move public sector workplaces to the provinces. Tasks concerning case administration and the administration of solar cell plants and wind turbines, the four wind turbine schemes, the calculation and disbursement of PSO funding to plant owners as well as the administration of the ForskEL research programme are therefore going to be moved from Fredericia to a so-called energy administration cluster in Esbjerg.

The employees will move with the tasks, which means that 34 jobs will be moved from Energinet's head office in Fredericia to Esbjerg on 1 January 2017. The employees and the tasks are expected to be transferred to the Danish Energy Agency on 1 January 2018.

Significant risks
With the transfer of the administration of subsidies for environmentally friendly energy generation to the Danish Energy Agency, Energinet needs to segregate HR resources, administrative and system processes, master data and finances by 1 January 2018. In light of the complexity of the task and its socio-economic significance, this will represent a substantial drain on Energinet's central resources in 2017. Given that PSO revenue totals DKK 9 billion, this will significantly affect Energinet's financial items.

GAS STORAGE DENMARK

NET PROFIT FOR THE YEAR
DKKM

42

2015: 60

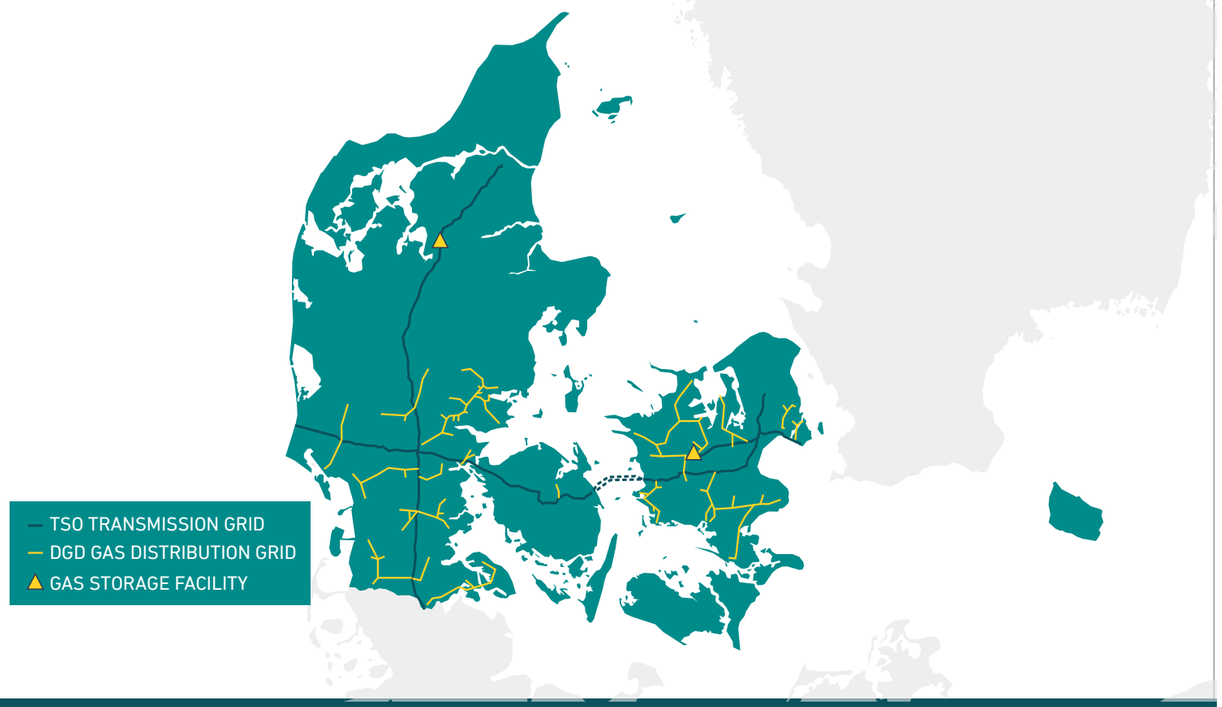
STORAGE CAPACITY AT 31 DECEMBER 2016
MILLION M3

971

2015: 1,025

COMMERCIAL ACTIVITIES

Energinet owns and manages several commercial enterprises.



DANSK GAS DISTRIBUTION A/S

CUSTOMERS

122,000

Dansk Gas Distribution A/S transports gas to approx. 122,000 customers and enterprises in Southern Jutland and Western and Southern Zealand.

KM DISTRIBUTION GRID

6,600

Dansk Gas Distribution A/S transports gas from the overall gas transmission grid to customers via approx. 6,600 kilometres of pipeline.

COMMERCIAL ACTIVITIES

Some of Energinet's business activities are undertaken on commercial terms. For instance a gas storage business, gas distribution activities and activities in fibre leasing and energy consultancy services.

Dansk Gas Distribution A/S
Energinet acquired DONG Energy's gas distribution grid in the southern part of Jutland and on South and West Zealand as at 30 September 2016.

The gas distribution grid is now operated by an Energinet subsidiary: Dansk Gas Distribution A/S. The company has just over 100 employees and some 122,000 customers. The purchase price for the company corresponds to a transfer sum of DKK 2,325 million on a debt-free basis.

The transaction is part of the political agreement on the IPO of DONG Energy. In September 2015, the Danish government, the Conservative People's Party, the Danish Social Democrats, the Radical Liberals and the Socialist People's Party decided to list DONG Energy on the stock exchange and to divest critical gas and oil infrastructure to Energinet to ensure that this infrastructure remains in public hands.

DONG Energy's gas distribution grid is being integrated in the Energinet Group as an independent company with its own organisation under the name of Dansk Gas Distribution A/S. Among other things, this means that the company with just over 100 employees and some 122,000 customers will have its own strategy, Supervisory Board and Executive Board.

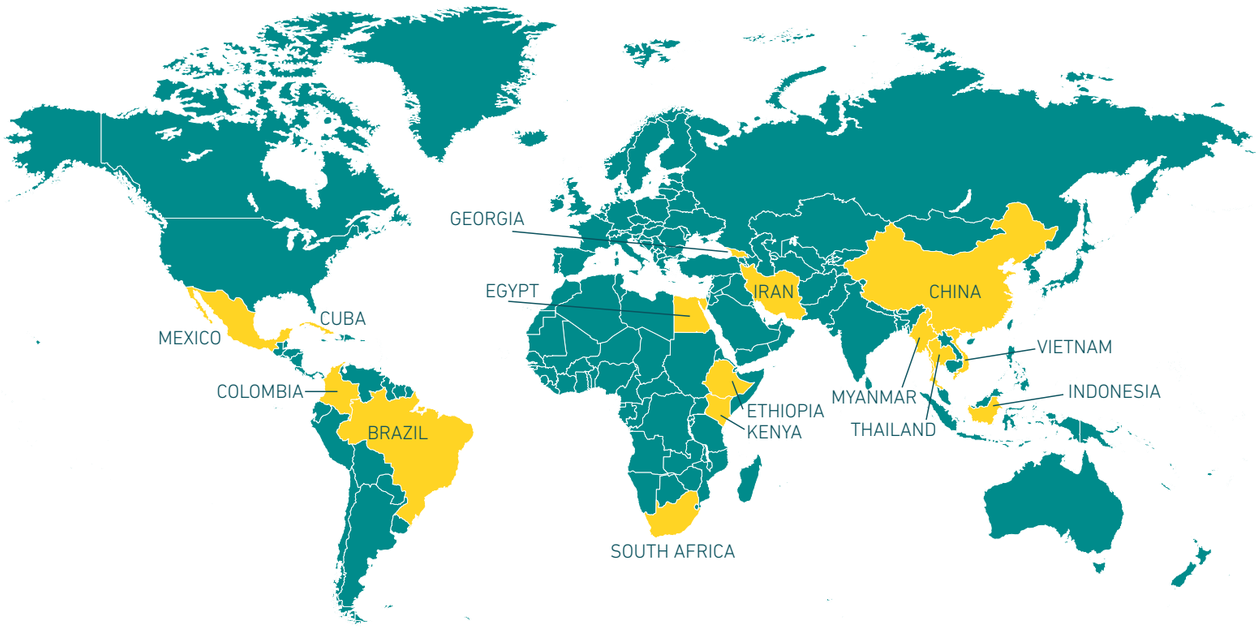
In a transitional period, Dansk Gas Distribution A/S will continue to draw on a number of services provided by its former owner in terms of customer service, customer accounts settlement etc. The transitional agreements will expire in 2017, after which time Dansk Gas Distribution A/S will be responsible for handling the tasks, supported by Energinet group functions.

In February 2016, the Danish Energy Agency published the analysis "En effektiv gassektor" (an efficient gas sector), inviting an assessment of whether to merge the current gas distribution companies into one entity. Energinet is awaiting the final assessment by the Danish Energy Agency.

Gas Storage Denmark A/S
In November 2016, the name of the Energinet gas storage facilities was changed from Energinet.dk Gas Storage A/S to Gas Storage Denmark A/S, and the facilities were given a new visual identity.

Gas Storage Denmark A/S has access to both Danish underground natural gas storage facilities and sells storage and flexibility services in the northwestern European market. The storage facilities are important to the Danish security of gas supply and help to ensure that private homeowners, businesses and power stations always have access to the necessary gas for heating, electricity generation etc.

In 2016, the capacity of the two storage facilities was sold out before the start of the storage year, which goes from 1 May 2016 to 30 April 2017. The capacity was sold at an average price of EUR 1.7 per MWh, which is higher than expected. The reason is better price conditions in the gas forward markets in Germany and the Netherlands than predicted by earlier forecasts.



However, market prices of capacity are still relatively low compared with previous years, and the percentage of longer-term sales contracts (which used to be concluded at a higher fixed price) is smaller in 2016.

Energinet.dk Associated Activities A/S
Associated Activities A/S leases out antenna positions in high-voltage towers and unused capacity in the optical fibre cables established in connection with Energinet's electrical overhead lines and cables. The company also sells energy consultancy services in other countries within Energinet's core areas of expertise with special focus on activities supporting Danish political and commercial interests abroad.

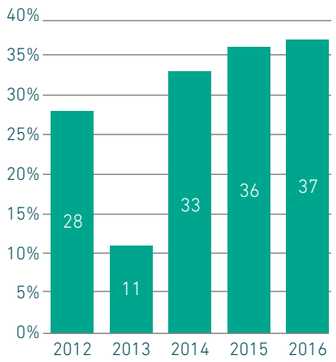
Consultancy services are provided under the auspices of Energinet.dk Associated Activities A/S under the name Energinet.dk Energy Consultancy A/S.

In 2016, the consultancy business undertook a variety of consultancy and teaching assignments in the field of development and operation of electricity systems and markets as well as effective integration of wind power in China, Indonesia, Vietnam, Myanmar, Thailand, Iran, Egypt, Ethiopia, Kenya, South Africa, Georgia, Mexico, Cuba, Colombia and Brazil.

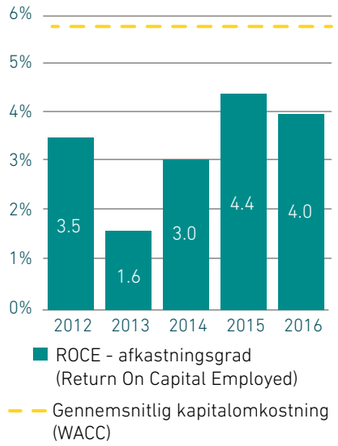
Financial results
Revenue from commercial activities increased by DKK 298 million from 2015 to 2016, driven by the acquisition of Dansk Gas Distribution A/S, which contributes revenue of DKK 262 million. Dansk Gas Distribution A/S was acquired as at 30 September 2016 and thus is included in the consolidated annual report only for one quarter.

The total profit for commercial activities is DKK 21 million, or DKK 51 million lower than in 2015. The main reason is a lower profit in Gas Storage Denmark A/S due to continued low market prices for storage services, despite positive

SOLIDITETSGRAD FOR GAS STORAGE DENMARK A/S



ROCE - AFKASTNINGSGRAD FOR GASLAGERFORRETNINGEN



trends. Also, the percentage of longer-term sales contracts (which used to be concluded at a higher fixed price) was smaller in 2016 than in 2015.

Gas Storage Denmark A/S is measured using the ROCE and solvency ratios. In 2016, ROCE was 4.0% compared with 4.4 % in 2015. The solvency ratio increased from 36% at the end of 2015 to 37% at the end of 2016.

Results of the gas distribution business are impacted by the fact that only one quarter is included in the annual report and by the incurrence of a number of start-up and integration costs in connection with the acquisition.

Results of Energinet.dk Associated Activities A/S are equivalent to those achieved in 2015.

The commercial activities are expected to generate a net profit of DKK 0-100 million in 2017.

Significant risks
Energinet has initiated a maintenance programme for the storage facility at Lille Torup, the purpose of which is to replace pipes, safety valves etc. to protect the seven caverns from, for example, corrosion damage. In 2016, Energinet initiated the renovation of the third cavern, which was filled with water to ensure that no gas is present when welders and other workers carry out their work in connection with the renovation. When the renovation work is complete, the cavern will be emptied of water, which is then discharged into the Limfjord. The Danish Environmental Protection Agency has authorised the discharge.

However, a number of associations and organisations have complained about the authorisation, and this has resulted in the Danish Environmental Board of Appeal deciding to disallow the discharge of the saline water from the cavern into the Limfjord.

Consequently, the cavern is still filled with water and has not been commissioned before the heating season as planned, which negatively affects the company's revenue in both 2016 and 2017. Energinet assesses that if the cavern is not emptied of water, the facility at Lille Torup is looking at a future loss equivalent to the value of the lost capacity, ie about one seventh of the carrying amount or approx. DKK 200 million.

Energinet is looking into alternative solutions for removing the water from the cavern. The structure of the gas storage facility at Stenlille is different, and the risk exclusively relates to the gas storage facility at Lille Torup.

GOVERNANCE

READ ABOUT ENERGINET'S MANAGEMENT AND ABOUT ENERGINET'S PERFORMANCE OF ITS CORPORATE SOCIAL RESPONSIBILITY.

GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

Energinet's management values are consistent with the corporate governance principles and the Danish government's ownership policy.

FRAMEWORK

External framework:

- Public authority requirements and legislation
- Agreements and recommendations

Internal framework:

- Articles of association of Energinet
- Policies and principles
- Certifications and approvals
- Administrative basis

MANAGEMENT STRUCTURE

Minister for Energy, Utilities and Climate

↕

Supervisory Board

↕

Executive Board

↕

Organisation

CONTROL

External controls:

- Auditor General and PwC (external and internal audit)
- Danish Energy Agency (inspectorate)
- Danish Energy Regulatory Authority (finances and methods)

Internal controls:

- Target management
- Risk management
- Control activities

EMPLOYEE SATISFACTION

75

TARGET 2017: 76

The employee satisfaction score of 75 concerns 2015. Energinet expects to carry out a survey in 2017, where the target is an employee satisfaction score of 76.

ABSENCE DUE TO ILLNESS

2.2%

TARGET 2017: 2.0%

No. of hours of absence due to illness relative to the number of contractual working hours.

OCCUPATIONAL INJURIES

6.4

TARGET 2017: 2.0

No. of lost-time injuries per million working hours among own staff and external contractors

GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

Energinet's raison d'être is to serve the interests of society. This is reflected in the external framework of the enterprise, in the organisation's approach to governance and in the way in which we practise our corporate social responsibility.

Governance
Energinet is an independent public enterprise owned by the Danish Ministry of Energy, Utilities and Climate. The owner has ultimate authority over the enterprise within the framework laid down in legislation, and exercises its ownership rights in pursuance of the guidelines provided in the Danish Act on Energinet.dk (***Lov om Energinet.dk***), in the Danish Executive Order on the Financial Regulation of Energinet.dk (***Bekendtgørelse om økonomisk regulering af Energinet.dk***) and in the Danish government's ownership policy of 2015.

Management structure
Energinet is owned by the Danish state, represented by the Minister for Energy, Utilities and Climate. Energinet's management structure consists of the Supervisory Board and the Executive Board. The two bodies are independent of each other, and no one person is a member of both bodies.

It is important that the owner is continuously briefed on the enterprise's operations and the challenges it is facing. This briefing takes place, among other things, at quarterly meetings with the Minister for Energy, Utilities and Climate, the Chairman of the Supervisory Board and other Supervisory Board members and Executive Board members, as required. In addition, strategy seminars and dialogues about the approval of major investments etc. are also held.

Supervisory Board
On behalf of the owner, the Supervisory Board decides the overall strategy and actively contributes to developing the enterprise. The Supervisory Board supervises the Executive Board's decisions and transactions. The Supervisory Board consists of eleven members, eight of whom are appointed by the Minister for Energy, Utilities and Climate, while three members are elected by the employees.

Ten Supervisory Board meetings were held in 2016. To ensure that the Supervisory Board is kept sufficiently well-informed of Energinet's operations, the Executive Board participates in board meetings and has the right to speak, but has no voting rights. However, the Executive Board does not participate during the consideration of items on the agenda which are reserved for the Supervisory Board's internal discussions at the meetings.

Corporate governance
Corporate governance is an issue which Energinet's Supervisory Board continuously discusses. Corporate governance is a dynamic process in the course of which Management continuously assesses the need for changes.

Energinet has described its compliance with and reasons for deviating from the Danish Recommendations on Corporate Governance in accordance with Section 107 b of the Danish Financial Statements Act (***Årsregnskabsloven***). Moreover, the enterprise's obligations in accordance with the Danish government's ownership policy of 2015 have been described. Read more at *www.energinet.dk/god-selskabsledelse*.

Stakeholder Forum
In addition to the interaction with its owner, Energinet also has an advisory Stakeholder Forum. The Stakeholder Forum is appointed by the minister and submits opinions to the minister on the enterprise's overall strategies and plans with a view to supporting its development.

Corporate social responsibility
Energinet's raison d'être is to serve

CORPORATE SOCIAL RESPONSIBILITY

Energinet's overall reporting on corporate social responsibility in accordance with Section 99 a of the Danish Financial Statements Act and on the under-represented gender in accordance with Section 99 b of the Danish Financial Statements Act can be found at *www.energinet.dk/samfundsansvar2016*(in Danish).

the interests of society and pursue the political objectives adopted from time to time by the Danish government and the Folketing (Danish parliament) and for which we are mandated by the legislation governing Energinet's operations. Thus, corporate social responsibility is fully embedded in our mission: Reliable energy for society. In everything Energinet does, it must ultimately serve the best interests of society and be responsible to society.

Social responsibility is part of our corporate DNA, and at Energinet we endeavour to ensure that this permeates all our activities. Externally, we seek to be a unifying force in the green transition, and we are working to develop follow-up tools, for example within supplier management. Internally, we strive to maintain and improve our performance in terms of improving job satisfaction, reducing absence due to illness and minimising the number of occupational injuries.

Openness, dialogue and involvement
Energinet believes that the success of an economically viable green transition hinges on cooperation in all parts of the value chain. Therefore, we place emphasis on involving relevant stakeholders in our processes and on being dialogue-oriented in our development and open about our choices.

In 2016, this approach was reflected in our work with citizen involvement in construction projects, among other things. In June, Energinet won the RGI (Renewables Grid Initiative) 'Good Practice of the Year' award for our early involvement of landowners in cable laying. "The award motivates us to continue our line of creating a close and constructive partnership with the citizens affected by our projects", says Marian Kaagh, Head of QHSE at Energinet.

Employees
Employee well-being is key to the enterprise, and we have defined specific targets for employee satisfaction and absence due to illness. At Energinet, absence due to illness is relatively low, and our target is for absence due to illness to be below 2 per cent.

