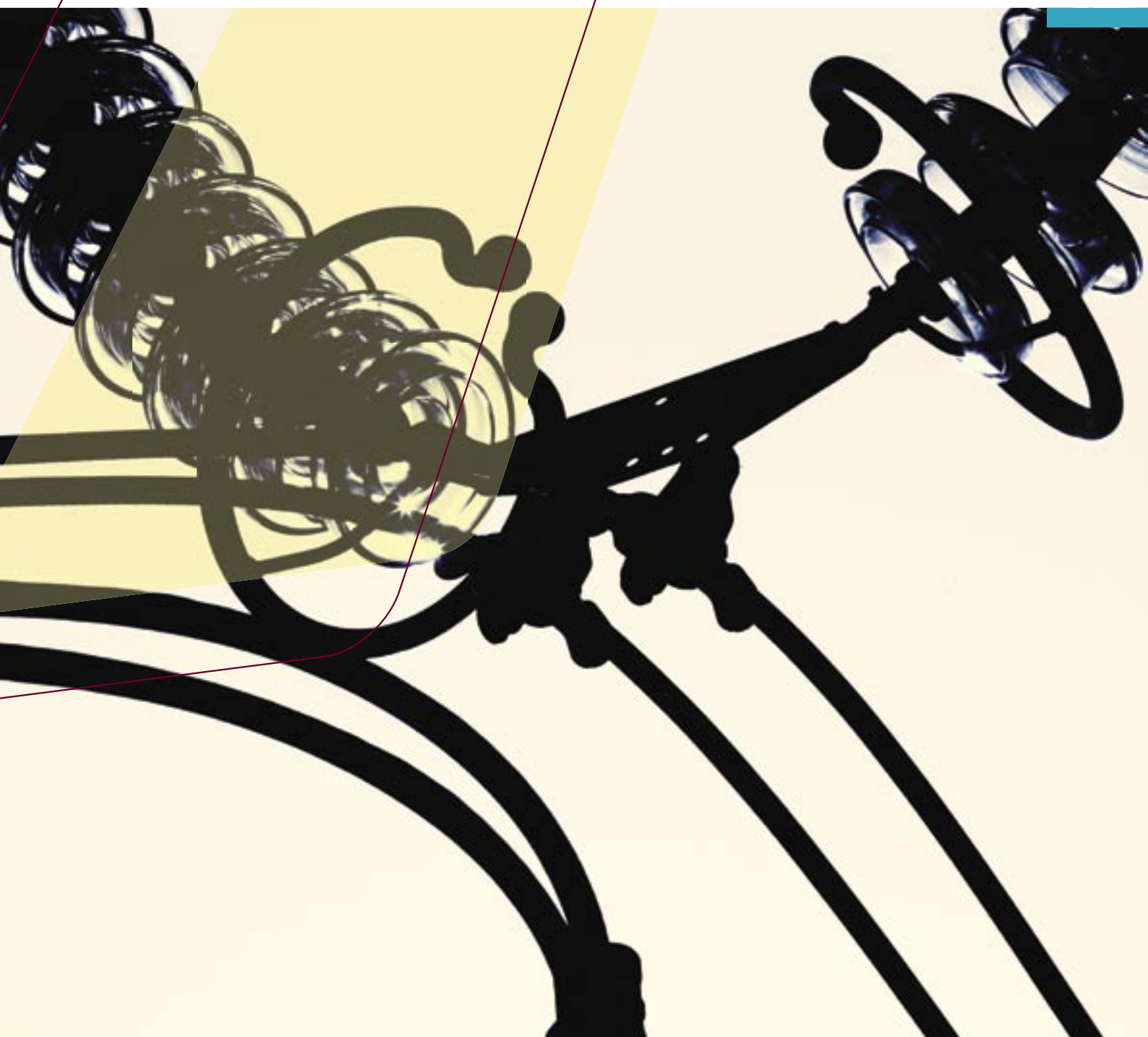


Annual Report 2005

ENERGINET/DK



Annual Report 2005

for Energinet.dk



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What is Energinet.dk?

Energinet.dk is responsible for the main electricity and gas transmission systems in Denmark.

The principal responsibilities of Energinet.dk are:

- maintaining the overall security of supply of electricity and gas in both the short and the long term
- developing the main Danish electricity and gas transmission infrastructure
- creating objective and transparent conditions for competition within the energy markets and monitoring that competition works
- carrying out coherent and holistic planning, including future transmission capacity requirements and long-term security of supply
- supporting environmentally friendly electricity production and the development and demonstration of technologies for environmentally friendly energy production
- calculating the environmental impact of the energy system as a whole.

Energinet.dk owns the gas transmission grid and the 400 kV electricity transmission grid and is the co-owner of the interconnections between Denmark and the Nordic countries and Germany. Furthermore, the company has the 132 and 150 kV electricity grids at its disposal and has access to natural gas storage facilities.

Two wholly owned subsidiaries – Eltransmission.dk A/S and Gastransmission.dk A/S – operate and maintain the electricity and gas transmission grids.

Energinet.dk is an independent public undertaking owned by the Danish state as represented by the Danish Ministry of Transport and Energy. Energinet.dk has its own Supervisory Board.

An advisory Stakeholder Forum appointed by the Minister for Transport and Energy submits opinions to the management of Energinet.dk concerning the company's overall strategies and plans with a view to supporting the company's operations.

Energinet.dk's finances must balance. The primary source of revenue is in the form of tariffs.

Energinet.dk is the result of a merger between Eltra, Elkraft System, Elkraft Transmission and Gastra. The merger took place in August 2005 with retrospective effect from 1 January 2005.

Financial highlights and key ratios

Energinet.dk group

Amounts in DKK million

2005

Financial results

Gross turnover	7,983
Net turnover	4,386
Profit before depreciation, amortisation and impairment	1,350
Operating profit	724
Net financials	-131
Net profit for the year	555

Balance sheet

Fixed assets	12,103
Current assets	1,851
Total assets	13,954
Interest-bearing debt (net)	5,918
Equity	3,599

Cash flows

Operating activities	1,906
Investing activities	-160
of which investments in tangible fixed assets	-166
Financing activities	-863
Change in cash and cash equivalents	883
Cash and cash equivalents at year-end	16

Number of employees (full-time equivalents)

426

Key ratios in per cent

Solvency ratio*	25.8
Price index adjustment announced by the Danish Energy Regulatory Authority	3.8

* Solvency ratio = equity x 100 / balance sheet total

Supervisory Board

Chairman

Niels Fog
MSc (Economics and Business Administration) and merchant

Other members

Birgitte Kiær Ahring
MSc (Biology), PhD. Professor in biotechnology at BioCentrum-DTU

Birgitte Nielsen
Banking education, Diploma in Economics. Director of the consultancy firm Nielsen & Axelsson

Erik Dahl
Engineer, Diploma in Economics. Until 1 January 2005 Managing Director of SEAS and Chairman of Elektra Energihandel A/S

Hans Schjøtt
MA and MSc in theoretical physics. Until 1 January 2005 Chairman of Eltra amba, NRGi Net A/S and NRGi Construction A/S

Niels Arne Gadegaard
MA (Laws). Until 1 April 2005 Managing Director of the Environmental and Technical Department, the Municipality of Odense

Peter Møllgaard
MSc (Economics), PhD. Professor of law and economics and Head of Department of Economics, Copenhagen Business School

Poul Erik Morthorst
MSc (Economics). Senior Scientist at Risø National Laboratory



Bottom row from the left Birgitte Kiær Ahring, Niels Fog, Niels Arne Gadegaard, Søren Juel Hansen, Peter Møllgaard. Middle row from the left Hans Schjøtt, Poul Erik Morthorst, Birgitte Nielsen. Top row from the left Erik Dahl, Lone Thomhav, Jes Smed.

Employee representatives

Søren Juel Hansen
MSc (Business Administration and Business Law). Senior Contract Manager

Jes Smed
MSc (Electrical Engineering). Planning Engineer

Lone Thomhav
Administrative Assistant

Facts about Energinet.dk

Corporate information

Address

Energinet.dk
Fjordvejen 1-11
DK-7000 Fredericia, Denmark
Tel.: +45 70 10 22 44
info@energinet.dk
www.energinet.dk
CVR no. 28 98 06 71

Ownership

Energinet.dk is an independent public undertaking owned by the Danish Ministry of Transport and Energy.

Municipality of domicile

Fredericia

Financial calendar 2006

Adoption of Annual Report 2005:
April 2006
Publication of Interim Report:
August 2006.

External auditors

The National Audit Office of Denmark

Internal auditors

PricewaterhouseCoopers
Statsautoriseret Revisionsaktieselskab

Affiliated undertakings

Eltransmission.dk A/S

The company is wholly owned by Energinet.dk. The object of the company is to maintain Energinet.dk's electricity transmission grid.

Gastransmission.dk A/S

The company is wholly owned by Energinet.dk. The object of the company is to maintain Energinet.dk's gas transmission grid.

Eltra 409 II A/S

The company is wholly owned by Energinet.dk. The object of the company is to lease telecom connections to external parties.

Nord Pool Spot AB

Energinet.dk owns 20 per cent of the shares in the company, the object of which is to organise, run and further develop a marketplace for spot trading in electric power in the Nordic region.

Dansk Gasteknisk Center A/S

Energinet.dk owns 10 per cent of the shares in the company, the object of which is to promote security, energy efficiency and environmentally friendly conduct in connection with the use and transmission of natural gas.

Management of Energinet.dk

Energinet.dk is an independent public undertaking and is thus wholly owned by the Danish state. The object, management and activities of the company are regulated by law. The Danish Minister for Transport and Energy ensures that Energinet.dk complies with the provisions of the Danish Act on Energinet Danmark.

The Act on Energinet Danmark, the Articles of Association, the rules of procedure of the

Supervisory Board and the management instructions reflect Energinet.dk's obligation as a state-owned undertaking to exercise good company management in all respects. As regards its accounts, Energinet.dk is therefore subject to the same rules concerning the preparation of its annual report and interim report as apply to state-owned limited companies.

Decisions by the minister

The Minister for Transport and Energy is the sole owner of Energinet.dk on behalf of the Danish state and exercises the same rights as are enjoyed by shareholders under the Danish Companies Act and the Danish Financial Statements Act.

The Articles of Association have been laid down by the Minister for Transport and Energy following a recommendation from the Supervisory Board.

The annual report must be approved by the Minister for Transport and Energy before the end of April.

Supervisory Board

Energinet.dk is headed by a Supervisory Board consisting of 11 members. The Minister for Transport and Energy appoints eight of these members, including the Chairman.

The members appointed by the minister must jointly have general business and managerial competencies as well as insight into the fields of electricity, gas and heating supply and consumer and social conditions. The members of the Supervisory Board must be independent of commercial interests in companies engaging in production and trade in electricity and gas.

In accordance with the provisions of the Danish Companies Act governing the election of employee representatives, the employees elect three members of the Supervisory Board.

Chairmanship

The Minister for Transport and Energy appoints a Chairman who constitutes the chairmanship. The work of the chairmanship is regulated by the rules of procedure of the Supervisory Board.

Work of the Supervisory Board

The Supervisory Board is in charge of the overall management of Energinet.dk, including the determination of the overall objectives and strategies for Energinet.dk, as well as monitoring the day-to-day management undertaken by the management. The Supervisory Board employs and dismisses the management, and also determines the terms of employment of the management. The Minister for Transport and Energy must be informed thereof in advance.

The Supervisory Board is obliged by law to consider a number of special issues:

- A strategy plan which is prepared every other year, setting out the overall direction of the company's planning
- An annual system report which is the company's coherent and holistic planning for the electricity and gas systems
- An annual transmission report with specific expansion projects for the electricity transmission grid
- An annual environmental report concerning the development in significant

environmental aspects of the expansion of the electricity and CHP system

- An annual plan for the allocation of PSO funds for the development and demonstration of environmentally friendly electricity production technologies.

Meetings of the Supervisory Board

A minimum of four meetings are held by the Supervisory Board each year. In conjunction with one of the Supervisory Board meetings, a seminar is held for members of the Board.

Stakeholder Forum

The Minister for Transport and Energy appoints an advisory Stakeholder Forum which submits opinions to the management of Energinet.dk concerning the company's overall strategies and plans with a view to supporting the company's operations.

The Stakeholder Forum represents a wide selection of stakeholders in Energinet.dk's activities and must meet at least once a year.

Committee structure

With a view to developing collaboration between Energinet.dk on the one hand and the local electricity grid companies, regional electricity transmission companies and the players in the electricity and gas markets on the other hand, a grid committee, a transmission committee and a market committee have been established. A player forum ensures collaboration between Energinet.dk and the players in the gas market.

Management

The management is responsible for the day-to-day management of Energinet.dk. The Supervisory Board issues a set of guidelines for the management, including

guidelines concerning the division of work between the Supervisory Board and the management. The guidelines have been presented to the Minister for Transport and Energy.

The management cannot, without obtaining the prior consent of the Supervisory Board, engage in activities which do not safeguard the interests of the company.

Informing the Minister for Transport and Energy

The Chairman of the Supervisory Board is obliged to keep the Minister for Transport and Energy informed of matters of material significance.

One way of providing such information is at quarterly meetings at which the minister is informed of matters which may be of material financial significance or political interest.

Auditing

Energinet.dk's annual reports are audited by the National Audit Office of Denmark in pursuance of the Danish Financial Statements Act and in pursuance of the Act on the Auditing of Governmental Accounts etc.

An agreement concerning internal auditing has been made between the National Audit Office of Denmark and the Minister for Transport and Energy and Energinet.dk, see Section 9 of the Danish Auditor General Act. The internal auditor, who must be state authorised, is appointed by the Minister for Transport and Energy following a recommendation from the Supervisory Board. The internal auditor must be the auditor of Energinet.dk's subsidiaries.

Statements and reports

Statement by the Supervisory Board and management

The Supervisory Board and the management have on this day considered and adopted Energinet.dk's Annual Report 2005.

The Annual Report has been presented in accordance with the Danish Financial Statements Act, applicable Danish accounting standards and the Danish Act on Energinet Denmark. We find that

the applied accounting policies are appropriate and that the Annual Report provides a true and fair view of the group's and the parent company's assets, liabilities and financial position at 31 December 2005 and of the results of the group's and the parent company's activities and the group's cash flows for the financial year 1 January – 31 December 2005.

The Annual Report is presented for approval by the Danish Minister for Transport and Energy.

Fredericia, 22 March 2006

Management

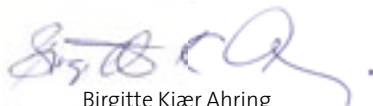


Peder Østermark Andreasen
President and CEO

Supervisory Board



Niels Fog
Chairman



Birgitte Kiær Ahring



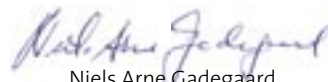
Birgitte Nielsen



Erik Dahl



Hans Schiøtt



Niels Arne Gadegaard



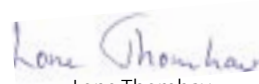
Peter Møllgaard



Poul Erik Morthorst



Jes Smed



Lone Thomhav



Søren Juel Hansen

External auditor's report

To the Danish Minister for Transport and Energy

We have audited the Annual Report of the independent public enterprise Energinet.dk for the financial year 1 January – 31 December 2005 prepared according to the provisions of the Danish Financial Statements Act, Danish Accounting Standards and the Act on Energinet Danmark.

The Annual Report is the responsibility of the management of the enterprise. Our responsibility is to express an opinion on the Annual Report based on our audit.

Basis of Opinion

We conducted our audit in accordance with Danish Auditing Standards and the principles of good public auditing practice. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Annual Report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Annual

Report. An audit also includes assessing the accounting policies applied and significant estimates made by the Management, as well as evaluating the overall Annual Report presentation. An audit also includes an evaluation of whether the enterprise has applied sound economic management to the administration of the funds covered by the Annual Report, and whether the administration is in accordance with the provisions for the state's basic capital in the Act on Energinet Danmark and other regulations and entered agreements and customary practice. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion the Annual Report gives a true and fair view of the financial position at 31 December 2005 of the group and the parent enterprise and of the results of the group's and the parent enterprise's operations and consolidated cash flows for the financial year 1 January – 31 December 2005 in accordance with the Danish Financial Statements Act, Danish Accounting Standards and the Act on Energinet Danmark.

Fredericia, 22 March 2006

Rigsrevisionen

The National Audit Office of Denmark



Henrik Otbo
Auditor General



Edvin A. Andersen
Director

Internal auditor's report

To the Danish Minister for Transport and Energy

We have audited the Annual Report of the independent public enterprise Energinet.dk for the financial year 1 January - 31 December 2005, prepared according to the provisions of the Danish Financial Statements Act, Danish Accounting Standards and the Act on Energinet Danmark.

