

DONG Energy Salg & Service A/S

ANNUAL REPORT 2016

Kraftværksvej 53, 7000 Fredericia

Company registration number 27 21 05 38

14th financial year

The annual report is presented and adopted
at the annual general meeting on 6 April 2017



Ulrik Jarlov
Chairman of the meeting

DONG
energy

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Company information

Company	DONG Energy Salg & Service A/S Kraftværksvej 53 7000 Fredericia Denmark
	Telephone +45 9955 1111 Fax +45 9955 0002 Email dongenergy@dongenergy.dk Company registration number 27 21 05 38
Shareholder	The entire share capital is held by DONG Energy A/S
Board of Directors	Marianne Wiinholt (Chairman) Hanne Blume (Deputy Chairman) Thomas Emig
Executive Board	Morten Hultberg Buchgreitz
Auditor	PricewaterhouseCoopers, Statsautoriseret Revisionspartnerselskab
Annual general meeting	6 April 2017
Other managerial posts	Managerial posts held by the members of the Board of Directors and the Executive Board of DONG Energy Salg & Service A/S in other Danish public limited companies, with the exception of managerial posts in the company's own wholly owned subsidiaries.
Marianne Wiinholt	DONG ENERGY A/S (Senior Vice President), DONG ENERGY WIND POWER HOLDING A/S (Chairman of the Board of Directors), J. LAURITZEN A/S (member the Board of Directors), DONG EGJ A/S (Chairman of the Board of Directors), ENERGIGRUPPEN JYLLAND EL A/S (Chairman of the Board of Directors), EM EL HOLDING A/S (Chairman of the Board of Directors), DONG EL A/S (Chairman of the Board of Directors), ENERGIGRUPPEN JYLLAND EL HOLDING A/S (Chairman of the Board of Directors), DONG E&P A/S (Chairman of the Board of Directors), DONG ENERGY THERMAL POWER A/S (Chairman of the Board of Directors), DONG ENERGY OIL & GAS A/S (Chairman of the Board of Directors), DONG ENERGY WIND POWER DENMARK A/S (Chairman of the Board of Directors), DONG ENERGY WIND POWER A/S (Chairman of the Board of Directors), DONG ENERGY SALES & DISTRIBUTION (Chairman of the Board of Directors), DONG ENERGY NR. 1 2014 A/S (Chairman of the Board of Directors), DONG ENERGY NR. 2 2014 A/S (Chairman of the Board of Directors), DONG ENERGY NR. 3 2014 A/S (Chairman of the Board of Directors), DONG ENERGY NR. 4 2014 A/S (Chairman of the Board of Directors)
Hanne Blume	DONG ENERGY WIND POWER HOLDING A/S (Deputy Chairman of the Board of Directors), DONG ENERGY WIND POWER A/S (Deputy Chairman of the Board of Directors), DONG ENERGY THERMAL POWER A/S (Deputy Chairman of the Board of Directors), ENERGIGRUPPEN JYLLAND EL A/S (Deputy Chairman of the Board of Directors), DONG E&P NR. 1 2008 A/S (member of the Board of Directors), ENERGIGRUPPEN JYLLAND EL HOLDING A/S (Deputy Chairman of the Board of Directors), DONG ENERGY SALES & DISTRIBUTION A/S (Deputy Chairman of the Board of Directors), EM EL HOLDING A/S (Deputy Chairman of the Board of Directors), DONG ENERGY OIL & GAS A/S (Deputy Chairman of the Board of Directors), DONG ENERGY WIND POWER DENMARK A/S (Deputy Chairman of the Board of Directors), DONG E&P A/S (Deputy Chairman of the Board of Directors), DONG EGJ A/S (Deputy Chairman of the Board of Directors), DONG EL A/S (Deputy Chairman of the Board of Directors), DONG E&P DK A/S (Deputy Chairman of the Board of Directors), DONG OIL PIPE A/S (member of the Board of Directors), DONG ENERGY NR. 1 2014 A/S (Deputy Chairman of the Board of Directors), DONG ENERGY NR. 2 2014 A/S (Deputy Chairman of the Board of Directors), DONG ENERGY NR. 3 2014 A/S (Deputy Chairman of the Board of Directors), DONG ENERGY NR. 4 2014 A/S (Deputy Chairman of the Board of Directors)

Thomas Emig

DONG Energy Thermal Power A/S (member of the Board of Directors), DONG INSURANCE A/S (Deputy Chairman of the Board of Directors)

**Morten Hultberg
Buchgreitz**

DONG ENERGY SALES & DISTRIBUTION A/S (President), DONG ENERGY OIL & GAS A/S (President), K/S MEIDERICH (member of the Board of Directors), KOMPLEMENTAR MEIDERICH ApS (member of the Board of Directors), K/S FRANKENTHAL, TYSKLAND (member of the Board of Directors), K/S HABRO-LOWESTOFT (member of the Board of Directors), ApS HABRO KOMPLEMENTAR-19 (member of the Board of Directors), ApS KOMPLEMENTARSELSKABET FRANKENTHAL, TYSKLAND (member of the Board of Directors), A/S UNITED SHIPPING & TRADING COMPANY (member of the Board of Directors), BUNKER HOLDING A/S (member of the Board of Directors), UNI-TANKERS A/S (member of the Board of Directors), UNI-CHARTERING A/S (member of the Board of Directors)

Performance highlights

DKK million	2016	2015	2014	2013*	2012*
BUSINESS PERFORMANCE:					
Statement of comprehensive income					
Revenue	34,343	43,608	42,293	39,671	42,081
Profit (loss) before interest, tax, depreciation and amortisation (EBITDA)	3,437	3,262	(318)	(875)	(7,214)
Operating profit (loss) (EBIT)	3,414	2,947	(859)	(1,387)	(8,302)
Profit (loss) for the year	2,526	2,320	(877)	(941)	(6,236)
Financial ratios					
EBITDA margin	10%	7%	(1%)	(2%)	(17%)
EBIT margin (profit margin)	10%	7%	(2%)	(3%)	(20%)
IFRS:					
Statement of comprehensive income					
Revenue	32,082	44,436	42,216	38,746	41,258
Profit (loss) before interest, tax, depreciation and amortisation (EBITDA)	1,176	4,090	(1,341)	(1,637)	(8,037)
Operating profit (loss) (EBIT)	1,153	3,775	(1,882)	(2,149)	(9,125)
Net financial income and expenses	(196)	(231)	(97)	(211)	(70)
Profit (loss) before tax	957	3,543	(1,932)	(1,957)	(9,165)
Profit (loss) for the year	761	2,954	(1,649)	(1,507)	(6,854)
Balance sheet					
Equity	9,095	8,366	4,405	6,182	676
Balance sheet total	41,451	58,919	39,067	29,876	31,727
Cash flows					
Operating activities	2,238	2,319	(723)	256	(4,602)
Investments in property, plant and equipment	(9)	(19)	(18)	(2)	(6)
Other investing activities	(3,190)	(2,415)	(2,561)	(1,195)	1,105
Financing activities	64	269	(109)	2,693	3,854
Financial ratios					
EBITDA margin	4%	9%	(3%)	(4%)	(19%)
EBIT margin (profit margin)	4%	8%	(4%)	(6%)	(22%)
Net interest-bearing debt	(9,148)	(6,979)	(4,454)	(4,296)	3,285
Capital employed	(53)	1,991	704	4,286	3,961
Average number of employees	146	166	165	161	451

Financial ratios have been calculated in accordance with 'Recommendations & Financial Ratios 2015' published by the Danish Society of Financial Analysts. For definitions, see the accounting policies section.

* DONG Energy Salg & Service A/S (parent company), DONG EI & Gas A/S, DONG Energy Kabler A/S, DONG Energy Service 1 and DONG Energy Service 2 were merged as of 1 January 2015. The pooling-of-interests method is applied for intragroup aggregation. Comparative figures have not been restated for the financial years 2012-2013 due to insufficient financial information.

Business performance vs. IFRS

Business performance represents the underlying financial performance of the Group in the reporting period as results are adjusted for temporary fluctuations in the market value of contracts (including hedging transactions) relating to other periods. Apart from this, there is no difference between business performance and IFRS results. Read more in note 31.

Statement by the Executive Board and the Board of Directors

The Board of Directors and the Executive Board have today considered and approved the annual report of DONG Energy Salg & Service A/S for the financial year 1 January - 31 December 2016.

The consolidated financial statements and the company financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and Danish disclosure requirements for listed companies and state-owned public companies.

In our opinion, the consolidated financial statements and the company financial statements give a true and fair presentation of the Group's and the company's assets, liabilities and financial position at 31 December 2016 and of the results of the Group's and the company's operations and cash flows for 2016.

In our opinion, the management's review provides a true and fair presentation of the development in the Group's and the company's operations and financial

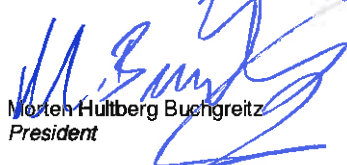
position, of the results for the year and of the overall financial position of the Group and the company as well as a description of the most significant risks and elements of uncertainty facing the Group and the company.

DONG Energy Salg & Service A/S's non-financial reporting is presented in accordance with the disclosure requirements for presenting a CSR report as set out in Section 99(a)-(b) of the Danish Financial Statements Act. In our opinion, the non-financial statements represent a reasonable and balanced representation of the Group's social responsibility and sustainability performance.

We recommend that the annual report be adopted at the annual general meeting.

Skærbæk, 29 March 2017

Executive Board:



Morten Hultberg Buchgreitz
President

Board of Directors:



Marianne Wiinholt
Chairman



Hanne Blume
Deputy Chairman



Thomas Emig

Independent Auditor's Report

To the shareholder of DONG Energy Salg & Service A/S

Opinion

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2016 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of DONG Energy Salg & Service A/S for the financial year 1 January - 31 December 2016, which comprise statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, for both the Group and the Parent Company ("financial statements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

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

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in Management's Review.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence

that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements

or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Copenhagen, 29 March 2017

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33 77 12 31



Rasmus Fris Jørgensen
State Authorised Public Accountant



Jesper Edelbo
State Authorised Public Accountant

Management's Review

Activities

Most of the activities of the DONG Energy Salg & Service Group are concentrated in the DONG Energy Group's Distribution & Customer Solutions business unit. A small part of the activities is placed in the Wind Power and Bioenergy & Thermal Power business units.

Energy optimisation

The optimisation of DONG Energy's energy portfolio – covering all the DONG Energy Group's activities – is handled by Distribution & Customer Solutions. This business unit is also responsible for the effective reduction and control of the DONG Energy Group's market risks. This optimisation ensures cohesion between energy production from wind turbines, power stations and oil and gas fields on the one hand and sales of energy to customers on the other. At the same time, Distribution & Customer Solutions focuses on increasing the value of the energy flows.



Besides production from the Group's assets, Distribution & Customer Solutions' energy portfolio consists of long-term gas sourcing contracts, including LNG, and gas storage facilities.

One of the ways in which Distribution & Customer Solutions manages the DONG Energy Group's market risks relating to energy prices is by engaging in financial transactions. In order to continuously participate in the market and gain insight into price formation, Distribution & Customer Solutions also engages in active position taking.

Distribution & Customer Solutions has employees from more than 25 countries and is primarily active in the markets in Denmark, Germany, the Netherlands and the UK.

Energy trading

Trading on energy exchanges plays an important role in Distribution & Customer Solutions' optimisation of the energy portfolio. The reasons for the trading activities include balancing purchases and sales of gas and utilising short-term earnings possibilities – such as selling gas when the exchange market price is favourable. Distribution & Customer Solutions also trades in energy to minimise and control the Group's sensitivity to fluctuating energy prices.

Distribution & Customer Solutions trades electricity and gas on the northern European energy hubs and ex-

changes, primarily Nord Pool, EEX, NBP and TTF. Distribution & Customer Solutions also engages in bilateral purchasing and selling of electricity, gas, oil, coal and CO₂. Distribution & Customer Solutions is involved in both physical and financial transactions and trades on both the spot and futures markets. Trading is based on energy assets owned by both DONG Energy and the Group's customers.

Gas sourcing contracts

DONG Energy Salg & Service purchases gas on behalf of the entire DONG Energy Group.

With its diversified portfolio of suppliers and contracts, Distribution & Customer Solutions maintains high security of supply for DONG Energy and its customers, while at the same time providing the robustness to cope with fluctuating market conditions.

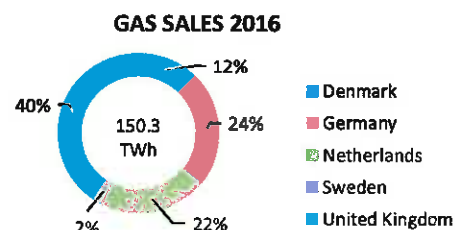
The pooling of the DONG Energy Group's equity gas with the rest of Distribution & Customer Solutions' gas portfolio enhances the value of the output from each field, partly through better utilisation of the infrastructure. At the same time, Distribution & Customer Solutions has access to several markets, which means that the gas can be shipped to where demand is highest.

The gas sourcing contracts are flexible in terms of the volume of gas to be purchased by DONG Energy Salg & Service at different times. This enables DONG Energy Salg & Service to vary its purchases in response to customer demand. Some contracts are also flexible in terms of where in Europe DONG Energy Salg & Service wants the gas to be delivered to. It can thus be shipped to the markets in which demand is highest. Such diversification and flexibility allows DONG Energy Salg & Service to enhance the value of its overall gas portfolio.

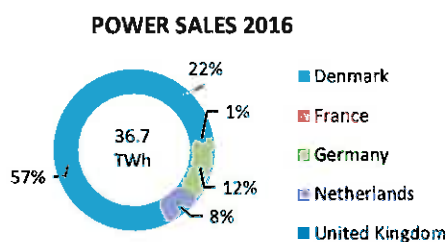
Gas and electricity sales

DONG Energy Salg & Service sells gas and electricity to customers in Denmark, Sweden, Germany, the Netherlands and the UK, and also sells related energy products to customers.

Gas sales totalled 150.3 TWh in 2016, which represented a decrease of approx. 6% compared to 2015, mainly driven by lower gas sales in the Netherlands and in Germany.



Electricity sales totalled 36.7 TWh, which represented an increase of approx. 4% compared to 2015 due to higher electricity sales in Germany.



Besides internal sales in DONG Energy, DONG Energy Salg & Service sells gas and electricity via sales subsidiaries in Germany and the Netherlands. DONG Energy Salg & Service also sells gas and electricity on short-term and long-term contracts with business partners in Denmark and the rest of Europe.

Using a variety of sales channels ensures reliable gas sales, while also adding to the robustness of the business.

Gas pipelines and storage facilities

DONG Energy Salg & Service handles the commercial activities relating to parts of the Group's gas infrastructure. The DONG Energy Salg & Service Group thus owns a number of pipelines in the Danish sector of the North Sea and has leased capacity across large parts of the European pipeline system, securing access to most gas markets in northern Europe. With such pipeline access, DONG Energy Salg & Service can transport the gas to where demand is highest at any given time.

DONG Energy Salg & Service also has access to a number of gas storage facilities in Denmark and Germany, where DONG Energy Salg & Service has capacity on long-term or short-term leases. Besides higher security of supply, these storage facilities provide flexibility, for example by enabling DONG Energy Salg & Service to use gas from storage facilities rather than purchasing it in the market at times when the price is high.

Wind farms

DONG Energy Salg & Service is responsible for selling electricity from the DONG Energy Group's wind farms in the UK and Germany.

Environment

As part of the DONG Energy Group, DONG Energy Salg & Service works for an increase in the use of renewable energy, while remaining dependent on traditional energy sources to ensure a stable distribution of power. Reference is made to the DONG Energy Group's 2016 annual report, which includes the Group's statutory environmental statement.

Risk management

The activities, financial position, results and future growth of DONG Energy Salg & Service are affected by a number of non-financial and financial commercial risks. DONG Energy Salg & Service therefore regularly reviews its risk profile and the associated risk policies to ensure the appropriate balancing of risk exposure and activities at all times.

Formalised risk management is divided into management of general commercial risks, management of financial risks and management of insurable risks. Commercial risks are defined as events that may, with a certain probability, adversely impact the realisation of the Group's financial results or strategy. The management of commercial risks is anchored in the individual segments in the DONG Energy Group and consolidated at corporate level. Once annually, the Group identifies and prioritises its risks in a risk matrix based on materiality and probability.

In addition to these risks, DONG Energy Salg & Service is involved in litigation and arbitration proceedings, the outcome of which may impact on the company's financial position. Reference is made to note 29. Contingent liabilities and other liabilities.

Group management

The members of the Executive Board of DONG Energy Salg & Service A/S are:

Morten Hultberg Buchgreitz

Registered with the Danish Business Authority as CEO. CEO since March 2013.

The members of the Board of Directors of DONG Energy Salg & Service A/S are:

Marianne Wiinholt

Registered with the Danish Business Authority as Chairman of the Board of Directors.

Hanne Blume

Registered with the Danish Business Authority as Deputy Chairman of the Board of Directors.

Thomas Ervig

Registered with the Danish Business Authority as a member of the Board of Directors.

For further details regarding remuneration, see notes 6 and 7.

Retention and development of skills

DONG Energy Salg & Service's business is generally highly complex, requiring special skills. Coupled with the growing demand for talent, this increases the challenge of attracting and retaining employees.

Much emphasis is placed on making DONG Energy Salg & Service an attractive workplace, and various initiatives have been put in motion for this purpose. These include management development, skills development,

performance systems, talent development and collaboration with educational institutions.