In 2016, Energinet focused on stress prevention and the achievement of a better work-life-balance, all in close partnership with Energinet's professional association for academics. The efforts took the form, for instance, of leadership training, providing participants with more effective tools for engaging in dialogue with employees faced with excessive work pressure; go-home meetings focusing on work-life-balance; and a course in mental health and safety for occupational health and safety representatives. "These efforts have raised the organisation's awareness of our shared responsibility for job stress prevention, and they will continue in 2017", says Dorthe Vinther, Vice President, HR at Energinet.

Health and safety at work
Energinet works with health and safety, internally and externally. As TSO (Transmission System Operator), we are responsible for major construction projects, and in that capacity we hire large numbers of employees to work in a potentially risky environment. As part of our strategy plan, we have defined targets for the number of occupational injuries, and we are continuing our efforts to reduce the number. "In 2016, we launched a number of initiatives and campaigns to improve safety and occupational health and safety awareness, both internally and among the contractors working for us", says Jesper Dahl Vittrup, group leader of the HSE coordinators in Energinet.

In 2016, Energinet recorded an increase in the number of occupational injuries per million working hours. In 2017, Energinet will continue its systematic efforts to minimise the number of occupational injuries.

Anti-corruption
Energinet has a whistle-blowing scheme, one aim of which is the prevention of corruption. Through this scheme, suspected violations of the Code of Conduct, financial fraud etc. can be reported anonymously. The scheme entered into force on 1 August 2012. No incidences were reported via the scheme in 2016.

Code of conduct
Each year, Energinet purchases products and services totalling more than DKK 2 billion, and part of this procurement takes place in international markets. Through socially responsible procurement, we want to demonstrate our commitment to the UN Global Compact. To that end, we have issued a Code of Conduct for suppliers under which they commit to the principles of the Global Compact.

Remuneration of Executive Board in 2016

DKKm	Fixed salary	Pension	Other payments	2016, total	2015, total
Peder Ø. Andreasen	3.4	0.5	0.1	4.0	4.0
Torben Glar Nielsen	1.8	0.3	0.3	2.4	2.2
Torben Thyregod	2.8	0.0	0.2	3.0	2.9
Executive Board, total	8.0	0.8	0.6	9.4	9.1

Remuneration of the Supervisory Board in 2016

DKK '000	Fixed salary per member	Pension	Other payments	2016, total	2015, total
Chairman	400	0	0	400	400
Other 10 members	125	0	0	1,250	1,250
Supervisory Board, total	-	-	-	1,650	1,650

Remuneration of the Stakeholder Forum in 2016

DKK '000	Fixed salary per member	Pension	Other payments	2016, total	2015, total
Chairman	35	0	0	35	35
Other 24 members	0	0	0	0	0
Stakeholder Forum, total	-	-	-	35	35

The Chairman of the Supervisory Board proposes the remuneration for the Executive Board members, which must subsequently be approved by the Supervisory Board. Each year, the remuneration is compared with remuneration levels in similar large Danish enterprises.

The remuneration for the Supervisory Board is a fixed basic remuneration. The remuneration is determined by the enterprise's owner.

The chairman of the Stakeholder Forum receives an annual remuneration. No remuneration is paid to other members of the Stakeholder Forum, but they have their travel expenses reimbursed according to vouchers submitted.

Transactions with related parties
A member of the Executive Board has received DKK 134k for wind power supplied from his privately owned wind turbine in accordance with the applicable rules.

SUPERVISORY BOARD MEMBERS WHO RETIRED FROM THE SUPERVISORY BOARD IN 2016

RETIRING CHAIRMAN

NIELS FOG

MSc (Economics and Business Administration) and businessman.

Appointed to the Supervisory Board by the minister on 24 August 2005, reappointed on 1 May 2007, 1 May 2008, 1 May 2010, 1 May 2012 and 1 May 2014.

Retired at the end of the appointment term on 16 May 2016.

BIRGITTE KIÆR AHRING

MSc (Biology), PhD, Professor of Biotechnology at Aalborg University.

Appointed to the Supervisory Board by the minister on 24 August 2005, reappointed on 1 May 2007, 1 May 2008, 1 May 2010, 1 May 2012 and 1 May 2014.

Retired at the end of the appointment term on 16 May 2016.

PER SØRENSEN

Engineer, Diploma in Economics.

Appointed to the Supervisory Board by the minister on 1 May 2010, reappointed on 1 May 2012 and 1 May 2014.

Retired at the end of the appointment term on 16 May 2016.

POUL ERIK MORTHORST

MSc (Economics), Professor, DTU Management Engineering, Risø.

Appointed to the Supervisory Board by the minister on 24 August 2005, reappointed on 1 May 2007, 1 May 2008, 1 May 2010, 1 May 2012 and 1 May 2014.

Retired at the end of the appointment term on 16 May 2016.

CARL ERIK MADSEN

Electronics Engineer, Relay Technician in Electricity Transmission.

Employee-elected; joined the Supervisory Board on 24 August 2007, reelected on 24 August 2011 and 24 August 2015.

The term of office expires on 23 August 2019.

Other directorships:

- None.

HANNE SØNDERGAARD

CMO/Executive Vice President, Marketing & Innovation, Arla Foods

Appointed to the Supervisory Board by the minister on 1 November 2010, reappointed on 1 May 2012, 1 May 2014 and 1 May 2016.

The appointment expires on 30 April 2018.

Other directorships:

- Chairman of the Board of Directors of Annelise og Tage Søndergaards Fond, Ejendomsselskabet af 2/1 1989 Esbjerg and Tage Søndergaard Holding A/S
- Member of the Board of Arla Fonden
- Member of DTU's Board of Governors, from 1 January 2017
- CEO of Andelssmør a.m.b.a.

HANS DUUS JØRGENSEN

Former President and CEO

Appointed to the Supervisory Board by the minister on 17 May 2016.

The appointment expires on 30 April 2018.

Other directorships:

- Member of the Board of Directors of N.C. Miljø A/S
- Executive Board and Board of Directors of Kirkelte ApS

KIM ANDERSEN
CHAIRMAN

Former Danish MP

Appointed to the Supervisory Board by the minister on 17 May 2016.

The appointment expires on 30 April 2018.

Other directorships:

- Chairman of the Folketing South Schleswig Committee
- Member of the Board of Directors of *Fregatten Jylland*
- Member of the Board of Directors of Pensionskassen P1951
- Committee of Representatives of Djurslands Bank A/S
- Denmark's representative on the Freedom of Movement Council under the Nordic Council of Ministers.

LARS CLAUSEN

CEO, Dansk Olieselskab A/S

Appointed to the Supervisory Board by the minister on 17 May 2016.

The appointment expires on 30 April 2018.

Other directorships:

- Member of the Board of Directors of Datacon A/S
- Senior advisor, QVARTZ P/S

HANS SIMONSEN

Engineer, Diploma in Economics.

Appointed to the Supervisory Board by the minister on 1 May 2012, reappointed on 1 May 2014 and 1 May 2016.

The appointment expires on 30 April 2018.

Other directorships:

- Member of the Board of Directors of Folker A/S.

NIELS BERGH-HANSEN

Former President and CEO

Appointed to the Supervisory Board by the minister on 17 May 2016.

The appointment expires on 30 April 2018.

Other directorships:

- Deputy chairman of the Port of Aabenraa
- Member of the Board of Directors of Meldgaard Holding A/S

RASMUS MUNCH SØRENSEN

MSc in Engineering, Energy Analyst, System Development and Electricity Market

Employee-elected; joined the Supervisory Board on 24 August 2015.

The term of office expires on 23 August 2019.

Other directorships:

- Executive Board and Board of Directors of *Mølkær Angus*

BERIT SCHILLING

Settlement Coordinator, Finance and Market Operation

Employee-elected; joined the Supervisory Board on 1 March 2013, re-elected on 24 August 2015.

The term of office expires on 23 August 2019.

Former member of the Supervisory Board from 24 August 2007 to 23 August 2011.

Other directorships:

- None.

CHARLOTTE MØLLER

MSc (Economics), Vice President, Corporate Affairs & Compliance, PFA Pension

Appointed to the Supervisory Board by the minister on 1 May 2013, reappointed on 1 May 2014 and 1 May 2016.

The appointment expires on 30 April 2018.

Other directorships:

- Member of the Board of Directors of PFA Bank A/S, PFA Asset Management A/S and PFA Kapitalforening.
- Comittee of Representatives of Lån & Spar Bank A/S

PETER MØLLGAARD

MSc (Economics), PhD, Dean of Research at Copenhagen Business School.

Appointed to the Supervisory Board by the minister on 24 August 2005, reappointed on 1 May 2007, 1 May 2008, 1 May 2010, 1 May 2012, 1 May 2014 and 1 May 2016.

The appointment expires on 30 April 2018.

Other directorships:

- Chairman of the Board of Directors of Egmont H. Petersens Kollegium
- Member of the Board of Directors of Foreningen MADE – Manufacturing Academy of Denmark

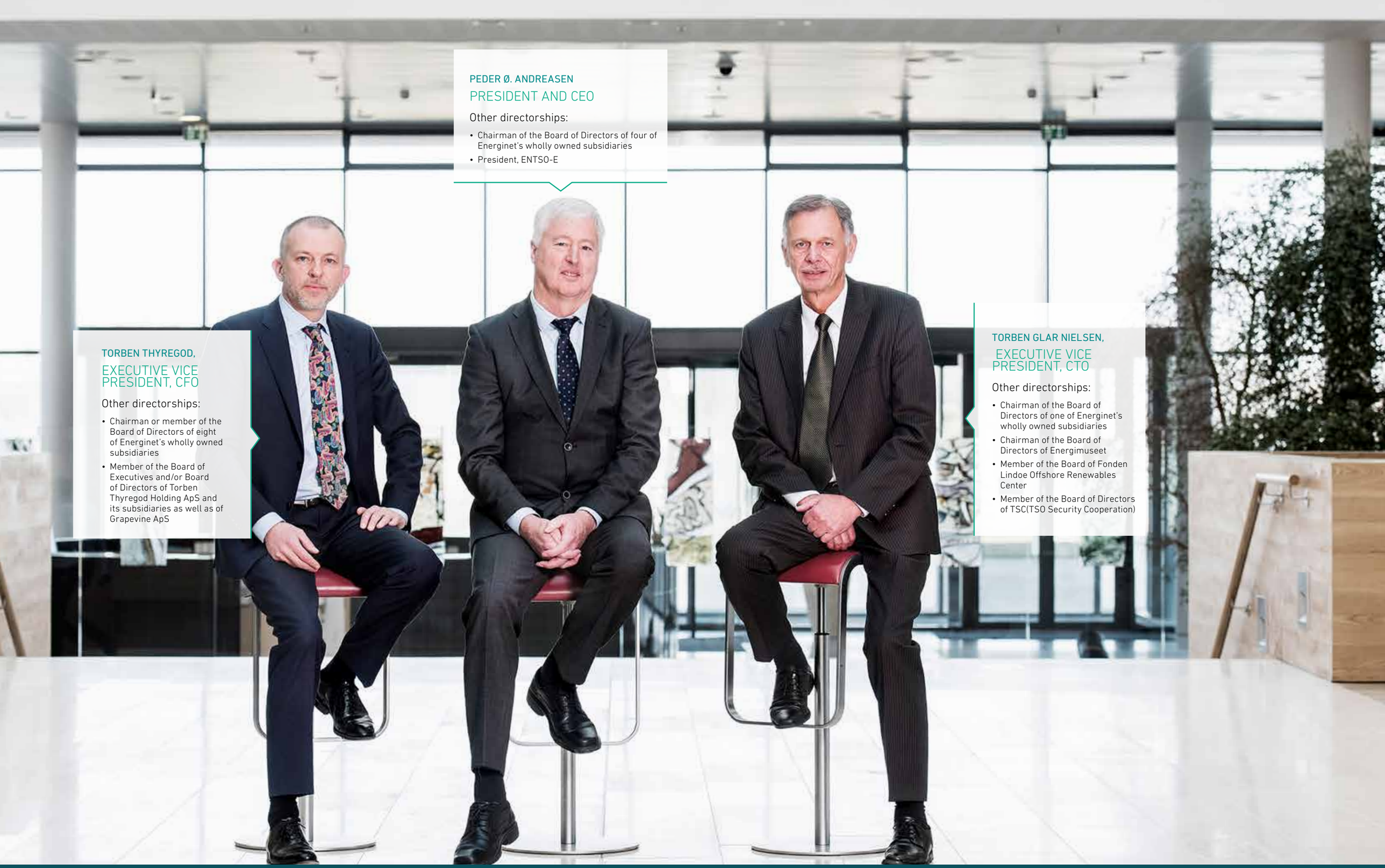
SUPERVISORY BOARD

On behalf of the owner, the Supervisory Board decides the overall strategy and actively contributes to developing the enterprise. The Supervisory Board supervises the Executive Board's transactions.

The Supervisory Board consists of eleven members, eight of whom are appointed by the Minister for Energy, Utilities and Climate, while three members are elected by the employees. Employee-elected members of the Supervisory Board, who are elected for four-year terms, have the same rights, obligations and responsibilities as the other Supervisory Board members.

The Supervisory Board's overall competency profile covers the following areas:

- Strategy and business development
- Business management
- Finance, economy and risk management
- Regulatory conditions
- Organisational conditions
- Consumer conditions
- Competitive conditions
- Research environments
- Sector knowledge
- Energy systems, nationally and internationally
- Specific knowledge of the Danish electricity and gas systems



PEDER Ø. ANDREASEN

PRESIDENT AND CEO

Other directorships:

- Chairman of the Board of Directors of four of Energinet's wholly owned subsidiaries
- President, ENTSO-E

TORBEN THYREGOD,

EXECUTIVE VICE PRESIDENT, CFO

Other directorships:

- Chairman or member of the Board of Directors of eight of Energinet's wholly owned subsidiaries
- Member of the Board of Executives and/or Board of Directors of Torben Thyregod Holding ApS and its subsidiaries as well as of Grapevine ApS

TORBEN GLAR NIELSEN,

EXECUTIVE VICE PRESIDENT, CTO

Other directorships:

- Chairman of the Board of Directors of one of Energinet's wholly owned subsidiaries
- Chairman of the Board of Directors of Energimuseet
- Member of the Board of Fonden Lindoe Offshore Renewables Center
- Member of the Board of Directors of TSC(TSO Security Cooperation)

EXECUTIVE BOARD

The Executive board is in charge of the day-to-day management of the company in accordance with the guidelines and directions issued by the Supervisory Board.

STAKEHOLDER FORUM

Energinet has a Stakeholder Forum, consisting of 25 external representatives from the electricity, gas and heating sectors, NGOs and research environments. Energinet's Stakeholder Forum is a statutory part of the management of the enterprise.

Members of the Stakeholder Forum are appointed by the Minister for Energy, Utilities and Climate on the recommendation of a number of organisations. The Stakeholder Forum has a key role in ensuring that, in its overall planning, Energinet considers the challenges faced by the energy sector and society.

The Stakeholder Forum has no formal decision-making power, but submits opinions to the management of Energinet concerning the company's overall strategies and plans with a view to supporting the company's operations. The Stakeholder Forum convenes twice a year for full-day meetings.

In 2016, the Stakeholder Forum submitted two opinions to the management of Energinet, focusing on the following recommendations:

- It remains imperative that Energinet is responsible for the task of providing independent data and analysis.
- The Stakeholder Forum takes note of the Danish government's wish to change Energinet's economic regulation and investment governance. The Stakeholder Forum emphasises that infrastructure expansions should still be based on socio-economic assessments.

For more information about the Stakeholder Forum and its opinions, see Energinet's website: *www.energinet.dk/en/interessentforum*

CHAIRMAN
ANNE GRETE HOLMSGAARD
CEO, BioRefining Alliance

MEMBERS
ALLAN KJERSGAARD
Consultant, Danish Waste Association

BIRGITTE HALDRUP
Energy Expert, Kinect Energy Group A/S

BIRGITTE HAURUM
CFO, Scanenergi A/S

BIRTE HOLST JØRGENSEN
Deputy Head of Department, DTU Management Engineering

CHRISTIAN KJÆR
Manager, Danish Wind Turbine Owners' Association

ERIK NØRREGAARD HANSEN
Manager, Association of Danish CHP Enterprises (***Foreningen af Danske Kraftvarmeværker***)

FREDE HVELPLUND
Professor, Aalborg University

GUNNAR BOYE OLESEN
Energy Policy Coordinator, ***Vedvarende-Energi*** (Danish energy organisation)

HENRIK LILJA
Energy-political Consultant, Danish Federation of Small and Medium-Sized Enterprises

JACOB ØSTERGAARD
Professor, Head of Centre, DTU Electrical Engineering

JENS ASTRUP MADSEN
Head of Department, Danish Agriculture & Food Council

JENS HOFF
Professor, University of Copenhagen

JETTE MILLER
CEO, The Free Energy Companies

KIM MORTENSEN
CEO, Danish District Heating Association

LENE ERTNER
Head of Division, Association of Professional Technicians Zealand, Ringsted

LOUISE HAHN
Vice President of Sales B2B, DONG Energy

MARTIN GROTH HJELMSØ
Special Advisor, Secretariat of the Danish Economic Councils

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Head of Division, Danish Energy Association

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TROELS RANIS
Deputy Director, DI Energy

ULRIK STRIDBÆK
Head of Group Regulatory Affairs, DONG Energy A/S

FINANCIAL STATEMENTS

READ ENERGINET'S FINANCIAL REVIEW AND FINANCIAL STATEMENTS.

FINANCIAL REVIEW

The financial statements account for the income and expenses included in the tariffs collected from the consumers.

CONNECTION BETWEEN ACTIVITIES AND TARIFFS

BUSINESS ACTIVITY TRANSMISSION	GRID TARIFF	VOLUME AND CAPACITY TARIFFS	
BUSINESS ACTIVITY SYSTEM OPERATION	SYSTEM TARIFF	EMERGENCY SUPPLY TARIFF	
BUSINESS ACTIVITY MARKET AND SYSTEM DEVELOPMENT	GRID AND SYSTEM TARIFFS	VOLUME AND CAPACITY TARIFFS	
BUSINESS ACTIVITY MANAGEMENT TASKS	GRID AND SYSTEM TARIFFS	VOLUME AND CAPACITY TARIFFS	PSO TARIFF
SEGMENTS	ELECTRICITY SYSTEM (TRANSMISSION)	GAS SYSTEM (TRANSMISSION)	ENVIRONMENTALLY FRIENDLY ENERGY – PSO

NET LOSS FOR THE YEAR
DKK MILLION

-143

2015: -54

The net loss for the year is considered satisfactory.

BALANCE SHEET TOTAL
DKK BILLION

44.6

2015: 39.1

The balance sheet total increased primarily as a result of the acquisition of DONG Gas Distribution A/S

EXCESS REVENUE
DKK MILLION

1,233

2015: 489 DEFICIT

The accumulated excess revenue at 31 December 2016 is DKK 318 million.

FINANCIAL REVIEW

Energinet's value creation and fulfilment of strategic objectives take place on the basis of the activities described on the previous pages. The enterprise's income stems primarily from tariffs, which are subject to special legislation and supervision. The financial statements and the notes are prepared on the basis of these principles.

With the exception of the enterprise's commercial activities, Energinet is subject to a break-even principle for all tariffs. The results for the year therefore consist solely of the statutory return on the contributed capital, the profit or loss from commercial activities as well as other adjustments not included in the tariffs in coming years.

Temporary differences between income received and expenses paid are considered as either receivables from or debt to consumers – also called excess revenue/deficit – and therefore do not affect the net profit or loss for the year.

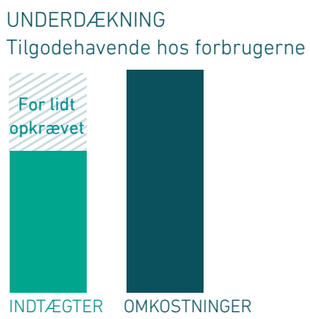
Electricity system
In 2016, excess revenue of DKK 198 million was realised, mainly as a result of net income in connection with the exchange of regulating power with neighbouring countries. In 2017, the tariffs are on a par with 2016.