The Annual Report is the responsibility of the management of the enterprise. Our responsibility is to express an opinion on the Annual Report based on our audit.

Basis of Opinion

We conducted our audit in accordance with Danish Auditing Standards and the principles of good public auditing practice.

Those standards require that we plan and perform the audit to obtain reasonable assurance that the Annual Report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Annual Report. An audit also includes assessing the accounting policies applied and significant estimates made by Management, as well as evaluating the overall annual report presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the Annual Report gives a true and fair view of the financial position at 31 December 2005 of the Group and the Parent Enterprise and of the results of the Group's and Parent Enterprise's operations and consolidated cash flows for the financial year 1 January - 31 December 2005 in accordance with the Danish Financial Statements Act, Danish Accounting Standards and the Act on Energinet Danmark.

Fredericia, 22 March 2006

PricewaterhouseCoopers

Statsautoriseret Revisionsaktieselskab



Carsten Gerner
State Authorised Public Accountant



Jesper Møller Christensen
State Authorised Public Accountant



Preface by the management

Energinet.dk was founded on 24 August 2005. The Minister for Transport and Energy, Flemming Hansen, signed the memorandum of association together with the supervisory boards of the undertakings being merged – Gastra, Eltra, Elkraft System and Elkraft Transmission. This created the national, state-owned transmission system operator for electricity and gas which had been in the making since the signing of an energy-political agreement in March 2004. According to this agreement, the operation of the transmission system for electricity should be placed in the hands of the state. In this way, competition within the electricity market would be promoted by separating ownership of the transmission grid and system operation on the one hand from production and trade on the other. In autumn 2004, it was decided that the gas transmission activities should also be transferred to the new undertaking.

The formation of Energinet.dk took place with retrospective effect from 1 January 2005, and concurrently with the formation of Energinet.dk, two subsidiaries - Eltransmission.dk A/S and Gastransmission.dk A/S – were established, as provided for in the act, to be in charge of the operation and maintenance of the electricity and gas transmission grids, respectively.

Vital activities

The activities of Energinet.dk are of vital importance to society. The *raison d'être* of the company is primarily based on society's expectations that the supply of electricity and gas is always stable, and that the prices of electricity and gas are based on efficient competition. In other words, the primary objective of the undertaking is to ensure a

high level of security of supply in both the short and the long term as well as efficient markets for electricity and gas.

However, this objective cannot be fulfilled without well-developed and well-functioning transmission grids and international connections as well as an efficient level of emergency management for handling critical events. Furthermore, Energinet.dk's responsibility for coherent and holistic planning and for allocating funding for the development and demonstration of new environmentally friendly technologies for electricity production also helps to support the security of supply and the functioning of the market in the short and long term.

Merger process

The efforts involved in making the merger work in practice and getting the different company cultures to fuse into one have been given high priority. This work accelerated in spring 2005 in connection with the establishment of the new management of Energinet.dk.

Priority has been given to a number of different IT projects with a view to consolidating the company's different IT systems; work to harmonise the rules in the electricity market has commenced, and HR efforts have been launched to create common terms of employment. Furthermore, a project has been launched to ensure the realisation of the company's new domicile near Fredericia in Jutland. The domicile must be ready for occupation in autumn 2007.

Organisation

The work on Energinet.dk's future main structure including its business model and

main processes was completed in early summer. This involved many employees. The main structure is, among other things, intended to contribute to the security of supply, efficient operations and organisational clarity. The desire to exploit the synergies between electricity and gas and between different areas of activity also underlies Energinet.dk's overall structure.

The organisation's heads of department were appointed in June, and slightly later in the month the next level of management was also in place. September saw the completion of the staffing process for the new organisation to take effect on 1 October.

For the employees, the past couple of years have been characterised by uncertainty and turbulence. Nevertheless, the employees have contributed in a committed, energetic and competent way both to the merger and to the day-to-day running of the company. Unfortunately, the company has had to say goodbye to a number of extremely competent employees, especially in Eastern Denmark, who decided to look for new work. Many left because they did not want to move to the new domicile in Fredericia. With a view to counteracting the inevitable loss of competences, Energinet.dk launched a recruitment campaign. The campaign attracted many new and competent employees to replace those who had left.

Stable operations

The speed at which the merger has been implemented was determined by a desire that the merger projects should not affect the day-to-day operations of the company. Thus, security of supply in both the electricity and the gas system was as high in 2005 as it

had been for many of the preceding years. In the course of the year, a number of events did challenge the security of supply in the Danish power grid, but all these events were handled responsibly by Energinet.dk and by the regional transmission companies and the grid companies. Only in very few cases have the events had any consequences for consumers.

Electricity market

2005 provided a reminder that the Nordic electricity market is not perfect. Towards the end of November, the spot price in Eastern Denmark reached a historically high level for a number of hours. The reasons were many, and most were “natural” for the electricity market. However, one reason was a particular cause of concern, ie the fact that trading capacity on the Øresund cables was limited by internal congestion in the Swedish grid. Energinet.dk and Svenska Kraftnät have subsequently discussed possible solutions to this problem. In the opinion of Energinet.dk, the right solution from the point of view of the market is to handle congestion where it arises and not to force congestion onto the international connections in order to maintain one national price area.

Future infrastructure

In the past year, Energinet.dk contributed to the Government’s long-term energy strategy which was presented to the Danish Parliament by the Minister for Transport and Energy, Flemming Hansen, in June. Energinet.dk’s contribution concerned the future infrastructure of the electricity system.

The Government’s strategy plan included a recommendation that Energinet.dk should start planning a power link under the Great

Belt. The company’s analyses had demonstrated that such a link would bring socio-economic benefits as it would strengthen competition in the electricity market while at the same time making the electricity supply more robust and cost-effective.

The Supervisory Board approved a construction project amounting to DKK 1.22 billion in December, after which the Supervisory Board’s decision was presented to the Minister for Transport and Energy for final approval. The link is expected to be ready for commissioning within three years of all the official approvals having been obtained.

Energinet.dk’s role and responsibility for the overall situation in the gas market also form part of the company’s strategic considerations. Thus, focus is on the infrastructure, the market in and around Denmark, security of supply and financing.

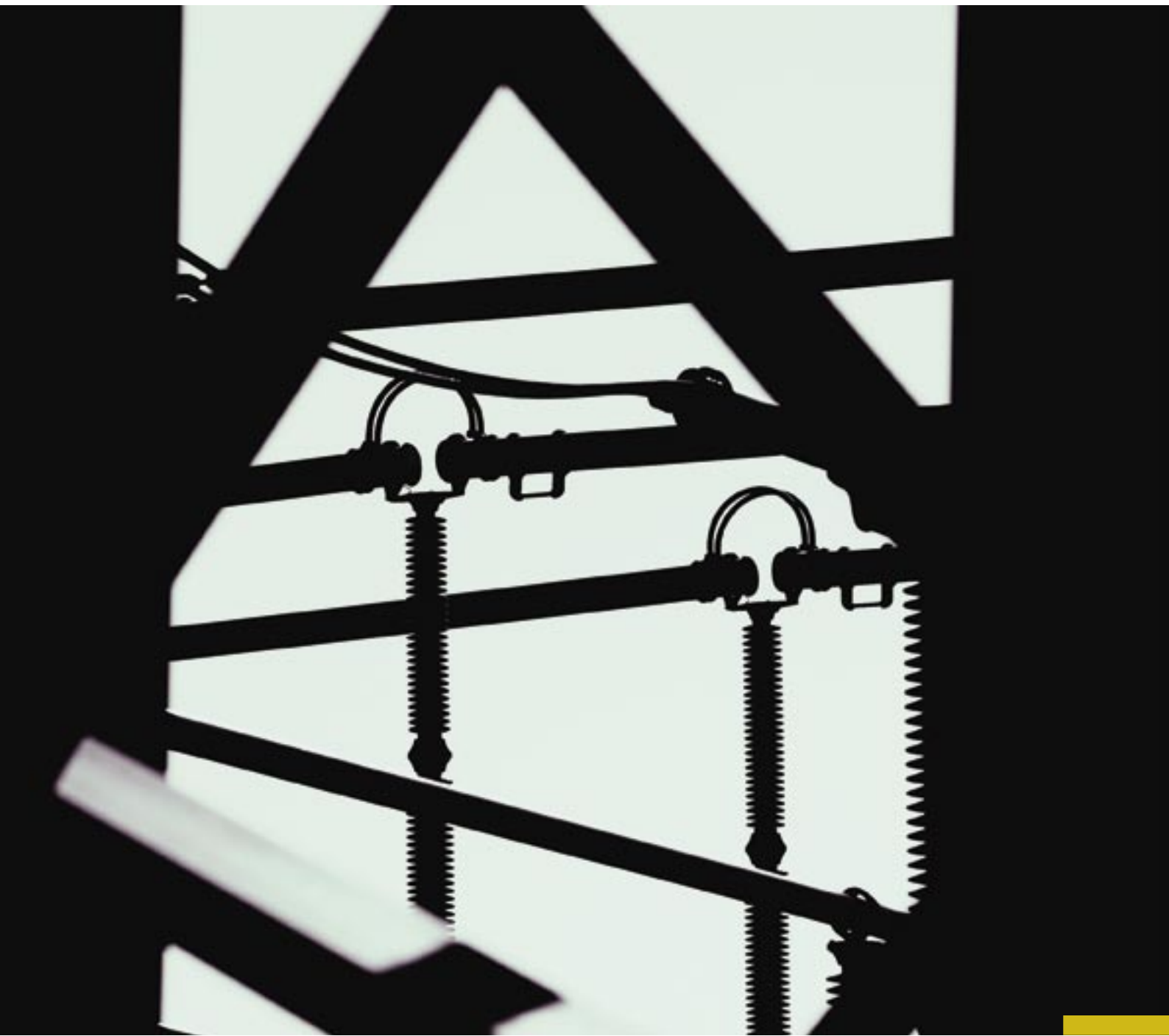
Good rating

The success of Energinet.dk is not apparent from its bottom line as the company is obliged by law to include the necessary costs in the tariffs and can only generate profits necessary for a reasonable level of consolidation of the company. However, ensuring financially sound and rational operations is an extremely important objective for the company. Energinet.dk was therefore pleased at being given the AA+ rating by the provider of credit ratings, Standard & Poor’s, the second-highest rating given. With this rating, Energinet.dk is able to arrange loans on very favourable terms.

Dialogue with the world

At the end of the year the Minister for Transport and Energy appointed the members of

the Stakeholder Forum which is to oversee Energinet.dk’s activities and advise on the company’s overall strategies. The forum, which represents different public interests and different insights, will inspire and contribute to the work involved in developing Energinet.dk. However, it is not only officially appointed stakeholders who can influence the work. All important business partners and market players will be invited to enter into collaboration and dialogue with Energinet.dk. For although the main direction is clear, it is always possible to make slight adjustments.





Management's review

Operation of electricity and gas transmission grids

Energinet.dk is in charge of the operation of the overall electricity and gas transmission systems and is responsible for the security of supply of electricity and gas. Furthermore, Energinet.dk has overall responsibility for emergency management of the Danish electricity and gas systems.

Transmission of electricity and gas

In 2005, Energinet.dk transmitted 92,826 GWh of natural gas corresponding to 7.6 billion m³ through the Danish gas transmission system. A total of 48,863 GWh was transmitted for consumption in the Danish market against 51,397 GWh in 2004. Furthermore, 43,962 GWh of natural gas was transmitted through the Danish transmission system to the Swedish and German markets in 2005, with 10,741 GWh going to Sweden and 33,221 GWh to Germany. Imports to the Danish natural gas system from Germany totalled 5,417 GWh.

In the Danish electricity transmission system, 47,292 GWh of electricity was transmitted in 2005 against 47,051 GWh the year before. Net imports were 1,370 GWh, while 2004 saw net exports of 2,873 GWh of electricity from Denmark. In the Danish market, 35,766 GWh of electricity was consumed in 2005 against 35,513 GWh the year before.

System disturbances

As has been the case in recent years, there were no major disturbances in the operation

of the gas transmission grid. The electricity transmission grid suffered a number of minor disturbances, of which only a few affected electricity consumers.

The storm on 8 January 2005 did not affect Energinet.dk's electricity transmission grid, but approx. 200,000 consumers were affected by power cuts due to faults at lower voltage levels.

Following damage to the 60 kV cable between Bornholm and Sweden on 22 December 2005, the island of Bornholm was without electricity for two hours. Until the cable had been repaired at the beginning of February, Østkraft supplied all electricity to the island.

Technical problems

On 11 March 2005, a reactor at Hovegård substation northwest of Copenhagen burnt out. In order to be able to maintain an acceptable voltage level during periods with low electricity consumption, Energinet.dk borrowed a reactor from Svenska Kraftnät.

A fault in the transformer platform at the Horns Rev offshore wind farm on 14 March 2005 meant that the offshore wind turbines could not supply electricity to the grid for a week.

From 28 May until 26 October 2005, the Skagerrak 3 connection between Jutland and Norway was out of operation so that a new transformer could be installed in Norway. Capacity on the connections to Norway was therefore reduced by 500 MW, which had a negative impact on both the power balance and the electricity market.

After only three months in operation, the new transformer broke down. The transformer is expected to be out of operation for a long period of time.

Security of supply

Energinet.dk is responsible for both the short-term and the long-term security of supply of gas and electricity in Denmark.

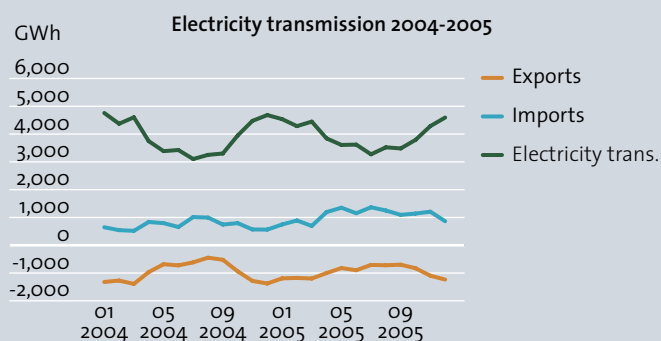
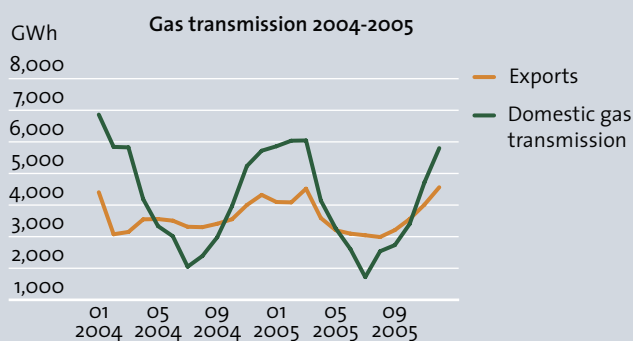
Gas

With a view to ensuring gas supplies in emergency situations, for example in the event of damage to one of the pipelines in the North Sea, Energinet.dk has access to gas storage facilities and other reserve supplies which can cover 60 days of consumption for that part of the Danish gas market which has no alternative energy supply. Furthermore, Energinet.dk has reserve capacity to handle brief emergency situations.

In 2005, the cost of maintaining the security of supply of gas amounted to DKK 245 million.

In 2005, Energinet.dk analysed the existing emergency supply concept for gas together with the distribution companies and players. The idea is to update the concept and to adapt the division of responsibilities and roles to the liberalisation of the market, to offer more alternatives and to ensure the objective and non-discriminatory handling of emergency supplies. The emergency supply concept will primarily be changed for very large consumers.

As regards the security of supply in the long term, forecasts from the Danish Energy Authority show a drastic downward trend



in the Danish production level from 2010. There may be a need for gas imports and possibly for expanding the infrastructure after that. However, there is some uncertainty as to the assessment of gas reserves, and the actual expansion and production will depend on the financial framework conditions and the available technology, among other things. Long-term security of supply is also an issue which became the subject of further attention at a European level towards the end of the year in connection with the Russian-Ukrainian dispute over gas prices.

Electricity

To ensure the security of electricity supply, Energinet.dk enters into agreements concerning the supply of ancillary services in the form of reserves and regulating power. Regulating power is used to even out imbalances due to forecasting errors and breakdowns. The agreements are primarily made with the two large electricity producers Elsam Kraft and Energi E2, but a number of smaller electricity generators and a few electricity consumers also contribute to ensuring electricity supplies. Furthermore, Energinet.dk has made agreements with the transmission system operators in the neighbouring countries concerning the supply of ancillary services.

In 2005, the cost of electricity reserve capacity was DKK 733 million, while regulating power amounted to DKK 535 million.