Liquidity and financing risks

DONG Energy Salg & Service A/S's liquidity and financing risks are managed centrally by DONG Energy in accordance with principles and delegated authorities laid down by the Board of Directors of DONG Energy A/S, in such a way as to ensure that DONG Energy Salg & Service A/S has an adequate capital base and adequate cash resources at all times. One of the most important financial management tasks in the DONG Energy Group is to secure sufficient and flexible financial resources in relation to the DONG Energy Group's day-to-day operations and investment programme. For this purpose, internal management objectives have been established for the required level of financial resources, taking into account primarily factors such as the investment programme, cash flows from operating activities and debt maturity profile.

It is the DONG Energy Group's financing policy to concentrate loans in the parent company in order to optimise the loan portfolio on a consolidated basis.

Share programme

In June 2016, our share programme expired following the IPO. The 2014 programme was open to all employees.

The Executive Board and a number of other members of management participate in our share programme which we established in 2016. Today, approximately 80 senior executives participate in the programme.

For further details regarding this programme, reference is made to note 7 and to the DONG Energy Group's 2016 annual report (note 2.7), which includes the Group's employee details regarding the share programme.

Insurable risks

The DONG Energy Group, including DONG Energy Salg & Service, has an extensive facilities and liability insurance programme, while the scope of consequential loss insurance is very limited. Also, separate insurance is taken out for certain large construction projects. The facilities insurance largely relates to the membership of the reinsurance company Oil Insurance Ltd. Through this, assets up to USD 300 million are insured, with an excess of USD 10 million per insurance event. With a view to achieving adequate cover for a number of large assets, this cover has been supplemented by a number of supplementary insurance policies through Lloyd's of London and others. As part of the optimisation of its insurance portfolio, the DONG Energy Group has established a captive, DONG Insurance A/S, that is authorised to carry on insurance business and is subject to supervision by the Danish Financial Supervisory Authority. DONG Insurance A/S is primarily used to provide insurance cover for facilities and certain construction projects.

For further details of risk management in DONG Energy Salg & Service A/S, reference is made to note 27.

Corporate responsibility (CSR)

DONG Energy Salg & Service is part of the DONG Energy Group, and reference is consequently made to the DONG Energy Group's 2016 annual report, which includes the Group's statutory CSR report.

Further details on CSR can be found at www.dongenergy.com/responsibility-policy.

Gender representation at management levels

Due to equal representation of men and women on the Board of Directors in accordance with the rules of the Danish Companies Act, no targets for the share of the underrepresented gender have been set.

DONG Energy A/S has prepared a policy to increase the underrepresented gender at other management levels, which applies to the entire DONG Energy Group. Please refer to the 2016 annual report of DONG Energy Group.

Financial results for 2016 according to business performance

Financial performance

Revenue was down with DKK 9.3 billion to DKK 34.3 billion in 2016. The decrease was primarily the result of decreased sales of gas and driven by lower gas sales in the Netherlands and in Germany and due to an average decline in gas prices of 29% relative to 2015.

EBITDA amounted to DKK 3.4 billion in 2016, an increase of DKK 0.1 billion compared to 2015. EBITDA increased in 2016 due to continued high earnings from trading and portfolio optimisation, a positive development in the value of our gas storage, as well as 2015 being negatively impacted by time lag related to oil hedges.

EBIT increased by DKK 0.5 billion to DKK 3.4 billion in 2016 due to higher EBITDA and lower depreciation and impairment losses.

The results for 2016 are considered satisfactory and above management's expectations. EBITDA (business performance) was expected to total DKK 1.7-2.3 billion for 2016.

Volumes

Gas sales (including sales to own power stations) totalled 150.3 TWh, down 6% compared to 2015. Electricity sales totalled 36.7 TWh, up 4% compared to 2015 due to higher electricity sales in Germany.

Business performance vs. IFRS

DONG Energy uses business performance as an alternative to the results prepared in accordance with IFRS. Business performance shows the underlying financial performance of the Group in the reporting period as results are adjusted for temporary fluctuations in the market value of contracts (including hedging transactions)

relating to other periods. The difference between the two principles are eliminated as the contracts expire. Apart from this, there is no difference between business performance and the IFRS results.

EBITDA calculated in accordance with IFRS amounted to DKK 1.2 billion in 2016 against DKK 4.1 billion in 2015. Calculated in accordance with the business performance principle, EBITDA was DKK 3.4 billion in 2016 and DKK 3.3 billion in 2015. The difference between the two principles was thus DKK 2.2 billion in 2016 compared with DKK 0.8 billion in 2015 and can be specified as follows:

DKK million	2016	2015
EBITDA – business performance	3,437	3,262
Market value adjustments for the year of financial and physical hedging contracts relating to a future period	(1,000)	1,081
Reversal of deferred gain (loss) relating to hedging contracts from previous periods, where the hedged production or trade is recognised in business performance EBITDA in this period	(1,261)	(253)
EBITDA – IFRS	1,176	4,090

In the presentation of the results according to IFRS, DONG Energy Salg & Service does not apply the provisions on hedge accounting of commodities and related currency exposures. The market value adjustments of these items are continuously recognised in the income statement, which means that the IFRS results for the individual years are not comparable. The IFRS results do not reflect the commercial risk hedging, according to which the business units and the Group are managed and evaluated. In the management's review, comments are made on business performance only, unless otherwise stated. Reference is also made to notes 3 and 31.

Outlook 2017

A focus area for the coming year is to ensure a competitive route to market for DONG Energy and third parties, to maintain a robust power and gas portfolio with profitable growth, and to optimise the loss-making LNG position. This will be achieved primarily through the re-

negotiation of the remaining long-term gas purchase contracts in order to obtain prices that reflect the changed conditions in the gas market, where oil and gas prices no longer keep pace with one another.

Our LNG activities are loss-making. This is due to the fixed costs associated with our access to the Gate terminal import facilities, which under our long-term lease agreement from 2007 are higher than the earnings generated from our trading activities. We therefore have a special focus on continuously optimising our LNG position, among other things through increasing the number of transactions and ensuring more LNG to the Gate. In this way, we improve the utilisation of our import capacity and increase the potential earnings from our trading activities.

In 2016, we took a major step further in the renegotiation of our portfolio of long-term oil-indexed gas purchase contracts.

We have now closed 16 of 18 price reviews for contracts relating to the period 2011-2015. In 2016, additionally two price reviews were opened. Following the renegotiations, a high proportion of our contracts are now gas-indexed.

For the DONG Energy Salg & Service Group, a significant lower EBITDA is expected for 2017. EBITDA (business performance) is expected to total DKK 0.9-1.2 billion in 2017. The lower result in 2017 is primarily driven by a lower level of lump-sum payments related to the conclusion of price review renegotiations in 2017 compared to 2016.

Events after the end of the financial year

No events have occurred after the end of the financial year which would have influenced on the evaluation of this annual report.

Consolidated statement of comprehensive income 1 January - 31 December

DKK million	Note	2016 Business performance	Re- meas- urement	IFRS	2015 Business performance	Re- meas- urement	IFRS
Revenue	4	34,343	(2,261)	32,082	43,608	828	44,436
Cost of sales	5	(29,898)	0	(29,898)	(39,435)	0	(39,435)
Other external expenses		(859)	0	(859)	(757)	0	(757)
Employee costs	6,7	(149)	0	(149)	(170)	0	(170)
Other operating income	9	0	0	0	16	0	16
Other operating expenses	9	0	0	0	0	0	0
Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA)		3,437	(2,261)	1,176	3,262	828	4,090
Depreciation, amortisation and impairment losses on intangible assets and property, plant and equipment	13,14	(23)	0	(23)	(315)	0	(315)
Operating profit (loss) (EBIT)		3,414	(2,261)	1,153	2,947	828	3,775
Share of profit (loss) from associates and subsidiaries	15	0	0	0	0	0	0
Gain (loss) on divestment of enterprises		0	0	0	(1)	0	(1)
Financial income	10	1,367	0	1,367	3,977	0	3,977
Financial expenses	11	(1,563)	0	(1,563)	(4,208)	0	(4,208)
Profit (loss) before tax		3,218	(2,261)	957	2,715	828	3,543
Tax on profit (loss) for the year	12	(692)	496	(196)	(395)	(194)	(589)
Profit (loss) for the year		2,526	(1,765)	761	2,320	634	2,954
Other comprehensive income¹:							
Value adjustments transferred to revenue				0			(5)
Tax on value adjustments of hedging instruments				0			1
Exchange rate adjustments				(14)			10
Other comprehensive income				(14)			6
Total comprehensive income				747			2,960

¹ All items in other comprehensive income may be reclassified to the income statement

Consolidated statement of comprehensive income 1 January - 31 December (continued)

DKK million	Note	2016 Business performance	Adjust- ments	IFRS	2015 Business performance	Adjust- ments	IFRS
Profit (loss) for the year is attributable to: Shareholders in DONG Energy Salg & Service A/S		2,526	(1,765)	761	2,320	634	2,954
Profit (loss) for the year		2,526	(1,765)	761	2,320	634	2,954
Comprehensive income for the year is attributable to: Shareholders in DONG Energy Salg & Service A/S				747			2,960
Total comprehensive income				747			2,960

Consolidated balance sheet 31 December

DKK million	Note	2016	2015
Assets			
Rights	13	21	23
Completed development projects	13	112	18
Development projects in progress	13	0	71
Intangible assets		133	112
Land and buildings	14	2	2
Production assets	14	104	85
Fixtures and fittings, tools and equipment	14	0	2
Property, plant and equipment under construction	14	2	17
Property, plant and equipment		108	106
Deferred tax assets	19	1,254	671
Other non-current assets		1,254	671
Non-current assets		1,495	889
Inventories	16	2,070	2,219
Receivables	17	37,346	54,173
Income tax receivable	23	340	1,065
Securities	25	79	0
Cash	25	121	573
Current assets		39,956	58,030
Assets		41,451	58,919

Consolidated balance sheet 31 December

DKK million	Note	2016	2015
Equity and liabilities			
Share capital	18	1,110	1,110
Translation reserve		2	16
Retained earnings		7,983	7,240
Equity		9,095	8,366
Deferred tax	19	0	1,448
Provisions	20	2,448	2,792
Payables to group enterprises	21	299	365
Non-current liabilities		2,747	4,605
Provisions	20	397	368
Bank loans	21	479	1
Other payables	22	27,812	45,511
Income tax	23	921	68
Current liabilities		29,609	45,948
Liabilities		32,356	50,553
Equity and liabilities		41,451	58,919

Consolidated statement of changes in equity 1 January - 31 December

DKK million	Share capital	Hedging reserve	Translation reserve	Retained earnings	Proposed dividends	Total
Equity at 1 January 2016	1,110	0	16	7,240	0	8,366
Comprehensive income for the year:						
Profit (loss) for the year	0	0	0	761	0	761
Other comprehensive income:						
Exchange rate adjustments, foreign companies	0	0	(14)	0	0	(14)
Total comprehensive income	0	0	(14)	761	0	747
Transactions with owners:						
Dividend paid	0	0	0	(25)	0	(25)
Share-based payment	0	0	0	3	0	3
Tax on share-based payment	0	0	0	4	0	4
Total changes in equity in 2016	0	0	0	(18)	0	(18)
Equity at 31 December 2016	1,110	0	2	7,983	0	9,095
Equity at 1 January 2015	1,100	4	6	3,295	0	4,405
Comprehensive income for the year:						
Profit (loss) for the year	0	0	0	2,954	0	2,954
Other comprehensive income:						
Value adjustments of hedging instruments	0	(5)	0	0	0	(5)
Tax on value adjustments of hedging instruments	0	1	0	0	0	1
Exchange rate adjustments, foreign companies	0	0	10	0	0	10
Total comprehensive income	0	(4)	10	2,954	0	2,960
Transactions with owners:						
Capital increase	10	0	0	990	0	1,000
Share-based payment	0	0	0	4	0	4
Other adjustments	0	0	0	(3)	0	(3)
Total changes in equity in 2015	10	0	0	991	0	1,001
Equity at 31 December 2015	1,110	0	16	7,240	0	8,366

Consolidated cash flow statement 1 January - 31 December

DKK million	Note	2016	2015
Cash flows from operations (operating activities)	24	2,980	1,658
Interest income and similar items		1,130	3,966
Interest expenses and similar items		(1,220)	(4,046)
Income tax paid		(652)	741
Cash flows from operating activities		2,238	2,319
Acquisition of intangible assets	13	(16)	(24)
Acquisition of property, plant and equipment	14	(9)	(19)
Sale of intangible assets and property, plant and equipment		3	4
Purchase of securities		(79)	0
Financial transactions with group internal bank		(3,082)	(2,394)
Acquisition of subsidiaries		(16)	0
Divestment of subsidiaries		0	(1)
Cash flows from investing activities		(3,199)	(2,434)
Payables to group enterprises		89	24
Capital increase		0	1,000
Transactions with non-controlling interests		0	(755)
Dividends paid to equity holders		(25)	0
Cash flows from financing activities		64	269
The year's cash flow		(897)	154
Cash and cash equivalents at 1 January		541	385
Net increase/(decrease) in cash		(897)	154
Exchange rate adjustments of cash and cash equivalents		(2)	2
Cash and cash equivalents at 31 December	25	(358)	541

Parent company statement of comprehensive income 1 January - 31 December

DKK million	Note	2016 Business performance	Adjust- ments	IFRS	2015 Business performance	Adjust- ments	IFRS
Revenue	4	34,836	(2,270)	32,566	43,726	891	44,617
Cost of sales	5	(30,465)	0	(30,465)	(39,678)	0	(39,678)
Other external expenses		(791)	0	(791)	(658)	0	(658)
Employee costs	6,7	(126)	0	(126)	(123)	0	(123)
Other operating income	9	0	0	0	16	0	16
Other operating expenses	9	0	0	0	0	0	0
Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA)		3,454	(2,270)	1,184	3,283	891	4,174
Depreciation, amortisation and impairment losses on intangible assets and property, plant and equipment		(83)	0	(83)	(313)	0	(313)
Operating profit (loss) (EBIT)		3,371	(2,270)	1,101	2,970	891	3,861
Gain (loss) on divestment of enterprises		0	0	0	(418)	0	(418)
Financial income	10	1,424	0	1,424	4,058	0	4,058
Financial expenses	11	(1,589)	0	(1,589)	(4,235)	0	(4,235)
Profit (loss) before tax		3,206	(2,270)	936	2,375	891	3,266
Tax on profit (loss) for the year	12	(643)	499	(144)	(368)	(209)	(577)
Profit (loss) for the year		2,563	(1,771)	792	2,007	682	2,689
Other comprehensive income ² :							
Value adjustments for the year				0			(5)
Tax on value adjustments of hedging instruments				0			1
Other comprehensive income				0			(4)
Total comprehensive income				792			2,685

² All items in other comprehensive income may be reclassified to the income statement

Parent company statement of comprehensive income 1 January - 31 December (continued)

DKK million	Note	2016 Business performance	Adjust- ments	IFRS	2015 Business performance	Adjust- ments	IFRS
Profit (loss) for the year is attributable to: Shareholders in DONG Energy Salg & Service A/S		2,563	(1,771)	792	2,007	685	2,689
Profit (loss) for the year		2,563	(1,771)	792	2,007	685	2,689
Total comprehensive income for the year is attributable to: Shareholders in DONG Energy Salg & Service A/S				792			2,685
Total comprehensive income				792			2,685

Parent company balance sheet 31 December

DKK million	Note	2016	2015
Assets			
Rights	13	21	23
Completed development projects	13	92	18
Development projects in progress	13	0	71
Intangible assets		113	112
Land and buildings	14	2	2
Production assets	14	104	85
Property, plant and equipment under construction	14	2	17
Property, plant and equipment		108	104
Share of profit (loss) of associates and subsidiaries	15	110	157
Deferred tax	19	1,337	727
Receivables	17	34	33
Other non-current assets		1,481	917
Non-current assets		1,702	1,133
Inventories	16	2,063	2,214
Receivables	17	36,347	51,919
Income tax	23	321	1,043
Securities	25	79	0
Cash	25	38	105
Current assets		38,848	55,281
Assets		40,550	56,414

Parent company balance sheet 31 December

DKK million	Note	2016	2015
Equity and liabilities			
Share capital	18	1,110	1,110
Development costs reserve		8	0
Retained earnings		7,597	6,832
Equity		8,715	7,942
Non-current liabilities			
Provisions	20	2,448	2,792
Payables to group enterprises	21	387	426
Deferred tax	19	0	1,454
Non-current liabilities		2,835	4,672
Current liabilities			
Provisions	20	397	368
Bank loans	21	458	1
Other payables	22	27,247	43,386
Income tax	23	898	45
Current liabilities		29,000	43,800
Liabilities		31,835	48,472
Equity and liabilities		40,550	56,414

Parent company statement of changes in equity 1 January - 31 December

DKK million	Share capital	Hedging reserve	Development costs reserve	Retained earnings	Proposed dividend	Total
Equity at 1 January 2016	1,110	0	0	6,832	0	7,942
Comprehensive income for the year:						
Profit (loss) for the year	0	0	8	784	0	792
Total comprehensive income	0	0	8	784	0	792
Transactions with owners:						
Dividend paid	0	0	0	(24)	0	(24)
Share-based payment	0	0	0	2	0	2
Tax on share-based payment	0	0	0	3	0	3
Total changes in equity in 2016	0	0	0	(19)	0	(19)
Equity at 31 December 2016	1,110	0	8	7,597	0	8,715
Equity at 1 January 2015	1,100	4	0	3,151	0	4,255
Comprehensive income for the year:						
Profit (loss) for the year	0	0	0	2,689	0	2,689
Other comprehensive income:						
Value adjustments transferred to revenue	0	(5)	0	0	0	(5)
Tax on value adjustments of hedging instruments	0	1	0	0	0	1
Total comprehensive income	0	(4)	0	2,689	0	2,685
Transactions with owners:						
Capital increase	10	0	0	990	0	1,000
Share-based payment	0	0	0	4	0	4
Other adjustments	0	0	0	(2)	0	(2)
Total changes in equity in 2015	10	0	0	992	0	1,002
Equity at 31 December 2015	1,110	0	0	6,832	0	7,942

Parent company cash flow statement 1 January - 31 December

DKK million	Note	2016	2015
Cash flows from operations (operating activities)	24	3,573	1,512
Interest income and similar items		1,129	3,927
Interest expenses and similar items		(1,250)	(4,040)
Income tax paid		(629)	761
Cash flows from operating activities		2,823	2,160
Acquisition of intangible assets	13	(15)	(24)
Acquisition of property, plant and equipment	14	(9)	(18)
Sale of intangible assets and property, plant and equipment		(1)	0
Acquisition of enterprises		(16)	0
Purchase of securities		(79)	0
Financial transactions with group enterprises		0	(46)
Financial transactions with group internal bank		(3,228)	(2,202)
Other investments		(36)	(34)
Dividend received		62	87
Cash flows from investing activities		(3,322)	(2,237)
Payables to group enterprises		31	25
Capital increase		0	1,000
Dividends paid to equity holders		(24)	0
Transactions with non-controlling interests		0	(784)
Cash flows from financing activities		7	241
The year's cash flow		(492)	164
Cash and cash equivalents at 1 January		72	(92)
Net increase/(decrease) in cash		(492)	164
Cash and cash equivalents at 31 December	25	(420)	72

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Note 1. Basis of reporting

Accounting policies

DONG Energy Salg & Service A/S is a public limited company based in Denmark.