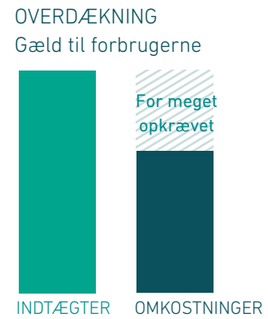
Environmentally friendly energy – PSO
In 2016, excess revenue of DKK 1,027 million was realised, mainly as a result of rising market prices of electricity which has reduced the payment of subsidies for renewable energy production. In 2017, the tariff is expected to fall by approx. 30% to DKK 0.161 per kWh, chiefly as a result of the commercial PSO relaxation from Growth Package 2014 as well as the Danish government's agreement of 17 November 2016 on the abolition of the PSO tariff.

Commercial activities
In 2016, the net profit for the year amounted to DKK 21 million against DKK 64 million in 2015, primarily as a consequence of lower selling prices for the capacity in the gas storage facilities.

The profit is also affected by the acquisition of DONG Gas distribution A/S at 30 September 2016, which is included in the financial statements with the results for the last three months of the year.

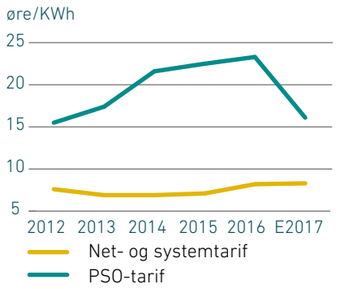
Gas system
A DKK 24 million deficit was realised in 2016, based primarily on the settlement of excess revenue from previous years. In 2016, the average capacity tariff is expected to increase from DKK 11.64/kWh/h/year to DKK 12.95/kWh/h/year, corresponding to an increase of approx. 11%.





The volume tariff is expected to increase from DKK 0.00336/kWh in 2016 to DKK 0.00381/kWh in 2017, corresponding to approx. 13%. The weighted average emergency supply tariff is also expected to rise in 2017 as the last years' excess revenue has now been settled.

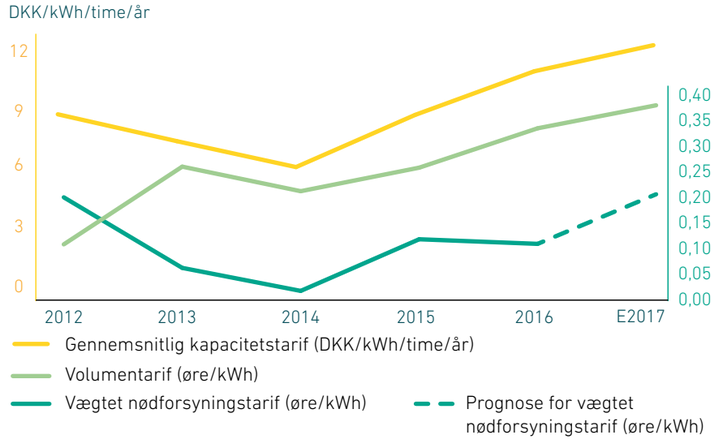
ELTRANSMISSIONSTARIFFER (LØBENDE PRISER)



Outlook 2017
The Energinet Group expects the cost and investment level in 2017 to be on a par with 2016. At present, a net profit of DKK 0-200 million is expected. This expectation is based on the existing business activities.

Events after the balance sheet date
No significant events have occurred after the balance sheet date that affect the fair presentation at 31 December 2016 of the Group's and the parent's assets, liabilities and financial position and the results of the Group's and the parent's activities.

GASTRANSMISSIONSTARIFFER (LØBENDE PRISER)



CONSOLIDATED INCOME STATEMENT

Note	DKKm	2016	2015
	Tariff revenue, grid and system	2,705	2,319
	Tariff revenue, PSO	7,945	7,437
	Tariff revenue, gas transmission	428	310
	Tariff revenue, gas distribution	256	0
	Congestion rents	413	552
	Fee income for balancing the electricity system	49	150
	PSO relaxations	1,095	967
	Commercial revenue	275	299
	Other revenue	215	330
1	Revenue	13,381	12,364
2	Excess revenue/deficit *	-1,233	489
	EU grants	270	35
	Other operating income	-6	16
	Total income	12,412	12,904
	External expenses	-10,062	-10,633
3	Staff costs	-460	-393
	Total costs	-10,522	-11,026
4	Depreciation and amortisation of and impairment losses on tangible fixed assets and intangible assets	-1,647	-1,459
	Profit/loss before net financials	243	419
9	Net profit/loss in associates	0	0
	Financial income	20	14
5	Financial expenses	-430	-495
	Profit/loss before tax	-167	-62
6	Tax on profit/loss for the year	24	8
	Net profit/loss for the year	-143	-54
	The following distribution of the net profit/loss for the year is proposed:		
	Strengthening of contributed capital	21	41
	Other reserves	-164	-95
	Total	-143	-54

*) + = deficit and – = excess revenue

CONSOLIDATED BALANCE SHEET

Note	DKKm	2016	2015
7	**Intangible assets**		
	Goodwill	285	155
	Rights	326	378
	Software	489	335
	Assets under construction and prepayments in respect of intangible assets	97	239
	Total intangible assets	**1,197**	**1,107**
8	**Tangible fixed assets**		
	Land and buildings	501	443
	Infrastructure	33,859	29,683
	Cushion gas	1,439	1,492
	Other plant, tools and operating equipment	266	181
	Assets under construction and prepayments in respect of tangible fixed assets	2,894	2,077
	Total tangible fixed assets	**38,959**	**33,876**
9	**Investments**		
	Equity investments in associates	0	7
	Other equity investments	44	41
	Total investments	**44**	**48**
	Total non-current assets	40,200	35,031
	Inventories	**93**	**68**
	Receivables		
	Trade receivables	1,385	419
	Corporation tax	26	41
15	Other receivables	1,761	1,822
2	Deficit	55	1,003
16	Prepayments	305	38
	Total receivables	**3,532**	**3,323**
	Cash	**742**	**718**
	Total current assets	4,367	4,109
	Total assets	44,567	39,140

Note	DKKm	2016	2015
	Equity		
	Contributed capital	3,157	3,157
	Strengthening of contributed capital	1,008	987
	Other reserves	1,499	1,686
	Total equity	5,664	5,830
	Provisions		
10	Deferred tax liabilities	3,784	3,303
11	Decommissioning provisions	3,860	3,093
	Other provisions	109	109
	Total provisions	7,753	6,505
	Long-term liabilities other than provisions		
12	Payables to credit institutions and mortgage debt	24,043	22,716
17	Deferred income	475	375
18	Lease commitments	39	45
	Total long-term liabilities other than provisions	**24,557**	**23,136**
	Short-term liabilities other than provisions		
12	Current maturities of long-term liabilities other than provisions	1,636	115
17	Current maturities of long-term deferred income	244	74
18	Current maturities of long-term lease commitments	6	6
	Debt, commercial papers	0	244
	Payables to credit institutions	1,203	47
	Trade payables	400	529
	Corporation tax	73	0
2	Excess revenue	373	93
	Other payables	2,658	2,561
	Total short-term liabilities other than provisions	**6,593**	**3,669**
	Total liabilities other than provisions	31,150	26,805
	Total equity and liabilities	44,567	39,140

1) Segmental income statement and balance sheet
13) Derivative financial instruments
14) Business combinations
19) Provision of security and charges
20) Contingent liabilities and other financial liabilities
21) Fees to external and internal auditors
22) Related parties

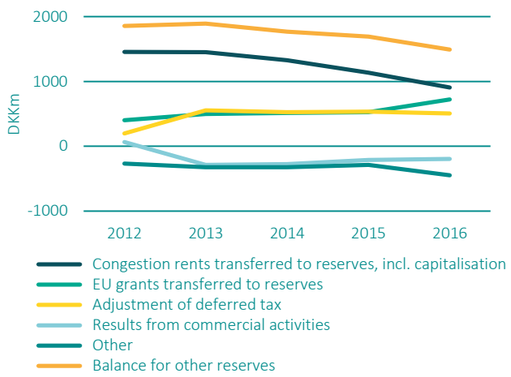
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

DKKm	Contributed capital	Strengthening of contributed capital	Other reserves*	Total
Equity at 1 January 2015	3,157	946	1,767	5,870
Net profit/loss for the year		41	-95	-54
Value adjustment of hedging instruments, beginning of year			31	31
Value adjustment of hedging instruments, end of year			-17	-17
Foreign currency translation adjustment of equity investments, beginning of year			-1	-1
Foreign currency translation adjustment of equity investments, end of year			1	1
Equity at 31 December 2015	3,157	987	1,686	5,830
Net profit/loss for the year		21	-164	-143
Value adjustment of hedging instruments, beginning of year			17	17
Value adjustment of hedging instruments, end of year			-40	-40
Foreign currency translation adjustment of equity investments, beginning of year			-1	-1
Foreign currency translation adjustment of equity investments, end of year			1	1
Equity at 31 December 2016	3,157	1,008	1,499	5,664

*) Other reserves (net) are profits which cannot be distributed under special legislation. Energinet has had costs of DKK 259 million for the development of the wholesale model and the implementation of SAP, of which DKK 47 million pertains to 2016.

The reserve for development costs is included in 'Other reserves' by DKK 163 million, equivalent to the carrying amount of the non-current assets.

SPECIFICATION OF BALANCE FOR OTHER RESERVES

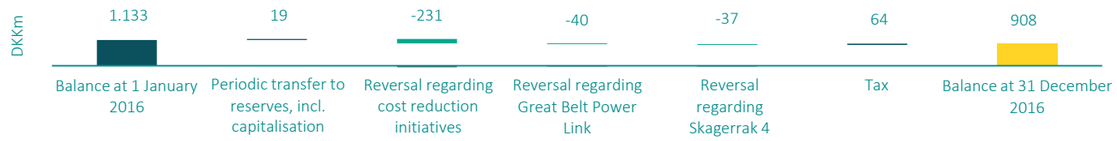


A net loss of DKK 143 million was posted for 2016.

The loss is primarily attributable to the transfer to consumers of saved congestion rents from previous years as a result of the energy agreement in 2012. The transfer amounts to DKK 231 million.

However, the net profit/loss for the year of the commercial activities has a positive impact of DKK 21 million.

SPECIFICATION OF BALANCE FOR INCOME FROM CONGESTION RENTS TRANSFERRED TO RESERVES



CONSOLIDATED CASH FLOW STATEMENT

Note	DKKm	2016	2015
	Profit/loss for the year before net financials	**243**	**419**
4	Depreciation and amortisation of and impairment losses on tangible fixed assets and intangible assets	1,647	1,459
	Change in inventories	-25	13
	Change in receivables	-688	-12
	Change in liabilities	-7	435
	Change in accumulated excess revenue/deficit	1,233	-489
	Cash flows from operating activities before net financials and tax paid	**2,403**	**1,825**
	Interest receivable	17	10
	Interest payable	-514	-504
	Corporation tax paid	**14**	**-33**
	Cash flows from operating activities	1,920	1,298
	Investment in intangible assets	-368	**-249**
	Investment in tangible fixed assets	-3,093	**-1,860**
	Sale of tangible fixed assets	133	**43**
	Sale of shares	7	**0**
14	Acquisition of enterprises	-1,771	0
	Cash flows from investing activities	-5,092	-2,066
	Proceeds from long-term borrowings	3,110	4,265
	Repayment of long-term loans	-826	-2,300
	Short-term borrowings/repayment, net	-244	-675
	Cash flows from financing activities	2,040	1,290
	Change in cash and cash equivalents	-1,132	522
	Net cash and cash equivalents at 1 January	671	149
	Net cash and cash equivalents at 31 December	-461	671

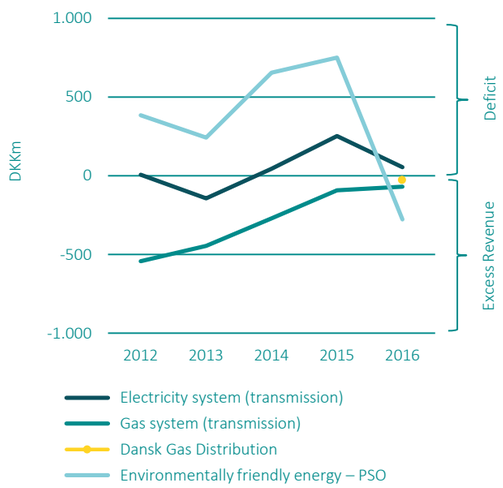
NOTES FOR THE GROUP

Note 1 Segmental income statement DKKm	Electricity system (transmission)	Environmentally friendly energy – PSO	Gas system (transmission)	Commercial activities	Eliminations	Annual report 2016	Annual report 2015
Tariff revenue	2,705	7,945	428	256	0	11,334	10,066
Congestion rents	413	0	0	0	0	413	552
Fee for balancing the electricity system	49	0	0	0	0	49	150
General PSO relaxations	0	903	0	0	0	903	881
PSO reduction, electricity-intensive companies	0	192	0	0	0	192	86
Other income	15	0	200	380	-105	490	629
Revenue	3,182	9,040	628	636	-105	13,381	12,364
Excess revenue/deficit	-198	-1,027	24	-32	0	-1,233	489
EU grants	293	0	-23	0	0	270	35
Other operating income	0	0	-20	14	0	-6	16
Total income	3,277	8,013	609	618	-105	12,412	12,904
Subsidies for energy production	0	-7,412	0	0	0	-7,412	-7,981
Subsidies for R&D	0	-108	0	0	0	-108	-180
Other energy costs	0	-467	-1	-14	0	-482	-322
Compensation for grid losses	-394	0	0	0	0	-394	-373
Purchase of regulating power	-21	0	0	0	0	-21	-226
Payment for reserves/storage capacity	-757	0	-262	0	38	-981	-944
Expenses relating to foreign grids	-52	0	0	0	0	-52	-54
Payment for inspections	-51	0	-22	0	0	-73	-58
Other external operating expenses	-304	0	-42	-260	67	-539	-495
Total external expenses	**-1,579**	**-7,987**	**-327**	**-274**	**105**	**-10,062**	**-10,633**
Staff costs	-320	0	-106	-34	0	-460	-393
Total costs	-1,899	-7,987	-433	-308	105	-10,522	-11,026
Depreciation and amortisation of and impairment losses on tangible fixed assets and intangible assets	-1,240	-27	-154	-226	0	-1,647	-1,459
Operating profit/loss	138	-1	22	84	0	243	419
Net financials	-294	1	-60	-57	0	-410	-481
Profit/loss before tax	-156	0	-38	27	0	-167	-62
Tax on profit/loss for the year	23	0	7	-6	0	24	8
Net profit/loss for the year	-133	0	-31	21	0	-143	-54

Segmental balance sheet DKKm	Electricity system (transmission)	Environmentally friendly energy – PSO	Gas system (transmission)	Commercial activities	Eliminations	Annual report 2016	Annual report 2015
Assets							
Non-current assets							
Intangible assets	719	0	38	440	0	1,197	1,107
Tangible fixed assets	26,890	302	4,835	6,932	0	38,959	33,876
Investments	40	0	1	3	0	44	48
Total non-current assets	27,649	302	4,874	7,375	0	40,200	35,031
Current assets							
Inventories	24	0	49	20	0	93	68
Deficit	55	0	0	0	0	55	1,003
Other receivables	1,341	1,012	327	797	0	3,477	2,320
Interest-bearing receivables	0	579	0	0	-579	0	0
Cash	437	0	109	196	0	742	718
Total current assets	1,857	1,591	485	1,013	-579	4,367	4,109
Total assets	29,514	1,893	5,351	8,388	-579	44,567	39,140
Equity and liabilities							
Equity							
Contributed capital	3,016	0	141	50	-50	3,157	3,157
Strengthening of contributed capital	903	0	105	0	0	1,008	987
Other reserves	1,130	0	571	2,264	-2,466	1,499	1,686
Equity	5,049	0	817	2,314	-2,516	5,664	5,830
Provisions	4,578	257	1,179	1,739	0	7,753	6,505
Liabilities other than provisions							
Interest-bearing debt	17,434	0	2,785	3,523	1,937	25,679	23,075
Payables to credit institutions	958	0	239	6	0	1,203	47
Excess revenue	0	277	69	27	0	373	93
Other liabilities other than provisions	1,487	1,359	270	779	0	3,895	3,590
Total liabilities other than provisions	19,879	1,636	3,363	4,335	1,937	31,150	26,805
Total equity and liabilities	29,514	1,893	5,351	8,388	-579	44,567	39,140

Note 2 DKKm	Beginning of 2016	Additions relating to business acquisition	Move-ments of the period	Receiva-bles year-end 2016	Payables year-end 2016
Excess revenue/deficit					
The balance for excess revenue/deficit to be included in tariffs can be specified as follows:					
Electricity system (transmission)	253	0	-198	55	
Gas system (transmission)	-93	0	24		-69
Dansk Gas Distribution	0	5	-32		-27
Environmentally friendly energy – PSO	750	0	-1,027		-277
Total excess revenue/deficit	910	5	-1,233	55	-373

DEVELOPMENT IN EXCESS REVENUE/DEFICIT BY SEGMENT



Deficit is receivables from consumers and excess revenue is debt to consumers.

In the past five years, excess revenue has been accumulated in the gas system, and efforts have been made to settle this revenue. A three-year repayment agreement has been concluded with the Danish Energy Regulatory Authority. The balance amounted to DKK 69 million at the end of 2016.

The accumulated deficit in the electricity system amounted to DKK 55 million at the end of 2016. The deficit has been reduced significantly, primarily as a result of increased tariff revenue. The grid and system tariffs have been fixed at a higher level in order to collect the accumulated deficit from previous years. In addition, lower interest expenses have been realised due to the low interest rates.

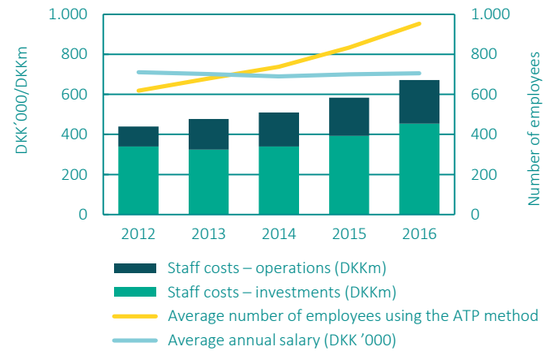
The accumulated deficit in environmentally friendly energy – PSO of DKK 750 million was collected in 2016, resulting in excess revenue of DKK 277 million at the end of 2016, which will be included in the tariffs going forward.

Energinet acquired Dansk Gas Distribution A/S on 30 September 2016, and the accumulated excess revenue amounted to DKK 27 million at the end of the year.

Note 3 DKKm	2016	2015
Staff costs		
Wages and salaries	-608	-523
Pensions	-64	-56
Other social security costs	-6	-5
Capitalised internal time	218	191
Total	-460	-393

Reference is made to pages 62-63 under 'Governance and corporate social responsibility' for information on remuneration of the Supervisory Board and the Executive Board.

DEVELOPMENT IN STAFF COSTS, AVERAGE NUMBER OF EMPLOYEES AND AVERAGE PAY



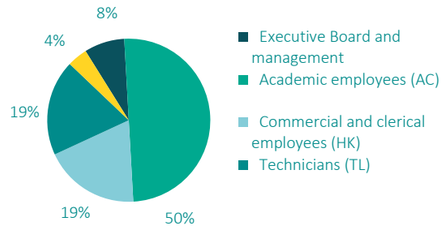
Staff costs incurred in 2016 increased by DKK 94 million. The increase is primarily attributable to the high investment level, due partly to the recruitment of more employees for the operation of new investments and partly to an increase in capitalised internal time. Capitalised internal time indicates the staff costs which can be attributed to construction projects.