In the past year, Energinet.dk and Energi E2 concluded a five-year agreement for the supply by Energi E2 of a number of ancillary services to the electricity system in Eastern Denmark from emergency and reserve units

at Kyndby and Masnedø power stations. The agreement was made to ensure the conversion of the units so that they comply with the EU's environmental requirements.

In Western Denmark, a small number of long-term agreements have been made concerning manual reserves. These agreements are to contribute to increasing competition in connection with the purchase of ancillary services.

On 1 January 2006, Western Denmark was fully integrated in the Nordic regulating power market in which the Nordic transmission system operators buy and sell electricity to ensure balance during the day of operation.

In the coming years, Energinet.dk will work on quantifying the concept of security of supply, while at the same time making it more operational both in daily operations and in the long-term planning.

Collaboration with neighbouring areas

Having been an associate member of the UCTE, the European association of transmission system operators, since 2001, Energinet.dk is now applying for full membership. The reason for the application is that the operation in Western Denmark is synchronous with the European electricity system, and Energinet.dk wants to have the same rights as the other member countries and to contribute to developments within the UCTE.

One of the objectives of the Nordic body for cooperation, Nordel, is working to establish common markets for upward and downward regulation reserves. The aim is for submarkets to be established in 2007.

Emergency management

Energinet.dk is responsible for coordinating the emergency management plans of the electricity and gas sectors and for monitoring and guiding the sectors in connection with the preparation of such plans.

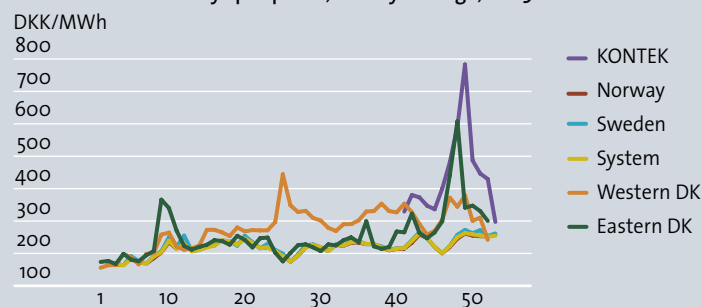
On 1 February 2005, new executive orders concerning emergency management came into force. According to these orders, vulnerability analyses and emergency plans must be prepared for the electricity and gas sectors' classified installations. The emergency management plans for the sectors must be completed by 1 August 2006, while Energinet.dk's own plan must be finished by 1 May 2006.

After the hurricane in January 2005, the Danish Emergency Management Agency in collaboration with other authorities and relevant sectors prepared a report which documents that emergency management procedures are generally efficient, but that it is necessary to strengthen a number of aspects. In the electricity sector, it is especially necessary to improve the coordination of communications. An initiative has now been launched for that purpose.

Safety

Energinet.dk transmits very large volumes of energy at high voltage levels (electricity) and at high pressure (gas). Accidents may seriously damage technical installations and injure people. Energinet.dk's most important safety risk relates to accidents in the form of major gas leaks which ignite, but collisions with power lines or offshore platforms may also have very serious consequences.

Electricity spot prices, weekly average, 2005



Safety is an important aspect of Energinet.dk's activities, and campaigns are implemented to prevent collisions with the company's installations and damage in connection with excavation work.

Systematic safety training and safety inspections of the technical installations are conducted to prevent injury to employees and contractors at work. In the coming year, Energinet.dk will run an internal safety campaign, while all contractors working at the company's installations will be given thorough safety instructions prior to commencing work.

Accidents involving personal injuries

Energinet.dk closely monitors the number and nature of accidents involving personal injuries. There were three reportable accidents in 2005. This represents a minor fall relative to 2004, when four reportable accidents occurred.

Electricity and gas markets

Energinet.dk is responsible for developing the energy markets to create an optimum framework for competition. The company monitors the efficiency of the market, including pricing in the electricity and gas markets, and reports any signs that players may be abusing their dominant positions in the markets to the competition authorities.

Energinet.dk consults the market players in connection with any significant changes to the rules and conditions of the energy markets.

Following the formation of Energinet.dk, Eastern and Western Denmark remain two separate price areas in the Nord Pool Spot power market. However, efforts are going into harmonising the different market rules which have applied to the two areas. The aim is for the same rules to apply – in so far as is technically possible – from the end of 2006.

New price area

At the beginning of October, the auctioning of capacity on the Kontek Link between Eastern Denmark and Germany was replaced by market coupling, as a trial. This means that Nord Pool Spot lists the electricity price in the new Kontek price area in Vattenfall Europe Transmission's control area on the border between Eastern Denmark and Germany. The purpose of the new price area is to ensure that electricity flows to areas with high prices in order thereby to ensure more efficient use of the transmission link.

On 5 January 2006, the last agreement concerning priority use of the international connections was terminated as a result of the new executive order concerning system operator responsibility. This was the agreement with Vattenfall Europe Transmission and Energi E2 concerning access to 350 MW on the Kontek Link to Germany. As a result, Nord Pool Spot now has access to all capacity on the Kontek Link and on the interconnections between Denmark and Norway/Sweden.

On the border between Jutland and Germany, it has not yet been possible to agree on market coupling with E.ON Netz. Instead, a form of voluntary market coupling

has been introduced, which means that players are able to make the capacity they buy at the auctions available to Nord Pool Spot.

Higher electricity prices

In 2005, the average electricity price in the Nordic market was higher than in 2004. One of the reasons was the introduction on 1 January 2005 of allowances for the emission of CO₂.

In Western Denmark, the average price was DKK 277/MWh in 2005 against DKK 214/MWh in 2004. In Eastern Denmark, the average price was DKK 252/MWh in 2005 against DKK 211/MWh in 2004. The average price in the Kontek area was DKK 440/MWh.

The Nordic electricity market is not yet perfect, and a reminder of this came at the end of November when the electricity price in Eastern Denmark reached more than DKK 13,000/MWh for a number of hours. This was due to the strained power balance in Eastern Denmark caused by a high level of electricity consumption, an outage at Avedøre Power Station and very low wind-power production combined with reduced trading capacity on the Øresund connection and very low liquidity in the new Kontek price area, from which the high prices were imported.

It is only natural for an efficient market which is not characterised by over-investments in production capacity to see high prices for some hours, but the last two reasons for the extreme prices reflect the fact that the market and the market framework need to be developed further.

To safeguard the security of supply, Energinet.dk subsequently decided to restrict the

export trading capacity on the Kontek Link, which is announced in the morning prior to the day of operation in cases where the power balance on Zealand is very strained. This restriction was withdrawn in February so that capacity is now only restricted in cases of unforeseen congestion on the link itself or in the adjacent transmission grids in Eastern Denmark and Germany.

Competition in the electricity market

Towards the end of the year, the Danish Competition Council determined that Elsam had abused its dominant position in the electricity market in Western Denmark. The decision was partly based on a report that had been prepared for Energinet.dk. At the same time, the Danish Competition Council issued a price order to Elsam, capping the prices which Elsam can submit to Nord Pool Spot. Elsam has appealed against the decision.

In January 2006, the Danish Competition Authority moreover cancelled an agreement that the Danish Competition Council had made with Energi E2 in 2003. The agreement was to regulate Energi E2's conduct in the electricity market. One of the reasons for cancelling the agreement was that it did not take into account the establishment of the new Kontek price area.

Larger market share

In 2005, a larger share of electricity consumption in Denmark was bought at Nord Pool Spot. In Western Denmark, 90 per cent of electricity consumption, including exports to Germany, was traded on the Nordic electricity exchange against 51 per cent in 2004, while the share in Eastern Denmark increased from 52 per cent in 2004 to 69 per cent in 2005. The increases

are primarily attributable to the lifting of the purchase obligation on 1 January 2005. Energinet.dk sells approx. 60 per cent of the electricity which used to be subject to purchase obligation in the spot market. The rest is sold by commercial players either bilaterally or in the spot market.

Nordic electricity-related activities

The Nordic body for cooperation, Nordel, is working to create a common set of rules for the handling of congestion in the electricity transmission grid and the institution of countertrade and to harmonise balance models.

Bilateral gas trade

At the end of 2005, Energinet.dk had registered 13 shippers, which is an increase of three relative to the year before. The new shippers come from Denmark, Germany and Sweden.

The Danish gas market is based on bilateral trade between the players. Energinet.dk helps facilitate trading by operating the so-called Gas Transfer Facility (GTF), an electronic marketplace for shippers. Six per cent of the Danish gas consumption was traded via GTF in 2005.

Analyses concerning the establishment of a gas exchange continued together with Nord Pool in 2005, but the conclusion is still that the existing long-term bilateral agreements would mean that the liquidity of a gas exchange would not be sufficient to ensure real pricing. In 2006 Energinet.dk will continue to monitor the scope for developing the trading facilities.

New EU regulation

Based on the 'Guidelines for Good Practice

for Transmission System Operators', the EU adopted a new regulation in 2005 which lays down guidelines for access to the gas transmission grid. The regulation has direct legal effect for Energinet.dk. According to the EU Commission's most recent benchmark, Danish legislation and Energinet.dk were among the best transmission operators in the EU to fulfil the EU rules. However, Energinet.dk still has to introduce an online system for reserving transmission capacity. The plan is for the system to be completed in the second quarter of 2007.

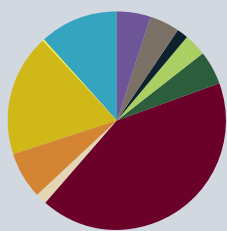
Greater flexibility for shippers

With a view to increasing flexibility in the Danish gas market, Energinet.dk introduced a new set of rules for the transmission of gas in the transmission grid on 1 October. Under the new rules, shippers can now change their transport orders at two hours' notice both before and during the gas day.

Gas price guide

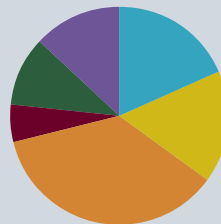
In order to make it easier for private natural-gas customers to compare the prices quoted by different suppliers, thereby increasing transparency and competition for the single-family house segment, Energinet.dk introduced the electronic price guide 'Gasprisguiden.dk' on 1 January 2005.

Funding by focus area, 2006



- Management of electricity supply systems
- Wave power
- Solar cells
- CHP
- Hydrogen
- Fuel cells
- Liquid biofuels
- Waste
- Biomass/gasification
- Biomass/incineration
- Wind power

Funding by focus area, supplementary tender



- Wind power
- Liquid biofuels
- Biogas
- Development of hydrogen technology
- Solar cell systems
- Management of electricity supply systems

Public Service Obligations (PSO)

Energinet.dk promotes environmentally friendly energy through a number of funding schemes. The company offers a higher price for environmentally friendly electricity production, pays for the grid connection of environmentally friendly electricity production facilities and funds research and development within environmentally friendly electricity production technologies and the efficient use of energy.

Funding for environmentally friendly electricity production

On 1 January 2005, the electricity consumers' obligation to buy electricity from wind turbines and local CHP units was abolished. At the same time, Energinet.dk was released of its obligation to purchase electricity from the large local CHP units which started operating on market terms.

Electricity production from local CHP units and wind turbines which Energinet.dk remains under an obligation to buy, is bought by Energinet.dk and sold at Nord Pool Spot. The difference between the statutory purchase price and the spot price is levied via the PSO tariff. The same applies to the subsidies, etc. paid by Energinet.dk to wind turbines and local CHP units operating on market terms.

In 2005, the subsidies paid by Energinet.dk to local CHP units and wind turbines totalled DKK 2,865 million.

Research and development

Energinet.dk administers a pool for the

development and demonstration of environmentally friendly electricity production technologies. The pool, which amounts to DKK 130 million annually, is financed as a Public Service Obligation (PSO) by electricity consumers.

Every year, the Minister for Transport and Energy determines the focus areas for the PSO-financed research and development. This is done on the basis of recommendations from Energinet.dk. At the same time, the minister determines the financial framework applicable for the year.

In connection with the energy agreements of 29 March 2004, the framework for the PSO scheme was increased by DKK 30 million per year for a four-year period. This meant that for the deadline in September, Energinet.dk invited applications for an additional DKK 30 million for 2005 to supplement the ordinary DKK 130 million for 2006.

Focus areas

Energinet.dk's focus areas for the PSO Programme 2006 and the supplementary tender for the PSO Programme 2005 were:

- Wind power and its incorporation into the electricity system
- Biomass and waste
- Solar cells
- Wave power
- Natural gas and CHP
- Fuel cell systems, hydrogen production and storage
- Management of electricity supply systems and electricity consumption
- Other energy technologies.

In addition to these focus areas, the minister asked Energinet.dk to also give priority to projects that demonstrate the interplay between solar heat and CHP of relevance to the electricity system.

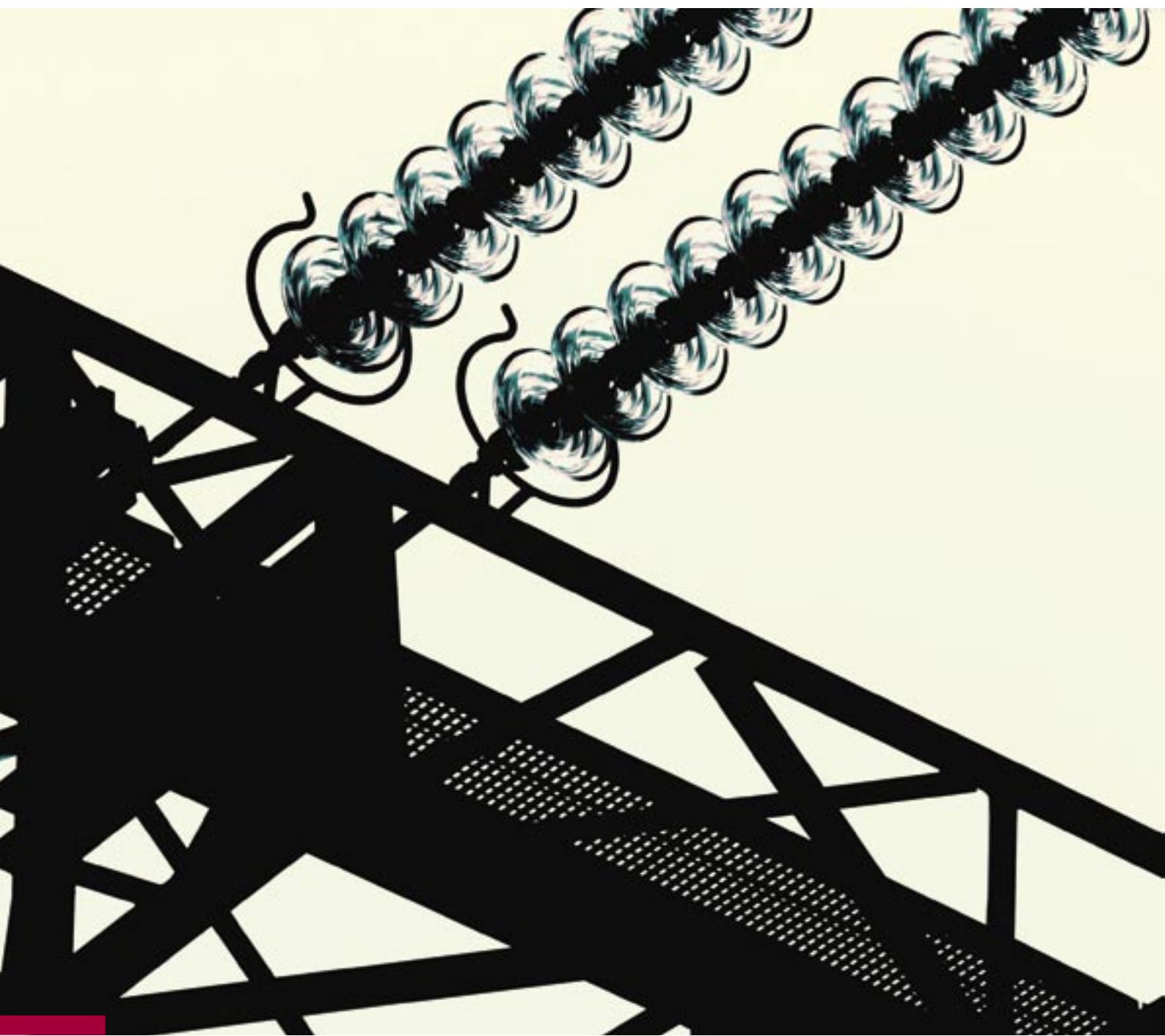
Against this background, Energinet.dk, in collaboration with relevant stakeholders, including the Danish District Heating Association, made an analysis which explained the technical possibilities of solar heating, its financial consequences and impact on the production of the CHP units. The analysis was completed in March 2006, and the report has been submitted to the minister and the Danish Parliament.