The financial statements for the period 1 January - 31 December 2016 comprises the consolidated financial statements of DONG Energy Salg & Service A/S and its subsidiaries (the Group) as well as the financial statements of the parent company DONG Energy Salg & Service A/S. Reference is made to note 31 for the parent company's accounting policies.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act.

The financial statements are presented in million Danish kroner (DKK), unless otherwise stated.

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments, financial instruments in trading portfolio, financial instruments classified as available for sale and CO₂ emissions allowances in trading portfolio that are measured at market value.

The accounting policies have been applied consistently to the financial year and the comparative figures.

The accounting policies applied to the consolidated financial statements as a whole are described in note 31.

Consolidated financial statements

The consolidated financial statements include the parent company DONG Energy Salg & Service A/S and subsidiaries controlled by DONG Energy Salg & Service A/S.

Enterprises in which we hold or have the ability to exercise, directly or indirectly, between 20% and 50% of the voting rights, but do not exercise control, are accounted for as associates. However, this is based on a specific assessment of our ability to exercise influence. Influence means our ability to influence financial and operational decisions with a bearing on our return.

The consolidated financial statements have been prepared as a consolidation of the parent company's and the individual subsidiaries' financial statements prepared in accordance with the Group's accounting policies. Intra-group income and expenses, shareholdings, balances and dividends as well as realised and unrealised gains and losses arising from intra-group transactions are eliminated on consolidation.

Unrealised gains resulting from transactions with associates are eliminated to the extent of the Group's ownership interest. Unrealised losses are eliminated in the same way as unrealised gains to the extent that there has been no impairment.

Foreign currency translation

For each reporting enterprise in the Group, items are determined in the currency of the primary economic environment in which the individual reporting enterprise operates (functional currency). Transactions in currencies other than the functional currency of each enterprise are accounted for as transactions in foreign currencies and translated on initial recognition at the exchange rate at the transaction date. Exchange differences arising between the exchange rate at the transaction date and at the date of payment are recognised in profit (loss) for the year as financial income or expenses.

Receivables, payables and other monetary items in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rate at the balance sheet date and the date at which the receivable or payable arose is recognised in profit (loss) for the year as financial income or expenses.

For foreign subsidiaries and associates, the statements of comprehensive income are translated at monthly average exchange rates in so far as these do not deviate materially from the actual exchange rates at the transaction dates. Balance sheet items are translated at the exchange rates at the balance sheet date. All exchange differences are recognised in profit (loss) for the year, except for exchange differences arising on:

- translation of the opening equity of these entities at the exchange rates at the balance sheet date
- translation of the statements of comprehensive income of these enterprises from the exchange rates at the transaction date to the exchange rates at the balance sheet date
- translation of balances accounted for as part of the total net investment
- translation of the portion of loans and derivative financial instruments that has been entered into to hedge the net investment in these enterprises and that provides an effective hedge against corresponding foreign exchange gains (losses) on the net investment in the enterprise

The above types of exchange differences are recognised in other comprehensive income. Such exchange rate adjustments are allocated between the parent company's and the non-controlling interests' equity.

On full or partial disposal of the net investment, the accumulated exchange rate adjustments are recognised as follows:

- Disposal results in loss of control. The accumulated exchange rate adjustments, including any associated hedges, are recognised in the profit (loss) for the year if a foreign exchange gain (loss) is realised by the selling enterprise. Any foreign exchange gain (loss) is transferred to the item in which the gain (loss) is recognised. The part of the foreign currency translation reserve that relates to non-controlling interests is not transferred to profit (loss) for the year.
- Disposal does not result in loss of control. A proportionate share of the foreign currency translation reserve is transferred from the parent company shareholders' share of equity to the minority shareholders' share of equity.

Repayment of balances that are considered part of the net investment does not constitute a partial disposal of the subsidiary.

Implementation of new standards and interpretations

We implemented no new standards (IAS and IFRS) or interpretations (IFRIC) in 2016.

In 2016, we incorporated the following amendments to standards (IAS and IFRS), which are effective for financial years beginning on or after 1 January 2016:

- IAS 1 Presentation of Financial Statements:
The amendment is a clarification to the existing IAS 1.

The implementation of the amended standards in the consolidated financial statements for 2016 has not had any impact on our consolidated financial statements for 2016.

New standards and interpretations

IASB has issued a number of new or amended accounting standards and interpretations which have not yet entered into force and have consequently not been incorporated into the consolidated financial statements for 2016 (impact is expected). The following accounting standards are the most relevant for DONG Energy Salg & Service A/S.

- IFRS 15 – Revenue from Contracts with Customers:

Description of amendment

New standard, which replaces IAS 11 and IAS 18 and associated interpretations. In the new standard, the model for recognising revenue is changed from having been based on the transfer of the risks and rewards of ownership of a product or service to being based on the transfer of control of the goods or services transferred to the customer.

The basic principle is that our revenue must be recognised in a way that reflects the transfer of control of goods or services to our customers (customer obtains control) in an amount that reflects the consideration to which we expect to be entitled. Control is defined as the ability to direct the use of and obtain substantially all of the remaining benefits from the asset included in the goods or services.

The standard also contains special rules concerning the recognition of costs related to the obtaining of contracts with our customers, to the performance of the contracts as well as enhanced disclosure requirements.

Expected effect

We have started an analysis of the cash flows in DONG Energy and a contract review where the analysis has indicated that the standard may impact the consolidated financial statements.

IFRS 15 requires that contracts with a fixed quantity and variable price are recognised at the same average consideration over the term of the contract. We have a number of such contracts. These include contracts for the supply of power and gas where the customer has committed itself to buying a fixed volume at a variable price. As the cost of sales varies, this may defer the recognition of the contribution margin. We are still analysing the interpretation of IFRS 15 and the amendment's possible impact on revenue.

We expect to finish the analysis and review of selected contracts in the course of 2017. It is still our assessment that IFRS 15 will not have any significant impact on the income statement, the balance sheet or the related key ratios in the consolidated financial statements.

Commencement

IFRS 15 will be implemented in our consolidated financial statements for the financial year beginning on 1 January 2018.

Transitional provision

The standard will be implemented with retrospective effect as if its requirements have always been applied to our current contracts. We expect to use the relief from restating comparative figures provided by IFRS 15, so the standard's requirements only apply to contracts in progress at 1 January 2018 as well as subsequently concluded contracts.

- IFRS 9 – Financial Instruments:

Description of amendment

New standard, which replaces IAS 39 and deals with the accounting treatment of financial assets and liabilities in relation to classification and measurement, hedge accounting and impairment.

IFRS 9 simplifies the requirements for hedge accounting. Going forward, it will also become easier to use hedge accounting when engaging in proxy hedging, which is often necessary when hedging risks in the energy markets.

The number of categories of financial assets is reduced to three: amortised cost, fair value or fair value through other comprehensive income. Fair value changes in financial liabilities arising from changes in own credit risk must be recognised in other comprehensive income.

Expected effect

The analysis of the impact of IFRS 9 shows that IFRS 9 is not expected to have any significant impact on the consolidated financial statements.

We will be able to continue our application of the business performance principle for hedging of energy-related risks, which are currently recognised continuously at fair value via the income statement according to IFRS.

We have started an analysis of our future possibilities of using hedge accounting for all or some of our energy and currency-related hedges according to IFRS 9.

The majority of our receivables are trade receivables with a short credit period, and the new impairment rules are therefore not expected to have any significant impact on the impairment need.

Our portfolio of securities is optimised on a regular basis, and it is therefore expected that all securities will continue to be recognised at fair value via the income statement according to IFRS 9.

Commencement

IFRS 9 will be implemented early in our consolidated financial statements for the financial year beginning on 1 January 2017.

Transitional provision

The standard will be implemented with retrospective effect as if its requirements have always been applied.

We expect to use the relief from restating comparative figures provided by IFRS 9, so the standard's requirements only apply to open contracts at 1 January 2017 as well as subsequently concluded contracts.

- IFRS 16 – Leases:

Description of amendment

New standard which replaces IAS 17. The new standard changes the accounting treatment of leases, which are currently treated as operating leases. The standard requires that all leases, regardless of type and with few exceptions, must be recognised in the lessee's balance sheet as an asset with a related liability. Also, the lessee's income statement will be affected, as the annual lease costs will in the future consist of two elements – depreciation and interest expenses – as opposed to now, where the annual costs relating to operating leases are recognised as one amount in other external expenses or in property, plant and equipment.

Expected effect

We have started an analysis of the impact of IFRS 16 on the consolidated financial statements, which has not yet been completed. The preliminary conclusion is still that it will have a limited impact on both the balance sheet, the income statement and related key ratios. The impact at 1 January 2019 will deviate from the future minimum lease payments stated in note 26 (DKK 645 million) for the following reasons:

The scope of leases is expected to change up until 1 January 2019, partly as a result of the conclusion of new leases, partly as a result of run-off on the existing leases.

The lease obligation (see note 26) is calculated without discounting, while the lease obligation at 1 January 2019 will be calculated as the present value of remaining lease payments at this date.

As a general rule, IFRS 16 requires that service elements which are incorporated into leases and which do not entitle us to use an underlying asset must be dealt with separately and treated as a current operating expense. This will not have an immediate impact as our total obligation stated in note 26 does not include payments relating to a service element. We intend to continue this practice so that the service element is not included in the lease obligation and the right-of-use asset in accordance with IFRS 16.

Commencement

IFRS 16 will be implemented in our consolidated financial statements for the financial year beginning on 1 January 2019.

Transitional provision

We expect to implement the standard by using a simplified approach (simplified transition method), where comparative figures will not be restated. We will calculate and recognise the accumulated effect for all ongoing leases at the beginning of 2019. Furthermore, we expect to use the other available reliefs to the widest possible extent, including the exclusion of leases with a term to maturity of less than 12 months and low value assets.

Note 2. Critical accounting estimates and judgements

During the process of preparing the consolidated financial statements, management makes a number of estimates and judgements that affect the reported amounts of assets and liabilities at the balance sheet date, the reported amounts of income and expenses in the reporting period and disclosures on contingent assets and contingent liabilities at the balance sheet date.

Estimates and judgements made are based on historical experience and other factors that are believed by management to be reasonable in the circumstances, but which, by their nature, are uncertain and unpredictable. The effect of such estimates and judgements can potentially lead to results that differ significantly from those that would result from the use of other estimates and judgements. The Group's special risks are referred to in the section on risk management in the management's review and in note 27.

The areas in which estimates and judgements can have the most significant effect on the financial statements are described in the following.

Onerous contracts (note 20)

In the course of the Group's operations, a number of commercial contracts have been entered into with fixed terms of contract that may result in the contracts becoming onerous depending on market developments etc, and the obligations incurred by the DONG Energy Salg & Service Group as a result of these contracts may also be subject to uncertainty. The judgements concerning these complex contracts and their future effects are subject to significant uncertainties.

Notes to the income statement

Note 3. Business performance

Accumulated difference between IFRS and business performance

Market value adjustments deferred for recognition in the business performance results in a subsequent period are specified in the table below. At 31 December 2016, a loss of DKK 862 million had been deferred (2015:

gain of DKK 1,402 million), which will affect business performance EBITDA in subsequent years. Of the total deferred gain, business performance EBITDA is expected to be affected by a loss of DKK 214 million gain in 2017 (2016: gain of DKK 1,264 million).

Expected date of transfer to EBITDA

DKK million	Deferred for subsequent at 31 December				Deferred for subsequent at 31 December			
	2016	2017	2018	after 2018	2015	2016	2017	after 2017
Oil	(706)	(646)	(52)	(8)	(1,997)	(1,074)	(774)	(149)
Gas	(660)	(160)	20	(520)	1,762	1,642	(23)	143
Power	(249)	93	(78)	(264)	351	212	180	(41)
Currency	753	499	167	87	1,286	484	578	224
Total	(862)	(214)	57	(705)	1,402	1,264	(39)	177

Specification of the difference between EBITDA according to business performance and according to IFRS

DKK million	2016	2015
EBITDA – business performance	3,437	3,262
Business performance adjustments	(2,261)	828
EBITDA – IFRS	1,176	4,090
Total business performance adjustments for the year comprise:		
Market value adjustments for the year of financial and physical hedging contracts that relate to future periods	(1,000)	1,081
Reversal of deferred gain (loss) relating to hedging contracts from previous periods, where the hedged production or trade is recognised in business performance EBITDA for this period	(1,261)	(253)
Total adjustments	(2,261)	828

The 'Adjustments' column in the income statement

The difference between business performance and IFRS is shown in the 'Adjustments' column as follows: Adjustments are shown in the table above.

Difference between IFRS and business performance for the year

The difference between IFRS and business performance is specified in the table above. Market value adjustments in respect of future periods totalled a loss of DKK 1,000 million (2015: gain of DKK 1,081 million) and primarily related to the hedging of gas, power and

oil. Reversal of deferred gain (loss) recognised according to business performance in 2016 totalled a loss of DKK 1,261 million (2015: loss of DKK 253 million) and primarily relate to gain (loss) on the hedging of gas and, in part, power. These gains (losses) are recognised in business performance EBITDA in 2016 and in IFRS EBITDA in a previous period.

Note 4. Revenue

DKK million	Group Business performance	Adjustments	IFRS	Parent company Business performance	Adjustments	IFRS
2016						
Natural gas	17,223	(1,971)	15,252	17,147	(1,960)	15,187
Electricity	15,916	(612)	15,304	16,306	(621)	15,685
Distribution and storage of natural gas	559	0	559	474	0	474
Trading activities, net	325	0	325	346	0	346
Effect of economic hedging, net	80	322	402	93	311	404
Other revenue	240	0	240	470	0	470
Revenue	34,343	(2,261)	32,082	34,836	(2,270)	32,566
2015						
Natural gas	25,457	204	25,661	25,444	238	25,682
Electricity	18,412	220	18,632	18,411	236	18,647
Distribution and storage of natural gas	653	0	653	571	0	571
Trading activities, net	368	0	368	346	0	346
Effect of economic hedging, net	(1,461)	399	(1,062)	(1,453)	412	(1,041)
Effect of hedge accounting	0	5	5	0	5	5
Other revenue	179	0	179	407	0	407
Revenue	43,608	828	44,436	43,726	891	44,617

Of the total revenue of DKK 32,082 million (2015: DKK 44,436 million), DKK 31,283 million (2015: DKK 43,604 million) represents revenue from the sale of goods,

while DKK 799 million (2015: DKK 832 million) represents revenue from the sale of services.

Geographical distribution of revenue

Revenue is broken down, as far as possible, by the customer's geographical location based on supply point.

DKK million	Denmark	Germany	UK	Netherlands	Other EU	Consolidated total
2016	8,147	5,847	12,229	5,248	611	32,082
2015	10,884	6,853	18,598	7,395	706	44,436

Note 5. Cost of sales

DKK million	Group Business performance	Adjustments	IFRS	Parent company Business performance	Adjustments	IFRS
2016						
Natural gas	(13,654)	0	(13,654)	(13,671)	0	(13,671)
Electricity	(15,205)	0	(15,205)	(15,605)	0	(15,605)
Distribution and storage of natural gas	(1,059)	0	(1,059)	(1,220)	0	(1,220)
Other cost of sales	20	0	20	31	0	31
Cost of sales	(29,898)	0	(29,898)	(30,465)	0	(30,465)

Note 5. Cost of sales (continued)

DKK million	Group Business performance	Adjustments	IFRS	Parent company Business performance	Adjustments	IFRS
2015						
Natural gas	(21,238)	0	(21,238)	(21,256)	0	(21,256)
Electricity	(17,008)	0	(17,008)	(17,008)	0	(17,008)
Distribution and storage of natural gas	(1,060)	0	(1,060)	(1,276)	0	(1,276)
Other cost of sales	(129)	0	(129)	(138)	0	(138)
Cost of sales	(39,435)	0	(39,435)	(39,678)	0	(39,678)

Note 6. Employee costs

DKK million	Group		Parent company	
	2016	2015	2016	2015
Employee costs:				
Wages, salaries and remuneration	(150)	(156)	(118)	(115)
Defined-contribution pension plans	(8)	(11)	(7)	(7)
Other social security costs	(5)	(3)	(1)	(1)
Other employee costs	14	0	0	0
Employee costs	(149)	(170)	(126)	(123)
Employee costs are recognised as follows:				
Employee costs	(149)	(170)	(126)	(123)
Transferred to assets	0	0	0	0
Employee costs	(149)	(170)	(126)	(123)
Number of full-time employees				
Average for the financial year	146	166	109	112

Remuneration for the Board of Directors and the Executive Board amounts to:

2016

DKK million	Salary	Bonus	Share-based payments	Pension	Total
Parent company Board of Directors	0	0	0	0	0
Parent company Executive Board	(1.5)	(0.3)	(0.3)	(0.4)	(2.5)

2015

DKK million	Salary	Bonus	Share-based payments	Pension	Total
Parent company Board of Directors	0	0	0	0	0
Parent company Executive Board	(1.5)	(0.3)	(0.6)	(0.4)	(2.8)

The total remuneration stated in the note only includes remuneration attributable to DONG Energy Salg & Service A/S. The Executive Board is made up of one person.