Following the set-off of capitalised internal time, the increase in 2016 amounted to DKK 67 million. Combined with the acquisition of companies in the period 2012 to 2016, this contributed to the increase in the number of employees over the past five years.

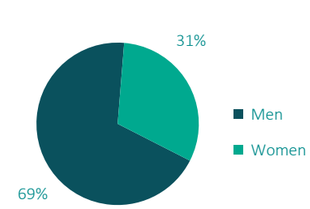
Energinet's pay level reflects the fact that the majority of the employees are academics.

The number of full-time employees in the Energinet Group totalled 1,082 at the end of the year.

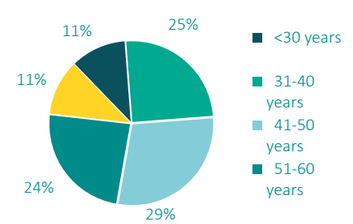
EMPLOYEE CATEGORIES



EMPLOYEE GENDER DISTRIBUTION

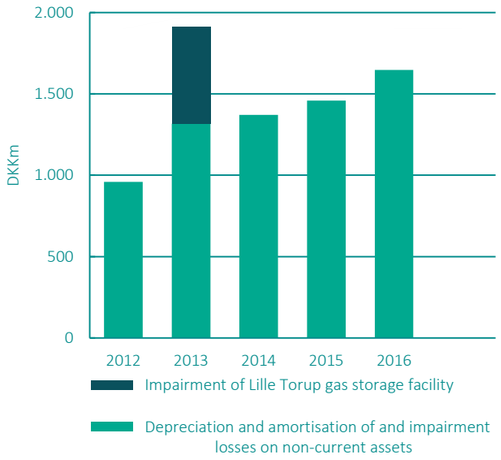


EMPLOYEE AGE DISTRIBUTION



Note 4 DKKm	2016	2015
Depreciation and amortisation of and impairment losses on tangible fixed assets and intangible assets		
Goodwill	-15	-12
Rights	-52	-50
Software	-145	-91
Land and buildings	-5	-5
Infrastructure	-1,230	-1,197
Other plant, tools and operating equipment	-50	-29
Assets under construction	0	0
Impairment losses/scrapping	-150	-75
Total	-1,647	-1,459

DEPRECIATION AND AMORTISATION OF AND IMPAIRMENT LOSSES ON NON-CURRENT ASSETS



There has been a general increase in ordinary depreciation and amortisation over the past five years. The primary reason is investments in new installations and the acquisition of enterprises.

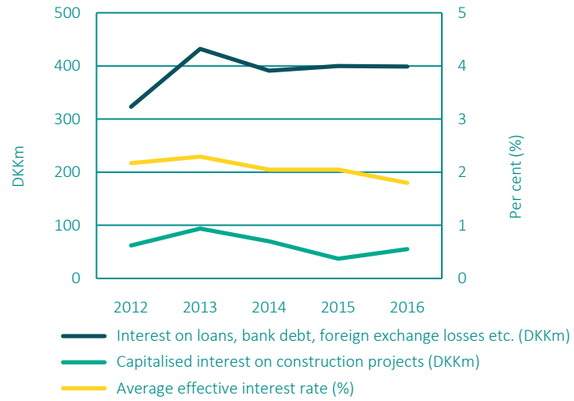
2013 was particularly affected by impairment of the Lille Torup gas storage facility and the acquisition of the regional transmission companies.

In response to a request from the Danish government, Energinet has developed six areas for the location of near-shore wind turbines. According to the original plans, wind turbines will be erected in two locations only. As a consequence, 2016 was affected by an impairment loss of DKK 115 million.

Major investments will continue to be made, leading to higher depreciation and amortisation going forward.

Note 5 DKKm	2016	2015
Financial expenses		
Interest on loans, bank debt etc.	-364	-333
Capitalisation of decommissioning provisions	-86	-132
Foreign exchange losses and fair value adjustments etc.	-35	-67
Capitalised interest on construction projects	55	37
Total	-430	-495

DEVELOPMENT IN FINANCIAL EXPENSES



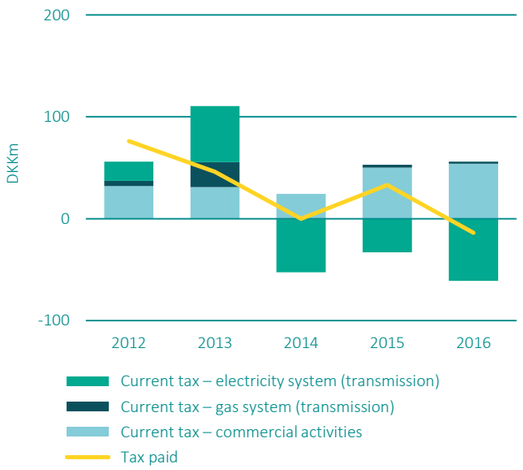
Financial expenses fell from DKK 495 million in 2015 to DKK 430 million in 2016.

A general decline in interest rates in recent years has contributed to interest expenses falling despite a growth in debt.

In addition to interest on net interest-bearing debt, financial expenses are affected by the decrease in the capitalisation of decommissioning provisions as well as capitalised interest on construction projects reducing interest expenses recognised in the income statement by DKK 55 million in 2016 relative to DKK 37 million in 2015.

Note 6 DKKm	2016	2015
Tax on profit/loss for the year		
Current tax for the year	-12	-19
Deferred tax for the year	41	21
Current tax regarding previous years	16	-1
Deferred tax regarding previous years	-15	6
Total	30	7
Comprising:		
Tax on profit/loss for the year	24	8
Tax on changes in equity	6	-1
Total	30	7
Tax rate adjustment		
Corporation tax rate	22.0%	23.5%
Tax effect of non-taxable income and non-deductible expenses	-7.5%	-16.7%
Tax effect of reduction of corporation tax rate, current year	0.0%	-2.7%
Adjustment of tax in previous years	-0.4%	8.7%
Effective tax rate for the year	14.1%	12.8%

DEVELOPMENT IN CURRENT TAX AND TAX PAID



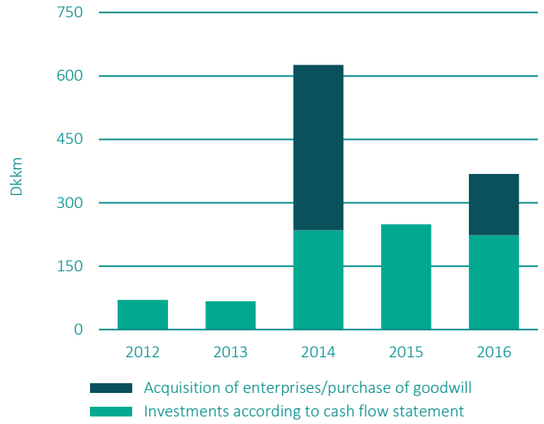
Energinet is subject to a break-even principle. On this basis, the tax for the year will be modest as the taxable income should zero out over time. However, a number of items are not continuously included in the tariffs, which is why actual tax payments are realised, for instance in respect of EU grants received and income from congestion rents transferred to reserves.

Energinet has generally experienced a decline in current tax, which is primarily attributable to decreasing income from congestion rents transferred to reserves and reversed congestion rents to consumers as a result of the 2012 energy agreement.

Energinet is covered by the rules on limitation of deductibility of interest.

Note 7 DKKm	Goodwill	Rights	Software	Assets under construction	Total
Intangible assets					
Acquisition cost at 1 January	**493**	**446**	**914**	**239**	**2,092**
Additions during the year	145	0	0	223	368
Disposals during the year	0	0	-5	0	-5
Additions relating to business acquisition	0	0	0	0	0
Transfer to/from other items	0	0	297	-365	-68
Other adjustments	0	0	0	0	0
Acquisition cost at 31 December	**638**	**446**	**1,206**	**97**	**2,387**
Amortisation and impairment losses at 1 January	**-338**	**-68**	**-579**	**0**	**-985**
Amortisation and impairment losses for the year	-15	-52	-145	0	-212
Reversals on disposals for the year	0	0	5	0	5
Transfer to/from other items	0	0	0	0	0
Other adjustments	0	0	2	0	2
Amortisation and impairment losses at 31 December	**-353**	**-120**	**-717**	**0**	**-1,190**
Carrying amount at 31 December	285	326	489	97	1,197

ACQUISITION OF INTANGIBLE ASSETS



Investments for the year in intangible assets primarily concern the wholesale model and the work on enhancing the level of IT and information security. The wholesale model was commissioned in 2016. Initiatives aimed at IT and information security will be commissioned on an ongoing basis.

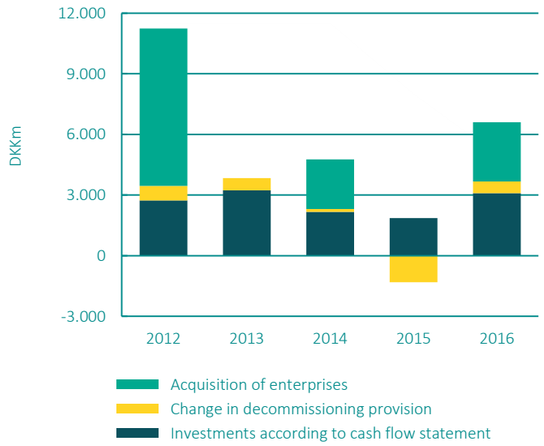
The acquisition cost is affected by the acquisition of the Stenlille gas storage facility in 2014 and the purchase of goodwill as part of the acquisition of Dansk Gas Distribution A/S and an associated construction business in 2016.

Note 8 DKKm	Land and buildings	Infra-structure	Cushion gas	Other plant	Assets under construc-tion	Total
Tangible fixed assets						
Acquisition cost at 1 January	**522**	**43,880**	**1,492**	**399**	**2,122**	**48,415**
Additions during the year	0	566	3	0	3,090	3,659
Disposals during the year	0	-70	-56	-4	-199	-329
Additions relating to business acquisition	7	2,897	0	1	21	2,926
Transfer to/from other items	56	1,970	0	137	-2,095	68
Other adjustments	0	0	0	0	0	0
Acquisition cost at 31 December	**585**	**49,243**	**1,439**	**533**	**2,939**	**54,739**
Depreciation and impairment losses at 1 January	**-79**	**-14,197**	**0**	**-218**	**-45**	**-14,539**
Depreciation and impairment losses for the year	-5	-1,230	0	-50	0	-1,285
Reversals on disposals for the year	0	43	0	3	0	46
Transfer to/from other items	0	0	0	0	0	0
Other adjustments	0	0	0	-2	0	-2
Depreciation and impairment losses at 31 December	**-84**	**-15,384**	**0**	**-267**	**-45**	**-15,780**
Carrying amount at 31 December	501	33,859	1,439	266	2,894	38,959

Finance costs totalling DKK 218 million have been capitalised under 'Non-current assets', including DKK 55 million in 2016.

Assets held under finance leases are included under 'Infrastructure' with a carrying amount of DKK 45 million.

ACQUISITION OF TANGIBLE FIXED ASSETS



Investments for the year in 2016 primarily consist of investments in grid connection of the Horns Rev 3 wind farm and the interconnection to Germany via Kriegers Flak.

The acquisition cost for accounting purposes in 2016 was significantly affected by an upward adjustment of the decommissioning provision of DKK 682 million, primarily as a consequence of new assets or assets acquired in 2016. For further information, reference is made to page 91.

The last few years have been particularly affected by the acquisition of the regional transmission companies in 2012, the acquisition of the Stenlille gas storage facility in 2014 and the acquisition of Dansk Gas Distribution A/S in 2016.

Note 9 DKKm	Equity in-vestments in associates	Other eq-uity invest-ments	Total in-vestments
Investments			
Acquisition cost at 1 January	**7**	**41**	**48**
Additions during the year	0	3	3
Disposals during the year	-7	0	-7
Acquisition cost at 31 December	**0**	**44**	**44**
Value adjustments at 1 January	**0**	**0**	**0**
Additions during the year	0	0	0
Disposals during the year	0	0	0
Dividend paid	0	0	0
Net profit/loss for the year	0	0	0
Value adjustments at 31 December	**0**	**0**	**0**
Carrying amount at 31 December	0	44	44

Equity investments in associates in 2016	Domicile	Owner-ship in-terest	Equity in DKKm	Equity value in DKKm
EMCC European Market Coupling Company GmbH*	Hamburg (D)	20.0%	EUR 0	0
Total				0

Other equity investments in 2016	Domicile	Owner-ship in-terest	Equity in DKKm	Cost in DKKm
Nord Pool AS	Oslo (N)	18.8%	NOK 286	36
Dansk Gasteknisk Center A/S **	Hørsholm (DK)	49.9%	DKK 11	4
TSCNET Services GmbH	Munich (D)	7.7%	EUR 2	3
PRISMA European Capacity Platform GmbH	Leipzig (D)	6.9%	EUR 0	0
Joint Allocation Office S.A.	Luxembourg (L)	5.0%	EUR 4	1
Total				44

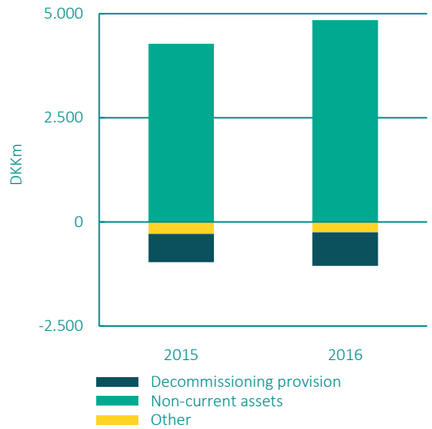
Total investments	44

*) The company is being wound up. Associates are recognised and measured as independent entities.
**) Distribution of ownership: Energinet 13.9% and Dansk Gas Distribution A/S 36%

Note 10 DKKm	2016	2015
Deferred tax liabilities		
Deferred tax at 1 January	3,303	3,316
Additions relating to business acquisition	507	14
Adjustment in respect of previous years	15	-6
Change in deferred tax concerning the profit/loss for the year	-41	-21
Total	3,784	3,303

A tax rate of 22% has been applied.

SPECIFICATION OF DEFERRED TAX



Deferred tax increased from DKK 3,303 million in 2015 to DKK 3,784 million in 2016.

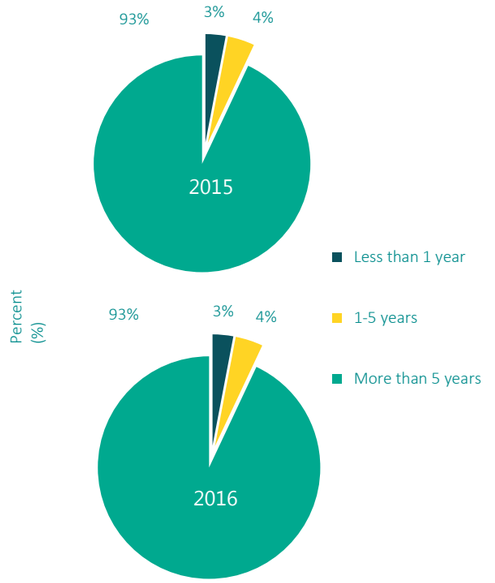
Deferred tax is based mainly on tangible fixed assets, due primarily to deviations between the depreciation of non-current assets for accounting and tax purposes.

The decommissioning provisions involve a deferred tax asset, since tax deduction is obtained only as decommissioning costs are incurred.

As of 2013, deferred tax is recognised at a tax rate of 22%, corresponding to the actual tax rate in 2016.

Note 11 DKKm	2016	2015
Decommissioning provisions		
Expected maturity of decommissioning provisions:		
Less than 1 year	141	83
1-5 years	142	141
More than 5 years	3,577	2,869
Total	3,860	3,093

EXPECTED MATURITY OF PROVISIONS



Decommissioning provisions relate to the removal of towers, overhead lines, natural gas facilities etc., as well as the decommissioning of property owned by third parties. The elements of uncertainty relate essentially to the time at which the related payments were effected.

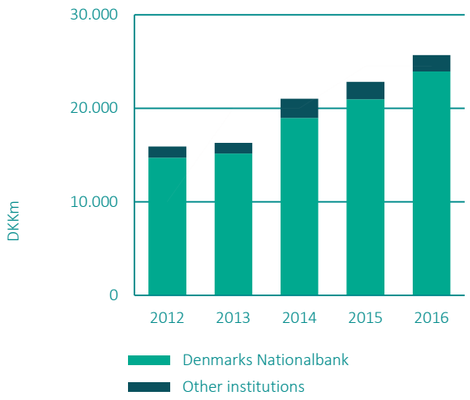
In connection with the determination of the decommissioning provisions, Energinet has calculated the expenses of dismantling and removing the non-current assets concerned on a disaggregated basis. The expense per disaggregated unit is stated in 2016 prices. The prices have been projected with an inflation rate until the year when the non-current asset in question is expected to be dismantled and removed, after which it is discounted to present value.

The preconditions and estimates are reassessed once a year. In 2016, a change took place in the decommissioning provisions of DKK 767 million. In 2016, the costs incurred for the decommissioning of discontinued overhead lines amounted to DKK 9 million.

The primary reason for this is the addition of new installations, with the acquisition of Dansk Gas Distribution A/S being included with DKK 260 million, as well as the determination of decommissioning provisions for newly constructed installations, including the power connection (between the wind farm and the transmission system) at Horns Rev 3, recognised with a total of DKK 342 million. New requirements for the decommissioning of the gas storage facilities lead to an increased liability of DKK 80 million.

Note 12 DKKm	2016	2015
Payables to credit institutions and mortgage debt		
Less than 1 year	1,636	115
1-5 years	2,488	2,960
More than 5 years	21,555	19,756
Total	25,679	22,831

PAYABLES TO CREDIT INSTITUTIONS



Interest-bearing debt in Energinet increased from DKK 22,831 million in 2015 to DKK 25,679 million in 2016. The increase is mainly attributable to the acquisition of Dansk Gas Distribution A/S.

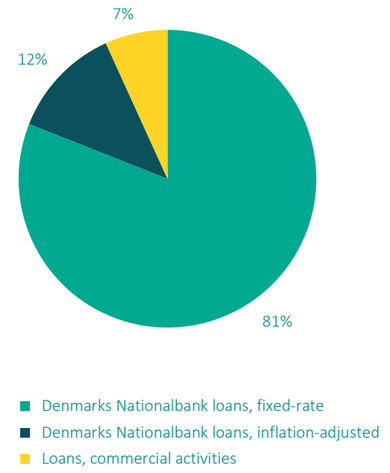
Interest-bearing debt rose over the entire period due to the fixed asset investments made and the acquisition of enterprises.

Energinet mainly obtains loans from Danmarks Nationalbank. Loans are obtained as fixed-rate loans with a long time to maturity.

Note 13 DKKm	Expiry	Contract, foreign currency in millions	Forward contract, foreign currency in millions	Contract in DKKm	Forward contract in DKKm	Market value in DKKm
Derivative financial instruments						
Currency risks in connection with contracts (forward contracts)						
EUR	2017-2019	-22	22	-164	165	1
SEK	2017-2019	-403	403	-314	311	-3
Total				-478	476	-2
Interest rate risks attaching to loan portfolio (interest rate swap agreements)						
Fixed interest rate to floating interest rate	2017-2024			1,500		543
Floating interest rate to fixed interest rate	2017-2029			2,788		-252
Total				4,288		291
Total financial instruments						289

The Energinet Group has entered into a number of financial contracts with a view to hedging interest and foreign currency risks. As such, currency swap agreements have been concluded in order to hedge foreign currency risks relating to contracts concluded comprising foreign currency elements. Moreover, interest rate swap agreements have been entered into with a view to managing the interest rate risk attaching to the loan portfolio.