Result of tender in autumn 2005

Energinet.dk received 139 applications for funding totalling DKK 491 million in response to the ordinary and the supplementary tender.

Following internal consideration, the applications have been evaluated by the external expert panel of the ForskEL network and by Energinet.dk. Furthermore, the applications have been coordinated with the energy research programmes of the Danish Energy Authority and Elfor.

35 applications were forwarded for a research-technical assessment by the Danish Council for Strategic Research, after which the Supervisory Board approved the plans for the two PSO R&D tenders in the autumn – the ordinary tender for 2006 for DKK 130 million and the supplementary tender for 2005 for DKK 30 million.



Investments in electricity and gas transmission grids

Energinet.dk is responsible for developing the Danish gas transmission system with related meter and regulator stations, the 400 kV electricity transmission system, the international connections and installations transmitting electricity from the offshore wind farms to shore. The expansion of the transmission grid and the international connections is to ensure stable energy supply and reduce congestion in the electricity and natural gas transmission grids which hamper market efficiency.

In an annual transmission report, which only deals with the electricity transmission grid, Energinet.dk describes current and planned projects for the expansion, reconstruction and renovation of the electricity transmission grid. An annual system report describes the long-term strategies for the development of the transmission grids and summarises the overall and holistic plans for the company's electricity and gas-related activities. Energinet.dk is obliged by law to prepare both reports.

Projects involving investments in excess of DKK 100 million must be submitted to the Minister for Transport and Energy for approval before work can commence. Fixed asset investments totalling less than DKK 100 million must be submitted to the Danish Energy Authority. In 2005, Energinet.dk's investments in the transmission system totalled DKK 129 million.

Increase in gas capacity to Sweden

Generally speaking, the Danish gas transmission grid is fully developed, and investments in expansions are expected to be modest in the coming years. However, the reconstruction of the Dragør Border M station has been initiated, from which gas is transmitted to the Swedish market. The reconstruction is designed to increase export capacity. The budget for the expansion is DKK 5 million.

Technological upgrading of the gas system

In 2002, the technological upgrading of the instrumentation and boiler systems of the approx. 20-year-old meter and regulator stations in the gas transmission grid commenced. The first phase – the technological upgrading of stations in Southern Jutland – has been completed within a budget of DKK 23 million, while phase 2, which is currently being implemented, involves the upgrading of selected stations and is expected to entail investments of approx. DKK 14 million.

Great Belt power link

In December, the Supervisory Board of Energinet.dk decided to apply to the Minister for Transport and Energy for permission to construct a power link across the Great Belt to connect Eastern Denmark with Western Denmark.

Socio-economic analyses of such a power link show that it would have a positive cost-benefit value. The cost-benefit value stems from the fact that the costs of electricity production will fall, the need for reserves will be reduced, and the scope for redressing imbalances in the electricity system between Eastern and Western Denmark

would be improved. Moreover, the cable would restrict any abuse by the electricity generators of their dominant market position.

At the same time, the Great Belt power link will increase the robustness of the electricity supply in Denmark as it will give access to reserves from other parts of the country.

The Great Belt power link is included in the energy strategy plan from early summer 2005 in which the Government recommended that Energinet.dk commence planning of the connection. The cable is expected to be ready for commissioning within three years of all statutory approvals having been obtained. It is expected that the authorities will complete their consideration of the issue in the third quarter of 2006.

The connection will take the form of a 600 MW DC cable with a budget of DKK 1.22 billion.

Reconstruction of international connections

So as to increase the transmission capacity between Jutland and Sweden, Energinet.dk and Svenska Kraftnät are reconstructing the HVDC interconnection Konti-Skan 1. The reconstruction, which comprises new converter stations on the Danish and Swedish sides, will increase the capacity of the connection from 270 MW to 380 MW. The plan was for the reconstructed connection to be ready for commercial operation at the end of 2005, but due to delayed deliveries from the supplier, commissioning has been delayed by just over six months.

Energinet.dk's budget for the reconstruction is DKK 226 million.

On Skagerrak 1 and 2 – the HVDC connections between Jutland and Norway – Energinet.dk and Statkraft will replace the control systems in Denmark and Norway. The replacements, which will increase the residual life of the entire installation, are expected to be completed in 2007.

For Energinet.dk the replacements will amount to DKK 40 million.

New reactors

In order to be able to control the voltage of the electricity systems east and west of the Great Belt, while at the same time reducing grid losses, Energinet.dk will be installing five new reactors in the course of 2006. The budget for the reactors is DKK 65 million.

Reconstruction of overhead line

Energinet.dk is planning to reconstruct the existing single-circuit 400 kV overhead line between Kassø and Revsing in Southern Jutland as a double circuit. The old towers will be removed, and a new double-circuit overhead line will be erected within the reserved right-of-way.

Provided that the counties finish their political consideration in early 2006, as expected, the reconstructed line can be ready for operation at the end of 2008. The budget for the reconstruction is DKK 382 million.

Connection of new offshore wind farms

The energy agreement from March 2004 means that two new 200 MW offshore wind farms will be built – one at Horns Rev off the west coast at Blåvand and one at

Rødsand off the coast of Lolland. Energinet.dk is to establish the connection between the wind farm and the transmission system consisting of offshore transformer platforms and submarine cables. At Horns Rev, Energinet.dk is also to install land cables to the nearest substation. The connections must be completed by May and October 2009, respectively, which is when the new wind farms will be commissioned. As for Rødsand, an agreement will be made with SEAS-NVE which will be in charge of establishing the 132 kV installations on land.

The budget for the connections is DKK 750 million.

Financing and risk management

AA+ rating

In October, Energinet.dk was given the second-best rating by the acknowledged rating agency Standard & Poor's. The rating is based on the company's solid business area and its monopoly status within transmission system operation and the transmission of electricity and gas as well as the state's ownership and support of the company. Moreover, the financial management and stability of Energinet.dk have also affected the rating.

Standard & Poor's is expecting a stable rating of the company in the coming years.

Financing

At the end of 2005, interest-bearing debt after rescheduling amounted to DKK 6.4 billion, of which 72 per cent was in the form of loans with a variable interest rate.

Energinet.dk's financing strategy, including the question of the final distribution between fixed-interest and variable-interest loans, maturity, structure and government loans/commercial loans, will be considered by the Supervisory Board in the second quarter of 2006. Until then, Energinet.dk's interest-bearing debt will primarily consist of loans with variable interest rates. Due to the high proportion of variable-interest debt, Energinet.dk is relatively sensitive to changes in interest rates. For example, an increase in interest rates by 1 percentage point will increase interest costs by approx. DKK 45 million.

At the end of 2005, the variable-interest debt consisted of existing variable-interest loans totalling DKK 2.9 billion, Commercial Papers (CP) totalling DKK 1.4 billion and bank credits totalling DKK 0.2 billion.

The majority of variable-interest debt also proved expedient in 2005 with the effective borrowing rate being as low as 3.2 per cent in 2005.

Energinet.dk has foreign currency loans in JPY, EUR and USD. All these loans, with the exception of a loan for EUR 20 million, have been swapped to Danish kroner. A foreign exchange gain of DKK 383 million was realised on these loans, offset by a loss of DKK 383 on financial instruments as the loans (excepting EUR 20 million) were hedged.

Energinet.dk can only be exposed to foreign exchange risks in EUR, according to the rules governing Energinet.dk's borrowings issued by Danmarks Nationalbank.

In connection with the arrangement of loans with a term of more than one year, interest rate and currency swaps have been made with a number of financial counterparties in accordance with the guidelines set out in the financing strategies of the merged companies. Energinet.dk is subject to special rules governing the credit and counterparty risks of state-owned companies.

A high proportion of Energinet.dk's loan portfolio will be repaid in 2006 and 2012. The most important repayments in 2006 are of fixed-interest loans, for which reason Energinet.dk's exposure to changes in interest rates will depend on the extent to which new loans are arranged on fixed-interest or variable-interest terms.

At the end of 2005, Energinet.dk had established short-term credits totalling DKK 2,200 million and DKK 4,000 million as the maximum limit of the Commercial Paper Programme. Of these, drawings totalling DKK 200 million had been made on the short-term bank credits, and DKK 1,423 million had been drawn on the CP programme.

Special risk areas

Energinet.dk has initiated a risk management analysis with a view to identifying and prioritising all material risks for Energinet.dk, ie risks that threaten Energinet.dk's objectives concerning security of supply, an efficient market, safeguarding of installations, the retaining of key employees, etc. On the basis of this risk management analysis, the Supervisory Board of Energinet.dk will consider a proposal for a risk management policy in spring 2006.

The risk management policy will result in an insurance policy and a financing strategy for Energinet.dk which are expected to be considered by the Supervisory Board in summer 2006. Until these policies and strategies have been adopted, Energinet.dk will be acting under the insurance policies (unchanged insurance portfolio) of the old companies and the special rules governing financial risks set out below.

Financial risks

Energinet.dk has made an agreement with the Ministry of Transport and Energy which regulates the company's access to arranging loans and related financial transactions. This is a standard agreement which applies to all the state's independent undertakings. According to the agreement, the main criteria for Energinet.dk's borrowing must be based on such transactions being common, ie known and used in the market by acknowledged borrowers, and on such transactions being made up of simple elements making them transparent. Under this agreement, it is also possible for Energinet.dk to obtain loans directly from Danmarks Nationalbank.

This agreement will be transformed into a financing strategy for Energinet.dk.

Counterparty risks

Debtors

As the transmission system operator for electricity and gas, Energinet.dk has a number of customers, which may give rise to losses. No security/guarantees are required in connection with sales to electricity grid companies with authorisation.

Authorised balance-responsible market players must provide a bank guarantee

corresponding to one month's payables to Energinet.dk. The minimum guarantee sum is DKK 2 million.

When trading with gas shippers, a credit assessment of the individual customers is made, and a credit limit is fixed depending on the outcome of such credit assessment and the size of the equity.

Creditors

As transmission system operator, Energinet.dk does not usually pay for services until they have been supplied. A certain amount is usually held back until the service has been finally approved. If products must be manufactured to order, eg cables, the supplier typically demands a prepayment of approx. 30 per cent. When prepayments are required, Energinet.dk carries out a credit assessment of the individual suppliers.

Financial counterparties

Energinet.dk only enters into agreements concerning financial instruments (such as swaps with a term of more than one year) with counterparties with a minimum credit rating of AA- from two acknowledged rating agencies.

From 1 January 2007 at the latest, future financial agreements will furthermore be supplemented with a Credit Support Annex (CSA) with the continuous exchange of security depending on the counterparty's credit assessment.

Environment

Every year Energinet.dk publishes a statutory environmental report providing a statement on emissions to the environment from the electricity and CHP production in Denmark. The statement includes 15 different substances. Furthermore, a 10-year forecast is prepared of the development in emissions in different scenarios. Moreover, Energinet.dk prepares an environmental impact statement for electricity, which is a statement of emissions per kWh of electricity consumed in Denmark. The environmental report also contains a statement of emissions in connection with the transmission of electricity and natural gas in Energinet.dk's transmission grids.

The most important emissions to the environment by Energinet.dk are caused primarily by the following factors:

- Electricity loss from the transmission of electricity in cables and overhead lines. The loss is affected by transmission on the international connections and therefore fluctuates from year to year. In 2004, the loss amounted to 662 GWh, corresponding to 1.7 per cent of the total electricity production. In 2005, the loss was 703 GWh, corresponding to 2.1 per cent of the total electricity production.

The loss for 2005 translates into greenhouse gas emissions of approx. 345,000 tonnes of CO₂.

- SF₆ gas is used in the electricity transmission system to insulate high-voltage components. A total of approx. 40 tonnes of SF₆ gas is installed in Energinet.dk's

high-voltage grid. Trips and measurements of pressure can give rise to emissions of SF₆ gas. There were no trips in 2005, but normal operations and measurements gave rise to emissions of approx. 173 kg of SF₆ gas.

The emissions of SF₆ gas translate into greenhouse gas emissions of approx. 4,130 tonnes of CO₂.

- Losses from the gas transmission grid occur in connection with measurements at meter and regulator stations and grid inspections. For safety reasons, it may also be necessary to release natural gas in connection with repair and maintenance work. In 2005 emissions of natural gas totalled 163,873 Nm³ corresponding to 0.021 per thousand of the gas volume transmitted. There were no leaks in the gas transmission grid in 2005.

The loss for 2005 translates into greenhouse gas emissions of 2,890 tonnes of CO₂.

- Energy consumption in pumps and meter and regulator stations for heating the natural gas in connection with changes in pressure was approx. 60 GWh in 2005.

The energy consumption for 2005 translates into greenhouse gas emissions of approx. 12,300 tonnes of CO₂.

- Odorant (C₅H₈S) is added to the natural gas to ensure that consumers can smell any gas leaks. Odorant contains hydrogen sulphide compounds which contribute to the acidification of the environment when the natural gas is used. In 2005, 61 tonnes of odorant were added to the gas transmission system.

The volume of odorant used in 2005 translates into acidifying gas emissions of 44.4 tonnes of SO₂.

Impacts on the landscape

An important framework for Energinet.dk's development of the electricity transmission grid is provided in a report setting out the principles for the establishment and renovation of high-voltage installations from 1995. The report states that 400 kV connections can normally be built as overhead lines, possibly with cabling on short stretches across sites of national natural interest. But several factors have changed since these principles were adopted. Energinet.dk is therefore initiating a review with a view to updating the principles for establishing and renovating high-voltage installations.

In 2005, 64 km of overhead lines were renovated and removed from the 150/132 kV high-voltage grid, while 29 km of 150/132 kV cables were laid. No changes were made to the 400 kV grid in 2005.

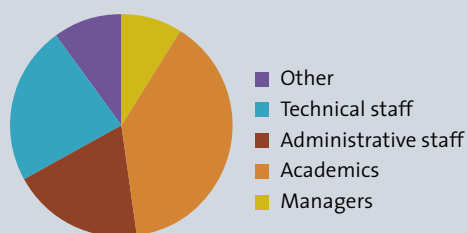
Magnetic fields

Together with Dansk Energi, Energinet.dk helps finance the Magnetic Field Committee which finances studies of the impact on humans of magnetic fields around high-voltage installations and provides information about the topic. Dansk Energi houses the Magnetic Field Committee, and Energinet.dk holds the chairmanship.

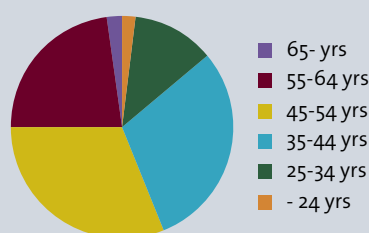
Oil and gas leaks

Through systematic maintenance, Energinet.dk prevents leaks from its electricity and natural gas installations from which both oil and natural gas may leak.

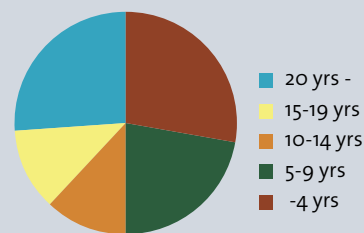
Employee groups



Age distribution



Seniority



A minor crack in a joint on the Kontek submarine cable between Eastern Denmark and Germany caused a slight oil leak to the surrounding sea. The light vegetable oil dissolves in a few days. Most of the oil leaked was collected by a device on the seabed. The damaged section of the cable will be replaced in spring 2006.

All environmental precautions were taken in connection with a fire in a reactor at Hovegård substation, and no oil leaked to the surrounding environment.

There were no unforeseen gas leaks from the natural gas transmission grid in 2005.

Dismantling of old units

Energinet.dk always dismantles and disposes of old installations in an environmentally responsible way. In 2005, the dismantling of mercury-based equipment at Vester Hassing converter station commenced.

Knowledge resources and organisation

In a merger process, ensuring stable daily operations is essential. In 2005, focus was therefore very much on the staffing of the organisation – both in relation to present employees and in connection with the recruitment of new resources.

Staffing process

The new management was appointed in late June, and after that the employees were positioned in the organisation which became effective on 1 October.

The main principle was for individual employees to continue doing the same job wherever that may be placed in the new organisation. Employees have, however, been invited to state their wishes for possible job changes as all job functions were presented in a job catalogue. Employees were able to apply for other functions which were or became vacant. It was possible to meet the wishes of most employees, in this way optimising the utilisation of resources in the organisation.

Attracting and retaining human resources

In consequence of the merger, approx. 50 employees decided to leave Energinet.dk for employment elsewhere. An imminent generational change and the relocation of functions from Copenhagen to Jutland have increased the need for new employees so as to ensure that the right competences are available in the short and long term. Therefore, a major recruitment process started in the autumn. In the course of three months, 37 new employees were recruited by Energinet.dk.