A bonus plan has been established for the Executive Board. The contract of service of the Executive Board includes a termination package under which the Executive Board will be entitled to the equivalent of 24 months' salary if their contract of service is terminated by the company.

Note 7. Share-based payment

Share programme

In June 2016, our share programme expired following the IPO. The 2014 programme was open to all employees. Under the programme, employees were entitled to a number of free shares, depending on their share purchase and DONG Energy's financial performance benchmarked against ten comparable European energy companies. The number of free shares could not exceed 125% of the number of shares subscribed for by the individual employee in 2014.

The Executive Board and a number of other members of management participate in our share programme which we established in 2016. Today, approximately 80 senior executives participate in the programme. As a condition for the granting of performance share units (PSUs), the participant must own a number of shares in DONG Energy corresponding to a portion of the individual participant's annual base salary.

If the participants fulfil the shareholding requirement at the time of granting, the participants will each year be granted a number of PSUs that represent a value equal to 20% of the annual base salary on the date of granting.

The granted PSUs have a vesting period of approximately three years, after which each PSU entitles the

holder to one share without consideration. The final number of PSUs for each participant will be determined on the basis of the total shareholder return delivered by DONG Energy during the vesting period benchmarked against ten comparable European energy companies. The rate will vary from 0% to 200% of the number defined as the target for the granted PSUs. The maximum value is 40% of the fixed annual salary for Group Executive Management.

The highest rate will be triggered if DONG Energy's results, measured as the total return to shareholders, outperform those of the comparable companies. For each lower ranking, the number of PSUs granted will fall by 20 percentage points.

If, for example, DONG Energy ranks second, the participants will be entitled to 180% of the target. If DONG Energy ranks 11 in the comparison, no PSUs will be granted to the participants. The right to PSUs is conditional upon continued employment. Employees who leave us due to their own resignation or breach of their employment lose their right to PSUs.

Note 8. Auditor's fees

DKK million	Group		Parent company	
	2016	2015	2016	2015
Statutory audit	(1)	(2)	(1)	(1)
Other assurance engagements	0	0	0	0
Tax and VAT advice	0	0	0	0
Non-audit services	0	0	0	0
Total fees to PwC	(1)	(2)	(1)	(1)

Auditor fee

The Danish Parliament has adopted amendments to the Danish Act on Approved Auditors and Audit Firms which came into force on 17 May 2016. The amendments implement the Directive of the European Parliament and of the Council amending the eighth Company Law Directive.

The purpose is to improve audit quality by focusing on the auditor's professional scepticism, increasing the requirement for auditor independence and the internal organisation of audit firms and their quality management and thereby strengthening public confidence in audited financial statements.

The change entails, among other things, limitations on which and how many non-audit services the auditor is allowed to provide.

We have prepared a new policy for the use of a group auditor. The purpose of the policy is to fulfil the Audit and Risk Committee's responsibility for monitoring non-audit services.

Among other things, the policy introduces a cap on fees charged by the group auditor for the provision of non-audit services of 100% of statutory audit as well as introducing a preliminary approval of non-audit services. The cap may be exceeded subject to approval by the Audit and Risk Committee.

PwC is DONG Energy's auditors appointed by the general meeting. PwC audits the consolidated financial statements of DONG Energy and our subsidiaries' financial statements in all the countries where we are represented. In addition, PwC provides consultancy services and performs other audit-related tasks.

Other assurance engagements include besides statements on the prospect reviews of non-financial data and of regulatory financial statements.

Tax and VAT advice primarily includes advice in connection with the divestment of assets and companies and advice in connection with the preparation of tax re-

turns and the calculation of the income subject to international joint taxation.

Non-audit services include other consultancy services from PwC, including advice in connection with the divestment of assets and companies, capital injections, etc.

Note 9. Other operating income and expenses

DKK million	Group		Parent company	
	2016	2015	2016	2015
Other operating income	0	16	0	16
Other operating expenses	0	0	0	0
Other operating income and expenses, net	0	16	0	16

Note 10. Financial income

DKK million	Group		Parent company	
	2016	2015	2016	2015
Interest income	0	12	0	11
Foreign exchange gains	1,366	3,965	1,362	3,960
Dividend received	0	0	62	87
Other financial income	1	0	0	0
Financial income	1,367	3,977	1,424	4,058

Note 11. Financial expenses

DKK million	Group		Parent company	
	2016	2015	2016	2015
Interest expenses	(4)	(24)	(2)	(24)
Interest expenses from group enterprises	(34)	(22)	(64)	(55)
Interest element of removal costs	(132)	(140)	(132)	(140)
Foreign exchange losses	(1,392)	(4,022)	(1,390)	(4,016)
Other financial expenses	(1)	0	(1)	0
Financial expenses	(1,563)	(4,208)	(1,589)	(4,235)
Revenue for the year includes exchange rate and fair value adjustments of:	(287)	1,174	(287)	1,174

Note 12. Tax on profit (loss) for the year

DKK million	Group 2016	2015	Parent company 2016	2015
Tax for the year can be specified as follows:				
Tax on profit (loss) for the year	(196)	(589)	(144)	(577)
Tax on amounts recognised in other comprehensive income	0	1	0	1
Tax for the year	(196)	(588)	(144)	(576)
Tax on profit (loss) for the year can be broken down as follows:				
Current tax	(2,381)	304	(2,358)	333
Deferred tax	1,583	(1,089)	1,587	(1,116)
Adjustments to current tax in respect of prior years	149	(191)	151	(180)
Adjustments to deferred tax in respect of prior years	453	375	476	375
Adjustments to deferred tax in respect of change in tax rate	0	12	0	11
Tax on profit (loss) for the year	(196)	(589)	(144)	(577)
Tax on profit (loss) for the year can be explained as follows:				
Calculated 22.0% tax on profit (loss) before tax	(170)	(787)	(153)	(702)
Adjustments of calculated tax in foreign subsidiaries in relation to 20.0%	4	7	0	0
Tax effect of:				
Non-taxable income	0	20	(14)	(78)
Non-deductible expenses	(1)	(3)	(1)	(2)
Change in tax rates	0	12	0	11
Tax effect tax loss carryforward	(27)	(22)	0	0
Adjustments to tax in respect of prior years	(2)	184	24	194
Tax on profit (loss) for the year	(196)	(589)	(144)	(577)
Effective tax rate	20%	17%	15%	18%

Notes to the balance sheet

Note 13. Intangible assets

DKK million	Group				Total
	Goodwill	Rights	Completed development projects	Development projects in progress	
Cost at 1 January 2015	369	2,192	362	66	2,989
Additions	0	3	1	20	24
Disposals	0	0	(94)	0	(94)
Retained	0	0	15	(15)	0
Cost at 31 December 2015	369	2,195	284	71	2,919
Amortisation and impairment losses at 1 January 2015	(369)	(2,142)	(338)	0	(2,849)
Impairment losses for the year	0	0	0	0	0
Amortisation for the year	0	(30)	(22)	0	(52)
Disposals	0	0	94	0	94
Amortisation and impairment losses at 31 December 2015	(369)	(2,172)	(266)	0	(2,807)
Carrying amount at 31 December 2015	0	23	18	71	112
Cost at 1 January 2016	369	2,195	284	71	2,919
Additions	0	5	0	11	16
Additions on acquisition of enterprises	0	0	0	21	21
Disposals	0	(585)	0	0	(585)
Retained	0	0	103	(103)	0
Cost at 31 December 2016	369	1,615	387	0	2,371
Amortisation and impairment losses at 1 January 2016	(369)	(2,172)	(266)	0	(2,807)
Impairment losses for the year	0	0	0	0	0
Amortisation for the year	0	(7)	(9)	0	(16)
Disposals	0	585	0	0	585
Amortisation and impairment losses at 31 December 2016	(369)	(1,594)	(275)	0	(2,238)
Carrying amount at 31 December 2016	0	21	112	0	133
Amortised over		UOP*/ 5- 20 years	3-5 years		

* Unit of production

Note 13. Intangible assets (continued)

DKK million	Parent company			Total
	Rights	Completed development projects	Development projects in progress	
Cost at 1 January 2015	2,167	362	66	2,595
Additions	3	1	20	24
Disposals	0	(94)	0	(94)
Retained	0	15	(15)	0
Cost at 31 December 2015	2,170	284	71	2,525
Amortisation and impairment losses at 1 January 2015	(2,117)	(338)	0	(2,455)
Amortisation for the year	(30)	(22)	0	(52)
Disposals	0	94	0	94
Amortisation and impairment losses at 31 December 2015	(2,147)	(266)	0	(2,413)
Carrying amount at 31 December 2015	23	18	71	112
Cost at 1 January 2016	2,170	284	71	2,525
Additions	5	0	10	15
Disposals	(585)	0	0	(585)
Retained	0	81	(81)	0
Cost at 31 December 2016	1,590	365	0	1,955
Amortisation and impairment losses at 1 January 2016	(2,147)	(266)	0	(2,413)
Amortisation for the year	(7)	(7)	0	(14)
Disposals	585	0	0	585
Amortisation and impairment losses at 31 December 2016	(1,569)	(273)	0	(1,842)
Carrying amount at 31 December 2016	21	92	0	113
Amortised over	UOP*/ 5-20 years	3-5 years	-	-

* Unit of production

Impairment testing

Development projects in progress are tested for impairment annually. The carrying amounts of rights, CO₂ emissions allowances and completed development projects are assessed annually to determine whether there is any indication of impairment. If any such indication exists, an impairment test is carried out.

Rights

Rights consist predominantly of gas purchase rights, customer-related rights and a connection right relating to gas transportation. At 31 December 2016, the carry-

ing amount of rights was calculated at DKK 21 million (2015: DKK 23 million).

There were no indications of impairment of rights in 2016.

Completed development projects

Completed development projects related to IT software. At 31 December 2016, the carrying amount of development projects was calculated at DKK 112 million (2015: DKK 18 million).

Note 13. Intangible assets (continued)

There were no other indications of impairment of completed development projects in 2016. Consequently, completed development projects were not tested for impairment.

Development projects in progress

Development projects in progress primarily concern the implementation of new IT systems. At 31 December

2016, the carrying amount of development projects in progress was DKK 0 million (2015: DKK 71 million).

The company tested the carrying amounts of recognised development projects in progress for impairment in 2015. The test included reviewing the project development stage in the form of expenses incurred and milestones achieved etc, compared with the approved business plans. Against this background, it is estimated that the recoverable amounts exceed the carrying amounts.

Note 14. Property, plant and equipment

DKK million	Group				Total
	Land and buildings	Production assets	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	
Cost at 1 January 2015	11	8,436	24	4	8,475
Disposals	0	1	1	17	19
Retained	0	(4)	0	0	(4)
Transfers	0	4	0	(4)	0
Cost at 31 December 2015	11	8,437	25	17	8,490
Depreciation and impairment losses at 1 January 2015	(9)	(8,094)	(22)	0	(8,125)
Depreciation for the year	0	(262)	(1)	0	(263)
Disposals	0	4	0	0	4
Depreciation and impairment losses at 31 December 2015	(9)	(8,352)	(23)	0	(8,384)
Carrying amount at 31 December 2015	2	85	2	17	106
Cost at 1 January 2016	11	8,437	25	17	8,490
Additions	0	3	0	6	9
Disposals	0	(14)	(1)	0	(15)
Retained	0	21	0	(21)	0
Cost at 31 December 2016	11	8,447	24	2	8,484
Depreciation and impairment losses at 1 January 2016	(9)	(8,352)	(23)	0	(8,384)
Depreciation for the year	0	(5)	(2)	0	(7)
Disposals	0	14	1	0	15
Depreciation and impairment losses at 31 December 2016	(9)	(8,343)	(24)	0	(8,376)
Carrying amount at 31 December 2016	2	104	0	2	108
Depreciated over	20 years	20-40 years	3-10 years	-	-

Note 14. Property, plant and equipment (continued)

DKK million	Parent company				Total
	Land and buildings	Production assets	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	
Cost at 1 January 2015	11	8,432	5	4	8,452
Additions	0	1	0	17	18
Disposals	0	(4)	0	0	(4)
Retained	0	4	0	(4)	0
Cost at 31 December 2015	11	8,433	5	17	8,466
Depreciation and impairment losses at 1 January 2015	(9)	(8,090)	(5)	0	(8,104)
Depreciation for the year	0	(261)	0	0	(261)
Disposals	0	3	0	0	3
Depreciation and impairment losses at 31 December 2015	(9)	(8,348)	(5)	0	(8,362)
Carrying amount at 31 December 2015	2	85	0	17	104
Cost at 1 January 2016	11	8,433	5	17	8,466
Additions	0	3	0	6	9
Disposals	0	(14)	(1)	0	(15)
Retained	0	21	0	(21)	0
Cost at 31 December 2016	11	8,443	4	2	8,460
Depreciation and impairment losses at 1 January 2016	(9)	(8,348)	(5)	0	(8,362)
Depreciation for the year	0	(5)	0	0	(5)
Disposals	0	14	1	0	15
Depreciation and impairment losses at 31 December 2016	(9)	(8,339)	(4)	0	(8,352)
Carrying amount at 31 December 2016	2	104	0	2	108
Leased assets		11			
Depreciated over	20 years	20-40 years	3-10 years	-	-

Finance leases

Production assets in the parent company with a carrying amount of DKK 11 million at 31 December 2016 (2015: DKK 11 million) were financed under finance leases. The lease commitment at 31 December 2016 was DKK 604 million (2015: DKK 677 million).

As the lessor, DONG Energy Pipelines A/S holds the legal ownership in the pipeline, but substantially all rewards and risks, including maintenance obligations related to the pipeline, lie with DONG Energy Salg & Service A/S as the lessee. As the lessee, DONG Energy Salg & Service A/S is entitled to acquire the ownership interest in the pipeline at market price from DONG Energy Pipelines A/S on expiry of the agreement.

Impairment testing of property, plant and equipment

The carrying amounts of property, plant and equipment are assessed annually to determine whether there is any indication of impairment. If any such indication exists, an impairment test is carried out.

In an impairment test, the tested asset's recoverable amount is compared with its carrying amount. The recoverable amount is based on the higher of the value in use and the fair value less estimated selling costs. The value in use is determined on the basis of expected future net cash flows. There were no indications of impairment of property, plant and equipment in 2016.

Note 15. Associates and subsidiaries and other equity investments

Parent company

DKK million	Investments in associates and subsidiaries	
	2016	2015
Cost at 1 January	668	614
Additions during the year	16	0
Disposals during the year	0	0
Capital contributions	0	54
Cost at 31 December	684	668
Value adjustments at 1 January	(511)	(93)
Impairment losses for the year	(63)	(418)
Value adjustments at 31 December	(574)	(511)
Carrying amount at 31 December	110	157

Additions in 2016 is related to the acquisition of Obviux A/S.

We have tested investments in associates and subsidiaries for impairment by comparing the expected future income in the individual associate and subsidiary with the carrying value of the individual associate and subsidiary.

Our test in 2016 gave rise to impairment of investments in the German subsidiary DONG Energy Sales GmbH of DKK 63 million.

In 2015, we impaired the carrying amount of the subsidiaries DONG Energy Markets BV by DKK 75 million and DONG Energy Markets GmbH by DKK 343 million.

Note 16. Inventories

DKK million	Group		Parent company	
	2016	2015	2016	2015
Natural gas	1,286	1,232	1,279	1,227
Green certificates	704	860	704	860
CO ₂ rights	80	127	80	127
Inventories at 31 December	2,070	2,219	2,063	2,214

The carrying amount of inventories recognised at fair value was DKK 80 million (2015: DKK 127 million).

Note 17. Receivables

DKK million	Group		Parent company	
	2016	2015	2016	2015
Other receivables	0	0	34	33
Long-term receivables at 31 December	0	0	34	33
Trade receivables	4,661	6,428	4,164	5,352
Receivables from related parties	11,272	8,248	11,484	8,712
Fair value of derivative financial instruments	20,732	39,292	20,025	37,667
Other receivables	681	205	674	188
Short-term receivables at 31 December	37,346	54,173	36,347	51,919
Short-term and long-term receivables at 31 December	37,346	54,173	36,381	51,952

Other long-term receivables comprise long-term loans to finance natural gas installations. Apart from the fair value of derivative financial instruments and deposits, short-term receivables fall due less than one year after the closing of the financial year. The term to maturity of derivative financial instruments appears from note 28.

The carrying amount of receivables is estimated to correspond to the fair value.

Other receivables include margin account deposits, DKK 681 million in total (2015: DKK 205 million), which have been pledged as collateral for trading in financial instruments.

Note 17. Receivables (continued)

Trade receivables by credit quality

DKK million	Group		Parent company	
	2016	2015	2016	2015
Denmark	2,054	3,445	2,040	3,435
Rest of the EU	2,713	2,971	2,230	1,905
Rest of the world	(106)	12	(106)	12
Trade receivables at 31 December	4,661	6,428	4,164	5,352

DONG Energy Salg & Service A/S's main credit exposure in connection with sales relates to sales of gas. Besides credit exposure on gas customers in Denmark, the exposure primarily relates to international energy companies and banks. DONG Energy Salg & Service A/S's internal control of its credit exposure is based on internal credit limits for each counterparty and structured and ongoing monitoring and reporting. Credit limits and any requirements concerning security are de-

termined on the basis of the credit rating of the counterparty, partly using input from external rating agencies such as Moody's, S&P's and D&B. For all significant counterparties, framework and netting contracts setting out credit conditions are also entered into. The maximum credit risk related to receivables corresponds to the values recognised in the balance sheet. There are no special concentrations of credit risks. The receivables are not credit-insured.