DISTRIBUTION OF INTEREST-BEARING DEBT IN 2016



The market value of financial instruments amounts to DKK 289 million, with DKK 543 million being recognised under 'Other receivables' and DKK 254 million under 'Other payables'.

The majority of the market value of financial instruments can thus be attributed to the market value of interest rate swaps. The value adjustment is offset by translation adjustments of the underlying interest-bearing debt.

The majority of the interest-bearing debt is fixed-rate debt with Danmarks Nationalbank. The debt is recognised in the financial statements at amortised cost.

Furthermore, part of the interest-bearing debt is adjusted for inflation and indexed continuously in line with the development in the Danish consumer price index.

A minor part of the interest-bearing debt is floating-rate debt, short-term bank credits etc.

Loans for commercial activities (gas storage activities) comprise floating-rate debt which, via financial instruments, has been converted into fixed-rate loans for the entire term of the loans of between 4 and 13 years.

Note 14 DKKm	Regionale Net Lindevang A/S	Dansk Gas Distribu-tion A/S	2016	2015
Business combinations (business acquisitions)				
Intangible assets	0	0	0	0
Tangible fixed assets	25	2,901	2,926	0
Provisions	0	-620	-620	0
Other assets and liabilities	0	-535	-535	0
Cost price including acquisition costs	**25**	**1,746**	**1,771**	**0**
Cash acquired in company	0	0	0	0
Total	25	1,746	1,771	0

In 2016, Energinet took over DONG Gas Distribution A/S (now Dansk Gas Distribution A/S) for a total purchase price of DKK 1,746 million. Energinet took over working capital and an internal loan as part of the transaction. The cost price corresponds to a transfer sum of DKK 2,325 million on a debt-free basis. Regionale Net Lindevang A/S has been taken over with a view to a merger with Energinet's existing electricity transmission assets.

Note	DKKm	2016	2015
15	**Other receivables**		
	Less than 1 year	1,231	1,253
	1-5 years	0	27
	More than 5 years	530	542
	Total	1,761	1,822

Other receivables comprise the market value of financial instruments, receivables from tariff collections, state and EU grants as well as other receivables.

Note	DKKm	2016	2015
16	**Prepayments (assets)**		
	Less than 1 year	305	29
	1-5 years	0	9
	More than 5 years	0	0
	Total	305	38

Prepayments comprise EU grants related to construction projects as well as prepaid expenses incurred. EU grants are recognised in the income statement and await payment by the EU.

Note	DKKm	2016	2015
17	**Deferred income (liabilities)**		
	Less than 1 year	244	74
	1-5 years	31	172
	More than 5 years	444	203
	Total	719	449

Deferred income comprises prepayments received in relation to income to be deferred to subsequent years and EU grants received for construction projects. The grants are recognised in the income statement in step with the depreciation of installations.

Note	DKKm	2016	2015
18	**Lease commitments**		
	Less than 1 year	6	6
	1-5 years	26	25
	More than 5 years	13	20
	Total	45	51

Note	
19	**Provision of security and charges**

Land, buildings and plant concerning gas storage activities, the carrying amount of which constituted DKK 1,950 million at year-end, have been provided as security for payables to mortgage credit institutions in the amount of DKK 541 million.

The shareholding in Energinet.dk Lille Torup Gaslager Holding A/S has been provided as security for balances with credit institutions in the amount of DKK 788 million (2015: DKK 863 million).

The shareholding in Energinet.dk Stenlille Gaslager Holding A/S has been provided as security for balances with credit institutions in the amount of DKK 428 million (2015: DKK 428 million).

Energinet has issued guarantees totalling EUR 27 million to its partners (2015: EUR 27 million) and NOK 5 million (2015: NOK 5 million).

Note	
20	**Contingent liabilities and other financial liabilities**

As part of the enterprise's normal activities, Energinet is party to a number of other legal disputes. Some of these disputes involve substantial amounts, but none of the disputes are currently expected to materially impact the coming financial years.

Energinet has rent commitments of DKK 73 million (2015: DKK 53 million), of which DKK 16 million falls due within 1 year and DKK 28 million between 2 and 10 years.

Energinet has lease commitments of DKK 10 million (2015: DKK 9 million), of which DKK 4 million falls due within 1 year and DKK 6 million between 2 and 5 years.

Energinet.dk Associated Activities A/S is liable for contingent liabilities arising from the demerger of Eltra 409 A/S. In so far as contingent liabilities in respect of Eltra 409 A/S may arise, such contingent liabilities must be fully borne by Energinet.dk Associated Activities A/S.

Note	DKKm	2016	2015
21	**Fees to external and internal auditors**		
	PricewaterhouseCoopers (internal)		
	Auditing of consolidated financial statements and annual reports	1	1
	Other audit reports	0	0
	Tax-related services	0	1
	Other services	2	3
	Total	3	5

Rigsrevisionen (external) does not charge a fee for its auditing services.

Note		
22	**Related parties**	**Basis**
	Danish Ministry of Energy, Utilities and Climate Stormgade 2-6 DK-1470 Copenhagen K	100% ownership
	Supervisory Board and Executive Board	Control of management

Reference is made to pages 62-63 under 'Governance and corporate social responsibility' for information on remuneration of the Supervisory Board and the Executive Board.

ACCOUNTING POLICIES FOR THE GROUP

The annual report of the independent public enterprise Energinet.dk for the period 1 January - 31 December 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act and the Danish Act on Energinet.dk.

Energinet.dk is required by Danish legislation to prepare its annual report in pursuance of the provisions of the Danish Financial Statements Act that apply to state-owned public limited companies. As such, the annual report has been prepared in accordance with the requirements for class D enterprises.

The accounting policies have been applied consistently with the annual report for 2015.

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

Liabilities are recognised in the balance sheet when they are probable and their value can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each individual item below.

Certain financial assets and liabilities are measured at amortised cost, with a constant effective interest rate being recognised until maturity. Amortised cost is stated as original cost less any repayments plus/minus accumulated amortisation of the difference between cost and nominal amount.

On recognition and measurement, account is taken of any gains, losses and risks which occur before the annual report is presented and which confirm or invalidate circumstances existing at the balance sheet date.

Income is recognised in the income statement as earned, and value adjustments of financial assets and liabilities measured at fair value or amortised cost are also recognised. Furthermore, expenses incurred to achieve the earnings for the year, including depreciation, amortisation, impairment losses, provisions and reversals due to changed accounting estimates, are recognised.

Consolidated financial statements
The consolidated financial statements comprise the parent, Energinet.dk, and subsidiaries in which Energinet.dk holds more than 50% of the voting rights. Enterprises that are not subsidiaries, but in which Energinet.dk holds 20% or more of the voting rights and exercises significant influence on the operational and financial management of these enterprises, are treated as associates.

The consolidated financial statements are derived from the financial statements of Energinet.dk and its subsidiaries and are prepared by combining items of a uniform nature and eliminating intercompany income and expenses, intercompany balances, dividend, and profit and loss from internal transactions.

The acquisition of new enterprises is based on the purchase method according to which the identified assets and liabilities of newly acquired enterprises are measured at fair value at the date of acquisition. The tax effect of revaluations made is taken into account.

Positive balances (goodwill) between the acquisition cost and the fair value of acquired, identified assets and liabilities are recognised under 'Intangible assets' and amortised systematically in the income statement on the basis of an individual assessment of the economic life, which cannot exceed 20 years, however. Negative balances (negative goodwill), which reflect an expected unfavourable development in the enterprises concerned, are recognised in the balance sheet under 'Provisions' and are recognised in the income statement as such losses or expenses are realised or transferred to 'Other provisions' as the liabilities become current and can be determined reliably.

Goodwill and negative goodwill from acquired enterprises can be adjusted until the end of the year following the acquisition.

Energinet.dk's equity investments in subsidiaries are eliminated against the subsidiaries' equity value at the date of acquisition (past equity method). The subsidiaries' financial statements, which are used for the consolidation, are prepared in accordance with the accounting policies applied by the Group.

Enterprises recently acquired or formed are recognised in the consolidated financial statements from the date of acquisition and when Energinet.dk obtains a controlling interest in the enterprise. Enterprises divested are recognised until the date of disposal.

Comparative figures are not restated for newly acquired, sold and divested enterprises or activities. Profit/loss from the disposal or divestment of subsidiaries and associates is determined as the difference between the selling price or the divestment price and the carrying amount of net assets at the date of disposal, including non-amortised goodwill as well as anticipated selling and divestment costs.

Foreign currency translation
Foreign currency transactions are translated on initial recognition at the rate of exchange at the transaction date. Exchange differences arising between the rate of exchange at the date of transaction and the rate of exchange at the date of payment are recognised in the income statement under 'Financial income' and 'Financial expenses'.

Receivables, payables and other monetary items in foreign currencies not settled at the balance sheet date are translated at the rate of exchange at the balance sheet date. The difference between the rate of exchange at the balance sheet date and the rate of exchange at the time when the receivable or payable came into existence or was recognised in the latest annual report is recognised in the income statement under 'Financial income' and 'Financial expenses'.

On recognition of foreign subsidiaries and associates, such subsidiaries and associates are treated as separate entities whose income statements are translated at an average rate of exchange, and the balance sheet items are translated at the rate of exchange at the balance sheet date. Exchange differences resulting from the translation of foreign subsidiaries' equity at the beginning of the year at the rates of exchange at the balance sheet date and the translation of income statements from average rates of exchange to the rates of exchange at the balance sheet date are recognised directly in equity.

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

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

Changes in the fair values of derivative financial instruments classified as and complying with the criteria for the hedging of future transactions are recognised directly in equity under 'Reserve for hedging transactions'. If the expected future transaction results in the acquisition of non-financial assets or liabilities, amounts which are deferred under equity are transferred from equity to the cost of the asset. If the expected future transaction results in income or expenses, amounts deferred under equity are transferred from equity by realising the hedged asset and recognised in the same item as the hedged asset. In case of derivative financial instruments not complying with the criteria for being treated as hedging instruments, the changes are recognised.

Income statement
Revenue
Revenue includes the transmission of electricity, natural gas and related services. Revenue is recognised in the income statement if delivery has taken place and the risk has passed to the

buyer before the end of the year and the income can be calculated reliably and is expected to be received.

Revenue includes payments from Energinet.dk's customers which it has a statutory obligation to collect and manage, and which must be passed on to the producers of environmentally friendly electricity. Revenue thus indicates the total scope of the activities managed by Energinet.dk.

Revenue is presented in the income statement less taxes and VAT.

Excess revenue/deficit is recognised in the income statement as a separate correcting entry for revenue.

Grants from European Energy Programme for Recovery
Grants from the European Energy Programme for Recovery are recognised in the income statement when the conditions for receiving the grant have been met. The purpose of the grants is to ensure recovery through support for economic activities in the EU and thus employment. The grant is transferred to an undistributable reserve in equity which is subsequently systematically reversed via the account for excess revenue/deficit in the income statement.

Other EU investment grants are recognised in the balance sheet under prepayments and recognised as income as the assets to which they relate are depreciated.

Other operating income
Other operating income comprises items of a secondary nature.

Other external expenses
Other external expenses include costs of a primary nature in relation to transmission and system activities within the fields of electricity and gas.

Staff costs
Staff costs include salaries and wages, remuneration, pension contributions and other staff costs pertaining to Energinet.dk's employees, including the Supervisory Board and Executive Board.

Research and development costs not complying with the criteria for capitalisation are recognised under 'Other external expenses' and 'Staff costs'.

Depreciation, amortisation and impairment losses
This item includes the year's depreciation, amortisation and impairment losses for tangible and intangible assets.

Profit/loss in associates
The proportionate share of the individual associates' net profit/loss after elimination of intercompany profit/loss and less amortisation of goodwill is recognised in the income statement.

Financial income and expenses
Financial income and expenses include interest income and expenses, foreign exchange gains and losses relating to securities, debt and transactions in foreign currency, indexation of the remaining debt regarding index-linked loans, and amortisation of financial assets and liabilities. Financial income and expenses are recognised with the amounts pertaining to the financial year.

Tax on profit/loss for the year
Energinet.dk is jointly taxed with its Danish consolidated companies. The enterprise acts as an administration company, which means that the total Danish tax for all consolidated enterprises is paid by Energinet.dk.

Current Danish corporation tax is still allocated to the jointly taxed enterprises in proportion to their taxable income (full allocation).

The tax for the year, which comprises the current tax for the year and any changes in deferred tax, is recognised in the income statement with the share attributable to the net profit/loss for the year and directly in equity with the share attributable to items recognised directly in equity. The share of the tax recognised in the income statement relating to the extraordinary profit/loss for the year is attributable to the tax for the year, while the remaining share is attributable to the profit/loss from ordinary activities for the year.

The jointly taxed enterprises subscribe to the Tax Prepayment Scheme. Supplementary payments, allowances and refunds relating to the tax payments are recognised under net financials.

Segment information
Segment information is provided for the electricity and gas system segments. Segment information is in line with the Group's accounting policies, risks and internal financial management.

Assets
Intangible assets
Intangible assets comprise goodwill, rights, development projects and software. Assets under construction are measured at cost.

Cost comprises the acquisition cost and any expenses directly related to the acquisition up until the time when the asset is ready for entry into service. For internally developed assets, cost comprises direct and indirect costs of materials, components, subsuppliers and labour. Furthermore, any finance costs attributable to the cost are recognised.

Rights include the right to charge for ancillary services, transit agreements, fixed-price contracts for gas storage capacity, connection of offshore wind turbines to the grid etc.

Clearly defined and identifiable development projects which are intended to be used and where the technical rate of utilisation, the existence of sufficient resources and a future development potential in the enterprise can be demonstrated are recognised as intangible assets if there is sufficient certainty that the value in use of the future earnings covers the development costs.

Development projects not complying with the criteria for recognition in the balance sheet are recognised as costs in the income statement when incurred.

Capitalised intangible assets are measured at the lower of cost less accumulated amortisation and recoverable amount. In addition, decommissioning costs are recognised as a part of the cost.

Amortisation is provided using the straight-line method over the expected useful lives of the assets based on the following assessment of their expected useful lives:

Goodwill	20 years
Rights	10-20 years
Software	3-10 years
Development projects	5 years

Acquisitions in the financial year are amortised proportionately from the date of entry into service.

Intangible assets are written down to the lower of recoverable amount and carrying amount.

Profit/loss from the sale of intangible assets is determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal.

Any profit/loss is recognised in the income statement under 'Other operating income' or 'Other external expenses'.

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

Tangible fixed assets in progress are measured at cost. Extensive value-adding changes and improvements of tangible fixed assets are recognised as assets.

Cost comprises the acquisition cost and any expenses directly related to the acquisition up until the time when the asset is ready for entry into service. For internally developed assets, cost comprises direct and indirect costs of materials, components, subsuppliers and labour. Furthermore, any finance costs attributable to the cost are recognised. In addition, decommissioning costs are recognised as a part of the cost.

For assets held under finance leases, the cost is determined on the date of conclusion of the contract at the lower of the assets' fair values and the present value of future minimum lease payments. When calculating the present value, the lease contract's internal rate of return is used as the discount rate.

Amortisation is provided using the straight-line method over the expected useful lives of the assets based on the following assessment of their expected useful lives:

Land	Is not depreciated
Buildings	20-100 years
Infrastructure	10-60 years
Cushion gas	Is not depreciated
Other plant, tools and operating equipment	3-10 years

New acquisitions with acquisition costs of less than DKK 100,000 are charged to the income statement in the acquisition year.

Acquisitions in the financial year are depreciated proportionately from the date of entry into service. Expenses relating to extensive maintenance checks are recognised at the acquisition cost of infrastructure as a separate non-current asset which is depreciated over its useful life, ie the period until the next maintenance check. On the original acquisition of tangible fixed assets, account is also taken of the shorter useful life of a particular part

of the asset, and for accounting purposes the part concerned is therefore treated at the date of acquisition as a separate asset with a shorter useful life and thus depreciation period.

Tangible fixed assets are impaired to the lower of recoverable amount and carrying amount.

An impairment test of tangible fixed assets is carried out when there is an indication of impairment. The impairment test compares the recoverable amount and the carrying amount of the tested asset. Impairment losses are recognised when the carrying amount of an asset or cash-generating unit (CGU) exceeds the recoverable amount of the asset or cash-generating unit.

The recoverable amount of tangible fixed assets is the highest value of the assets' fair value less expected disposal costs and the present value of the expected future net cash flows (value in use).

Prepayments on tangible fixed assets not delivered are capitalised.

Interest and borrowing costs in relation to loans obtained to finance prepayments on tangible fixed assets not delivered are recognised as a part of the acquisition cost of such tangible fixed assets.

Profit/loss from the sale or scrapping of tangible fixed assets is determined as the difference between the selling price less dismounting, selling and decommissioning costs and the carrying amount at the time of sale or scrapping.

Any profit/loss is recognised in the income statement under 'Other operating income' or 'Other external expenses'.

Investments
Equity investments in associates are measured according to the equity method.

Other equity investments and other investments are measured at their fair values provided the asset is expected to be disposed of before maturity. Assets held to maturity are measured at amortised cost. All fair value adjustments (with the exception of repayments) are recognised in the income statement.

Equity investments in associates are measured in the balance sheet as the proportionate share of the equity value of the enterprise concerned determined on the basis of the accounting policies applied by the parent plus or minus unrealised intercompany profits/losses.

Net revaluation of equity investments in associates is transferred to 'Excess revenue/deficit' under equity according to the equity method in so far as the carrying amount exceeds the cost.

Inventories
Inventories comprise natural gas in the storage facilities as well as components and other technical spare parts in stock.

Inventories are measured at the lower of cost and net realisable value.

The net realisable value of inventories is determined as the selling price less costs of completion and costs pertaining to the completion of the sale and is determined with due consideration being given to marketability, obsolescence and the development in the expected selling price.

Deficit
Negative differences between realised income and the sum of necessary costs for the Electricity and Gas business segments are entered as a separate item in the balance sheet for subsequent inclusion in the tariffs.

Receivables
Receivables are measured at amortised cost. Write-downs are performed for anticipated uncollectibles.

Other receivables
Other receivables comprise the market value of financial instruments, receivables from tariff collections, state and EU grants as well as other receivables.

Prepayments (assets)
Prepayments comprise EU grants related to construction projects as well as prepaid expenses incurred. EU grants are recognised in the income statement and await payment by the EU.

Equity
Dividend
In pursuance of Section 13 of the Danish Act on Energinet.dk, Energinet.dk is not allowed to distribute any profit or equity to the Danish state through the distribution of dividend or in any other way.

Contributed capital
The contributed capital indicates the net value of assets and liabilities contributed in connection with the formation of Energinet.dk. The actual value of the contributed capital is

hedged through annual capitalisation as determined by the Danish Energy Regulatory Authority.

Other reserves
Other reserves comprise income from interconnections for future investment in expanding the electricity infrastructure transferred to reserves with a view to reducing electricity grid congestion. The provision is made in accordance with special legislation in this area. Grants from the European Energy Programme for Recovery have been transferred to other reserves.

Furthermore, the item includes profits/losses in subsidiaries, fair value adjustments of the hedging instruments meeting the requirements for hedging future cash flows and adjustments of deferred tax liabilities for subsequent inclusion in the tariffs which are taken directly to equity.

Equity and liabilities
Decommissioning provisions
Decommissioning provisions are measured at the present value at the balance sheet date of the expected future provision to cover the future costs of demolition and clean-up after technical plant that are no longer going to be used. The provision is determined based on the estimated costs which are discounted to present value. A discount rate reflecting Energinet.dk's general interest rate level is used. The provisions are recognised as incurred and are adjusted regularly in order to reflect changes in price level, inflation and discount rate. As the determination includes a number of estimates, only changes in the provision representing significant changes in the assumptions are recognised. The value of the recognised provision is recognised under 'Tangible fixed assets' and is depreciated along with the relevant assets. The time increase of the present value of the provision is recognised in the net profit/loss for the year under 'Financial expenses'.