In order to strengthen the professional environment, employees at Energinet.dk's two sites on Zealand moved to the former Elkraft domicile in Ballerup at the beginning of 2006.

In autumn 2007, Energinet.dk will be moving to a new domicile in Erritsø in Jutland where many of the company's activities will be gathered. In this context, it is imperative to ensure that work goes on both in the period up to and after the relocation. A number of initiatives have therefore been launched to motivate employees.

A specific relocation packet has been prepared which is offered to employees whose job is moving. The packet contains the following elements:

- Help towards the cost of moving
- Assistance in connection with finding job for spouse
- Flexibility regarding the time of moving.

Initiatives have also been taken for those employees who elect not to move with their job to the new domicile. These include:

- Individual retirement agreements taking account of the individual needs of senior employees
- Offer of assistance in finding a new job in connection with the actual date when the job is moved.

Management of Energinet.dk

- Peder Østermark Andreasen, President and CEO
- Flemming Wibroe, Executive Secretary
- Robert Sloth Neimanas, Vice President of Corporate Communications
- Steen Dalsgaard Sørensen, Vice President of Human Resources
- Lene Sonne, Vice President of Market
- Carsten Jensen, Vice President of Electricity Transmission
- Peter Hodal, Vice President of Gas Transmission
- Per Sørensen, Vice President of System Operation
- Peter Jørgensen, Vice President of Planning
- Niels Saaby Johansen, Vice President of IT and QM
- Poul Steen, Vice President of Finance



IT and quality management

As part of the merger process, Energinet.dk has in the past year started a process of consolidation and harmonisation of the company's various IT systems. The aim is for most of the consolidation to be completed by the end of 2006. However, the systems for operation and monitoring of the electricity and gas systems will wait until 2008.

Work is going into merging the IT systems for the settlement of electricity and gas. Also, the three existing finance systems will be replaced by a common SAP-based ERP solution which is to constitute the IT platform for many of Energinet.dk's joint processes and provide a better basis for managing the areas of finance, operation and maintenance and HR.

The work involved in establishing a common quality management system commenced in 2005. The aim is to harmonise the three existing quality management systems in 2006 into a common system with a common ISO 9001 certificate. An expansion of the quality management system will be implemented in the course of 2007 and 2008. The new system is to cover all material processes and ensure a uniform approach to quality management throughout the organisation.

Financial review

Net profit for the year

Energinet.dk's economy is based on a break-even principle as the executive order on the financial regulation of Energinet.dk

only allows the company to include the necessary costs of efficient operations plus the necessary return on the equity. This means that all the necessary costs incidental to the activities in question are covered by the tariffs. The Danish Energy Regulatory Authority approves the principles underlying the tariffs following registration.

Necessary costs are costs which the company incurs, based on considerations of its operating economy, in order to maintain efficient operations.

The Energy Regulatory Authority announces the rate of return on the company's equity every quarter. The rate of return may be adjusted to reflect the rate of return which is needed for efficient operations in the light of the capital requirement, for instance as a result of investments. For 2005, a consolidation of the equity amounting to DKK 132 million after tax on the electricity-related activities was recognised. This corresponds to the rate of return announced by the Energy Regulatory Authority for 2005. For the gas-related activities, the profit for the year after tax of DKK 170 million has been used to consolidate the equity.

The consequence of the self-financing principle is that over time the financial result for the year will be nil, when disregarding the rate of return on the equity.

The difference between grid and system income and costs for the year plus the return on the equity is recognised under the equity as excess revenue (if income exceeds costs) or a deficit (if costs exceed income). Any excess revenue or deficit is included in the tariffs for the following year.

For 2005 Energinet.dk realised (net) excess revenue of DKK 51 million from PSO activities and (net) excess revenue of DKK 253 from grid and system activities.

The profit for the year after tax amounts to DKK 555 million, including excess revenue for the year.

2005 and follow-up on the outlook for last year

The Energinet.dk group generated a profit before tax of DKK 593 million, which is better than expected in the budgets for 2005.

For the electricity-related activities, the realised results are better than expected, which is primarily attributable to higher income from the international connections as a result of an increase in demand for transmission capacity to and from Jutland. Revenue from the international connections was DKK 192 million higher than expected.

For the gas-related activities, the realised profit is also better than expected, which is primarily due to revenue from the sale of balancing gas totalling DKK 35 million.

Furthermore, financial costs were generally lower than expected. This is due to the continuing low interest levels and, as regards the gas-related activities in particular, due to the fact that the debt has not, as anticipated in the budget, been converted to fixed-interest loans.

Staff costs

Staff costs amounted to DKK 269 million in 2005. Staff costs include redundancy payment and costs incidental to individual



retainer agreements with key employees totalling DKK 41 million.

Depreciation, amortisation and impairment

Depreciation on tangible fixed assets totals DKK 579 million. Furthermore, an impairment loss of DKK 19 million has been recognised in connection with the merger of the former organisations and the establishment of common IT systems.

Low level of investment

2005 was characterised by a low level of investment. Investments for 2005 (net) totalled DKK 165 million, including the purchase of the land for the domicile at a price of DKK 19 million. Investments for 2005 were only marginally affected by the merger.

The coming years are expected to see significant investments in connection with the establishment of a new domicile, new common IT systems and construction costs in connection with the establishment of the coming power link under the Great Belt.

Financial costs – lower than expected

In 2005 (net) financial costs amounted to DKK 197 million, of which DKK 61 million was recognised under the item “Costs of environmentally friendly electricity production etc.” and DKK 6 million was capitalised as financing interest under “Tangible fixed assets”. Financial costs are lower than expected, primarily as a result of the continuing low interest rate levels and a favourable development in liquidity.

Tax on net profit for the year

Tax on the profit for the year totals DKK

38 million, corresponding to a tax rate of 6 per cent. The tax for the year is materially affected by the reduction in the corporation tax from 30 to 28 per cent, whereby the company’s deferred tax liability is reduced by DKK 130 million. The tax payable for 2005 totals DKK 86 million and relates primarily to Energinet.dk’s gas-related activities.

According to Section 35 O of the Danish Corporation Tax Act, Energinet.dk’s electricity-related activities, which are undertaken by the parent company, cannot be taxed jointly with the other activities of the Energinet.dk group, including those of its wholly owned subsidiaries. Energinet.dk does not expect tax payments on revenue from the parent company’s electricity-related activities for many years.

As a result of the establishment of Energinet.dk, the discontinuing companies lost their fiscal deficits. In the opening balance sheet, the book value of these deficits have been written down against equity. The loss of the fiscal deficits will not immediately affect the tariffs.

Balance sheet reduced

The consolidated balance sheet total amounted to DKK 13,954 million at the end of 2005 against DKK 14,818 million at the beginning of the year.

The fall of DKK 864 million is primarily attributable to the low fixed asset investments. At the end of 2005, Energinet.dk’s fixed assets thus totalled DKK 12,103 million, of which tangible fixed assets accounted for DKK 10,322 million, corresponding to a fall of DKK 443 million.

Equity and solvency ratio up

At the end of 2005, the equity amounted to DKK 3,599 million. Accumulated (net) excess revenue totalled DKK 129 million.

As a result of the reduction in interest-bearing debt and the profit for the year, the solvency ratio is up. The interest-bearing debt is expected to be reduced further in 2006.

Debt down

At the end of 2005, Energinet.dk had short-term loans totalling DKK 1,423 million. The loans have been arranged to repay long-term loans due for repayment. In the course of 2006, further long-term loans totalling DKK 1,482 million fall due for repayment. Total short-term credits will then amount to almost DKK 5 billion.

In the first half of 2006, the Supervisory Board will lay down Energinet.dk’s financing and risk policy, considering whether some of the short-term credits should be converted into long-term loans. Energinet.dk has established the necessary credit facilities to repay the short-term debt which falls due in 2006.

Outlook 2006

Energinet.dk’s tariffs for 2006 have been fixed with a view to eliminating the accumulated excess revenue and deficits existing at the end of 2005.

Energinet.dk is expecting a total deficit of DKK 130 million for 2006. Electricity-related activities in Western Denmark will account for DKK 140 million of the deficit, while DKK 50 million will be attributable to electricity-related activities in Eastern Denmark. Excess revenue of DKK 60 million is expected from gas-related activities.

The grid and system tariff for 2006 has been reduced by a total of DKK 0.01 for Western Denmark and DKK 0.007 for Eastern Denmark relative to 2005. The reduction is aimed at eliminating the accumulated excess revenue for 2005.

The gas tariffs for 2006 are unchanged relative to 2005.

Special issues

The Danish Energy Regulatory Authority has not yet approved Energinet.dk's method for fixing the tariffs for 2006, including the consolidation of the **equity for 2005**.

The Danish Energy Regulatory Authority's consideration of the tariffs will not affect the financial results for 2005, but may change the distribution between excess revenue/deficit and consolidation of **equity** at 31 December 2005.

Events after the end of the financial year

No events materially affecting the financial position of the company have occurred after the end of the financial year.

Tariffs

Energinet.dk is obliged by law to keep separate financial accounts of its electricity and natural gas-related activities.

Income and costs incidental to the gas-related activities are divided between a transmission pool and an emergency supply pool, each of which must break even.

The transmission tariff covers payments for the use of the gas transmission grid and costs incidental thereto, including the operation and maintenance of the grid,

costs of buying storage capacity for handling system operation and administration costs. The transmission tariff is divided into a capacity and a volume tariff, the capacity tariff accounting for approx. 75 per cent of total transmission payments. The capacity payment is an incentive for the even use of the grid, and the tariff structure has been chosen with a view to ensuring the efficient use of the grid.

The emergency supply tariffs cover payments for storage and emergency supply facilities necessary to maintain Energinet.dk's emergency management system. The emergency supply tariff is paid by all users of the grid. A lower tariff is paid for secondary emergency supplies than for primary emergency supplies.

The income and costs incidental to the electricity-related activities are divided into three tariff pools: Grid, system and PSO (Public Service Obligations) which must all be self-financing.

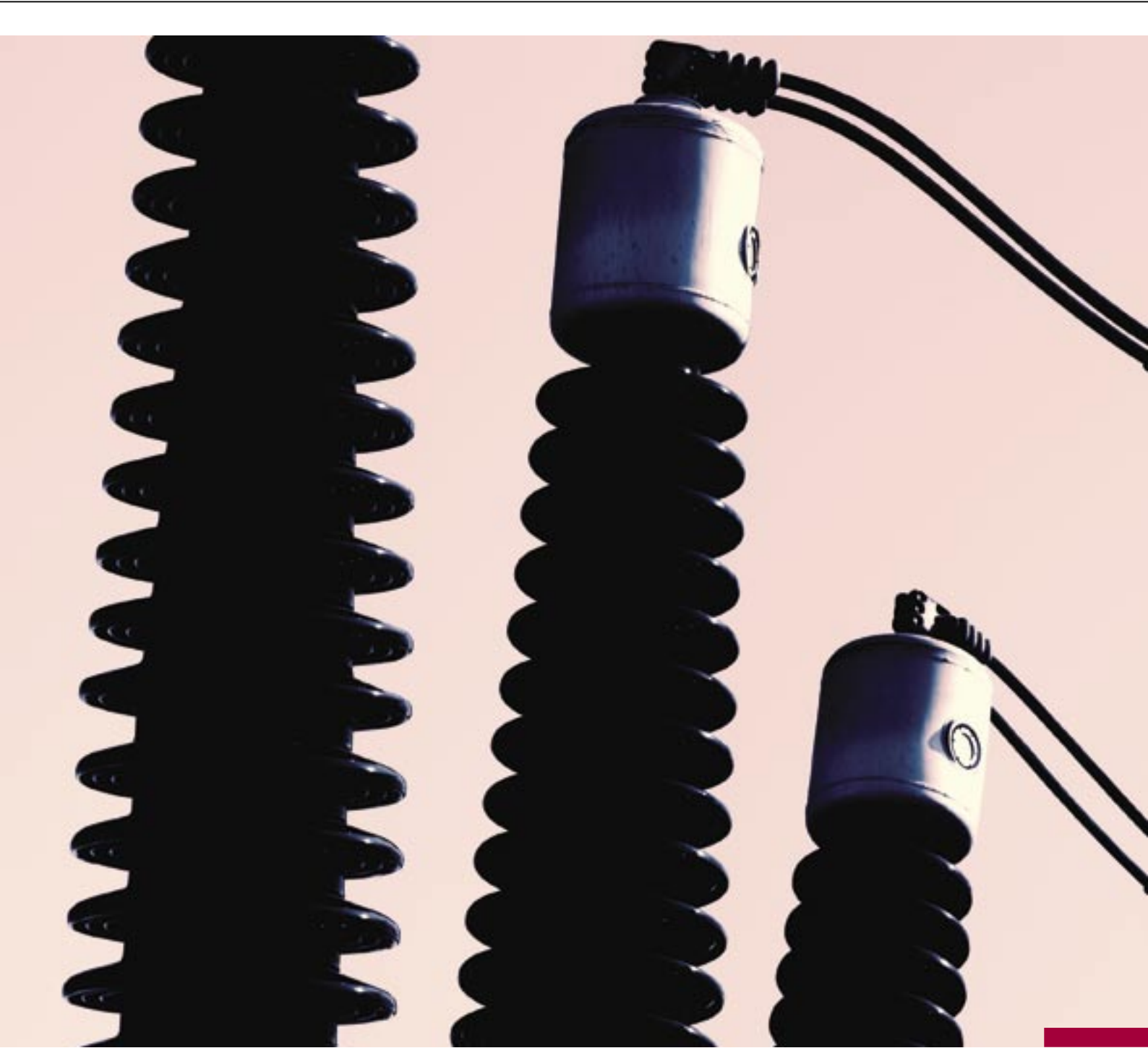
The grid tariff covers use of the 132/150 kV grid, costs for the 400 kV grid and the international connections. Furthermore, the grid tariff covers losses in these grids and interconnections as well as administrative costs incidental to the supply of grid services. The costs are financed by income from the grid tariff and the international connections. The grid tariff is paid by the users of the grid and is divided into payment for consumption and payment for production from units that are not subject to the purchase obligation.

The system tariff covers costs incidental to ensuring security of supply, system operation and availability, including the efficiency

of the market. According to the Danish Electricity Supply Act, Energinet.dk must maintain the technical quality and balance of the Danish power grid. Energinet.dk fulfils this responsibility by reserving capacity at the primary power stations in advance (payment for reserve capacity) and by being able to order changes to production at the moment of operation against payment. The system tariff covers Energinet.dk's payments for reserve capacity and the purchase and sale of regulating power and balance power as well as administrative costs. The costs are financed by income from the system tariff and the handling of the balance and regulating power market. The system tariff is paid by electricity consumers.

The PSO tariff covers the costs incidental to Energinet.dk fulfilling its public obligations imposed by the Danish Electricity Supply Act. These costs include funding of environmentally friendly electricity production, the grid connection of environmentally friendly electricity production, research and development within environmentally friendly electricity generation technologies and the efficient use of energy as well as write-downs of the agreements concerning minimum production capacity (rights). Pursuant to applicable legislation, the administrative costs incidental to the PSO tariff are covered by the system tariff. The PSO tariff is paid by the total electricity consumption in the area. However, a number of autoproducers and large-scale electricity consumers are exempt from paying some of the tariff.

Reference is also made to Energinet.dk's subaccounts on pages 57-60.





Accounts

Accounting policies

The Annual Report for the independent public undertaking Energinet.dk has been presented in accordance with the provisions of the Danish Financial Statements Act, current Danish accounting standards and the Act on Energinet Denmark.

Energinet.dk is required by Danish legislation to prepare its Annual Report in accordance with the provisions of the Financial Statements Act, which applies to state-owned public limited companies. The Annual Report has been prepared in accordance with the requirements for Class D companies.

The accounting policies applied are unchanged relative to the opening balance sheet as per 1 January 2005.

Since the Annual Report covers the company's first financial year, no comparative figures have been stated for the profit and loss account and the cash flow statement. The comparative figures stated in the balance sheet cover the opening balance sheet at the time of establishment.

The Annual Report has been prepared in millions of Danish kroner (DKK).

General comments on recognition and measurement

Assets are recognised in the balance sheet when future financial benefits are likely to accrue to the group and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when they are likely to occur and can be measured reliably. Assets and liabilities

are first recognised in the balance sheet 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 to maturity. Amortised cost is the original cost less any instalments plus/minus the accumulated amortisation of the difference between cost and nominal amount.

Recognition and measurement take into account any gains, losses and risks which occur before the Annual Report is presented and which confirm or invalidate matters that existed on the balance sheet date.