Trade receivables that are past due, but not individually impaired

DKK million	Group		Parent company	
	2016	2015	2016	2015
Days past due:				
Up to 30 days	417	55	405	27
30-90 days	62	12	31	12
More than 90 days	64	30	32	30
General write-downs	(29)	(12)	(29)	(12)
Receivables past due at 31 December	514	85	439	57

General write-downs on trade receivables are assessed on the basis of due date and historical experience. Write-downs are recorded in a summary account.

The Group's trade receivables at 31 December 2016 include receivables that have been written down by DKK 29 million following general assessment (2015: DKK 12 million).

Note 18. Share capital

DKK million	Group		Parent company	
	2016	2015	2016	2015
Share capital:				
Value at 1 January	1,110	1,100	1,110	1,100
Capital increase	0	10	0	10
Value at 31 December	1,110	1,110	1,110	1,110

Development in share capital DKK million	2016	2015	2014	2013	2012
Share capital at 1 January	1,110	1,100	1,100	1,020	1,020
Capital increase	0	10	0	80	0
Share capital at 31 December	1,110	1,110	1,100	1,100	1,020

Composition of share capital:

Number of shares		Nominal value	=	Total
1,000,000	of	DKK 1,000	=	DKK 1,000,000,000
100,000	of	DKK 1,000	=	DKK 100,000,000
10,000	of	DKK 1,000	=	DKK 10,000,000
				DKK 1,110,000,000

Ownership

The company's annual report forms part of the consolidated financial statements of DONG Energy A/S, Fredericia, which owns the entire share capital.

All shares rank equally. There are no restrictions on voting rights.

Dividend

The Board of Directors recommends that dividend of DKK 0 million be paid for the 2016 financial year, equivalent to 0% of the profit (loss) for the year determined as profit (loss) after tax attributable to the company's shareholders and DKK 0 per DKK 1,000 share (2015: DKK 0 per DKK 1,000 share).

Dividend distributions to shareholders have no tax implications for DONG Energy Salg & Service A/S. Dividend paid per share (DPS) of DKK 1,000 amounted to DKK 0 (2015: DKK 0).

Capital management

DONG Energy Salg & Service A/S's liquidity and financing risks are managed centrally by DONG Energy in ac-

cordance with principles and delegated authorities laid down by the Board of Directors of DONG Energy A/S, in such a way as to ensure that DONG Energy Salg & Service A/S has an adequate capital base and adequate cash resources at all times. One of the most important financial management tasks in the DONG Energy Group is to secure sufficient and flexible financial resources in relation to the day-to-day operations and the DONG Energy Group's investment programme. For this purpose, internal management objectives have been set for the required level of financial resources, taking into account primarily factors such as the investment programme, cash flows from operating activities and the debt maturity profile.

It is the DONG Energy Group's financing policy to concentrate loans in the parent company in order to optimise the loan portfolio on a consolidated basis.

Non-controlling interests

There are no non-controlling interests in DONG Energy Salg & Service A/S.

Note 19. Deferred tax

DKK million	Group		Parent company	
	2016	2015	2016	2015
Deferred tax at 1 January	777	95	727	18
Change in tax rate	0	(33)	0	(33)
Deferred tax from new company enters	5	0	0	0
Deferred tax for the year recognised in profit (loss) for the year	(1,583)	1,091	(1,587)	1,118
Adjustments in respect of prior years	(453)	(376)	(476)	(376)
Deferred tax at 31 December	(1,254)	777	(1,337)	727
Deferred tax is recognised in the balance sheet as follows:				
Deferred tax (assets)	(1,254)	(671)	(1,337)	(727)
Deferred tax (liabilities)	0	1,448	0	1,454
Deferred tax at 31 December, net	(1,254)	777	(1,337)	727
Deferred tax concerns:				
Non-current assets	(3)	14	(72)	(56)
Current assets	0	(3)	0	(3)
Non-current liabilities	(597)	(668)	(597)	(668)
Current liabilities	(654)	1,434	(668)	1,454
Deferred tax at 31 December	(1,254)	777	(1,337)	727

Deferred tax assets are expected to be utilised for off-setting against the settlement of deferred tax liabilities in companies comprised by the joint taxation in the DONG Energy Group.

Unrecognised deferred tax assets relates to losses in foreign companies as well as impairment losses in for-

ign companies, where we deem that such tax assets cannot be utilised in the foreseeable future. Unrecognized tax assets can be carried forward indefinitely. The amount of unrecognised tax losses was DKK 59 million in 2016 (2015: DKK 26 million).

Change in temporary differences during the year

DKK million	Balance sheet at 1 January	Group			Balance sheet at 31 December
		Change in tax rate	Recognised in profit (loss) for the year	Other changes	
Non-current assets	14	0	(21)	4	(3)
Current assets	(3)	0	3	0	0
Non-current liabilities	(668)	0	71	0	(597)
Current liabilities	1,434	0	(2,112)	24	(654)
Total	777	0	(2,059)	28	(1,254)

Note 19. Deferred tax (continued)

2015	Group				
	Balance sheet at 1 January	Change in tax rate	Recognised in profit (loss) for the year	Other changes	Balance sheet at 31 December
DKK million					
Non-current assets	93	0	(81)	2	14
Current assets	(3)	0	0	0	(3)
Non-current liabilities	(696)	0	28	0	(668)
Current liabilities	701	(33)	1,144	(378)	1,434
Total	95	(33)	1,091	(376)	777

Change in temporary differences during the year

2016	Parent company				
	Balance sheet at 1 January	Change in tax rate	Recognised in profit (loss) for the year	Other changes	Balance sheet at 31 December
DKK million					
Non-current assets	(56)	0	(16)	0	(72)
Current assets	(3)	0	3	0	0
Non-current liabilities	(668)	0	71	0	(597)
Current liabilities	1,454	0	(2,122)	0	(668)
Total	727	0	(2,064)	0	(1,337)

2015	Parent company				
	Balance sheet at 1 January	Change in tax rate	Recognised in profit (loss) for the year	Other changes	Balance sheet at 31 December
DKK million					
Non-current assets	17	0	(75)	2	(56)
Current assets	(3)	0	0	0	(3)
Non-current liabilities	(696)	0	28	0	(668)
Current liabilities	700	(33)	1,165	(378)	1,454
Total	18	(33)	1,118	(376)	727

Note 20. Provisions

DKK million	Group 2016			2015		
	Decommissioning obligation	Other	Total	Decommissioning obligation	Other	Total
Provisions at 1 January	183	2,977	3,160	175	3,106	3,281
Provisions used during the year	0	(461)	(461)	0	(324)	(324)
Provisions reversed during the year	0	0	0	0	0	0
Provisions made during the year	0	14	14	0	63	63
Interest element of obligations	8	124	132	8	132	140
Provisions at 31 December	191	2,654	2,845	183	2,977	3,160
Provisions for non-current liabilities	191	2,257	2,448	183	2,609	2,792
Provisions for current liabilities	0	397	397	0	368	368
Provisions at 31 December	191	2,654	2,845	183	2,977	3,160

DKK million	Parent company 2016			2015		
	Decommissioning obligation	Other	Total	Decommissioning obligation	Other	Total
Provisions at 1 January	183	2,977	3,160	175	3,106	3,281
Provisions used during the year	0	(461)	(461)	0	(324)	(324)
Provisions reversed during the year	0	0	0	0	0	0
Provisions made during the year	0	14	14	0	63	63
Interest element of obligations	8	124	132	8	132	140
Provisions at 31 December	191	2,654	2,845	183	2,977	3,160
Provisions for non-current liabilities	191	2,257	2,448	183	2,609	2,792
Provisions for current liabilities	0	397	397	0	368	368
Provisions at 31 December	191	2,654	2,845	183	2,977	3,160

Provisions for decommissioning obligations relate to expected future costs for restoration and decommissioning of the Group's production assets. The estimated obligations have been discounted to present value. A discount rate of 4.25% has been used, which is the same as the discount rate used by the Group at 31 December 2016. The equivalent value of these obligations is recognised in production assets (property, plant and equipment) and depreciated together with the production asset.

Onerous contracts comprise contracts for LNG terminal capacity in the Netherlands, DKK 1,034 million (2015: DKK 1,158 million), contracts for leasing of gas storage capacity in Germany, DKK 1,179 million (2015: DKK 1,324 million) and contract regarding the Stenlille Gas Storage Facility, DKK 344 million (2015: DKK 410 million).

Note 20. Provisions (continued)

Maturities

Maturities for other provisions at 31 December are expected to be as follows:

DKK million	Group		Parent company	
	2016	2015	2016	2015
0-1 year	397	368	397	368
1-10 years	1,086	1,200	1,086	1,200
10-20 years	844	887	844	887
20-30 years	403	594	403	594
30-40 years	115	111	115	111
> 40 years	0	0	0	0
Provisions at 31 December	2,845	3,160	2,845	3,160

Note 21. Short-term and long-term loans

The Group's and the parent company's short-term and long-term loans can be specified as follows:

DKK million	Group		Parent company	
	2016	2015	2016	2015
Group enterprises	299	365	387	426
Long-term loans at 31 December	299	365	387	426
Other bank loans	479	1	458	1
Short-term loans at 31 December	479	1	458	1
Short-term and long-term loans at 31 December	778	366	845	427
Fair value	778	366	845	427
Nominal value	778	366	845	427

Expected maturities for short-term and long-term loans:

DKK million	Group		Parent company	
	2016	2015	2016	2015
0-1 year	479	366	458	1
1-2 years	0	0	42	38
2-3 years	0	0	45	42
3-4 years	0	0	49	45
4-5 years	299	0	53	49
> 5 years	0	0	198	253
Short-term and long-term loans at 31 December	778	366	845	427

The fair value has been determined as the present value of expected future instalments and interest pay-

ments. The Group's financing agreements are not subject to any other unusual terms or conditions.

Note 21. Short-term and long-term loans (continued)

Finance leases

Liabilities relating to assets held under finance leases in the parent company are recognised as payables to group enterprises as follows:

DKK million	2016			2015		
	Minimum lease payments	Interest element	Present value	Minimum lease payments	Interest element	Present value
0-1 year	72	34	38	72	37	35
1-5 years	288	99	189	288	114	174
> 5 years	228	28	200	300	47	253
Total	588	161	427	660	198	462
Adjustment to abandonment interest	17	0	17	17	0	17
Total	605	161	444	677	198	479

The fair value has been estimated as the present value of future cash flows at a market rate for corresponding leases.

There is no contingent rent under the leases. A proportion of the leases is based on a floating interest rate. Further information on the leases is provided in note 14.

Note 22. Other payables

DKK million	Group		Parent company	
	2016	2015	2016	2015
Other non-current liabilities	0	0	0	0
Other non-current liabilities at 31 December	0	0	0	0
Trade payables	2,347	3,235	2,312	2,693
Payables to group enterprises	1,994	2,316	1,975	2,357
Fair value of derivative financial instruments	21,148	37,581	20,665	36,051
VAT and other indirect taxes	249	101	234	61
Other payables	1,289	2,122	1,276	2,068
Deferred income	785	156	785	156
Other current liabilities at 31 December	27,812	45,511	27,247	43,386
Current and non-current liabilities at 31 December	27,812	45,511	27,247	43,386

Apart from the fair value of derivative financial instruments and deferred income, other payables fall due for payment less than one year after the end of the finan-

cial year. The term to maturity of derivative financial instruments appears from note 28.

Note 23. Income tax receivable and payable

DKK million	Group		Parent company	
	2016	2015	2016	2015
Income tax receivable at 1 January	1,065	1,203	1,043	1,172
Exchange rate adjustments	(1)	1	0	0
Change in tax rate	0	(23)	0	(23)
Addition on assets as part of business combination	4	0	0	0
Adjustments to current tax in respect of prior years	154	(120)	154	(111)
Payments in respect of prior years	(1,214)	(1,063)	(1,197)	(1,054)
Current tax for the year	(1,464)	369	(1,461)	373
Tax for the year from other comprehensive income (change in equity for the year)	4	1	3	1
Payments in respect of the year	1,792	697	1,779	685
Income tax receivable at 31 December	340	1,065	321	1,043
Income tax payable at 1 January	68	(462)	45	(477)
Change in tax rate	0	(3)	0	(2)
Adjustments due to merger	0	23	0	23
Additions on assets as part of business combination	4	0	0	0
Adjustments to current tax in respect of prior years	5	70	3	69
Payments in respect of prior years	(73)	375	(48)	392
Current tax for the year	917	65	898	40
Income tax payable at 31 December	921	68	898	45

Notes to cash flow statement

Note 24. Cash flows from operations (operating activities)

DKK million	Group		Parent company	
	2016	2015	2016	2015
Operating profit (loss) EBIT	1,153	3,775	1,101	3,861
Amortisation, depreciation, impairment losses and write-downs	23	315	83	313
Operating profit (loss) before depreciation and amortisation (EBITDA)	1,176	4,090	1,184	4,174
Other items ¹⁾	4,488	(1,499)	4,612	(1,560)
Cash flows from operations (operating activities) before changes in working capital	5,664	2,591	5,796	2,614
Change in inventories	148	(595)	151	(595)
Change in trade receivables	(477)	(1,644)	(647)	(1,634)
Change in other receivables	(485)	456	(485)	426
Change in trade payables	(1,331)	(585)	(765)	(695)
Change in other payables etc.	(539)	1,435	(477)	1,396
Change in working capital	(2,684)	(933)	(2,223)	(1,102)
Cash flows from operations (operating activities)	2,980	1,658	3,573	1,512

¹⁾ Other items primarily comprise changes in other provisions and changes in value adjustments of derivative financial instruments.

Note 25. Cash and cash equivalents and securities

DKK million	Group		Parent company	
	2016	2015	2016	2015
Cash and cash equivalents at 31 December include:				
Cash, available	121	542	38	73
Bank overdrafts	(479)	(1)	(458)	(1)
Cash and cash equivalents at 31 December	(358)	541	(420)	72

Note 25. Cash and cash equivalents and securities (continued)

Cash at 31 December can be broken down into the following balance sheet items:

DKK million	Group		Parent company	
	2016	2015	2016	2015
Cash, available	121	542	38	73
Cash, not available for use	0	31	0	32
Cash at 31 December	121	573	38	105

Securities at 31 December can be broken down into the following balance sheet items:

DKK million	Group		Parent company	
	2016	2015	2016	2015
Securities, available	0	0	0	0
Securities, not available for use	79	0	79	0
Securities at 31 December	79	0	79	0

Other bank loans at 31 December can be broken down into the following balance sheet items:

DKK million	Group		Parent company	
	2016	2015	2016	2015
Bank overdrafts	479	1	458	1
Bank loans at 31 December	479	1	458	1

Notes without reference

Note 26. Operating leases

DKK million	Group		Parent company	
	2016	2015	2016	2015
0-1 year	146	144	145	144
1-5 year	398	462	397	462
> 5 years	101	181	101	181
Total	645	787	643	787
Operating lease payments recognised in the income statement amount to	156	154	150	149

Operating leases comprise leasing of gas storage facilities in Germany in the period 2017-2023.

Note 27. Financial risks and risk management

Financial risks

DONG Energy Salg & Service A/S is exposed to a number of different financial risks, including fluctuations in commodity prices, exchange rates and interest rates

as well as credit risks. The management of these risks is an important focus area in the Group.

The risk management is aimed at identifying the various risk areas and determining a strategy for managing

them. A special Risk Committee has been appointed that is responsible for monitoring the DONG Energy Group's risk management and risk control relating to market and credit risks. A centralised corporate risk management function has also been set up in DONG Energy A/S to support the Risk Committee.

Various strategies have been put in place to manage the risks and align the risk profile. The risk profile is managed through the conclusion of financial and physical contracts for commodities, interest and currencies over the next five years.

In connection with – and partly to support – these activities, the Group engages in limited energy trading for its own account, including in natural gas, electricity, coal, oil, oil products and CO₂ emissions allowances.

The operating profit may fluctuate considerably from year to year as a result of price developments.

Oil and gas price risks

Oil and gas price risks relate primarily to oil and gas produced in the DONG Energy Group and differences in the indexation of purchase and selling prices.

DONG Energy Salg & Service A/S's exposure is in crude oil, gas and various other oil types such as fuel oil and gas oil. These risks are hedged as the exposure is confirmed, for example based on production projections. The management of oil and gas price risks is based on tolerance levels for maximum and minimum effect on changes in cash flows over the next five years. These calculations are based on possible negative deviations from current prices in the forward market compared with a set downside scenario.

The oil price hedging is mainly in the underlying oil types to reduce the base risk in the oil market. Hedging is predominantly effected through purchased put options and swaps. The oil price risk from the indexation of natural gas purchase and selling prices is also hedged.

Market trading

When the DONG Energy Group's desired hedging level has been determined, the exposures are transferred to the market trading function, which is part of DONG Energy Salg & Service A/S, which is then responsible for executing the physical and financial transactions in the market. It is not always possible to hedge the transferred price risks in full. DONG Energy Salg & Service A/S therefore has some remaining exposure resulting from these activities.

The market trading function also balances the physical volumes in the market and, to a lesser extent, engages in active taking of positions to ensure an ongoing market presence and thus gain more detailed market insight. Furthermore, DONG Energy Salg & Service A/S has assumed the role of market maker in the Danish electricity market, which entails further market risks.