Other provisions
Provisions are recognised when the Energinet.dk Group has a legal or constructive obligation as a result of past events, and it is probable that an outflow of economic benefits will be required to settle such obligation provided that such obligation can be determined reliably.

Corporation tax and deferred tax
According to the joint taxation rules, Energinet.dk is – in its capacity as an administration company – liable for the payment of the corporation tax of its subsidiaries to the Danish tax authorities concurrently with the subsidiaries' payment of joint taxation contributions.

Current tax liabilities and current tax receivables are recognised in the balance sheet as tax calculated on the taxable income for the period adjusted for tax on the taxable income of previous years and for taxes paid on account.

Deferred tax is measured under the balance-sheet liability method based on all the temporary differences between the carrying amount and the tax base of assets and liabilities on the basis of the tax rate adopted at the balance sheet date.

However, deferred tax is not recognised on temporary differences relating to the amortisation of goodwill disallowed for tax purposes, office buildings and other items in connection with which temporary differences with the exception of acquisitions have arisen at the date of acquisition without affecting the result or the taxable income.

Liabilities other than provisions
Mortgage debt and payables to credit institutions are recognised initially at the proceeds received, net of transaction costs incurred. Subsequently, financial liabilities are recognised at amortised cost corresponding to the capitalised value when using the effective rate of interest so that the difference between the proceeds and the nominal value is recognised in the income statement over the entire loan period under 'Net financials'.

Other liabilities other than provisions, which comprise trade payables, payables to associates, and other payables, are measured at amortised cost.

Excess revenue
Positive differences between realised income and the sum of necessary costs for the Electricity and Gas business segments are entered as a separate item in the balance sheet for subsequent inclusion in the tariffs.

Deferred income (liabilities)
Deferred income comprises prepayments received in relation to income to be deferred to subsequent years and EU grants received for construction projects. The grants are recognised in the income statement as depreciation is provided for the installations to which the grants relate.

Other payables
Other payables comprise commitments on subsidies for research and development, the market value of financial

instruments, items payable in respect of tariff collections, interest payable, pay-related items as well as other payables.

Contingent liabilities and other financial liabilities
Contingent liabilities and other financial liabilities comprise circumstances or situations existing at the balance sheet date, the accounting effect of which cannot be finally determined until the outcome of one or more uncertain future events is known.

Cash flow statement
The cash flow statement is based on the indirect method, using the operating profit/loss as a point of departure. The cash flow statement shows the cash flows for the year as well as cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities
Cash flows from operating activities are determined as the operating profit/loss adjusted for non-cash operating items, financial income and expenses, paid corporation tax and changes in the working capital.

Cash flows from investing activities
Cash flows from investing activities comprise the purchase and sale of non-current assets and dividend received.

Cash flows from financing activities
Cash flows from financing activities comprise the repayment and arrangement of short-term and long-term payables with mortgage credit institutions and credit institutions.

Net cash and cash equivalents/payables to credit institutions
Net cash and cash equivalents/ payables to credit institutions comprise balances with credit institutions and cash.

INCOME STATEMENT FOR THE PARENT

Note	DKKm	2016	2015
	Tariff revenue, grid and system	2,705	2,319
	Tariff revenue, PSO	7,945	7,437
	Tariff revenue, gas transmission	428	310
	Congestion rents	413	552
	Fee income for balancing the electricity system	49	150
	PSO relaxations	1,095	967
	Other revenue	215	330
	Revenue	12,850	12,065
1	Excess revenue/deficit	-1,201	489
	EU grants	270	35
	Other operating income	-20	3
	Total income	11,899	12,592
	External expenses	-9,893	-10,580
2	Staff costs	-426	-378
	Total costs	-10,319	-10,958
3	Depreciation and amortisation of and impairment losses on tangible fixed assets and intangible assets	-1,429	-1,337
	Profit/loss before net financials	152	297
8	Net profit/loss in subsidiaries	39	64
8	Net profit/loss in associates	0	0
	Financial income	27	14
4	Financial expenses	-399	-460
	Profit/loss before tax	-181	-85
5	Tax on profit/loss for the year	38	31
	Net profit/loss for the year	-143	-54
	The following distribution of the net profit/loss for the year is proposed:		
	Strengthening of contributed capital	21	41
	Net revaluation according to the equity method	39	64
	Other reserves	-203	-159
	Total	-143	-54

*) + = deficit and – = excess revenue

BALANCE SHEET FOR THE PARENT

Note	DKKm	2016	2015
6	**Intangible assets**		
	Goodwill	143	155
	Rights	34	37
	Software	483	329
	Assets under construction and prepayments in respect of intangible assets	97	239
	Total intangible assets	**757**	**760**
7	**Tangible fixed assets**		
	Land and buildings	457	406
	Infrastructure	28,326	27,117
	Cushion gas	202	255
	Other plant, tools and operating equipment	264	181
	Assets under construction and prepayments in respect of tangible fixed assets	2,785	2,061
	Total tangible fixed assets	**32,034**	**30,020**
8	**Investments**		
	Equity investments in group enterprises	2,359	1,667
	Equity investments in associates	0	7
	Other equity investments	41	41
	Total investments	**2,400**	**1,715**
	Total non-current assets	35,191	32,495
	Inventories	**73**	**68**
	Receivables		
	Trade receivables	638	376
	Receivables from group enterprises	1,967	0
	Corporation tax	26	41
13	Other receivables	1,761	1,808
1	Deficit	55	1,003
14	Prepayments	282	38
	Total receivables	**4,729**	**3,266**
	Cash	**312**	**718**
	Total current assets	5,114	4,052
	Total assets	40,305	36,547

Note	DKKm	2016	2015
	Equity		
	Contributed capital	3,157	3,157
	Strengthening of contributed capital	1,008	987
	Other reserves	1,499	1,686
	Total equity	5,664	5,830
	Provisions		
9	Deferred tax liabilities	2,553	2,533
10	Decommissioning provisions	3,355	2,930
	Other provisions	108	109
	Total provisions	6,016	5,572
	Long-term liabilities other than provisions		
11	Payables to credit institutions and mortgage debt	22,417	20,983
15	Deferred income	358	375
16	Lease commitments	39	45
	Total long-term liabilities other than provisions	**22,814**	**21,403**
	Short-term liabilities other than provisions		
11	Current maturities of long-term liabilities other than provisions	1,519	0
15	Current maturities of long-term deferred income	121	74
16	Current maturities of long-term lease commitments	6	6
	Debt, commercial papers	0	244
	Payables to credit institutions	1,197	47
	Trade payables	360	504
	Payables to group enterprises	0	244
1	Excess revenue	346	93
	Other payables	2,262	2,530
	Total short-term liabilities other than provisions	**5,811**	**3,742**
	Total liabilities other than provisions	28,625	25,145
	Total equity and liabilities	40,305	36,547

1) Segmental income statement and balance sheet
13) Derivative financial instruments
14) Business combinations
19) Provision of security and charges

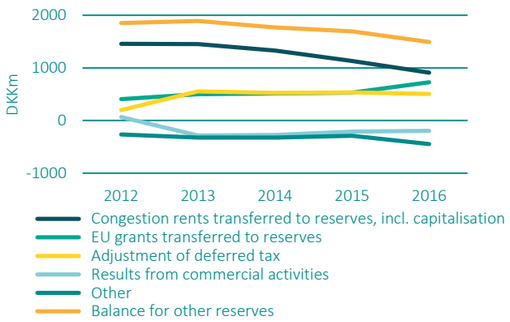
STATEMENT OF CHANGES IN EQUITY FOR THE PARENT

DKKm	Contrib-uted capital	Strengthening of contributec capital	Other reserves	Net revaluation according to the equity method	Total
Equity at 1 January 2015	3,157	946	1,767	0	5,870
Net profit/loss for the year		41	-159	64	-54
Transfer			84	-84	0
Value adjustment of hedging instruments, begin-ning of year			1	30	31
Value adjustment of hedging instruments, end of year			-7	-10	-17
Foreign currency translation adjustment of equity investments, beginning of year			-1	0	-1
Foreign currency translation adjustment of equity investments, end of year			1	0	1
Equity at 31 December 2016	3,157	987	1,686	0	5,830
Net profit/loss for the year		21	-203	39	-143
Transfer			16	-16	0
Value adjustment of hedging instruments, begin-ning of year			7	10	17
Value adjustment of hedging instruments, end of year			-7	-33	-40
Foreign currency translation adjustment of equity investments, beginning of year			-1	0	-1
Foreign currency translation adjustment of equity investments, end of year			1	0	1
Equity at 31 December 2016	3,157	1,008	1,499	0	5,664

*) Other reserves (net) are profits which cannot be distributed under special legislation. Energinet has had costs of DKK 259 million for the development of the wholesale model and the implementation of SAP, of which DKK 47 million pertains to 2016.

The reserve for development costs is included in 'Other reserves' by DKK 163 million, equivalent to the carrying amount of the non-current assets.

SPECIFICATION OF BALANCE FOR OTHER RESERVES



A net loss of DKK 143 million was posted for 2016.

The loss is primarily attributable to the transfer to consumers of saved congestion rents from previous years as a result of the energy agreement in 2012. The transfer amounts to DKK 231 million.

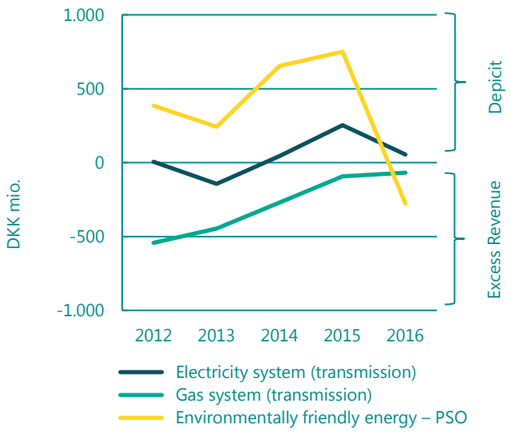
However, the net profit/loss for the year from equity investments has a positive impact of DKK 39 million.

SPECIFICATION OF BALANCE FOR INCOME FROM CONGESTION RENTS TRANSFERRED TO RESERVES

NOTES FOR THE PARENT

Note 1 DKKm	Beginning of 2016	Move-ments of the period	Receiva-bles year-end 2016	Payables year-end 2016
Excess revenue/deficit				
The balance for excess revenue/deficit to be included in tariffs can be specified as follows:				
Electricity system	253	-198	55	
Gas system	-93	24		-69
Environmentally friendly energy – PSO	750	-1,027		-277
Total excess revenue/deficit	910	-1,201	55	-346

DEVELOPMENT IN EXCESS REVENUE/DEFICIT BY SEGMENT



Deficit is receivables from consumers and excess revenue is debt to consumers.

In the past five years, excess revenue has been accumulated in the gas system, and efforts have been made to settle this revenue. A three-year repayment agreement has been concluded with the Danish Energy Regulatory Authority. The balance amounted to DKK 69 million at the end of 2016.

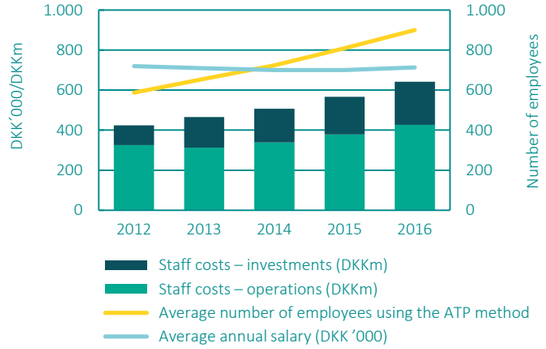
The accumulated deficit in the electricity system amounted to DKK 55 million at the end of 2016. The deficit has been reduced significantly, primarily as a result of increased tariff revenue. The grid and system tariffs have been fixed at a higher level in order to collect the accumulated deficit from previous years. In addition, lower interest expenses have been realised due to the low interest rates.

The accumulated deficit in environmentally friendly energy – PSO of DKK 750 million was collected in 2016, resulting in excess revenue of DKK 277 million at the end of 2016, which will be included in the tariffs going forward.

Note 2 DKKm	2016	2015
Staff costs		
Wages and salaries	-576	-508
Pensions	-61	-54
Other social security costs	-5	-5
Capitalised internal time	216	189
Total	-426	-378

Reference is made to pages 62-63 under 'Governance and corporate social responsibility' for information on remuneration of the Supervisory Board and the Executive Board.

DEVELOPMENT IN STAFF COSTS, AVERAGE NUMBER OF EMPLOYEES AND AVERAGE PAY



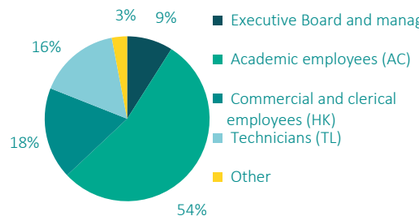
Staff costs incurred in 2016 increased by DKK 75 million. The increase is primarily attributable to the high investment level, due partly to the recruitment of more employees for the operation of new investments and partly to an increase in capitalised internal time. Capitalised internal time indicates the staff costs which can be attributed to construction projects.

Following the set-off of capitalised internal time, the increase in 2016 amounted to DKK 48 million. Combined with the acquisition of companies in the period 2012 to 2016, this contributed to the increase in the number of employees over the past five years.

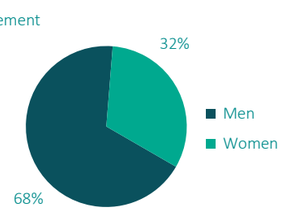
Energinet's pay level reflects the fact that the majority of the employees are academics.

The number of full-time employees in the Energinet Group totalled 950 at the end of the year.

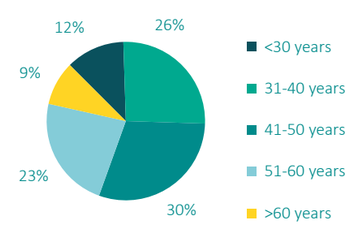
EMPLOYEE CATEGORIES



EMPLOYEE GENDER DISTRIBUTION

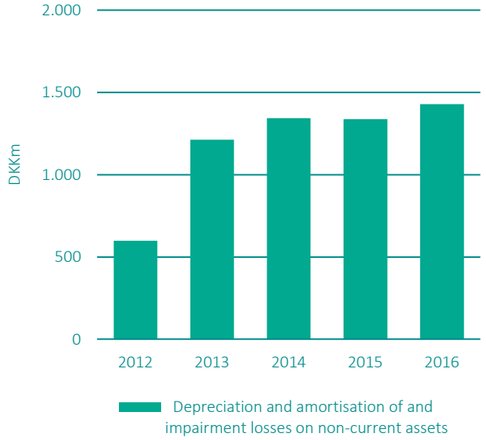


EMPLOYEE AGE DISTRIBUTION



Note 3 DKKm	2016	2015
Depreciation and amortisation of and impairment losses on tangible fixed assets and intangible assets		
Goodwill	-12	-12
Rights	-4	0
Software	-144	-88
Land and buildings	-4	-4
Infrastructure	-1,066	-1,128
Other plant, tools and operating equipment	-50	-29
Assets under construction	0	0
Impairment losses/scrapping	-149	-76
Total	-1,429	-1,337

DEPRECIATION AND AMORTISATION OF AND IMPAIRMENT LOSSES ON NON-CURRENT ASSETS



There has been a general increase in ordinary depreciation and amortisation over the past five years. The primary reason is investments in new installations and the merger with acquired enterprises.

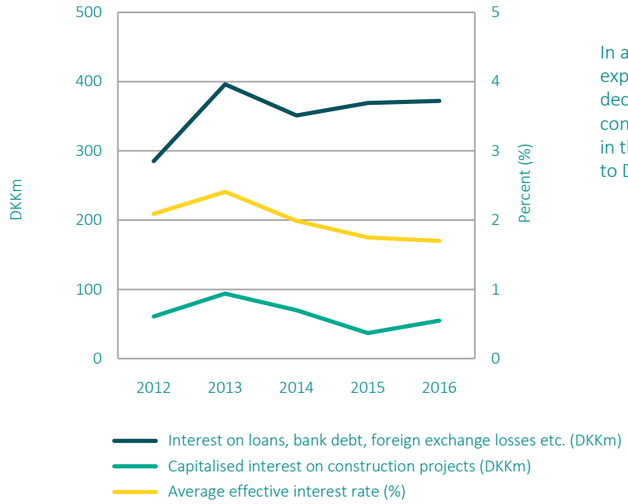
2013 was especially affected by the merger with the regional transmission companies.

In response to a request from the Danish government, Energinet has developed six areas for the location of near-shore wind turbines. According to the original plans, wind turbines will be erected in two locations only. As a consequence, 2016 was affected by an impairment loss of DKK 115 million.

Major investments will continue to be made going forward, resulting in higher depreciation and amortisation.

Note 4 DKKm	2016	2015
Financial expenses		
Interest on balances with subsidiaries	-1	-1
Interest on loans, bank debt etc.	-337	-302
Capitalisation of decommissioning provisions	-81	-127
Foreign exchange losses and fair value adjustments etc.	-35	-67
Capitalised interest on construction projects	55	37
Total	-399	-460

DEVELOPMENT IN FINANCIAL EXPENSES

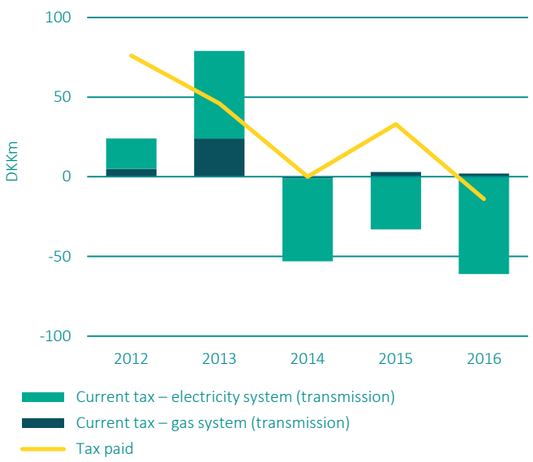


Financial expenses fell from DKK 460 million in 2015 to DKK 399 million in 2016.

In addition to interest on net interest-bearing debt, financial expenses are affected by the decrease in the capitalisation of decommissioning provisions as well as capitalised interest on construction projects reducing interest expenses recognised in the income statement by DKK 55 million in 2016 relative to DKK 37 million in 2015.

Note 5 DKKm	2016	2015
Tax on profit/loss for the year		
Current tax for the year	43	27
Deferred tax for the year	-5	-1
Current tax regarding previous years	15	3
Deferred tax regarding previous years	-15	2
Deferred tax relating to reduction of corporation tax rate	0	0
Total	38	31
Comprising:		
Tax on profit/loss for the year	38	31
Tax on changes in equity	0	0
Total	38	31
Tax rate adjustment		
Corporation tax rate	22.0%	23.5%
Tax effect of non-taxable income and non-deductible expenses	-4.2%	-6.9%
Tax effect of reduction of corporation tax rate, current year	0.0%	-0.1%
Adjustment of tax in previous years	-0.8%	4.0%
Effective tax rate for the year	17.0%	20.5%

DEVELOPMENT IN CURRENT TAX AND TAX PAID



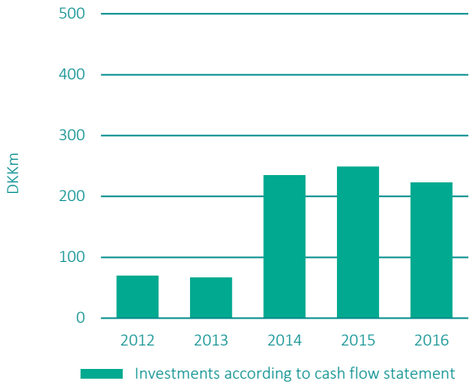
Energinet is subject to a break-even principle. On this basis, the tax for the year will be modest as the taxable income should zero out over time. However, a number of items are not continuously included in the tariffs, which is why actual tax payments are realised, for instance in respect of EU grants received and income from congestion rents transferred to reserves.