Revenue is recognised in the profit and loss account as it accrues. This includes revaluation of financial assets and liabilities measured at fair value or amortised cost. Furthermore, costs that are borne to achieve the profit for the year are recognised, including depreciation, impairment and provisions as well as reversals due to changed accounting estimates.

Consolidated annual accounts

The consolidated annual accounts comprise the parent Energinet.dk and subsidiaries in which Energinet.dk holds more than 50 per cent of the voting rights. Enterprises that are not subsidiaries but in which Energinet.dk has 20 per cent or more of the voting rights and a significant influence on these enterprises' operational and financial management are considered as associates.

The consolidated annual accounts are based on the annual accounts of Energinet.dk and the subsidiaries by adding together

items of a uniform nature and by eliminating intercompany income and expenses, intercompany balances and dividend as well as profit and loss from transactions.

On acquisition of new enterprises the purchase method is applied according to which the newly acquired enterprises' identified assets and liabilities are measured at fair value on the date of acquisition. Provisions are made for costs for adopted and published restructurings in the acquired enterprise in connection with the acquisition. The tax effect of the revaluations made has been provided for.

Positive balances (goodwill) between acquisition value and fair value of identified assets and liabilities taken over, including provisions for restructuring, are recognised under intangible fixed assets and amortised systematically via the profit and loss account following individual assessments of their economic lives, the maximum amortisation period, however, being 20 years. Negative balances (negative goodwill), which reflect an expected unfavourable development in the enterprises concerned, are recognised in the balance sheet under "Provisions for liabilities and charges" and are recognised in the profit and loss account as such losses or costs are realised or transferred to "Other provisions for liabilities and charges", as the liabilities become current and can be measured reliably.

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

Energinet.dk's investments in subsidiaries are offset by the equity value of the subsidiary at the time of acquisition (past equity method). The **annual accounts of subsidiaries** used for consolidation are prepared in accordance with the accounting policies of the group.

Investments in associates are valued according to the equity method as the proportionate share of the company's equity owned. Intercompany gains and losses are eliminated proportionately. The proportionate share of the associates' profit before tax is recognised in the profit and loss account.

Newly acquired or newly formed enterprises are included in the consolidated **annual accounts as from the date of acquisition, and** enterprises divested are included up until the date of divestment.

Comparative figures are not restated for newly acquired, divested or wound-up enterprises or activities.

Gains or losses from the divestment or winding-up of subsidiaries and associates are recognised as the difference between the sales sum or the disposal sum and the book value of net assets at the time of sale, including non-amortised goodwill and expected disposal or winding-up costs.

Foreign currency translation

Transactions in foreign currency are first translated at the rate at the transaction date. Exchange differences occurring between the rate at the transaction date and the rate at the date of payment are recognised in the profit and loss account under financial income and costs.

Debtors, creditors and other monetary items in foreign currency which have not been settled at the balance sheet date are translated at the exchange rate at the balance sheet date. The difference between the exchange rate at the balance sheet date and the exchange rate at the time when the outstanding amounts occurred or were recognised in the latest annual report is recognised in the profit and loss account under financial income and costs.

Derivatives

Derivatives are first recognised in the balance sheet at cost and are subsequently measured at fair value. Positive and negative fair values of derivatives are included in "Other debtors" and "Other creditors", respectively.

Changes in the fair value of derivatives that are classified as and meet the criteria for hedging the fair value of a recognised asset or a recognised liability are recognised in the profit and loss account together with changes in the value of the secured asset or the secured liability.

Changes in the fair value of derivatives that are classified as and meet the criteria for hedging future assets or liabilities are recognised directly under equity. Income and costs pertaining to such hedging transactions are transferred from the equity at the time of realisation of the secured assets or liabilities and are recognised in the same item as the secured assets or liabilities.

Changes in the fair value of derivatives that do not meet the criteria for being classified as hedging future assets are recognised in the profit and loss account on an ongoing basis.

Profit and loss account

Turnover

Gross turnover comprises the transmission of electricity and natural gas and related services. Revenue is recognised in the profit and loss account if delivery has taken place and the risk has passed before the end of the year, and if the income can be measured reliably and is expected to be received.

Gross turnover includes payments from the company's customers, which the company has a statutory obligation to claim and which must be debited to the suppliers of environmentally friendly electricity. Gross turnover thus indicates the total scope of activities administered by the company.

Net turnover is shown in the profit and loss account as gross turnover less taxes and payments to suppliers of environmentally friendly electricity.

Work performed by Energinet.dk and capitalised

This item includes staff costs as well as indirect costs pertaining to autoproduction.

Other operating income

This item includes items of a secondary nature compared to transmission and system activities concerning electricity and gas.

Other external costs

This item includes costs of a primary nature compared to transmission and system activities concerning electricity and gas.

Staff costs

This item comprises wages, salaries, remuneration, pension costs and other staff costs pertaining to the company's employees, including the management and the Supervisory Board.

Depreciation, amortisation and impairment

This item includes depreciation, amortisation and impairment of intangible and tangible fixed assets.

Profit/loss in subsidiaries and associates

The proportionate share of the individual subsidiary's profit or loss before tax and after elimination of intercompany gains and losses and less amortisation of goodwill is taken to the profit and loss account of the parent company. The share of the subsidiaries' tax and extraordinary items is recognised under tax on ordinary activities or profit on extraordinary activities after tax.

The proportionate share of the individual associate's profit or loss before tax and after elimination of intercompany gains and losses and less amortisation of goodwill is taken to the profit and loss accounts of the parent company and the group. The share of the associates' tax and extraordinary items is recognised under tax on ordinary activities or profit on extraordinary activities after tax.

Financial income and costs

Financial income and costs include interest income and costs, foreign exchange gains and losses concerning securities, debt and transactions in foreign currency and amortisation of financial assets and liabilities. Financial income and costs are

recognised with the amounts pertaining to the financial year.

Tax on profit for the year

The activities of the Energinet.dk group covered by Section 35 O of the Danish Corporation Tax Act must not be jointly taxed with the other activities of the group. The other activities of Energinet.dk are jointly taxed with the wholly owned Danish subsidiaries. Current Danish corporation tax is allocated to the jointly taxed companies in proportion to their taxable income (full allocation).

Tax for the year, which comprises the current tax for the year and any changes in deferred tax, is recognised in the profit and loss account with the share attributable to the profit or loss for the year, and directly under equity with the share attributable to items recognised directly under equity. Tax is charged to the profit and loss account under extraordinary and ordinary activities, respectively.

The jointly taxed companies subscribe to the Tax Prepayment Scheme. Supplementary payments, allowances and refunds in respect of the tax payments are recognised under financial items.

Balance sheet

Intangible fixed assets

Intangible fixed assets include rights and development projects.

Rights include the right to charge for ancillary services and transit agreements etc.

Capitalised intangible fixed assets are measured at the lower of cost less accumulated amortisation and recoverable amount.

Intangible fixed assets are amortised over the expected economic life of the assets based on the following assessment of the expected economic life of the assets:

Rights	10-20 years
--------	-------------

Acquisitions in the course of the financial year are amortised proportionately according to the date of entry into service.

Intangible fixed assets are written down to the lower of recoverable amount and book value. An annual impairment test is carried out of individual assets or groups of assets.

Profit and loss from the sale of intangible fixed assets is computed as the difference between the selling price less selling costs and the book value at the time of sale.

Any profit or loss is recognised in the profit and loss account under "Other operating income" or "Other external costs".

Tangible fixed assets

Land and buildings are measured at cost less accumulated depreciation and impairment.

Production facilities, machinery and other plants and operating equipment are measured at cost less accumulated depreciation and impairment.

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 cost of acquisition and any costs directly related to the acquisition up until the time when the asset is ready for entry into service. For self-constructed assets, cost comprises the direct and indirect costs of materials, components, sub-suppliers and labour. Furthermore, any financing costs attributable to the cost price are included.

Components in stock and other technical spare parts are recognised under tangible fixed assets.

Tangible fixed assets are depreciated over the expected economic life of the assets based on the following assessment of the expected economic life of the assets:

Buildings	20-100 years
Production facilities	10-50 years
Machinery, other plant, tools and operating equipment	3-10 years
Land	No depreciation

New acquisitions at a price below DKK 100,000 are charged to the profit and loss account in the year of acquisition.

Acquisitions in the course of the financial year are depreciated proportionately according to the date of entry into service.

Tangible fixed assets are written down to the lower of recoverable amount and book value. An annual impairment test is carried out of individual assets or groups of assets.

Prepayments on fixed assets not delivered are capitalised.

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

Profit and loss from the sale or scrapping of tangible fixed assets are computed as the difference between selling price, less dismantling, selling and reestablishment costs, and the book value at the time of sale or scrapping. Any profit or loss is recognised in the profit and loss account under "Other operating income" or "Other external costs".

Financial fixed assets

Investments in subsidiaries and associates are measured according to the equity method.

Other investments and other financial fixed assets are measured at fair value if the asset is expected to be sold before maturity. Assets held until maturity are measured at amortised cost. All fair value adjustments (except repayments) are recognised in the profit and loss account.

Investments in subsidiaries and associates are recognised in the balance sheet as the proportionate share of the company's net worth calculated according to the accounting policies of the parent company plus or minus unrealised intra-group profit or loss.

Net revaluation of investments in subsidiaries and associates is transferred to the equity under "Net revaluation reserve according to the equity method" in so far as the book value exceeds the cost.

Stock

Stock includes natural gas in the natural gas transmission system and in storage facilities. Stock is measured at the lower of cost and net realisable value.

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

Debtors

Debtors are measured at amortised cost. Provision is made for anticipated losses.

Equity

Dividend

According to the Act on Energinet Danmark, Energinet.dk is not entitled to distribute any profit or equity through dividend distribution or in any other way to the state.

Excess revenue/deficit

The accumulated excess revenues/deficits concerning grid and system activities for electricity and gas are shown as a separate item under equity.

Other provisions

Other provisions are recognised when the Energinet.dk group has a legal or actual obligation due to a previous event, and fulfilment of the liability is likely to result in

consumption of the financial resources of the company, and when such obligation can be measured reliably.

Corporation tax and deferred tax

Current tax liabilities and tax receivables are recognised in the balance sheet as calculated tax on the taxable income of the year, regulated for tax on the taxable income of previous years as well as for taxes paid on account.

Deferred tax is measured according to the liability method on the basis of all temporary differences between the book value and the value of assets and liabilities for tax purposes on the basis of the tax rates adopted or expected on the balance sheet date. Changes in deferred tax due to a reduction in the tax rate are recognised in the profit and loss account. Where the value for tax purposes may be computed according to alternative tax rules, deferred tax is measured on the basis of the planned use of the asset or the payment of the liability, respectively.

Deferred tax assets, including the value of carried-over fiscal deficits for tax purposes, are recognised by the value at which they are likely to be used, either by taxation equalisation of future earnings or by set-off in deferred tax within the same jurisdiction.

Creditors

Mortgage loans and payables to credit institutions are recognised in connection with the raising of loans at the received proceeds less incurred transaction costs. In subsequent periods, the financial liabilities are recognised at amortised cost corresponding to the capitalised value by

using the effective interest rate so that the difference between the proceeds and the nominal value is recognised in the profit and loss account over the loan period under financial costs.

Other payables, which comprise trade payables, debt to affiliated and associated companies and other debt, are measured at amortised cost.

Contingent liabilities and other liabilities

Contingent liabilities and other liabilities comprise circumstances or situations existing at the balance sheet date, the financial effect of which cannot, however, 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 and the profit from primary activities. The cash flow statement shows cash flows for the year and cash and cash equivalents at the beginning and end of the year.

Cash flow from operating activities

Cash flow from operating activities is calculated as the profit from primary activities adjusted for non-cash operating items, paid financial and extraordinary items, paid corporation taxes and any changes in the working capital. The working capital is made up of current assets less short-term debt, excluding the items forming part of cash resources. Changes in working capital are adjusted for changes not affecting liquidity.

Cash flow from investing activities

Cash flow from investing activities comprises the purchase and sale of fixed assets and dividend received.

Cash flow from financing activities

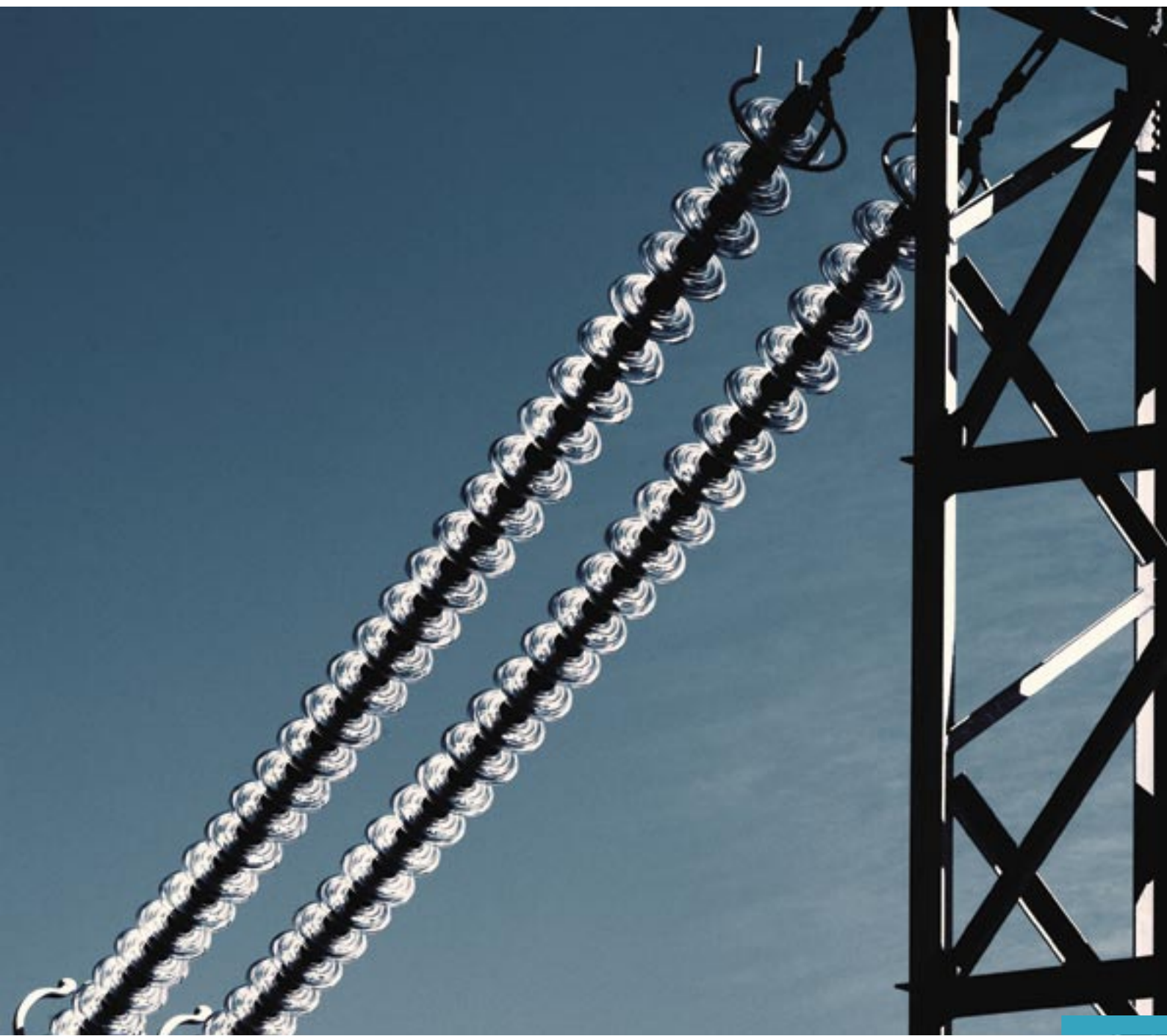
Cash flow from financing activities comprises proceeds from the raising of loans and debt repayments.

Cash and cash equivalents

Cash and cash equivalents comprise liquid funds less short-term bank debt in the form of overdraft facilities and similar debt repayable on demand and which forms part of the company's ongoing cash management.

Segment information

Segment information is based on the tariff pools for electricity and gas. The segment information is in line with the group's accounting policies, risks and internal financial management.