Currency risks

Currency risks arise primarily from energy trading, which is typically priced in currencies other than DKK, from the purchase and sale of goods and services in foreign currencies, and other activities, for example in subsidiaries abroad. The main currency risk is related to GBP.

Currency exposure is hedged using forward exchange contracts, swaps and options as well as by raising of debt in various currencies.

Currency risk is measured taking into account the total cash flow for each currency weighted in relation to the currency's volatility. The currency risk is managed by defining a maximum level for the total currency exposure for all currencies each year in the coming five years. DONG Energy Salg & Service A/S hedges currency risks using a 'ladder' model, hedging a large part in the coming four quarters, with hedging subsequently declining.

Interest rate risks

Interest rate risks relate primarily to the loan portfolio, cash and financial hedging. These risks are managed in relation to the DONG Energy Salg & Service Group's net financing requirement and capital structure.

Interest rate risk is measured on a net basis, and both debt and any placing of excess cash are included. Interest rate risk is adjusted through the interest terms attaching to the Group's loans.

Credit risks

Credit risks arise primarily from trading in electricity and natural gas – both wholesale trading and financial and physical transactions – and financial transactions, including placing of surplus cash.

In the course of its normal operations, DONG Energy Salg & Service A/S concludes contracts with customers and suppliers on the physical delivery of energy products, and also hedging contracts with other energy companies, specialised trading houses and international banks. Physical contracts with a term of more than one year are normal, and natural gas purchase contracts can have terms of more than five years. All such contracts involve a risk of loss in the event of a counterparty failing to perform its obligations. Such risks are quantified and managed as credit risks and are a significant focus area in the DONG Energy Salg & Service Group.

The credit risk is managed based on internal credit limits for counterparties and structured monitoring of the actual exposure. Credit limits are established on the basis of an assessment of the counterparty's credit rating. If the counterparty has an external credit rating, for example from Moody's or Standard & Poor's, this is an important factor in determining the counterparty's credit rating.

Credit risks are coordinated in relation to all business activities so that the DONG Energy Salg & Service

Group does not assume inappropriately large exposures to individual counterparties. With a view to reducing its credit exposure, the Group endeavours, as far as possible, to clear transactions via a clearing centre, such as Nord Pool, and uses formalised framework agreements such as ISDA and EFET agreements and master netting agreements. To this should be added the limited use of security such as bank guarantees.

As part of its risk management, the Group monitors its credit exposure in relation to all trading counterparties on a daily basis, and monthly and quarterly in the case.

Market risks

The market risk associated with commodities primarily relates to portfolio management and trading activities. The Group is exposed to two types of energy risk: fluctuations in market prices and fluctuations in volumes due to the fluctuating needs of the underlying business.

By virtue of its day-to-day activities, DONG Energy Salg & Service A/S is exposed to fluctuations in the prices of gas, oil, electricity, coal and CO₂ and, to a lesser extent, other commodities. DONG Energy Salg & Service A/S trades actively in these commodities in the relevant markets to hedge and optimise the DONG Energy Group's supply requirements and secure the Group's supply chain. In this connection, DONG Energy Salg & Service A/S uses derivative financial instruments to hedge its positions.

of other counterparties. Losses due to default by counterparties have historically been relatively small.

Financing and capital resources

One of the main financial management responsibilities is to secure sufficient, flexible financial resources for the day-to-day operations and for the implementation of the DONG Energy Salg & Service's strategy, taking into account the DONG Energy Group's rating. To this end, internal management objectives have been established for the required level of financial resources, taking into account factors such as investment programme, operating cash flow and debt maturity profile.

The sensitivity analysis below shows the effect of market value changes assuming a relative price change at 31 December 2016. The illustrated effect on profit (loss) comprises financial instruments that remained open at the balance sheet date and have an effect on profit in the financial year in question. Besides derivative financial instruments on commodities and currency, financial instruments in this context include receivables and payables in foreign currencies.

It should be noted that the illustrated sensitivities only comprise DONG Energy Salg & Service A/S's financial instruments and therefore exclude the effect from contracts concluded under which physical delivery of the underlying assets is made, as these are not recognised as financial instruments in accordance with IAS 39. The sensitivity thus only comprises the derivative financial instruments and not the physical contracts they hedge.

DKK million	Risks	Price change	Estimated effect on profit (loss)		Estimated effect on equity	
			31 December 2016	2015	31 December 2016	2015
	Oil	+10%	399	101	0	0
		-10%	(399)	(101)	0	0
	Gas	+10%	(762)	(596)	0	0
		-10%	762	597	0	0
	Electricity	+10%	(28)	(123)	0	0
		-10%	28	123	0	0
	Coal	+10%	(1)	(1)	0	0
		-10%	1	1	0	0
	USD	+10%	188	(325)	0	0
		-10%	(188)	325	0	0
	GBP	+10%	39	148	0	0
		-10%	(39)	(148)	0	0
	SEK	+10%	(3)	(277)	0	0
		-10%	3	277	0	0
	NOK	+10%	(1)	(1)	0	0
		-10%	1	1	0	0
	EUR	+10%	(879)	157	0	0
		-10%	879	(157)	0	0

Estimated effect on profit (loss)

The illustrated effect on profit (loss) is the effect from financial instruments that remained open at the balance sheet date and have an effect on profit (loss) in the fi-

ancial year in question. Besides derivative financial instruments on commodities and currency, financial instruments in this context include receivables and payables in foreign currencies. It should be noted that the

shown sensitivities only comprise the Group's financial instruments and consequently are not representative of the Group's total risk profile in relation to commodity prices and exchange rates. Furthermore, the sensitivities only reflect the effect of changes at the balance sheet date, and not through an entire accounting period.

Estimated effect on equity

The illustrated effect on equity is the effect from financial instruments that remained open at the balance

sheet date and affect equity at the balance sheet date, excluding instruments that affect the income statement. Here, financial instruments include derivative financial instruments on commodities and currency, which are accounted for as hedges of cash flows. The table above is shown for the DONG Energy Salg & Service Group, which largely corresponds to the parent company DONG Energy Salg & Service A/S. The scope of internal positions in the DONG Energy Salg & Service Group is estimated to be limited.

Note 28. Derivative financial instruments

Maturity analysis of financial liabilities:

2016

DKK million	Carrying amount	Payment obligation	2017	2018	2019	2020	2021	After 2021
Bank overdrafts	479	479	479	0	0	0	0	0
Payables to group enterprises	299	307	2	2	2	2	299	
Trade payables	2,347	2,347	2,347	0	0	0	0	0
Fair value of derivative financial instruments	21,148	21,011	12,725	6,013	1,463	679	131	0
Other payables	2,323	2,323	2,323	0	0	0	0	0
31 December	26,596	26,467	17,876	6,015	1,465	681	430	0

2015

DKK million	Carrying amount	Payment obligation	2016	2017	2018	2019	2020	After 2020
Bank overdrafts	1	1	1	0	0	0	0	0
Payables to group enterprises	365	368	368	0	0	0	0	0
Trade payables	3,235	3,235	3,235	0	0	0	0	0
Fair value of derivative financial instruments	37,581	37,705	22,032	9,941	5,271	379	82	0
Other payables	2,380	2,380	2,380	0	0	0	0	0
31 December	43,562	43,689	28,016	9,941	5,271	379	82	0

Note 28. Derivative financial instruments (continued)

Financial instruments by category:

DKK million	2016 Carrying amount	Fair value	2015 Carrying amount	Fair value
Assets				
Derivative financial instruments held for trading	20,732	20,732	39,292	39,292
Other equity investments	0	0	0	0
Financial assets measured at fair value through profit (loss) for the year	20,732	20,732	39,292	39,292
Trade receivables	4,661	4,661	6,428	6,428
Other receivables and cash and cash equivalents	11,843	11,843	8,367	8,367
Loans and receivables	16,504	16,504	14,795	14,795
Equity and liabilities				
Derivative financial instruments held for trading	21,148	21,148	37,581	37,581
Financial liabilities measured at fair value through profit (loss) for the year	21,148	21,148	37,581	37,581
Bank loans	479	479	1	1
Other payables	5,526	5,526	7,586	7,586
Financial liabilities measured at amortised cost	6,005	6,005	7,587	7,587

The fair value has been determined as the present value of expected future instalments and interest payments using the Group's current interest rate on loans

as discount rate. The nominal value of bank overdrafts and other bank loans was DKK 479 million (2015: DKK 1 million).

Note 28. Derivative financial instruments (continued)

Economic hedging of fair values:

DKK million	2016				2015			
	Receivables	Payables	Hedging instruments	Net position	Receivables	Payables	Hedging instruments	Net position
EUR	6,606	(6,819)	0	(213)	16,758	(10,544)	0	6,214
USD	7,114	(8,589)	0	(1,475)	14,028	(18,146)	0	(4,118)
GBP	5,006	(6,273)	0	(1,267)	8,889	(11,622)	0	(2,733)
SEK	136	(40)	0	96	119	(2,986)	0	(2,867)
NOK	0	(13)	0	(13)	0	(12)	0	(12)
Other	0	0	0	0	0	0	0	0
Total	18,862	(21,734)	0	(2,872)	39,794	(43,310)	0	(3,516)

Trading portfolio and economic hedging:

DKK million	2016		2015	
	Nominal amount	Fair value	Nominal amount	Fair value
Oil swaps	4,832	(886)	3,278	(2,309)
Oil options	0	0	0	0
Gas swaps	9,809	(185)	11,319	2,584
Gas options	67	0	0	0
Electricity swaps	494	285	721	320
Electricity options	0	0	0	0
Coal forwards	16	5	2	(2)
CO ₂	2	(18)	73	(21)
Currency forwards	15,029	383	17,497	1,139
Total	30,249	(416)	32,890	1,711

Note 28. Derivative financial instruments (continued)

Fair value hierarchy of financial instruments:

DKK million	2016				2015			
	Quoted prices (Level 1)	Observable inputs (Level 2)	Non-observable inputs (Level 3)	Total	Quoted prices (Level 1)	Observable inputs (Level 2)	Non-observable inputs (Level 3)	Total
Derivative financial instruments on commodities	15,520	580	115	16,215	8,050	25,613	697	34,360
Derivative financial instruments on currency	0	4,517	0	4,517	0	4,932	0	4,932
Total assets measured at fair value	15,520	5,097	115	20,732	8,050	30,545	697	39,292
Derivative financial instruments on commodities	14,379	2,551	84	17,014	4,675	28,072	1,039	33,786
Derivative financial instruments on currency	0	4,134	0	4,134	0	3,795	0	3,795
Total liabilities measured at fair value	14,379	6,685	84	21,148	4,675	31,867	1,039	37,581

All assets and liabilities measured at fair value are measured on a recurring basis.

Level 1 comprises derivative financial instruments that are traded in active markets.

Level 2 comprises derivative financial instruments, where valuation models with observable inputs are used to measure fair value, but with discounting to present value applying one of the discount rates set by the Group.

Level 3 comprises primarily long-term contracts on the purchase/sale of, in particular, electricity. The fair val-

ues are based on assumptions concerning the long-term prices of, in particular, electricity volatilities as well as risk premiums in respect of liquidity and market risks and are determined by discounting expected cash flows.

The fair value of financial instruments based on non-observable inputs is significantly affected by the non-observable inputs used. As a result of the long-term and illiquid nature of the contracts, the fair value may change significantly in the event of a change in the Group's reasonable expectations relating to the non-observable inputs used.

Note 28. Derivative financial instruments (continued)

Reconciliation of financial instruments based on non-observable inputs:

DKK million	Derivative financial instruments			
	2016 Assets	Liabilities	2015 Assets	Liabilities
Fair value at 1 January	697	(1,039)	399	(397)
Transferred to Level 2 due to market data having become available	(46)	56	(3,258)	3,370
Gains and losses recognised in profit (loss) for the year as revenue	(625)	909	3,458	(4,011)
Repayments	(13)	0	(251)	677
Issuances	102	(10)	349	(678)
Fair value at 31 December	115	(84)	697	(1,039)

Valuation principles and material assumptions

In order to keep modifications of parameters, calculation models or the use of subjective estimates to a minimum, it is the Group's policy to determine fair values on the basis of external information that most accurately reflects the values of assets or liabilities.

Market values are determined by the Risk Management function, which reports to the CFO. The development in market values is monitored on a continuous basis and reported on to the Executive Board.

Valuation principles and relevant assumptions for material assets or liabilities at Level 3 can be summarised as follows.

Derivative financial instruments

DKK million	Assets	Liabilities	Valuation principle	Non-observable inputs	Range
Derivative financial instruments					
Oil swaps	54	(58)	Cash flow model	Oil prices after 1 January 2019	USD 57.8-58.7 per BBL

Note 28. Derivative financial instruments (continued)

Netting of financial assets and liabilities

The netting agreements with the individual counterparties are often limited to offsetting within specific products. In addition, the settlement of liabilities and the realisation of assets often do not take place simultaneously.

Consequently, only some of the Group's netting agreements meet the provisions in IFRS on offsetting.

The table below shows financial assets and liabilities that are subject to netting agreements, and related security.

Netting of financial assets

31 December 2016 DKK million	Recognised financial assets, gross	Recognised financial liabilities, gross netted in the balance sheet	Related amounts not netted in the balance sheet			
			Financial assets presented in the balance sheet	Recognised liabilities with right of netting	Security received	Net amount
Derivative financial instruments	100,565	(94,996)	5,569	(597)	0	4,972
Trade receivables	30,349	(28,061)	2,288	0	0	2,288

31 December 2015 DKK million	Recognised financial assets, gross	Recognised financial liabilities, gross netted in the balance sheet	Related amounts not netted in the balance sheet			
			Financial assets presented in the balance sheet	Recognised liabilities with right of netting	Security received	Net amount
Derivative financial instruments	126,224	(117,057)	9,167	(481)	0	8,686
Trade receivables	39,953	(37,843)	2,110	0	0	2,110

Note 28. Derivative financial instruments (continued)

Netting of financial liabilities

31 December 2016 DKK million	Recognised financial liabilities, gross	Recognised financial assets, gross	Related amounts not netted in the balance sheet Financial liabilities presented in the balance sheet	Recognised assets with right of netting	Security provided in the form of bonds	Net amount
Derivative financial instruments	100,517	(94,996)	5,521	(597)	(79)	4,845
Trade payables	30,330	(28,061)	2,269	0	0	2,269

31 December 2015 DKK million	Recognised financial liabilities, gross	Recognised financial assets, gross	Related amounts not netted in the balance sheet Financial liabilities presented in the balance sheet	Recognised assets with right of netting	Security provided in the form of bonds	Net amount
Derivative financial instruments	122,755	(117,057)	5,698	(481)	0	5,217
Trade payables	40,532	(37,843)	2,689	0	0	2,689

Note 29. Contingent liabilities and other liabilities

At year-end, the Group and the parent company had the following contingent and other liabilities:

Group liabilities

DONG Energy Salg & Service has undertaken an obligation to make a payment to a group company should the tax authorities deem gas prices agreed between DONG Energy Salg & Service A/S and the group company not to be on an arm's length basis. The obligation is not expected to exceed more than 1% of cost of sales in DONG Energy Salg & Service A/S.

Indemnities

The Group and the parent company are taxed jointly with other companies in the DONG Energy Group. The companies have unlimited and joint and several liability together with the other taxed companies for Danish income taxes and withholding taxes on dividends, interest and royalties within the jointly taxed companies.

DONG Energy A/S is the management company. Reference is made to the DONG Energy Group's 2016 annual report.

Liability to pay compensation (absolute liability)

According to legislation, DONG Energy Salg & Service is liable in tort for any damage caused by the companies' natural gas activities, even where there is no proof of negligence (absolute liability). The usual insurance has been taken out to cover any such claims.

Litigation

The Group and the parent company are parties to a number of litigation proceedings and legal disputes that are not estimated to have any material effect on the Group's or the parent company's financial position, neither individually nor collectively.

Note 30. Related-party transactions

Related parties with a controlling interest in the Group and the parent company are DONG Energy A/S and the Danish State, represented by the Danish Ministry of Finance, which has a majority holding in the parent company DONG Energy A/S.

Related parties with significant influence include the companies' Board of Directors, Executive Board and executive employees and members of their families. Related parties also comprise companies in which the persons referred to above have significant influence and group enterprises and associates in the DONG Energy Group. Other related parties with significant influence include Goldman Sachs.

As part of its ordinary operations, DONG Energy Salg & Service A/S sells its products to related parties on market terms.

The Group was involved in the following transactions with related parties in the financial year under review.

DONG Energy Salg & Service uses the exception set out in IAS 24.25 concerning entities in which the state is a related party, and transactions with state enterprises are therefore not disclosed.

Group DKK million	DONG Energy A/S		Group enterprises		Associates		Joint ventures	
	2016	2015	2016	2015	2016	2015	2016	2015
Dividend received	0	0	0	0	0	0	0	0
Sale of goods and services	6	5	4,281	7,002	0	0	0	0
Purchase of goods and services	0	0	(13,426)	(12,372)	0	0	(143)	(72)
Interest, net	(33)	(21)	0	(1)	0	0	0	0
Receivables	20,684	25,207	5,861	9,235	0	0	0	0
Payables	(12,413)	(28,712)	(5,964)	(6,544)	0	0	0	0

Parent company DKK million	DONG Energy A/S		Subsidiaries		Group enterprises		Associates	
	2016	2015	2016	2015	2016	2015	2016	2015
Dividend received	0	0	62	87	0	0	0	0
Sale of goods and services	6	5	3,140	3,367	4,281	7,002	0	0
Purchase of goods and services	0	0	(565)	(248)	(13,426)	(12,372)	0	0
Interest, net	(28)	(16)	27	49	0	(1)	0	0
Receivables	20,551	24,925	602	1,952	6,085	9,819	0	0
Payables	(12,289)	(28,711)	(440)	(157)	(6,130)	(7,110)	0	0

Specific transactions

Under Section 99 of the Danish Natural Gas Supply Act, DONG Energy Salg & Service A/S has been granted a licence to engage in natural gas supply activities on firm terms on the conditions laid down in the Danish Natural Gas Supply Act. Accordingly, the licence to engage in natural gas supply activities on firm terms has been granted for a period up to 2019.