Energinet has generally experienced a decline in current tax, which is primarily attributable to decreasing income from congestion rents transferred to reserves and reversed congestion rents to consumers as a result of the 2012 energy agreement.

Energinet is covered by the rules on limitation of deductibility of interest.

Note 6 DKKm	Goodwill	Rights	Software	Assets under construc-tion	Total
Intangible assets					
Acquisition cost at 1 January	**249**	**38**	**885**	**239**	**1,411**
Additions during the year	0	0	0	222	222
Disposals during the year	0	0	-5	0	-5
Transfer to/from other items	0	0	296	-364	-68
Other adjustments	0	0	0	0	0
Acquisition cost at 31 December	**249**	**38**	**1,176**	**97**	**1,560**
Amortisation and impairment losses at 1 January	**-94**	**-1**	**-556**	**0**	**-651**
Amortisation and impairment losses for the year	-12	-4	-144	0	-160
Reversals on disposals for the year	0	0	5	0	5
Transfer to/from other items	0	0	0	0	0
Other adjustments	0	1	2	0	3
Amortisation and impairment losses at 31 December	**-106**	**-4**	**-693**	**0**	**-803**
Carrying amount at 31 December	143	34	483	97	757

ACQUISITION OF INTANGIBLE ASSETS



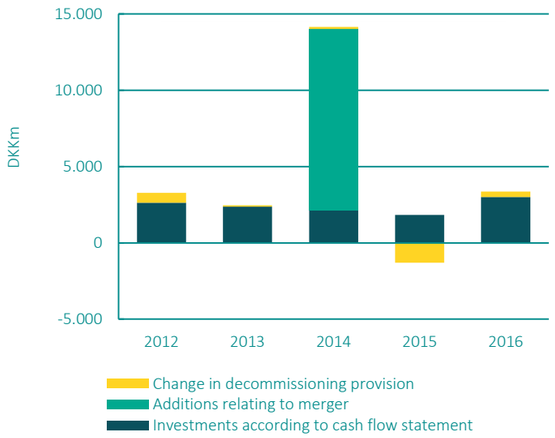
Investments for the year in intangible assets primarily concern the wholesale model and the work on enhancing the level of IT and information security. The wholesale model was commissioned in 2016. Initiatives aimed at IT and information security will be commissioned on an ongoing basis.

Note 7 DKKm	Land and buildings	Infra-structure	Cushion gas	Other plant	Assets under construc-tion	Total
Tangible fixed assets						
Acquisition cost at 1 January	**475**	**40,005**	**255**	**398**	**2,107**	**43,240**
Additions during the year	0	358	0	0	2,989	3,347
Disposals during the year	0	-68	-53	-4	-199	-324
Transfer to/from other items	55	1,942	0	136	-2,065	68
Other adjustments	0	0	0	0	0	0
Acquisition cost at 31 December	**530**	**42,237**	**202**	**530**	**2,832**	**46,331**
Depreciation and impairment losses at 1 January	**-69**	**-12,888**	**0**	**-217**	**-46**	**-13,220**
Depreciation and impairment losses for the year	-4	-1,066	0	-50	0	-1,120
Reversals on disposals for the year	0	43	0	3	0	46
Transfer to/from other items	0	0	0	0	0	0
Other adjustments	0	0	0	-2	-1	-3
Depreciation and impairment losses at 31 December	**-73**	**-13,911**	**0**	**-266**	**-47**	**-14,297**
Carrying amount at 31 December	457	28,326	202	264	2,785	32,034

Finance costs totalling DKK 215 million have been capitalised under 'Non-current assets', including DKK 55 million in 2016.

Assets held under finance leases are included under 'Infrastructure' with a carrying amount of DKK 45 million.

ACQUISTION OF TANGIABLE FIXED ASSETS



Investments for the year in 2016 primarily consist of investments in grid connection of the Horns Rev 3 wind farm and the interconnection to Germany via Kriegers Flak.

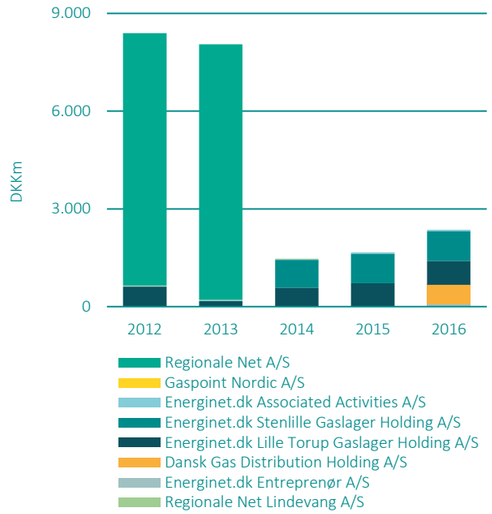
The acquisition cost for accounting purposes in 2016 was significantly affected by an upward adjustment of the decommissioning provision of DKK 342 million, primarily as a consequence of new assets in 2016. For further information, reference is made to page 119.

The past five years have been affected by major fixed asset investments as a result of the expansion of the existing grid based on the green transition and the need to secure a high level of security of supply. 2014 was especially impacted by the merger with Regionale Net according to the uniting-of-interests method.

In the coming years, major investments will continue to be made, bringing with them increases in depreciation and amortisation.

Note 8 DKKm	Equity invest-ments in subsidiar-ies	Equity invest-ments in associates	Other equity invest-ments	Total invest-ments
Investments				
Acquisition cost at 1 January	**1,876**	**7**	**41**	**1,924**
Additions during the year	675	0	0	675
Disposals during the year	0	-7	0	-7
Acquisition cost at 31 December	**2,551**	**0**	**41**	**2,592**
Value adjustments at 1 January	**-209**	**0**	**0**	**-209**
Additions during the year	0	0	0	0
Disposals during the year	0	0	0	0
Net profit/loss for the year	39	0	0	39
Equity adjustments	-22	0	0	-22
Foreign currency translation adjustments concerning foreign entities	0	0	0	0
Value adjustments at 31 December	**-192**	**0**	**0**	**-192**
Carrying amount at 31 December	2,359	0	41	2,400

DEVELOPMENT IN EQUITY INVESTMENTS IN SUBSIDIARIES



Equity investments in subsidiaries primarily concern equity contributions in holding companies regarding gas storage activities. Additions during the year consist mainly of the formation of the holding company for the acquisition of the assets in Dansk Gas Distribution A/S. Regionale Net A/S merged with Energinet in 2014.

Impairment tests are carried out of the value of the gas storage activities based on future expectations for operating profit etc.

In 2016, the test carried out did not give rise to any value adjustments. Future expectations are based on forecasts and analyses of the market for gas storage capacity.

Uncertainty about the valuation of equity investments can be attributed to the expectations for future prices and the demand for gas storage capacity as well as the prices of cushion gas in connection with the removal of installations.

Equity investments in subsidiaries in 2016	Domicile	Ownership interest	Invested capital DKKm	Equity value DKKm
Energinet.dk Associated Activities A/S	Fredericia	100%	0.5	42
Energinet.dk Lille Torup Gaslager Holding A/S	Fredericia	100%	50.0	732
Energinet.dk Stenlille Gaslager Holding A/S	Fredericia	100%	0.5	913
Dansk Gas Distribution Holding A/S	Fredericia	100%	0.5	601
Energinet.dk Entreprenør A/S	Fredericia	100%	0.5	49
Regionale Net Lindevang A/S	Fredericia	100%	0.5	22
Under direct ownership, total			53	2,359

Equity investments in associates in 2016	Domicile	Ownership interest	Equity DKKm	Equity value DKKm
EMCC European Market Coupling Company GmbH*	Hamburg (D)	20.0%	EUR 0	0
Total				0

Other equity investments in 2016	Domicile	Ownership interest	Equity DKKm	Cost in DKKm
Nord Pool AS	Oslo (N)	18.8%	NOK 286	36
Dansk Gasteknisk Center A/S**	Hørsholm (DK)	13.9%	DKK 11	1
TSCNET Services GmbH	Munich (D)	7.7%	EUR 2	3
PRISMA European Capacity Platform GmbH	Leipzig (D)	6.9%	EUR 0	0
Joint Allocation Office S.A.	Luxembourg (L)	5.0%	EUR 4	1
Total				41

Total investments	2,400

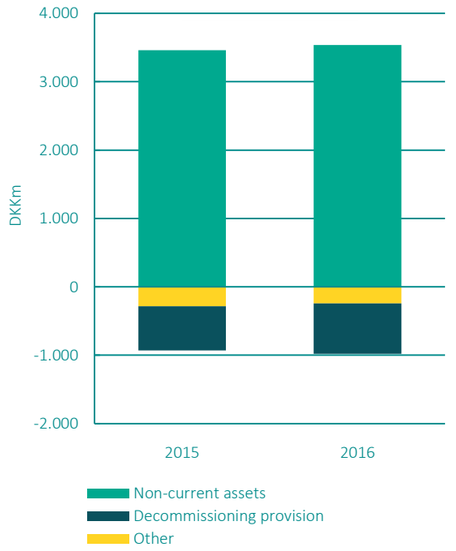
*) The company is being wound up. Associates are recognised and measured as independent entities.

**) Energinet.dk has divested part of its share in connection with the acquisition of the assets in Dansk Gas Distribution A/S.

Note 9 DKKm	2016	2015
Deferred tax liabilities		
Deferred tax at 1 January	2,533	2,534
Adjustment in respect of previous years	15	-2
Deferred tax relating to reduction of corporation tax rate	0	0
Change in deferred tax concerning the profit/loss for the year	5	1
Total	2,553	2,533

A tax rate of 22% has been applied.

SPECIFICATION OF DEFERRED TAX



Deferred tax increased from DKK 2,533 million in 2015 to DKK 2,553 million in 2016.

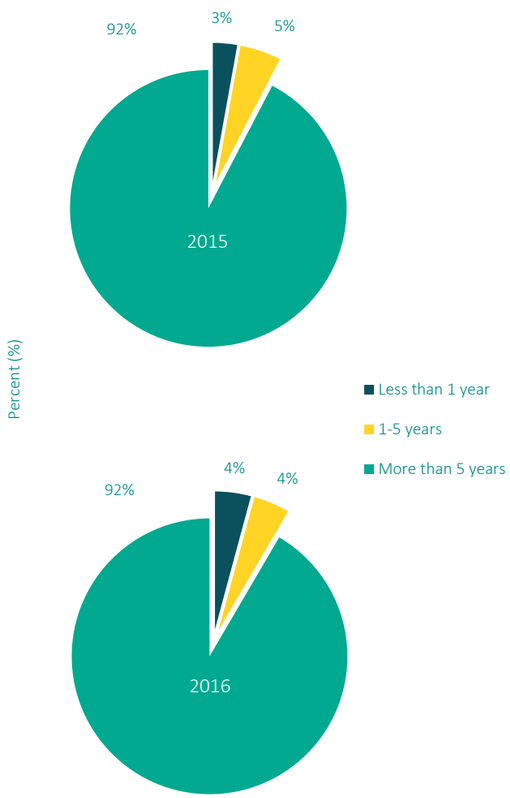
Deferred tax is based mainly on tangible fixed assets, due primarily to deviations between the depreciation of non-current assets for accounting and tax purposes.

The decommissioning provisions involve a deferred tax asset, since tax deduction is obtained only as decommissioning costs are incurred.

As of 2013, deferred tax is recognised at a tax rate of 22%, corresponding to the actual tax rate in 2016.

Note 10 DKKm	2016	2015
Decommissioning provisions		
Expected maturity of decommissioning provisions:		
Less than 1 year	141	83
1-5 years	142	141
More than 5 years	3,072	2,706
Total	3,355	2,930

EXPECTED MATURITY OF PROVISIONS



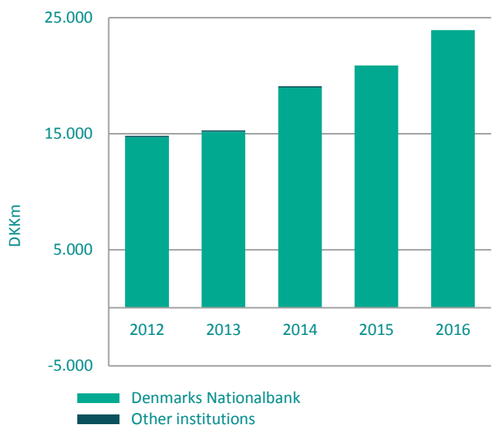
Decommissioning provisions relate to the removal of towers, overhead lines, natural gas facilities etc., as well as the decommissioning of property owned by third parties. The elements of uncertainty relate essentially to the time at which the related payments were effected.

In connection with the determination of the decommissioning provisions, Energinet has calculated the expenses of dismantling and removing the non-current assets concerned on a disaggregated basis. The expense per disaggregated unit is stated in 2016 prices. The prices have been projected with an inflation rate until the year when the non-current asset in question is expected to be dismantled and removed, after which it is discounted to present value.

The preconditions and estimates are reassessed once a year. In 2016, a change took place in the decommissioning provisions of DKK 425 million, which in addition to the return for the year consists of the addition of newly constructed installations, including the power connection (between the wind farm and the transmission system) at Horns Rev 3, by a total of DKK 342 million. In 2016, the costs incurred for the decommissioning of discontinued overhead lines amounted to DKK 9 million.

Note 11 DKKm	2016	2015
Payables to credit institutions and mortgage debt		
Less than 1 year	1,519	0
1-5 years	1,597	2,074
More than 5 years	20,820	18,909
Total	23,936	20,983

PAYABLES TO CREDIT INSTITUTIONS



Interest-bearing debt in Energinet increased from DKK 20,983 million in 2015 to DKK 23,936 million in 2016. The increase is mainly attributable to the acquisition of Dansk Gas Distribution A/S.

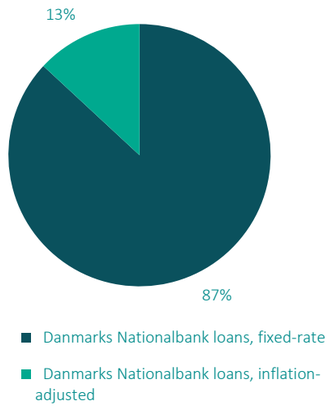
Interest-bearing debt rose over the entire period due to the fixed asset investments made and the acquisition of enterprises.

Energinet mainly obtains loans from Danmarks Nationalbank. Loans are obtained as fixed-rate loans with a long time to maturity.

Note 12	Expiry	Contract, foreign currency in millions	Forward contract, foreign currency in millions	Contract in DKKm	Forward contract in DKKm	Market value in DKKm
Derivative financial instruments						
Currency risks in connection with contracts (forward contracts)						
EUR	2017-2019	-22	22	-164	165	1
SEK	2017-2019	403	-403	-314	311	-3
Total				-478	476	-2
Interest rate risks attaching to loan portfolio (interest rate swap agreements)						
Fixed interest rate to floating interest rate	2017-2024			1,500		543
Floating interest rate to fixed interest rate	2017-2024			2,000		-216
Total				3,500		327
Total financial instruments						325

The Energinet Group has entered into a number of financial contracts with a view to hedging interest and foreign currency risks. As such, forward contracts have been concluded in order to hedge foreign currency risks relating to contracts concluded comprising foreign currency elements. Moreover, interest rate swap agreements have been entered into with a view to managing the interest rate risk attaching to the loan portfolio.

DISTRIBUTION OF INTEREST-BEARING DEBT IN 2016



The market value of financial instruments amounts to DKK 325 million, with DKK 543 million being recognised under 'Other receivables' and DKK 218 million under 'Other payables'.

The majority of the market value of financial instruments can thus be attributed to the market value of interest rate swaps. The value adjustment is offset by translation adjustments of the underlying interest-bearing debt.

The majority of the interest-bearing debt is fixed-rate debt with Danmarks Nationalbank. The debt is recognised in the financial statements at amortised cost.

Furthermore, part of the interest-bearing debt is adjusted for inflation and indexed continuously in line with the development in the Danish consumer price index.

A minor part of the interest-bearing debt is floating-rate debt, short-term bank credits etc.

Note	DKKm	2016	2015
13	**Other receivables**		
	Less than 1 year	1,231	1,240
	1-5 years	0	26
	More than 5 years	530	542
	Total	1,761	1,808

Other receivables comprise the market value of financial instruments, receivables from tariff collections, state and EU grants as well as other receivables.

Note	DKKm	2016	2015
14	**Prepayments (assets)**		
	Less than 1 year	282	9
	1-5 years	0	29
	More than 5 years	0	0
	Total	282	38

Prepayments comprise EU grants related to construction projects as well as prepaid expenses incurred. EU grants are recognised in the income statement and await payment by the EU.

Note	DKKm	2016	2015
15	**Deferred income (liabilities)**		
	Less than 1 year	121	74
	1-5 years	31	172
	More than 5 years	327	203
	Total	479	449

Deferred income comprises prepayments received in relation to income to be deferred to subsequent years and EU grants received for construction projects. The grants are recognised in the income statement in step with the depreciation of the installations to which the grants relate.

Note	DKKm	2016	2015
16	**Lease commitments**		
	Less than 1 year	6	6
	1-5 years	26	25
	More than 5 years	13	20
	Total	45	51

Note	
17	**Contingent liabilities and other financial liabilities**
	Reference is made to note 20 in the consolidated financial statements.

Note	
18	**Fees to external and internal auditors**
	Reference is made to note 21 in the consolidated financial statements.

Note	
19	**Related parties**
	Reference is made to note 22 in the consolidated financial statements.

ACCOUNTING POLICIES FOR THE PARENT

The annual report of the independent public enterprise Energinet.dk for the period 1 January - 31 December 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act and the Danish Act on Energinet.dk.

Energinet.dk is required by Danish legislation to prepare its annual report in pursuance of the provisions of the Danish Financial Statements Act that apply to state-owned public limited companies. As such, the annual report has been prepared in accordance with the requirements for class D enterprises.

Reference is made to page 1 where the accounting policies applied by the Energinet.dk Group are described. Deviations from group policies are described below.

Investments
In the financial statements of the parent, equity investments in subsidiaries are recognised according to the equity method, ie at the proportionate share of the carrying amount of such subsidiaries.

The share of the profit/loss in subsidiaries is recognised in the income statement of the parent.

In the parent, the total net revaluation of equity investments in the subsidiary is transferred via the distribution of net profit/loss to the reserve for net revaluation according to the equity method.

An impairment test of financial assets is carried out when there is an indication of impairment. The impairment test compares the recoverable amount and the carrying amount of the tested asset. Impairment losses are recognised when the carrying amount of an asset or cash-generating unit (CGU) exceeds the recoverable amount of the asset or cash-generating unit.

The recoverable amount of financial assets is the highest value of the assets' fair value less expected disposal costs and the present value of the expected future net cash flows (value in use).

Cash flow statement
No separate cash flow statement for the parent has been prepared in accordance with Section 86 of the Danish Financial Statements Act. Reference is made to the cash flow statement for the Group in the consolidated annual report.

Segment note
No separate segment information is provided for the parent. Reference is made to the segment note for the Group in the consolidated financial statements; see note 1, page 50.

STATEMENT BY THE SUPERVISORY AND EXECUTIVE BOARDS ON THE ANNUAL REPORT

The Supervisory and Executive Boards have on this day considered and adopted the annual report for 2016 for Energinet.dk.