Profit and loss account for 1 January - 31 December

Parent 2005	Note	Amounts in DKK million	Group 2005
7,983	1	Gross turnover	7,983
-3,597	2	Costs of environmentally friendly production etc.	-3,597
4,386		Net turnover	4,386
35		Work performed by Energinet.dk and capitalised	35
0		Other operating income	4
4,421		Total income	4,425
-2,851	3, 4	Other external costs	-2,806
-232	5	Staff costs	-269
3,083		Total costs	3,075
1,338		Profit before depreciation, amortisation and impairment	1,350
-620	6	Depreciation, amortisation and impairment	-626
718		Operating profit	724
6		Profit/loss before tax in subsidiaries	0
-1		Profit/loss before tax in associated undertakings	-1
0		Result of other investments	0
14	7	Financial income	14
-144	8	Financial costs	-144
-125		Total financial items	-131
593		Profit before tax	593
-38	9	Tax on profit for the year	-38
555		Net profit for the year	555
		The following appropriation of the profit for the year is proposed:	
4		Net revaluation according to the equity method	0
298		Transferred as return on equity	302
253		Transferred as excess revenue/deficit under equity	253
555		Total	555

Balance sheet - Assets

Parent		Note	Amounts in DKK million	Group	
1.1.2005	2005			2005	1.1.2005
			Intangible fixed assets		
2,107	1,716		Rights	1,729	2,121
2,107	1,716	10	Total intangible fixed assets	1,729	2,121
			Tangible fixed assets		
210	226		Land and buildings	226	210
10,278	9,782		Technical plant and machinery	9,782	10,278
52	35		Other plant, tools and operating equipment	45	66
211	269		Assets in the course of construction and prepayment	269	211
10,751	10,312	11	Total tangible fixed assets	10,322	10,765
			Financial fixed assets		
29	33		Investments in subsidiaries	0	0
58	51		Investments in associated undertakings	51	58
1	1		Other investments	1	1
88	85	12	Total financial fixed assets	52	59
12,946	12,113		Total fixed assets	12,103	12,945
144	142		Stock	142	144
			Debtors		
1,237	794		Trade debtors	794	1,240
1	2		Subsidiaries	0	
0	6		Associated undertakings	6	0
43	326	13	Other debtors	326	39
340	313	14	Prepayments	313	340
1,621	1,441		Total debtors	1,439	1,619
110	265		Cash and cash equivalents	270	110
1,875	1,848		Total current assets	1,851	1,873
14,821	13,961		Total assets	13,954	14,818

Balance sheet - Equity and liabilities

Parent		Note	Amounts in DKK million	Group	
1.1.2005	2005			2005	1.1.2005
Equity					
3,157	3,157		Original capital	3,157	3,157
0	4		Net revaluation according to the equity method	0	0
0	309		Consolidation of equity	313	0
-124	129		Excess revenue/deficit	129	-124
3,033	3,599		Total equity	3,599	3,033
Provisions					
1,929	1,875	15	Deferred tax liabilities	1,879	1,934
48	31	16	Other provisions	31	48
1,977	1,906		Total provisions	1,910	1,982
Long-term liabilities					
493	494	17	Mortgage loans	494	493
3,680	2,332	17	Bank loans	2,332	3,680
436	392	18	Prepayments received	392	436
4,609	3,218		Total long-term liabilities	3,218	4,609
Current liabilities					
334	1,595	17, 18	Current portion of long-term liabilities	1,595	334
3,197	1,877		Credit institutions	1,877	3,197
670	823		Trade creditors	823	670
8	14		Amounts owed to subsidiaries	0	0
9	19		Current tax payable	21	9
984	910	19	Other liabilities	911	984
5,202	5,238		Total current liabilities	5,227	5,194
9,811	8,456		Total creditors	8,445	9,803
14,821	13,961		Total equity liabilities	13,954	14,818
		20	Provision of security and charges		
		21	Derivatives for the group		
		22	Contingent liabilities and other financial obligations		
		23	Related parties		

Statement of equity for 1 January - 31 December

Amounts in DKK million

Parent	Original capital	Net revaluation reserve acc. to the equity method	Consolidation of equity	Excess revenue/ deficit	Equity total
Opening balance at 1 January 2005	3,138	0	0	-124	3,014
Adjustment of opening balance	19	-	-	-	19
Equity at 1 January 2005	3,157	0	0	-124	3,033
Net profit/loss for the year	-	4	298	253	555
Revaluation of security instruments, beginning of year	-	-	26	-	26
Revaluation of security instruments, end of year	-	-	-15	-	-15
Equity at 31 December 2005	3,157	4	309	129	3,599

Adjustment of opening balance concerns an adjustment of deferred tax on excess revenue/deficits in the grid and system pools.

Group	Original capital	Net revaluation reserve acc. to the equity method	Consolidation of equity	Excess revenue/ deficit	Equity total
Opening balance at 1 January 2005	3,138	0	0	-124	3,014
Adjustment of opening balance	19	-	-	-	19
Equity at 1 January 2005	3,157	0	0	-124	3,033
Net profit/loss for the year	-	0	302	253	555
Revaluation of security instruments, beginning of year	-	-	26	-	26
Revaluation of security instruments, end of year	-	-	-15	-	-15
Equity at 31 December 2005	3,157	0	313	129	3,599

Adjustment of opening balance concerns an adjustment of deferred tax on excess revenue/deficits in the grid and system pools.

Cash flow statement for 1 January - 31 December

Amounts in DKK million	Group 2005
Operating profit	724
Depreciation, amortisation and impairment of tangible and intangible fixed assets	990
Gains/losses on sale of tangible and intangible fixed assets	10
Interest, paid	-130
Tax, paid	-86
Cash flows from operating activities before changes in working capital	1,508
Change in debtors	180
Change in stock	2
Change in trade creditors	153
Change in other debt etc.	-90
Of which change in operating capital concerning financial instruments etc. without liquidity effect	153
Cash flow from operating activities	1,906
Purchase of tangible fixed assets	-166
Sale of tangible fixed assets	1
Dividends received	5
Cash flow from investing activities	-160
Proceeds from raising of short-term loans	1,423
Repayments of loans	-2,286
Cash flow from financing activity	-863
Increase in cash and cash equivalents	883
Cash and cash equivalents at 1 January	-867
Cash and cash equivalents at 31 December	16
Cash and cash equivalents at 31 December can be specified as follows:	
Cash and cash equivalents	270
Bank overdrafts	-254
Cash and cash equivalents at 31 December	16

The cash flow statement cannot be deduced directly from the Balance sheet and the Profit and loss account.

Notes

Parent 2005	Note	Amounts in DKK million	Group 2005
	1	Gross turnover	
3,597		PSO tariff (electricity) including excess revenue/deficit	3,597
1,653		System tariff (electricity)	1,653
1,810		Grid tariff (electricity)	1,810
923		Gas tariff	923
7,983		Total	7,983
	2	Costs of environmentally friendly production etc.	
-1,952		Subsidies for wind turbines and other RE units	-1,952
-913		Subsidies for local CHP units	-913
-51		Grid connection	-51
-25		Grid losses in offshore grid	-25
-128		Research and development into environmentally friendly electricity production	-128
-25		Research and development into efficient energy use	-25
-364		Depreciation concerning minimum production capacity	-364
-78		Other PSO costs	-78
-61		Financial costs	-61
-3,597		Total	-3,597
	3	Other external costs	
-1,411		System tariff (electricity)	-1,411
-1,075		Grid tariff (electricity)	-1,049
-365		Gas tariff	-346
-2,851		Total	-2,806
		For further specification of other external costs, see the subaccounts, pages 57-60.	
	4	Auditing fees of the following amounts are included in "Other external costs":	
		Auditing of consolidated financial statements and annual report:	
-1		PricewaterhouseCoopers	-1
		Other services	
-3		PricewaterhouseCoopers	-3
-4		Total	-4

The National Audit Office of Denmark does not make a charge for its auditing activities.

Notes

Parent 2005	Note	Amounts in DKK million	Group 2005
	5	Staff costs	
-185		Wages and salaries	-218
-23		Pensions	-27
-2		Other costs relating to social security	-2
-1		Fee to the current Supervisory Board	-1
-0		Fee to the former Board of Directors	-0
-2		Fee to the current management	-2
-19		Fee to the former management	-19
-232		Total	-269

A fee of DKK 80,000 per year is paid to each member of the Supervisory Board. The Chairman of the Supervisory Board receives a total fee of DKK 250,000 per year.

The CEO is paid a fixed salary as well as performance-related pay depending on the achievement of individual targets agreed. The fees paid in 2005 were as follows (DKK million):

	Fixed salary	Performance- related pay
CEO	1.8	0.2

Furthermore, the CEO has been paid a moving allowance of DKK 0.3 million.

Redundancy payments for members of the management and senior employees in connection with termination by Energinet.dk which is not due to breach on the part of the employees do not exceed 12 months of pay, except in the case of the CEO whose notice period cannot exceed 24 months. In connection with the establishment of Energinet.dk, an agreement was concluded with all permanent employees concerning security of employment. This agreement expires on 30 June 2006.

Wages, salaries and pension costs include redundancy payments and the costs of individual retainer agreements with key employees totalling DKK 41 million.

370	Average number of employees during the year	449
348	Number of employees at year-end	426

Notes

Parent 2005	Note	Amounts in DKK million	Group 2005
	6	Depreciation, amortisation and impairment	
-391		Rights	-392
364		– of which recognised in "Costs of environmentally friendly electricity production etc."	364
-3		Land and buildings	-3
-554		Technical plant and machinery	-554
-36		Other plant, tools and operating equipment	-41
-620		Total	-626
	7	Financial income	
0		Interest on accounts with subsidiaries	0
7		Interest on bank deposits etc.	7
2		Foreign exchange gains	2
5		Other financial income	5
14		Total	14
	8	Financial costs	
0		Interest on accounts with subsidiaries	0
-140		Interest on loans, bank debt etc.	-140
-4		Foreign exchange losses etc.	-4
-144		Total	-144
		Financial expenses amount to DKK 211 million for the group. Of this, DKK 6 million was capitalised as financing interest under "Tangible fixed assets" while DKK 61 million was recognised in "Costs of environmentally friendly electricity production etc."	
	9	Tax on profit for the year	
-165		Calculated tax on profit for the year	-165
-1		Tax in subsidiaries	-1
-2		Tax in associated undertakings	-2
130		Adjustment due to reduction of tax rate	130
-38		Total	-38
		Reconciliation of tax rate	
28 %		Tax rate	28 %
0 %		Adjustment of subsidiaries	0 %
0 %		Tax effect of non-taxable income and non-deductible costs	0 %
-22 %		Adjustment due to reduction of tax rate	-22 %
6 %		Effective tax rate for the year	6 %
86		Tax paid during the year	86

Notes

Note Amounts in DKK million

10 Intangible fixed assets

Parent

	Rights	Total intangible fixed assets
Acquisition cost at 1 January 2005	3,873	3,873
Additions for the year	0	0
Acquisition cost at 31 December 2005	3,873	3,873
Amortisation at 1 January 2005	-1,766	-1,766
Amortisation for the year	-391	-391
Amortisation and impairment at 31 December 2005	-2,157	-2,157
Book value at 31 December 2005	1,716	1,716
Book value at 1 January 2005	2,107	2,107

Pursuant to Section 27 e of the Danish Electricity Supply Act, the right to charge costs of minimum production capacity is recognised over a period of ten years.

Group

	Rights	Total intangible fixed assets
Acquisition cost at 1 January 2005	3,893	3,893
Additions for the year	0	0
Acquisition cost at 31 December 2005	3,893	3,893
Amortisation at 1 January 2005	-1,772	-1,772
Amortisation for the year	-392	-392
Amortisation at 31 December 2005	-2,164	-2,164
Book value at 31 December 2005	1,729	1,729
Book value at 1 January 2005	2,121	2,121

Pursuant to Section 27 e of the Danish Electricity Supply Act, the right to charge costs of minimum production capacity is recognised over a period of ten years.

Notes

Note Amounts in DKK million

11 Tangible fixed assets

Parent

	Land and buildings	Technical plant and machinery	Other plant, tools and operating equipment	Assets in the course of construction and prepayments	Total tangible fixed assets
Acquisition cost at 1 January 2005	250	15,548	141	211	16,150
Transfer	0	66	4	-70	0
Additions for the year	19	0	18	129	166
Disposals for the year	0	-291	-8	-1	-300
Acquisition cost at 31 December 2005	269	15,323	155	269	16,016
Depreciation and impairment at 1 January 2005	-40	-5,270	-89	0	-5,399
Depreciation for the year	-3	-547	-24	0	-574
Impairment for the year	0	-7	-12	0	-19
Reversed depreciation in respect of disposals for the year	0	283	5	0	288
Depreciation and impairment at 31 December 2005	-43	-5,541	-120	0	-5,704
Book value at 31 December 2005	226	9,782	35	269	10,312
Book value at 1 January 2005	210	10,278	52	211	10,751

Public land assessments are only available for some of the land and buildings owned by Energinet.dk as some land and some buildings are exempt from assessment. At 1 January 2005, the public land assessment value was DKK 320 million.

Group

	Land and buildings	Technical plant and machinery	Other plant, tools and operating equipment	Assets in the course of construction and prepayments	Total tangible fixed assets
Acquisition cost at 1 January 2005	250	15,548	191	211	16,200
Transfer	0	66	4	-70	0
Additions for the year	19	0	18	129	166
Disposals for the year	0	-291	-9	-1	-301
Acquisition cost at 31 December 2005	269	15,323	204	269	16,065
Depreciation and impairment at 1 January 2005	-40	-5,270	-125	0	-5,435
Depreciation for the year	-3	-547	-29	0	-579
Impairment for the year	0	-7	-12	0	-19
Reversed depreciation in respect of disposals for the year	0	283	7	0	290
Depreciation and impairment at 31 December 2005	-43	-5,541	-159	0	-5,743
Book value at 31 December 2005	226	9,782	45	269	10,322
Book value at 1 January 2005	210	10,278	66	211	10,765

Public land assessments are only available for some of the land and buildings owned by the Energinet.dk group as some land and some buildings are exempt from assessment. At 1 January 2005, the public land assessment value was DKK 320 million.

Notes

Note Amounts in DKK million

12 Financial fixed assets

Parent

	Investments in subsidiaries	Investments in associated undertakings	Other invest- ments	Total financial fixed assets
Acquisition cost at 1 January 2005	29	58	1	88
Additions for the year	0	0	0	0
Disposals for the year	0	0	0	0
Acquisition cost at 31 December 2005	29	58	1	88
Revaluation at 1 January 2005	0	0	0	0
Net profit for the year	4	5	-	9
Dividend received	0	-5	-	-5
Exchange rate regulation concerning foreign units	-	0	0	0
Amortisation of goodwill	0	-7	-	-7
Revaluation at 31 December 2005	4	-7	0	-3
Book value at 31 December 2005	33	51	1	85
Book value at 1 January 2005	29	58	1	88

Group

	Investments in associated undertakings	Other invest- ments	Total financial fixed assets
Acquisition cost at 1 January 2005	58	1	59
Additions for the year	0	0	0
Disposals for the year	0	0	0
Acquisition sum, 31 December 2005	58	1	59
Revaluation at 1 January 2005	0	0	0
Net profit for the year	5	-	5
Dividend received	-5	-	-5
Exchange rate regulation concerning foreign units	-	0	0
Amortisation of goodwill	-7	-	-7
Revaluation at 31 December 2005	-7	0	-7
Book value at 31 December 2005	51	1	52
Book value at 1 January 2005	58	1	59

Notes

Note Amounts in DKK million

12

(continued)

Investments in subsidiaries

Name	Domicile	Ownership	Company capital	Share of equity	
				Parent company 2005	Group 2005
Eltransmission.dk A/S	Fredericia	100 %	10	11	-
Gastransmission.dk A/S	Fredericia	100 %	10	11	-
Eltra 409 II A/S	Fredericia	100 %	0.5	11	-
Total				33	-

Investments in associated undertakings

Name	Domicile	Ownership	Company capital	Share of equity	
				Parent company 2005	Group 2005
Nord Pool Spot AS	Norway	20 %	NOK 118m	23	23
Goodwill at 31 December 2005				28	28
Total				51	51

There are no intra-group profits or losses from trading with associated undertakings.

Nord Pool Spot AS has been recognised and measured as a separate entity.