On 1 March 2005, DONG Energy Salg & Service sold its share of the pipeline that connects the Tyra West platform in the Danish sector of the North Sea with the F3 platform in the Dutch sector, to DONG Energy Pipelines. In connection with the transaction, a lease was signed between DONG Energy Salg & Service and DONG Energy Pipelines under which DONG Energy Salg & Service leases the transportation capacity in the pipeline from 1 March 2005 to 1 March 2025. Reference is made to note 20.

The parent company has had transactions with group enterprises as part of its responsibility for the trading function for the DONG Energy Group's companies in relation to commodity instruments etc. Furthermore, balances with group enterprises have been established as part of the normal financing of the Group's activities.

Remuneration of the Board of Directors and the Executive Board is disclosed in notes 6 and 7.

Goldman Sachs

DONG Energy Salg & Service has sold goods to Goldman Sachs of DKK 469 million (2015: DKK 954 million), and has a receivable of DKK 17 million (2015: DKK 256 million).

Lincs/Anholt I/S

DONG Energy Salg & Service has purchased power from Lincs/Anholt I/S for DKK 143 million (2015: DKK 72 million).

Note 31. Description of accounting policies

Commodity hedge transactions

From and including 1 January 2011, commodity hedge transactions and related foreign exchange exposures are no longer accounted for as cash flow hedge accounting.

As part of its financial risk management, the Group enters into transactions to hedge certain physical and financial risks in oil, gas, coal, electricity, CO₂ and related currency exposures. The Group accounts for the hedging transactions entered into on the basis of its internal processes for optimisation of its purchase, sale and consumption of oil, gas, coal, electricity and CO₂, as effective economic hedges. Some hedging transactions will meet IAS 39's criteria for cash flow hedge accounting, while others will not. For this reason, the Group has elected not to apply the provisions on hedge accounting to these transactions in future. When determining profit for the year, fair value adjustments to these derivative financial instruments are therefore recognised in the period in which they arise, regardless of the date of realisation of the hedged transaction. Fair value adjustments of commodity hedge transactions that met the criteria for cash flow hedge accounting at 31 December 2010 have been recognised in a separate reserve within equity. On realisation of the hedged transactions relating to these hedging transactions, the amounts from this reserve are reversed and recognised in profit (loss) for the year.

Business performance principle

Description of business performance

In 2011, we introduced an alternative performance measure, business performance, as a supplement to the financial statements prepared in accordance with IFRS. The business performance result reflects our internal risk management and shows the result for the period under review. Under the business performance principle, the value of the hedging transaction is deferred and recognised for the period in which the hedged risk materialises. This is illustrated in the example overleaf.

Our reason for introducing the business performance principle was:

- that we could not achieve the same timing of recognition of our commercial exposure and hedging contracts in accordance with the IFRS rules, for example with respect to option premiums and certain commercial fixed-price contracts, and
- a high risk of hedging contracts not being consistent with the IFRS rules on hedge accounting, requiring us to recognise the hedging contracts at market value with value adjustment via the income statement, whereas our commercial exposure is accrued.

Business Performance – background

We hedge market risks for up to five years with the aim of stabilising our cash flows and creating certainty about our finances. With a view to ensuring transparency, it is desired that the financial impact of the hedging transactions is reflected in the financial reporting simultaneously with the hedged exposure (for example sales of power). We can normally achieve this by applying the IFRS rules on hedge accounting. However, for energy companies it is sometimes difficult to ensure simultaneity. This is due to the fact that hedging instruments are not always available which precisely match the exposure which must be hedged, or that no sufficiently liquid market is available. Consequently, some hedging takes place in alternative markets or subject to alternative time horizons. For example, power generation in Denmark is to some extent hedged by financial contracts for nearby trading areas such as EEX (Germany) and the Nord Pool areas (Scandinavia). These areas normally develop relatively uniformly over time compared to Denmark.

This hedging method means that only some of the financial hedging transactions comply with the IFRS rules on hedge accounting even though the financial risk has been reduced. In case of non-compliance, the hedging transactions must be recognised in the income statement on a regular basis. This may give rise to considerable fluctuations in the income statement, as the effect of the hedging and for example the sale of power are not recognised in the same period.

As a result, we do not apply the IFRS rules on hedge accounting to transactions hedging energy prices and associated currency risks. Value adjustments of these hedges are therefore recognised in the income statement in accordance with IFRS.

Recognition

In the income statement, the business performance result is shown alongside the IFRS results. In the income statement, the difference between the two performance measures is shown in a separate column, Adjustments.

Two types of contracts are included in the business performance principle:

- hedging contracts concerning energy and related currencies
- commercial contracts concerning energy recognised at market value

When we use hedging instruments which do not fully correspond to the underlying risk, any difference between the hedging instruments and the underlying risk is recognised immediately in the income statement.

The accounting treatment under business performance is otherwise identical with the accounting treatment under IFRS. Our balance sheet, cash flows and equity are

consequently not affected. The accounting treatment of our hedging contracts according to IFRS and business performance is summarised in the table below.

Hedging type	IFRS	Business performance
Hedging of energy and associated currency risks as well as fixed-price physical gas and power contracts	Fair value via income statement	Fair value adjustments are deferred and recognised in the period in which the exposure materialises
Hedging of currency risks associated with net investments in foreign entities	Fair value adjustments are recognised in other comprehensive income	Recognition the same as under IFRS
Trading portfolio	Fair value via income statement	Recognition the same as under IFRS

Example of the business performance principle

In 20x1, DONG Energy entered into a hedging contract which expires in 20x5 with a positive market value of 80. The development in market value for the individual years is shown in column 2. Column 3 shows that the hedging contract is recognised in the business performance income statement in 20x5, at the same time as the hedged exposure. However, the development in market value is recognised on an ongoing basis in the IFRS income statement, see column 4. Upon the expiry of the contract in 20x5, the total effect on results over the period is the same under the IFRS and the business performance principles. Only the timing differs.

The business performance principle ensures simultaneity of recognition of the underlying exposure and the hedging contract.

Year	Development in market value	Recognised in the income statement as follows	
		Business performance	IFRS
20x1	50	0	50
20x2	20	0	20
20x3	(30)	0	(30)
20x4	(70)	0	(70)
20x5	110	80	110
Total market value	80	80	80

Business combinations

Companies acquired or formed are recognised in the consolidated financial statements from the date of acquisition or formation. Divested companies are recognised in the consolidated income statement up to the date of divestment. Comparative figures are not adjusted to reflect acquisitions or divestments. However, discontinued operations are presented separately, see below.

On acquisition of companies whereby the parent company obtains control of the acquiree, the purchase method is applied. The acquiree's identifiable assets, li-

abilities and contingent liabilities are measured at fair value at the acquisition date. Identifiable intangible assets are recognised if they are separable or arise from a contractual right, and the fair value can be measured reliably. Deferred tax on revaluations is taken into account.

The acquisition date is the date on which DONG Energy Salg & Service A/S effectively obtains control of the acquiree.

The excess of the cost of the acquiree over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed (goodwill) is recognised as goodwill under intangible assets. Goodwill is not amortised, but is tested annually for impairment. The first impairment test is carried out before the end of the year of acquisition. On acquisition, goodwill is allocated to the cash-generating units, which subsequently form the basis for the impairment test. Goodwill and fair value adjustments in connection with the acquisition of a foreign entity with a functional currency other than the presentation currency (DKK) of the DONG Energy Salg & Service Group are accounted for as assets and liabilities belonging to the foreign entity and translated into the foreign entity's functional currency at the exchange rate applicable at the transaction date. Any excess of the fair value over the cost of acquisition (negative goodwill) is recognised in the income statement at the date of acquisition.

The cost of a company consists of the fair value of the consideration paid plus costs that can be directly attributed to the acquisition. If parts of the consideration are contingent on future events, these parts are recognised in the cost to the extent that the events are probable and the consideration can be measured reliably.

If there is any uncertainty, at the acquisition date, concerning the measurement of identifiable assets acquired and liabilities and contingent liabilities assumed, initial recognition is based on provisional fair values. If the fair value of identifiable assets, liabilities and contingent liabilities subsequently proves to differ from the fair value assumed at the acquisition date, goodwill may be adjusted for up to twelve months following their acquisition. The effect of any such adjustments is recognised in opening equity, and the comparative figures are restated accordingly. Subsequently, goodwill is only adjusted as a consequence of changes in estimated contingent purchase consideration, except in the case of material errors. However, subsequent realisation of the acquiree's deferred tax assets that were not recognised at the acquisition date leads to recognition of the tax benefit in the income statement and simultaneous write-down of the carrying amount of goodwill to the amount that would have been recognised if the deferred tax asset had been recognised as an identifiable asset at the acquisition date.

Gains or losses on divestment of subsidiaries and associates are determined as the difference between the selling price and the carrying amount of net assets, including goodwill, at the date of divestment and costs

necessary to make the sale. Where a business combination involves successive acquisitions, each significant acquisition is treated separately with a view to determining the cost and fair value of the acquired identifiable assets, liabilities and contingent liabilities, including any goodwill. Gains or losses on divestment of subsidiaries and associates are recognised in the income statement in the item 'Gain on divestment of enterprises'.

The fair value of the identifiable assets, liabilities and contingent liabilities may be different at the date of each acquisition. Where a transaction results in the acquirer obtaining control of the acquiree, previously acquired shares of identifiable assets, liabilities and contingent liabilities relating to the already acquired investments are remeasured at fair value at the acquisition date. The remeasurement is accounted for as a revaluation, which is recognised via equity.

Derivative financial instruments

Derivative financial instruments and loans are used to hedge currency and interest rate risks and risks related to the price of oil, gas, electricity, coal and CO₂ emissions allowances.

Derivative financial instruments are recognised from the trading date as receivables (positive fair values) and other payables (negative fair values), respectively, and are measured in the balance sheet at fair value. Transaction costs are added to the fair value on initial recognition, unless the financial asset or financial liability is measured at fair value with recognition of fair value adjustments in profit (loss) for the year.

Positive and negative values are only offset if the company is entitled to and intends to settle several financial instruments net (in cash).

The fair value of derivative financial instruments is determined on the basis of current market data and assumptions, and recognised valuation methods.

Value adjustments of derivative financial instruments that act as economic hedges of the Group's primary activities, but do not satisfy the criteria for hedge accounting, are recognised as revenue. Likewise, value adjustments of financial contracts offered to customers with a view to price hedging are recognised as revenue.

Value adjustments of financial contracts that are not used as economic hedges of the Group's principal activities or are part of the Group's trading portfolio are recognised as financial income and expenses.

Under IFRS, contracts that involve physical delivery may, in certain circumstances, be accounted for as derivative financial instruments. The classification is determined based on an evaluation of the purpose of the contract compared with the Group's other activities. Contracts entered into in the course of the Group's trading activities or as part of certain hedging activities are classified and accounted for as derivative financial instruments, even though they are settled on physical delivery.

Derivative financial instruments used for hedge accounting

The Group applies the provisions on hedge accounting to derivative financial instruments and loans that hedge currency and interest rate risks.

Until and including 31 January 2010, commodity hedge transactions on commodities and related foreign exchange exposures were also accounted for as cash flow hedge accounting. Market value adjustments of these, which were previously recognised in comprehensive income and a special reserve in equity, are recognised in profit (loss) for the year as the underlying transactions are realised or if the hedges are judged to no longer be effective.

Fair value hedging

Changes in the fair value of derivative financial instruments that are designated as and qualify for recognition as hedges of the fair value of a recognised asset or liability are recognised in profit (loss) for the year together with changes in the value of the hedged asset or liability to the extent of the hedged risk. Hedging of future cash flows in accordance with an agreement (firm commitment) is accounted for as fair value hedging, except in the case of foreign currency hedging.

Cash flow hedging

Changes in the portion of the fair value of derivative financial instruments and exchange rate adjustments of loans that are designated as and qualify for recognition as a hedge of future cash flows and that provides an effective hedge against changes in the value of the hedged item are recognised directly in equity within a separate hedging reserve until the hedged cash flow is realised. On realisation of the hedged cash flow, the resulting gain or loss is transferred from equity and recognised in the same item as the hedged item. However, on hedging of proceeds from future loans, the resulting gain or loss is transferred from equity over the term of the loan.

If the hedged cash flows are no longer expected to be realised, the accumulated value adjustment is transferred immediately to profit (loss) for the year.

Positive and negative values are only offset if the company is entitled to and intends to settle several financial instruments net.

Income statement

Revenue

Revenue comprises sales of natural gas and related services. Revenue is recognised in the income statement if delivery and transfer of risk to the buyer have taken place before the end of the financial year, and if the income can be measured reliably and is expected to be received.

Revenue is measured at the market value of the agreed consideration excluding VAT and other indirect taxes collected on behalf of third parties. All forms of discounts granted are recognised as revenue.

The provision of services (consultancy services etc) is recognised as revenue as the work is performed to the effect that revenue corresponds to the selling price of the work performed during the year.

Physical and financial contracts relating to trading in gas, electricity, CO₂ rights, etc that are concluded in the course of trading activities with a view to generating gains from short-term price fluctuations are market value-adjusted under revenue.

Value adjustments of financial instruments that have been entered into to hedge revenue, but which do not satisfy the criteria for hedge accounting, are recognised as revenue. Likewise, value adjustments of financial contracts offered to customers with a view to price hedging are recognised as revenue.

Cost of sales

Cost of sales for fuel and energy comprises the Group's purchases of fuel in the form of gas and electricity and transportation costs in connection with the above as well as costs related to CO₂ emissions. Costs are recognised in profit for the year as incurred.

Other external expenses

Other external expenses comprise expenses for maintenance of production equipment, rent, external assistance, research and development and office supplies, etc.

Employee costs

Employee costs comprise wages, salaries, remuneration, pensions, social security costs and other employee-related costs.

Share programme

The share programme is classified as an equity-based programme as the programme is settled in shares. The market value of the PSUs and the estimated number of PSUs granted are measured at the time of granting and recognised: in the income statement under employee costs over the vesting period, and in the balance sheet under equity over the vesting period.

The valuation of the PSUs and the estimated number of PSUs granted is carried out as a probability simulation based on the expected performance of DONG Energy's total shareholder return relative to ten comparable European energy companies. The expectations are factored into the market value and are not adjusted subsequently.

Other operating income and other operating expenses

Other operating income and expenses comprise items secondary in nature to the Group's and the parent company's activities, including gains and losses on ongoing disposal and replacement of intangible assets and property, plant and equipment. Other operating income and expenses are recognised as earned/incurred.

Gains and losses on disposal of intangible assets and property, plant and equipment are determined as the

selling price less selling costs and the carrying amount at the date of disposal.

Income from investments in associates in the consolidated financial statements

The proportionate share of associates' profit after tax, after elimination of the proportionate share of intragroup profits/losses is recognised in the consolidated income statement.

Dividend from investments in subsidiaries and associates in the parent company financial statements

Dividend from investments in subsidiaries and associates is recognised in the income statement in the financial year in which it is declared.

Financial income and financial expenses

Financial income and financial expenses comprise interest, capital gains and losses and impairment losses relating to securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities, including lease commitments under finance leases, as well as surcharges and refunds under the on-account tax scheme etc.

Financial income and financial expenses also include realised and unrealised gains and losses relating to derivative financial instruments that have not been entered into to hedge revenue or production costs. Interest is recognised in accordance with the accrual basis of accounting.

Borrowing costs relating to general borrowing or loans directly attributable to the acquisition, construction or development of qualifying assets form part of the cost of such assets.

Tax on profit (loss) for the year

The DONG Energy Group is subject to the Danish rules on compulsory joint taxation and has also opted for international joint taxation with the Group's foreign subsidiaries. The Group's subsidiaries are included in the joint taxation from the date they are included in the consolidation in the consolidated financial statements and up to the date on which they are no longer included in the consolidation.

The parent company, DONG Energy A/S, is the administration company in relation to the joint taxation and thus settles all payments of income tax with the tax authorities.

The current Danish income tax is allocated among the jointly taxed Danish subsidiaries in proportion to their taxable income. In this connection, Danish subsidiaries with tax losses receive a joint taxation contribution from the parent company corresponding to the tax value of the unutilised losses (full allocation), while companies that use tax losses in other Danish companies pay a joint taxation contribution to the parent company corresponding to the tax value of the utilised losses.

Being made up of the year's current income tax, the year's joint taxation contributions and changes in deferred tax, including – as a consequence of changed tax rates – tax for the year is recognised in the income statement with the part attributable to the profit (loss) for the year and directly in equity with the part attributable to entries directly in equity.

The Group is included in a Danish on-account tax scheme. Tax refunds/tax surcharges are allocated between the jointly taxed Danish companies in accordance with the allocation of the Danish income tax and recognised as financial income and financial expenses, respectively.

Balance sheet

Goodwill

Goodwill is measured initially in the balance sheet at cost as described under business combinations. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised. The carrying amount of goodwill is allocated to the Group's cash-generating units at the acquisition date. The determination of cash-generating units follows the Group's organisational and internal reporting structure.

CO₂ emissions allowances

Allocated and purchased CO₂ emissions allowances, including CO₂ credits, that are accounted for as rights, are measured at cost upon initial recognition. CO₂ emissions allowances are not amortised, as their residual value equals their cost.

Rights

Rights comprise gas purchase rights, acquired customer rights and IT software licences, etc, and are measured at cost less accumulated amortisation and impairment losses.