The annual report and the management's review have been presented in accordance with the Danish Financial Statements Act and the Danish Act on Energinet.dk.

In our opinion, the accounting policies applied are appropriate, the Group's internal control relevant to the preparation and presentation of the annual report is adequate and the annual report therefore gives a true and fair view of the Group's and the parent's assets, liabilities and financial position at 31 December 2016 and of the results of the Group's and the parent's operations and the Group's cash flows for the financial year 1 January - 31 December 2016.

In our opinion, the management's review provides a fair account of the development in the Group's and the parent's operations and financial circumstances, of the results for the year and of the Group's and the parent's financial position as well as a description of the most significant risks and elements of uncertainty facing the Group and the parent.

Furthermore, in our opinion, the business procedures and internal control established which are covered by the consolidated financial statements and the parent financial statements comply with the Danish Act on Energinet.dk and other regulations as well as agreements concluded and generally accepted accounting principles.

The annual report and proposed appropriation account are submitted for approval by the Danish Minister for Energy, Utilities and Climate.

FREDERICIA, 16 MARCH 2017

EXECUTIVE BOARD

Peder Østermark Andreasen
President and CEO

Torben Thyregod
Executive Vice President, CFO

Torben Glar Nielsen
Executive Vice President, CTO

SUPERVISORY BOARD

Kim Andersen
Chairman

Charlotte Foght Linnemann Møller Wedel-Heinen

Hanne Søndergaard

Hans Duus Jørgensen

Hans Heidemann Simonsen

Hans Peter Møllgaard

Lars Erik Clausen

Niels Frederik Bergh-Hansen

Berit Schilling Nielsen*

Carl Erik Madsen*

Rasmus Munch Sørensen*

* Employee elected

INTERNAL AUDITOR'S REPORT

To the shareholder of Energinet.dk

Opinion
In our opinion, the consolidated financial statements and parent financial statements give a true and fair view of the Group's and the parent's assets, liabilities and financial position at 31 December 2016 and of the results of the Group's and the parent's operations as well as the Group's cash flows for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act and the Danish Act on Energinet.dk.

We have audited the consolidated financial statements and financial statements of Energinet.dk for the financial year 1 January - 31 December 2016, which comprise the income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for both the Group and the parent as well as the consolidated cash flow statement ('the financial statements').

Basis of opinion
We conducted our audit in accordance with international auditing standards and additional requirements applicable in Denmark. Our responsibility under these standards and requirements is described in more detail in the 'Auditor's responsibility for the audit of the financial statements' section of the auditor's report. We are independent of the Group as required by international ethics standards for auditors (IESBA ethics standards) and additional requirements applicable in Denmark, just as we have fulfilled our other ethical obligations under these standards and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Statement on the management's review
Management is responsible for the management's review.

Our opinion on the financial statements does not include the management's review, and we express no opinion with assurance on the management's review.

In connection with our audit of the financial statements, our responsibility is to read the management's review and, in doing so, consider whether the management's review is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Furthermore, our responsibility is to consider whether the management's review contains the information required by the Danish Financial Statements Act.

Based on the work performed, it is our opinion that the management's review is consistent with the consolidated financial statements and financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We have not found any material misstatements in the management's review.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of consolidated financial statements and parent financial statements in accordance with the Danish Financial Statements Act and the Danish Act on Energinet.dk. Management is also responsible for the internal control which management deems to be necessary for 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 Group's and the parent's ability to continue as a going concern; for making disclosures in connection with going concern where relevant; as well as to prepare financial statements on a going concern basis, unless management either intends to liquidate the group or the parent or to cease trading, or has no realistic alternative but to do so.

Auditor's responsibility 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 International Standards on Auditing and additional requirements applicable in Denmark as well as generally accepted public auditing standards 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 International Standards on Auditing and additional requirements applicable in Denmark as well as generally accepted public auditing standards, we exercise professional judgment and maintain professional scepticism 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 Group's and the parent'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 and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the parent'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 Group and the parent 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Report on compliance audit and performance audit
Management is responsible for ensuring that the transactions covered by the consolidated financial statements and the parent financial statements comply with licences granted, laws and other regulations as well as agreements concluded and generally accepted accounting principles; and that due financial consideration has been given in managing the funds and the operation of the enterprises covered by the consolidated financial statements and the parent financial statements.

In connection with our audit of the financial statements, our responsibility under generally accepted public auditing standards is to select relevant topics for the compliance audit and performance audit. The objective of a compliance audit of the selected topics is to obtain reasonable assurance about whether the transactions covered by the consolidated financial statements and parent financial statements comply with licences granted, laws and other regulations as well as agreements concluded and generally accepted accounting principles. The objective of a performance audit is to obtain reasonable assurance about whether the systems, processes or transactions audited support the due financial consideration given in managing the funds and the operation of the enterprises covered by the financial statements.

If, on the basis of the work performed, we identify instances of noncompliance giving rise to significant critical comments, we are required to report them.

We have no significant critical comments to report in this respect.

FREDERICIA, 16 MARCH 2017

PricewaterhouseCoopers
Statsautoriseret
Revisionspartnerselskab

CVR no. 33 77 12 31

Jens Otto Damgaard
State-authorised public accountant

Brian Christiansen
State-authorised public accountant

INDEPENDENT AUDITOR'S REPORT

Auditor's report on the financial statements

Opinion
We have audited the consolidated financial statements and parent financial statements of Energinet.dk for the financial year 1 January - 31 December 2016, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The consolidated financial statements and parent financial statements are presented in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and parent financial statements give a true and fair view of the Group's and the parent's assets, liabilities and financial position at 31 December 2016 and of the results of the Group's and the parent's operations as well as the Group's cash flows for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis of opinion
We performed our audit in accordance with generally accepted public auditing standards, as the audit is performed on the basis of the provisions of the Danish Act on Energinet.dk. Generally accepted auditing standards are based on the fundamental auditing practices set out in the national audit offices' international standards (ISSAI 100-999). Our responsibility under these standards and requirements is described in more detail in the 'Auditor's responsibility for the audit of the financial statements' section of the auditor's report.

The Auditor General is independent of Energinet.dk in accordance with Section 1(6) of the Danish Auditor General Act.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of financial statements in accordance with the Danish Financial Statements Act. Management is also responsible for the internal control which management deems to be necessary for 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 Energinet.dk's ability to continue as a going concern; for making disclosures in connection with going concern where relevant; as well as to prepare financial statements on a going concern basis, unless management either intends to liquidate the enterprise or to cease trading, or has no realistic alternative but to do so.

Auditor's responsibility 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 generally accepted public auditing standards 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 of accounting information taken on the basis of these financial statements.

As part of an audit in accordance with generally accepted public auditing standards, we exercise professional judgment and maintain professional scepticism 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 Energinet.dk'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 and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Energinet.dk'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 Energinet.dk 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.

Statement on the management's review
Management is responsible for the management's review.

Our opinion on the financial statements does not include the management's review, and we express no opinion with assurance on the management's review.

In connection with our audit of the financial statements, our responsibility is to read the management's review and, in doing so, consider whether the management's review is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Furthermore, our responsibility is to consider whether the management's review contains the information required by the provisions of the Danish Financial Statements Act.

Based on the work performed, it is our opinion that the management's review is consistent with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We have not found any material misstatements in the management's review.

Report on other legal and regulatory requirements
Report on compliance audit and performance audit

Management is responsible for ensuring that the transactions covered by the consolidated financial statements and the parent financial statements comply with licences granted, laws and other regulations as well as agreements concluded and generally accepted accounting principles; and that due financial consideration has been given in managing the funds and the operation of the enterprises covered by the consolidated financial statements and the parent financial statements.

In connection with our audit of the financial statements, our responsibility under generally accepted public auditing standards is to select relevant topics for the compliance audit and performance audit. The objective of a compliance audit of the selected topics is to obtain reasonable assurance about whether the transactions covered by the consolidated financial statements and parent financial statements comply with licences granted, laws and other regulations as well as agreements concluded and generally accepted accounting principles. The objective of a performance audit is to obtain reasonable assurance about whether the systems, processes or transactions audited support the due financial consideration given in managing the funds and the operation of the enterprises covered by the financial statements.

If, on the basis of the work performed, we identify instances of noncompliance giving rise to significant critical comments, we are required to report them.

We have no significant critical comments to report in this respect.

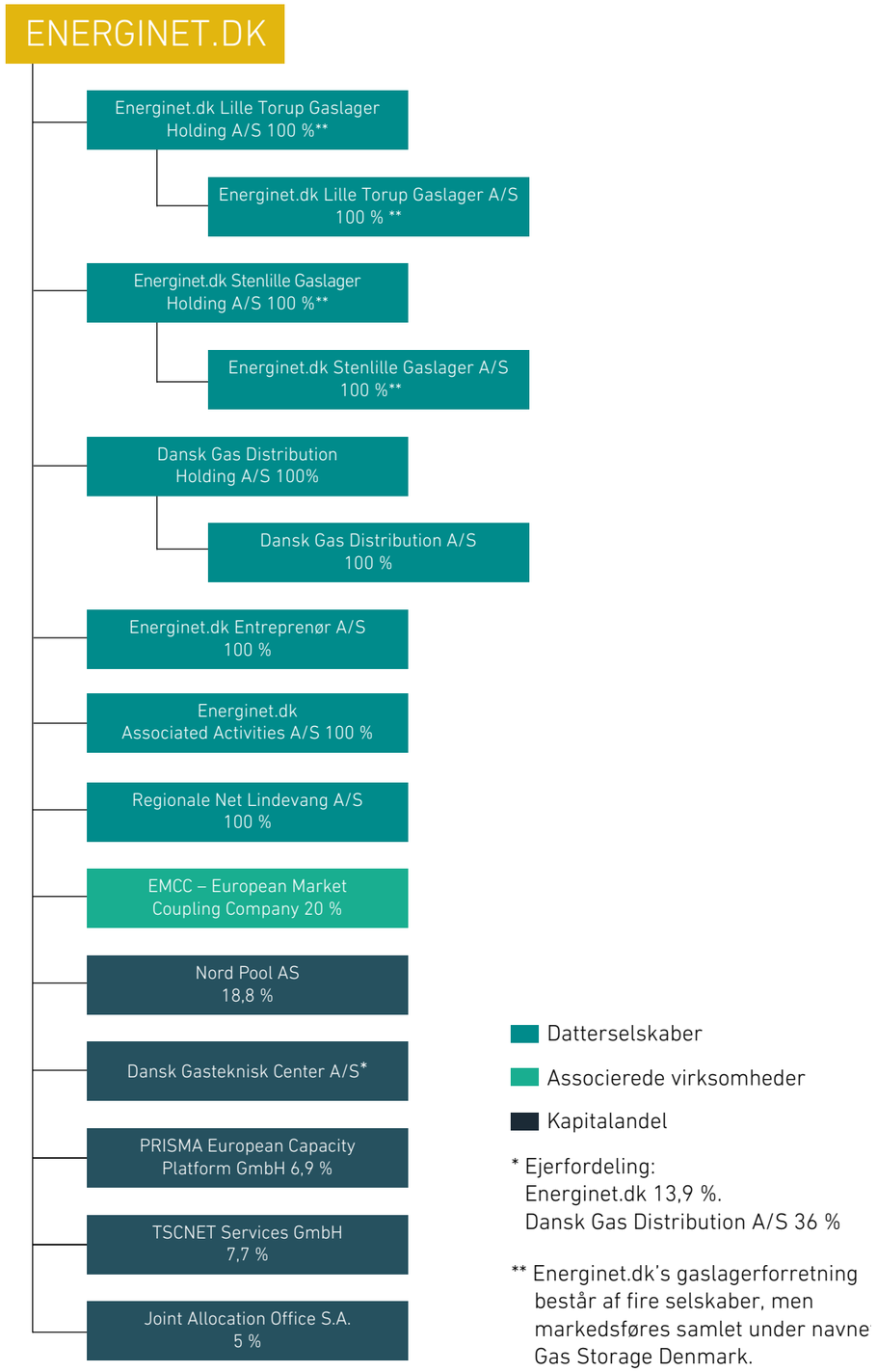
FREDERICIA, 16 MARCH 2017

Rigsrevisionen

Lone Strøm
Auditor General

Malene Sau Lan Leung
Director

THE GROUP AT 31 DECEMBER 2016



* Ejerfordeling:
Energinet.dk 13,9 %.
Dansk Gas Distribution A/S 36 %

** Energinet.dk's gaslagerforretning består af fire selskaber, men markedsføres samlet under navne Gas Storage Denmark.

KEY FIGURES AND RATIOS

Financial highlights (DKKm)	2016	2015	2014	2013	2012
Income statement					
Revenue	13,381	12,364	10,431	9,481	9,441
Excess revenue/deficit for the year*	-1,233	489	777	-196	-988
EBITDA	1,890	1,878	1,659	1,956	1,579
Profit/loss before net financials	243	419	289	46	620
Net financials	-410	-481	-434	-429	-269
Net profit/loss for the year	-143	-54	-125	37	261
Strengthening of contributed capital	21	41	-4	0	116
Balance sheet					
Non-current assets	40,200	35,031	35,787	31,714	29,628
Current assets	4,367	4,109	3,230	3,023	2,692
Balance sheet total	44,567	39,140	39,017	34,737	32,320
Net interest-bearing debt	26,141	22,404	21,792	18,367	16,424
Equity	5,664	5,830	5,870	5,998	5,961
Cash flows					
Operating activities	1,920	1,298	1,120	1,094	1,686
Investing activities	-5,092	-2,066	-4,623	-3,239	-8,202
of which investment in tangible fixed assets	-3,093	-1,860	-2,173	-3,237	-2,731
Financing activities	2,040	1,290	4,262	1,512	6,683
Cash and cash equivalents, end of year, net	-461	671	149	-610	13
Key ratios					
Solvency ratio (%)	13	15	15	17	18
Credit rating, Standard & Poors	AA-	AA-	AA	AA	AA
Price-index regulation announced by the Danish Energy Regulatory Authority (%)	0.7	1.3	-0.4	0	3.6
Rate of cost, operating expenses (%)	2.1	2.3	2.1	2.3	3.2
EBITDA margin (%)	14.2	15.2	15.9	20.6	16.7
Operating cash flow/debt (%)	7.3	5.8	5.1	6.0	10.3

*) + = deficit, – = excess revenue
Reference is made to page 135 for a definition of key figures and ratios.

Non-financial highlights	2016	2015	2014	2013	2012
Human resources					
No. of occupational injuries (per million working hours)**	6.4	2.5	0.7	1.6	0.0
Absence due to illness (%)	2.2	2.0	1.6	1.7	1.7
Employee turnover (%)	11.2	11.8	11.0	10.1	10.6
Average no. of employees during the year	953	834	738	680	618
Tariffs					
Electricity consumption tariff in total (DKK 0.01 per kWh)	31.5	29.6	28.5	24.3	23.0

Highlights by segment Electricity system (DKKm)	2016	2015	2014	2013	2012
Income statement					
Revenue	3,182	3,077	2,974	3,219	3,680
Excess revenue/deficit for the year	-198	209	187	-150	-487
Operating profit/loss	138	232	144	362	228
Net financials	-294	-357	-309	-358	-143
Net profit/loss for the year	-133	105	-138	219	65
Balance sheet					
Non-current assets	27,649	25,477	25,750	24,602	22,053
Balance sheet total	29,506	27,107	26,739	25,896	23,236
Tariffs					
Grid tariff (DKK 0.01 per kWh)	4.3	4.2	2.8	2.8	4.2
System tariff (DKK 0.01 per kWh)	3.9	2.9	4.1	4.1	3.4

Environmentally friendly energy – PSO (DKKm)	2016	2015	2014	2013	2012
Income statement					
Revenue	9,040	8,404	6,908	5,734	5,121
Excess revenue/deficit for the year*	-1,027	103	413	-143	-466
Balance sheet					
Non-current assets	302	329	405	436	466
Balance sheet total	1,893	2,346	1,931	1,875	1,494
Tariffs					
PSO tariff (DKK 0.01 per kWh – average for the year)	23.3	22.5	21.6	17.4	15.5

*) + = deficit, – = excess revenue
** 2016 cannot be compared with previous years as the ratio for 2016 includes data for external contractors
Reference is made to page 135 for a definition of key figures and ratios.

The gas system (DKKm)	2016	2015	2014	2013	2012
Income statement					
Revenue	628	584	415	408	477
Excess revenue/deficit for the year*	24	177	177	97	-35
Operating profit/loss	22	55	88	230	303
Net financials	-60	-79	-84	-120	-51
Net profit/loss for the year	-31	-13	2	169	192
Balance sheet					
Non-current assets	4,874	5,022	5,366	5,400	5,169
Balance sheet total	5,359	5,426	5,977	6,198	5,625
Tariffs					
Capacity tariff (DKK/kWh/h/year)	11.64	9.45	6.83	8.13	9.48
Volume tariff (DKK 0.01 per kWh)	0.336	0.259	0.213	0.261	0.109
Emergency supply tariff, protected customers (DKK 0.01 per kWh)	0.126	0.129	0.019	0.067	0.237
Emergency supply tariff, non-protected customers (DKK 0.01 per kWh)	0.064	0.083	0.012	0.045	0.127

Commercial activities (DKKm)	2016	2015	2014	2013	2012
Income statement					
Revenue	636	338	168	179	208
Operating profit/loss	84	122	52	-571	68
Net financials	-57	-35	-36	74	-54
Net profit/loss for the year	21	64	11	-351	4
Balance sheet					
Non-current assets	7,375	4,203	4,266	1,473	2,150
Balance sheet total	8,388	4,261	4,370	1,488	2,175
Financial highlights					
ROCE (%)	4.0	4.4	1.3	0.7	3.4
Solvency ratio (%)	37	36	33	11	28

*) + = deficit, – = excess revenue
Reference is made to page 135 for a definition of key figures and ratios.

DEFINITIONS OF KEY FIGURES AND RATIOS

EBITDA MARGIN	EBITDA / Revenue x 100
OPERATING CASH FLOW / DEBT	Operating activity x 100 / Interest-bearing debt
SOLVENCY RATIO	Equity x 100 / Balance sheet total
RATE OF COST, OPERATING EXPENSES	Operating expenses x 100 / Carrying amount of non-current assets, beginning of year
OPERATING EXPENSES	Operating expenses comprise administrative expenses and staff costs
EBITDA	Profit/loss before depreciation, amortisation and impairment losses, net financials and tax
RETURN ON CAPITAL EMPLOYED (ROCE)	Earnings before interest and tax (EBIT) / Invested capital
STRENGTHENING OF CONTRIBUTED CAPITAL	The year's actual value of the contributed capital according to the price index announced by the Danish Energy Regulatory Authority
PRICE-INDEX REGULATION ANNOUNCED BY THE DANISH ENERGY REGULATORY AUTHORITY	Index increase according to the price index announced by the Danish Energy Regulatory Authority
EMPLOYEES	Average no. of full-time employees converted using the ATP method
EMPLOYEE TURNOVER *	(New arrivals + departures) / 2 x 100 / No. of employees, end of year
NO. OF OCCUPATIONAL INJURIES PER MILLION WORKING HOURS *	No. of lost-time injuries per million working hours among own staff and external contractors (12-month average)
ABSENCE DUE TO ILLNESS *	No. of hours of absence due to illness x 100 / No. of contractual working hours
TRADING ON GASPOINT NORDIC *	Volume gas traded at Gaspoint Nordic x 100 / Volume gas consumption in Denmark
DELIVERY POINTS AFFECTED BY TECHNICAL PROBLEMS (GAS) *	Delivery points affected by technical problems (%). In a delivery point, gas is added to/removed from Energinet's transmission grid.

* The ratio has not been audited

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