Other investments

Name	Domicile	Ownership	Equity
Dansk Gasteknisk Center A/S	Denmark	10 %	7
DEFU A.m.b.a. in liquidation	Denmark	5.8 %	3

Notes

Parent 2005	Note	Amounts in DKK million	Group 2005
	13	Other debtors	
175		Receivables concerning payments for regulating power	175
42		Accumulated deficit, PSO tariff (Eastern Denmark)	42
109		Other debtors	109
326		Total	326
	14	Prepayments	
272		Agreement concerning grid connection of offshore wind farm at Rødsand	272
41		Right of use of the German part of Kontek	41
313		Total	313
	15	Deferred tax liabilities	
1,948		Opening balance at 1 January	1,953
-19		Adjustment of opening balance	-19
1,929		Deferred tax liabilities at 1 January	1,934
-1		Adjustment of tax due	-1
73		Change in deferred tax liabilities on profit/loss for the year	72
4		Change concerning security instruments	4
-130		Change resulting from reduction in tax rate	-130
1,875		Deferred tax liabilities at 31 December	1,879
		The adjustment of the opening balance concerns deferred tax in respect of excess revenue/deficit in the grid and system pools.	
		Deferred tax liabilities	
453		Intangible fixed assets	454
1,392		Tangible fixed assets	1,395
14		Current assets	14
16		Creditors	16
1,875		Deferred tax liabilities at 31 December	1,879
	16	Other provisions	
14		Maintenance concerning optical fibres	14
17		Claims in respect of plants commissioned	17
31		Total	31
		The due dates of "Other provisions" are expected to be:	
18		Within 1 year	18
5		1-5 years	5
8		After 5 years	8
31		Total	31

Notes

Parent 2005	Note	Amounts in DKK million					Group 2005	
	17	Long-term liabilities						
2,826		Long-term loans					2,826	
Primary financial instruments								
		Lender/type	Principal amount	Currency	Interest rate	Expiry	Value for accounting purposes	Principal amount after conversion into DKK
		NGSR	88	DKK	Floating	2006	88	88
		NGSJ	3	EUR	Floating	2006	21	21
		BNG	80	EUR	Floating	2006	597	595
		NGSJ	34	DKK	5.00	2006	34	34
		Citybank	100	EUR	Floating	2006	745	744
		NGSJ	25	DKK	5.00	2007	25	25
		NGSR	1,000	JPY	4.47	2007	59	70
		NGSJ	21	DKK	6.50	2007	21	21
		The Nordic Investment Bank	83	DKK	Floating	2008	83	83
		NGSJ	10	DKK	6.00	2008	10	10
		NGSR	13	USD	Floating	2008	82	105
		Sumitomo	2,000	JPY	1.02	2008	107	136
		Meiji	2,000	JPY	1.17	2009	107	136
		The Nordic Investment Bank	83	DKK	Floating	2011	83	83
		The Nordic Investment Bank	300	DKK	Floating	2011	300	300
		DePfa Bank	500	DKK	Floating	2011	500	500
		The European Investment Bank	150	USD	Floating	2012	955	1,274
		Realkredit Danmark	500	DKK	4.07	2013	494	500
Parent - total							4,311	4,725
Group - total							4,311	4,725

The debt to Gældsafviklingsselskabet Naturgasselskabet i Sydjyske Regioner I/S (NGSR) and Gældsafviklingsselskabet Naturgas Sjælland I/S (NGSJ) has been taken over by Energinet.dk (formerly Gastra A/S) in connection with the demerger of DONG A/S's gas transmission installations to Gastra A/S on 1 January 2003.

The market value of the debt portfolio is DKK 4,311 million. Of this amount, DKK 1,485 million falls due in 2006. The amount has been raised as short-term debt under "Current portion of long-term debt". All currency loans have been converted to DKK via currency swaps with the exception of EUR 20 million. Following the conversion, the aggregate principal amount is DKK 4,725 million.

Notes

Parent		Amounts in DKK million	Group
2005	Note		2005
	17	The aggregate principal amount after conversion into DKK falls due as follows:	
1,482		Within 1 year	1,482
586		1-5 years	586
2,657		After 5 years	2,657
4,725		Total	4,725
	18	Prepayments received fall due as follows:	
110		Within 1 year	110
392		1-5 years	392
0		After 5 years	0
502		Total	502
		Prepayments concerning the international connections have been recognised in accordance with the accounting policies of the merged companies. Prepayments in respect of the Kontek Link are thus recognised over a period of ten years with DKK 110 million a year. If the prepayments were recognised over the expected useful life of the Kontek Link, the amount recognised each year would be DKK 15 million.	
	19	Other liabilities	
436		Market value of financial instruments	436
246		PSO R&D funding granted	246
102		Accumulated excess revenue, PSO tariff (Western Denmark)	102
64		Pay-related items	64
25		Interest payable	25
37		Other debts	38
910		Total	911
	20	Provision of security and charges	
		Land, buildings and production plant for the gas-related activities have been provided as security for mortgage debt amounting to DKK 494 million, the book value of these assets being DKK 4,219 million at the end of the year.	

Notes

Note Amounts in DKK million

21 Derivatives for the group

The Energinet.dk group has entered into a number of financial contracts with a view to hedging its interest and foreign currency risks. Currency swap agreements have thus been made to hedge the currency risks attaching to the company's loan portfolio in foreign currencies. Further, reference is made to the section on financing and risk management in "Management's review". Moreover, interest rate swaps have been made with a view to managing the interest risk attaching to the loan portfolio.

Currency swap agreements

Receiving	EUR	USD	JPY	Paying DKK	Market value	Year of maturity
	100			744	746	2006
	60			446	448	2006
	3			21	21	2006
		13		81	82	2008
		150		1,274	955	2012
			1,000	70	59	2007
			2,000	136	107	2008
			2,000	136	107	2009
Parent - total	163	163	5,000	2,908	2,525	
Group - total	163	163	5,000	2,908	2,525	

The market value of the currency swap agreements is DKK -383 million. Of this, DKK 5 million stems from contracts with a positive market value recognised under "Other debtors", while DKK -388 million stems from contracts with a negative market value recognised under "Other creditors". Market value adjustments of currency swap agreements are offset by corresponding value adjustments of the loans hedged.

Interest rate swap agreements, nominal principal amounts

	Paying fixed interest rate	Year of maturity
	866	2006
	46	2007
	697	2008
	300	2011
Parent - total	1,909	
Group - total	1,909	

The market value of interest rate swap agreements is DKK -20 million. Of this, DKK 3 million stems from contracts with a positive market value recognised under "Other debtors". DKK 23 million is recognised under "Other creditors". Value adjustments of interest rate swaps are calculated net of tax and recognised directly in net capital.

Notes

Note

22 **Contingent liabilities and other financial obligations**

According to pylons declarations, environmental approvals etc., Energinet.dk is under an obligation to dismantle and remove pylons, overhead lines etc. which are no longer used. Energinet.dk has not included the costs of dismantling and removing the pylons and overhead lines etc. due to the considerable uncertainty attaching to the size of the financial commitments and the timing of the realisation of the commitments.

Energinet.dk has several unsettled tax cases pending at the National Tax Tribunal, the most important regarding the value for tax purposes of transit agreements and agreements concerning ancillary services. Energinet.dk believes that the National Tax Tribunal will find for Energinet.dk in these cases, which is also reflected in the accounts. In the event that Energinet.dk loses the pending tax cases, deferred tax will be increased by DKK 100-200 million. The outcome of the tax cases will have no immediate effect on tariffs.

Energinet.dk has taken over agreements with Statnett, under which Energinet.dk is to pay NOK 11 million over the next 19 years for use of the Skagerrak cables. Statnett has committed itself to maintaining these international connections to Norway during the same period. In addition, Energinet.dk must pay half the actual operating costs. The agreements are mutually terminable at five years' notice.

23 **Related parties**

Basis

The Danish Ministry of Transport and Energy
Frederiksholms Kanal 27, DK-1220 Copenhagen K

100% ownership share

Supervisory Board and the management

Management control

The Energinet.dk group's transactions with the Danish Ministry of Transport and Energy consist of the purchase of all shares in Gastra A/S for a price of DKK 1,100 million in connection with the establishment of Energinet.dk.

As regards the Energinet.dk group's transactions with members of the Supervisory Board and the management, reference is made to Note 5 in the Annual Report.

The Energinet.dk group has not engaged in material transactions with related parties this year.

Subaccounts

According to the Danish Act on Energinet Danmark and the executive order on the financial regulation of Energinet.dk issued by the Danish Ministry of Transport and Energy, Energinet.dk must prepare accounts for electricity and natural gas-related activities, in addition to the accounts prepared for the separate tariff areas pursuant to the Danish Electricity Supply Act. For the electricity-related activities, subaccounts are prepared for the PSO pool, the system pool and the grid pool. No subaccounts are prepared for gas-related activities.

The subaccounts are prepared according to an adapted full-cost allocation method with activity-based costing methods being used as the allocation principle for income and expenditure.

The principles and methods of income and expenditure allocation must be based on the individual product's draw on the entire capacity. Subaccounts must be prepared partly on the basis of registrations of income and expenditure and partly on the basis of key figure allocations based on statistical data.

Energinet.dk's consolidated financial statements by separate tariff areas are shown overleaf. It can be seen that as regards its electricity-related activities Energinet.dk has total excess revenues from the PSO pool of DKK 51 million and a total profit from the system and grid pools of DKK 385 million. The profit from gas-related activities totals DKK 170 million.

Of the profit for 2005, which totalled DKK 555 million, DKK 302 million is to be used to consolidate the equity pursuant to Section 13 of the Danish Act on Energinet Danmark.

According to Section 12(2) of the Danish Act on Energinet Danmark, Energinet.dk must arrange for the subaccounts to be audited as if the activities concerned had been carried out by separate companies.

For an in-depth description of Energinet.dk's tariff areas and subaccounts, please see www.energinet.dk.

Subaccounts

Amounts in DKK million	PSO West	PSO East	System West	System East	Grid West	Grid East	Gas	Total
Profit and loss account								
Tariff income	2,240	1,408	601	470	516	553	849	6,637
Revenue from international connections					472	222		694
Balance market			283	294			8	585
Excess revenue/deficit in respect of PSO	-52	1						-51
Other income				5	27	20	66	118
Gross turnover	2,188	1,409	884	769	1,015	795	923	7,983
Subsidies for wind turbines and other RE units	-1,144	-808						-1,952
Subsidies for local CHP units	-635	-278						-913
Grid connection of wind turbines and local CHP units	-19	-0						-19
Grid connection of offshore wind turbines	-17	-15						-32
Grid losses in offshore grid	-21	-4						-25
R&D concerning environmentally friendly electricity production	-76	-52						-128
R&D concerning efficient use of energy	-15	-10						-25
Environmental studies concerning offshore wind turbines	-10	-9						-19
Danish Safety Technology Authority	-29	-20						-49
Amortisation of intangible fixed assets (minimum production capacity)	-192	-172						-364
Other PSO costs	-7	-3						-10
Financial items (net)	-23	-38						-61
Total costs of environmentally friendly production etc.	-2,188	-1,409	0	0	0	0	0	-3,597
Net turnover	0	0	884	769	1,015	795	923	4,386
Work performed on own account and recognised under assets			8	1	21	1	4	35
Other operating income					4			4
Total income	0	0	892	770	1,040	796	927	4,425
Regulating power			-270	-265				-535
Payment for reserves/storage capacity			-326	-407			-245	-978
Inspections by the Danish Energy Regulatory Authority and the Danish Energy Authority			-20	-12			-7	-39
Grid losses					-182	-81		-263
Special regulation and constrained redispatch					-4	-11		-15
Payment for the 132/150 kV grid					-201	-357		-558
Costs of foreign grids					-14	-50		-64
Other external operating costs			-66	-45	-83	-66	-94	-354
Total other external costs	0	0	-682	-729	-484	-565	-346	-2,806
Wages, salaries and pension costs			-59	-38	-82	-24	-66	-269
Total costs	0	0	-741	-767	-566	-589	-412	-3,075
Profit before depreciation, amortisation and impairment	0	0	151	3	474	207	515	1,350

Subaccounts

Amounts in DKK million	PSO West	PSO East	System West	System East	Grid West	Grid East	Gas	Total
Profit before depreciation, amortisation and impairment	0	0	151	3	474	207	515	1,350
Depreciation, amortisation and impairment			-17	-12	-187	-91	-319	-626
Operating profit/loss	0	0	134	-9	287	116	196	724
Profit/loss before tax in subsidiaries				-1				-1
Financial items (net)			-1	-9	-23	-24	-73	-130
Profit/loss before tax	0	0	133	-19	264	92	123	593
Tax on profit/loss for the year			-38	4	-61	10	47	-38
Net profit/loss for the year	0	0	95	-15	203	102	170	555
Excess revenue/deficit								
Accumulated excess revenue/deficit, beginning of year	50	-41	-102	-3	-44	25	0	-115
Changes for the year	52	-1	95	-15	138	35	0	304
Accumulated excess revenue/deficit, end of year	102	-42	-7	-18	94	60	0	189

Excess revenue/deficit in respect of PSO tariffs is recognised in the Balance Sheet under "Other creditors"/"Other debtors".

Subaccounts

Amounts in DKK million	PSO West	PSO East	System West	System East	Grid West	Grid East	Gas	Total
Balance sheet								
Assets								
Fixed assets								
Intangible fixed assets	768	860			101			1,729
Tangible fixed assets			68	87	3,361	2,557	4,249	10,322
Financial fixed assets			25	25			2	52
Total fixed assets	768	860	93	112	3,462	2,557	4,251	12,103
Current assets								
Stock							142	142
Debtors	157	503	128	262	115	134	140	1,439
Cash and cash equivalents			4	13	145	107	1	270
Total current assets	157	503	132	275	260	241	283	1,851
Total assets	925	1,363	225	387	3,722	2,798	4,534	13,954
Equity and liabilities								
Net capital	0	0	-7	-18	2,077	1,233	314	3,599
Provisions for liabilities and charges	0	0	80	-11	247	520	1,074	1,910
Creditors								
Interest-bearing debt	301	1,205		335	946	386	3,015	6,188
Other creditors	624	158	152	81	452	659	131	2,257
Total creditors	925	1,363	152	416	1,398	1,045	3,146	8,445
Total equity and liabilities	925	1,363	225	387	3,722	2,798	4,534	13,954

Managerial posts held by members of the Supervisory Board

Niels Fog

Managing Director and member of the Supervisory Board of Fog Fødevarer A/S, Fog Anlæg A/S and Fog Holding A/S, which are all affiliated undertakings. Chairman of the Supervisory Board of Samkøb Holding A/S, Johannes Fog A/S, Johannes Fog Holding A/S, Deputy Chairman of the Supervisory Board of Supergros A/S, member of the Supervisory Board of Lokalbanken A/S and ID-Sparinvest A/S

Birgitte Kiær Ahring

Chairman of the Supervisory Board and Manager of BioContractors A/S

Birgitte Nielsen

Member of the Supervisory Board of Royal Greenland A/S, Hovedstadens Sygehusfællesskab, Faber A/S, Storebrand ASA, IDEAS A/S and Buy Aid A/S

**Erik Dahl, Hans Schiøtt,
Niels Arne Gadegaard, Peter Møllgaard**

None

Poul Erik Morthorst

Member of the Supervisory Board of the high-tech network VE-net

**Søren Juel Hansen, Jes Smed,
Lone Thomhav**

None

Stakeholder Forum

Chairman

Birgit Nørgaard,
Managing Director, Carl Bro Gruppen

Members (appointed by the Minister for Transport and Energy following recommendations from organisations)

Leif Winum, Director, Elsam

Ebbe Seligmann, Director, Sydvestenergi

Michael Mikkelsen, Director, Scanenergi

Niels Erik Andersen,
Managing Director, HNG I/S

Jens Helmer Rasmussen,
Executive Vice President, DONG A/S

Jørgen G. Jørgensen, Manager,
Danish District Heating Association

Erik Nørregaard Hansen, Manager,
Association of Danish CHP Enterprises

Asbjørn Bjerre, Director, Danish Wind
Turbine Association

Allan Kjersgaard,
Senior Consultant, Renosam

Hans-Erik Kristoffersen, Chief Consultant,
Confederation of Danish Industries

Simon Lodberg, Deputy Chairman of FSE,
Finance Director of Dansk Supermarked

Jens Astrup Madsen, Energy Director, Danish
Agricultural Council

Henrik Lilja, energy-political employee,
Danish Federation of Small and Medium-
Sized Enterprises

Svend Erik Jensen,
negotiating secretary, 3F (industry group)

Knud Sloth, Director,
Municipality of Aalborg, Utilities

Martin Windelin, economist, Economic
Council of the Labour Movement

Anita Rønne, LL.M.,
Associate Professor in Energy Law,
Faculty of Law, University of Copenhagen

Frede Hvelplund, Professor,
Department of Development and Planning,
University of Aalborg

Jacob Østergaard, Professor, Head of the
Centre for Electric Technology, Technical
University of Denmark

Peter Hjuler Jensen, Programme Manager,
Department of Wind Energy, Risø National
Laboratory

Frederik Hoedeman, planning employee,
Danish Society for Nature Conservation

Uffe Rasmussen, member of the board of
the Organisation for Sustainable Energy





Fjordvejen 1-11
DK-7000 Fredericia
Tel. +45 70 10 22 44
Fax +45 76 24 51 80
info@energinet.dk
www.energinet.dk

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Ole Christiansen

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