Gas purchase rights are amortised using the unit-of-production method, taking into account the expected earnings profile, so that the amortisation pattern reflects the expected earnings patterns. Other rights are amortised on a straight-line basis over their expected economic lives, which are determined on the basis of management's experience of the specific business units, and the assets to which the rights relate. Capitalised rights are estimated to have a life of 5-20 years.

Development projects

Development projects comprise development of IT systems etc.

Development projects that are clearly defined and identifiable, and for which technical feasibility, adequate resources and a potential future market or an application in the company can be demonstrated, and which the company intends to manufacture, market or use, are recognised within intangible assets if the cost can be determined reliably and if there is reasonable certainty that the future earnings or the net selling price will cover production costs, selling costs, administrative expenses

and development costs. Other development costs are recognised in the income statement as incurred.

Recognised development costs are measured at cost less accumulated depreciation and impairment losses. Cost comprises salaries, amortisation and other costs attributable to the company's development activities as well as borrowing costs relating to specific and general borrowing directly attributable to development projects.

On completion, development projects are amortised on a straight-line basis over their assessed future useful lives from the date the asset is available for use. The amortisation period is usually five years. The basis of amortisation is reduced by any impairment losses.

Amortisation and impairment losses relating to intangible assets are recognised in the statement of comprehensive income.

Property, plant and equipment

Property, plant and equipment comprises land and buildings, production assets and other tools and equipment. Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date the asset is available for use. The cost of self-constructed assets comprises direct and indirect expenses for materials, components and subsuppliers and wages. Finance costs that can be attributed to a preparation or production period are recognised in the income statement as finance costs. Specific and general borrowing costs attributable to a construction period are recognised in the cost of the asset constructed.

Cost is increased by the present value of the estimated costs for dismantling and removing the asset and restoring the site to the extent that they are recognised as a provision. The cost of an assembled asset can be divided into separate components that are each depreciated separately if the useful lives of the individual components differ.

In the case of assets held under finance leases, cost is determined as the lower of the fair value of the assets and the present value of future minimum lease payments. The present value is determined using the interest rate implicit in the lease as the discount rate or an approximated value.

Subsequent costs, for example in connection with replacement of parts of an item of property, plant and equipment, are recognised in the carrying amount of the asset in question when it is probable that future economic benefits will flow to the Group from the expenses incurred. Replaced parts are derecognised from the balance sheet, and their carrying amount is taken to the income statement. All other general repair and maintenance expenses are recognised in the income statement as incurred.

Development and construction costs relating to property, plant and equipment are recognised, until entry into service, in the balance sheet under property, plant and equipment under construction. Following entry into service, these assets are transferred to the relevant items in property, plant and equipment.

In the case of natural gas activities, cost is depreciated using the unit-of-production method, taking into account the expected earnings profile, so that the depreciation pattern reflects the expected earnings patterns.

In the case of other property, plant and equipment, cost is basically depreciated on a straight-line basis over the estimated future useful lives.

Depreciation periods for property, plant and equipment:
Buildings used for own purposes ¹⁾ 20 years
Production assets: Gas treatment plant ²⁾ 20-40 years
Marine pipelines ²⁾ 20-40 years
Fixtures and fittings, tools and equipment 3-10 years
Assets under construction ³⁾ None

¹⁾ Land is not depreciated.

²⁾ The depreciation profile takes account of the fact that the use of the assets changes substantially over the lives of the assets.

³⁾ Depreciation does not commence until the date of entry into service, at which date the assets are transferred to production assets.

The basis of depreciation is determined on the basis of the asset's residual value less any impairment losses. The residual value is determined at the acquisition date and reassessed annually. Depreciation ceases if the residual value exceeds the carrying amount.

If the depreciation period or the residual value changes, the effect on depreciation is recognised prospectively as a change in accounting estimates.

Depreciation and impairment losses are recognised in the statement of comprehensive income to the extent that depreciation is not recognised in the cost of self-constructed assets.

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as 'Other operating income' or 'Other operating expenses'.

Investments in subsidiaries and associates in the parent company financial statements

Investments in subsidiaries and associates are measured at cost. Cost is written down to the recoverable amount whenever it exceeds the recoverable amount.

Investments in associates in the consolidated financial statements

Investments in associates are measured in the consolidated financial statements using the equity method whereby the investments are measured in the balance sheet at the proportionate share of the associates' net

assets determined in accordance with the Group's accounting policies, plus or minus the carrying amount of goodwill.

Associates with a negative equity value are measured at nil. If the Group has a legal or constructive obligation to cover the associate's deficit, the obligation is recognised as a liability.

On acquisition of investments in associates, the purchase method is applied, see the description under 'Business combinations'.

Other equity investments

Other equity investments are recognised initially in the balance sheet at fair value plus transaction costs and are subsequently measured at fair value. For listed securities, this corresponds to the market price at the balance sheet date. In the case of unlisted securities, an estimated fair value is used, if this is considered reliable; alternatively, cost is used, after deduction of any impairment losses.

Long-term receivables

Long-term receivables include long-term loans to customers.

Impairment of non-current assets

Goodwill and intangible assets with an indefinite useful life are tested for impairment annually, initially before the end of the year of acquisition. Development projects in progress are also tested annually for impairment.

The carrying amount of goodwill is tested for impairment, along with the carrying amounts of the other non-current assets of the cash-generating unit to which the goodwill has been allocated, and written down to the recoverable amount in the income statement if the carrying amount exceeds the recoverable amount. The recoverable amount is generally determined as the present value of the expected future net cash flows from the company or activity (cash-generating unit) to which the goodwill relates.

Deferred tax assets are reviewed annually and recognised only to the extent that it is probable that they will be utilised.

The carrying amounts of other non-current assets are tested annually to determine if any indication of impairment exists. If any such indication exists, the asset's recoverable amount is determined. The recoverable amount is the higher of an asset's fair value less expected disposal costs and its value in use. The value in use is determined as the present value of the expected future cash flows from the asset or cash-generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset or cash-generating unit exceeds the recoverable amount of the asset or the cash-generating unit. Impairment losses are recognised in the income statement under production costs and administrative expenses, respectively. Impairment losses relating to

goodwill are recognised as a separate line item in the income statement.

Impairment losses relating to goodwill are not reversed. Impairment losses relating to other assets are reversed to the extent that the assumptions or estimates that led to the impairment have changed. Impairment losses are only reversed to the extent that the asset's new carrying amount does not exceed the value of the asset after depreciation or amortisation had no impairment losses been charged.

Inventories

Inventories consist of natural gas in storage facilities and in natural gas pipelines, acquired CO₂ rights and green certificates.

In the case of natural gas, cost is determined as a weighted average of the previous month's buying prices, including transportation costs.

Allocated and purchased CO₂ rights that form part of the Group's trading activities with a view to generating gains from short-term price fluctuations are measured at fair value with value adjustments recognised in the income statement.

Other inventories are measured at the lower of cost using the first-in, first-out (FIFO) principle or net realisable value. The net realisable value of inventories is determined as the expected selling price less any costs of completion and costs incurred to execute the sale, and is determined taking into account marketability, obsolescence and development of expected selling price.

Receivables

Receivables are measured at amortised cost. A write-down for bad and doubtful debts is made if there is any indication of impairment. Write-downs are made at both individual and portfolio level.

Other receivables

Other receivables include positive fair values of derivative financial instruments etc.

Prepayments

Prepayments comprise expenses paid in respect of subsequent financial years and are measured at cost.

Equity

Hedging reserve

The hedging reserve comprises the accumulated net change in the fair value of hedging transactions that qualify for designation as hedges of future cash flows, and where the hedged transaction has yet to be realised, less the related tax.

Translation reserve

The translation reserve comprises exchange differences arising on translation of the financial statements of foreign entities with a currency other than the DONG Energy Salg & Service Group's presentation currency, exchange rate adjustments relating to assets and liabilities that form a part of the Group's net investment in

such entities, and exchange rate adjustments relating to hedging actions that hedge the Group's net investment in such entities, less the related tax.

On realisation or partial realisation of the net investment, the exchange rate adjustments are recognised in the income statement.

Dividends

Proposed dividends are recognised as a liability at the date of their adoption at the annual general meeting (declaration date). Up to the declaration date, proposed dividends are disclosed as a separate item in equity.

Income tax and deferred tax

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

Deferred tax is measured using the balance sheet liability method in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred tax on temporary differences in respect of goodwill not deductible for tax purposes, office properties and other items – apart from business combinations – is not recognised where temporary differences have arisen at the acquisition date without having any effect on profit (loss) or taxable income. When the tax base can be determined applying different taxation rules, deferred tax is measured on the basis of management's intended use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised as other non-current assets at the value at which they are expected to be utilised either by elimination against tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity and jurisdiction.

Deferred tax assets and deferred tax liabilities are offset if the company has a legally enforceable right to set off current tax assets and current tax liabilities or intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Adjustment of deferred tax is made relating to eliminations made of unrealised intragroup profits and losses. Deferred tax is measured in accordance with the tax rules and tax rates in the respective countries that will apply under the legislation enacted at the balance sheet date when the deferred tax is expected to crystallise in the form of current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement.

Pensions

The Group has entered into pension agreements and similar agreements with most of the Group's employees. Contributions to insured (defined-contribution) pension plans are recognised in the income statement in the period to which they relate, and any contributions

payable are recognised in the balance sheet as other payables.

Provisions

Provisions are recognised when, as a result of an event occurring before or at the balance sheet date, the Group has a legal or constructive obligation, the settlement of which is expected to result in an outflow from the Group of resources embodying economic benefits.

Provisions for the removal of production facilities and reestablishment of drilling sites are measured at the present value of the future liability in respect of decommissioning and shutdown as estimated at the balance sheet date. The amount provided is determined on the basis of existing requirements and estimated expenses, which are discounted to present value. If specific risks are deemed to be attached to a provision, the estimated costs are recognised. A discount rate is used that reflects the general interest rate level in the market. These liabilities are recognised as they arise and are adjusted on a regular basis to reflect changes in requirements, price level, etc. The value of the provision is recognised in property, plant and equipment and depreciated together with the relevant assets. The increase in time of the present value is recognised in the income statement as financial expenses.

A provision for onerous contracts is made when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

If it is considered unlikely that an outflow of resources embodying economic benefits will be required to settle an obligation, or if the obligation cannot be measured reliably, the obligation is accounted for as a contingent liability that is not recognised in the balance sheet. Information about material contingent liabilities is disclosed in the notes.

Financial liabilities

Financial liabilities comprise bank loans, trade and other payables to public authorities etc. Mortgage loans and other bank loans are recognised at inception at the proceeds received net of transaction costs incurred. In subsequent periods, the financial liabilities are measured at amortised cost using the effective interest rate method. Accordingly, the difference between the proceeds received and the nominal amount is recognised in the income statement as finance costs over the term of the loan.

Other bank loans include the capitalised residual lease commitment under finance leases, measured at amortised cost.

Trade payables, payable income tax and other payables are measured at net realisable value. Other payables include negative fair values of derivative financial instruments etc.

Financial liabilities the value of which has been effectively hedged are adjusted to fair value to the extent of

the hedged risk. The value adjustment is recognised in the income statement as financial income or financial expenses.

Leases

Lease commitments are accounted for as commitments under finance leases and commitments under operating leases, respectively.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Other leases are classified as operating leases.

The accounting treatment of assets held under finance leases and the associated liability is described in the sections on property, plant and equipment and financial liabilities.

Lease payments under operating leases are recognised in the income statement over the term of the lease on a straight-line basis.

Deferred income

Deferred income comprises payments received in respect of income in subsequent years, measured at cost.

Deferred income includes the value of unrecognised amounts in respect of natural gas delivered under contract, which is recognised at realisable value. The value of natural gas free of charge delivered under contract is spread proportionally over the remaining contract period with a view to accounting for purchased goods on an accruals basis.

Statement of cash flows

The statement of cash flows shows cash flows for the year from operating, investing and financing activities, the year's changes in cash and cash equivalents, and cash and cash equivalents at the beginning and end of the year.

The cash flow effect of acquisitions and divestments of enterprises is disclosed separately under cash flows from investing activities. Cash flows relating to acquired enterprises are recognised in the statement of cash flows from the date of acquisition, and cash flows relating to divested enterprises are recognised up to the date of divestment.

Cash flows from operating activities are determined using the indirect method as operating profit adjusted for non-cash operating items, changes in working capital, interest received and interest paid, dividends received and income tax paid.

Cash flows from investing activities comprise payments in connection with the acquisition and divestment of enterprises and activities; purchase and sale of intangible assets, property, plant and equipment and other non-current assets; and purchase and sale of securities that are not recognised as cash and cash equivalents.

Finance leases are accounted for as non-cash transactions.

Cash flows from financing activities comprise changes in the size or composition of share capital and costs associated with such changes as well as the raising of loans, repayment of interest-bearing debt, purchases and sales of treasury shares and payment of dividends to owners.

Cash flows relating to assets held under finance leases are recognised as payment of interest and repayment of debt.

Cash and cash equivalents comprise cash as well as securities that form part of the ongoing cash management, are readily convertible to cash and are subject to an insignificant risk of changes in value.

Cash flows in currencies other than the functional currency are translated at the average exchange rates for the month in question, unless these differ significantly from the rates at the transaction date.

Calculation of financial ratios

Unless otherwise stated, financial ratios have been calculated in accordance with 'Recommendations & Financial Ratios 2015' published by the Danish Society of Financial Analysts.

Financial ratios have been calculated as follows:

EBITDA margin	$\frac{\text{Earnings before interest, tax, depreciation and amortisation}}{\text{Revenue}}$
EBIT margin	$\frac{\text{Earnings before interest and tax}}{\text{Revenue}}$
Earnings per share (EPS) of DKK 1,000 ⁴⁾	$\frac{\text{Profit for the year}}{\text{Average no. of shares}^1}$
Dividend per share of DKK 1,000	$\frac{\text{Dividend paid}}{\text{Average no. of shares}^1}$
Net interest-bearing debt	Interest-bearing liabilities - interest-bearing assets ³⁾
Capital employed	Equity plus/minus gains/losses relating to hedging instruments on equity + net interest-bearing debt ²⁾
Financial gearing	$\frac{\text{Net interest-bearing debt}}{\text{Equity}}$
Net working capital, external transactions	Inventories, trade receivables, associates and jointly controlled entities and other operating current assets less trade payables and liabilities to associates and jointly controlled entities and other operating current liabilities. Prepayments and deferred income are not recognised in the statement of net working capital.
Net working capital, intragroup transactions	Intragroup trade receivables less intragroup trade payables.

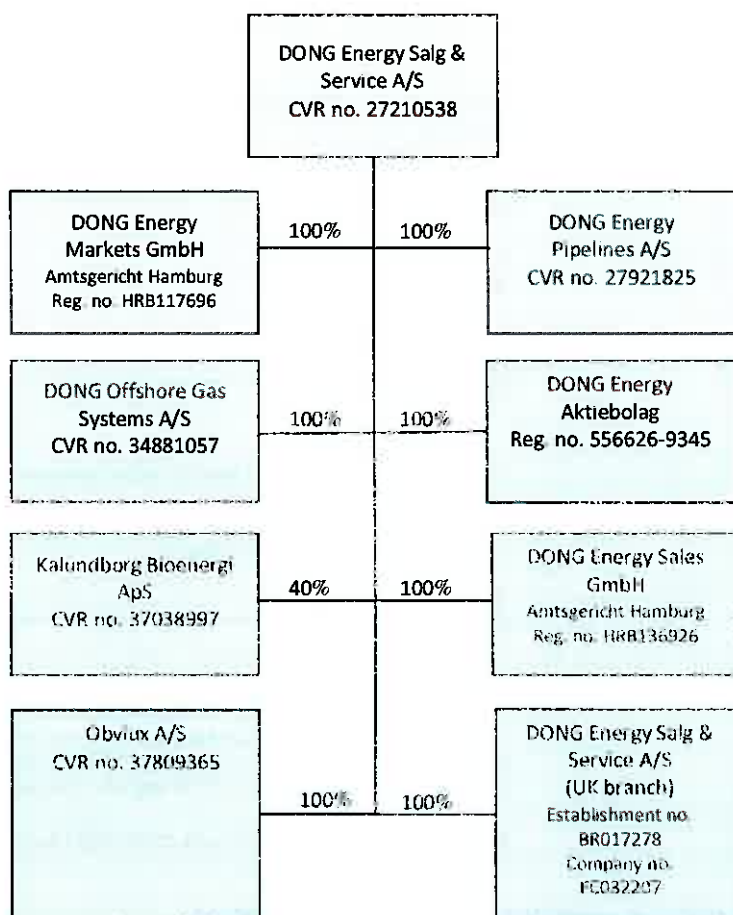
1) Average number of shares is defined as share capital in denominations of DKK 100.

2) The definition deviates from 'Recommendations & Financial Ratios 2015' published by the Danish Society of Financial Analysts.

3) Bank overdrafts that are included in the statement of cash flows as cash and cash equivalents are included as negative interest-bearing assets.

4) Earnings per share (EPS) is determined in accordance with IAS 33.

Group chart



Group chart – continued

Company name	Registered office	Currency	Share capital in million	Group owner- ship interest
DONG Energy Salg & Service A/S	Fredericia, Denmark	DKK	1,110	100%
DONG Energy Markets GmbH	Hamburg, Germany	EUR	9,6	100%
DONG Energy Sales GmbH	Hamburg, Germany	EUR	1	100%
DONG Energy Pipelines A/S	Fredericia, Denmark	DKK	25	100%
DONG Energy Aktiebolag	Göteborg, Sweden	SEK	5	100%
DONG Offshore Gas Systems A/S	Fredericia, Denmark	DKK	1	100%
DONG Energy Salg & Service A/S UK	London, United Kingdom	EUR	0,025	100%
Kalundborg Bioenergi ApS	Skanderborg, Denmark	DKK	0,05	40%
Obviux A/S	Fredericia, Denmark	DKK	0,5	100%

