# Annual Report | 2004

energy for more

# DONG's Business areas

## Exploration & Production

The exploration and production activities are carried out in Danish, Norwegian, British and Faroese waters. Today's production is predominantly oil; however, the building up of gas reserves to underpin the gas sales activities is an important objective in the exploration and development of fields.

## Natural gas, Trade & Supply

DONG sells natural gas to distribution companies, CHP companies, industrial customers and private individuals. DONG is the leading natural gas supplier in Denmark and Southern Sweden, and also exports to Germany and The Netherlands.

## Natural gas, Distribution & Storage

DONG's gas distribution network covers southern Jutland and South and West Zealand.

DONG's gas storage facilities are located in Stenlille on Zealand and Ll. Torup in Jutland and have a total capacity of about 760 million $m^3$.

## Electricity & Renewable Energy

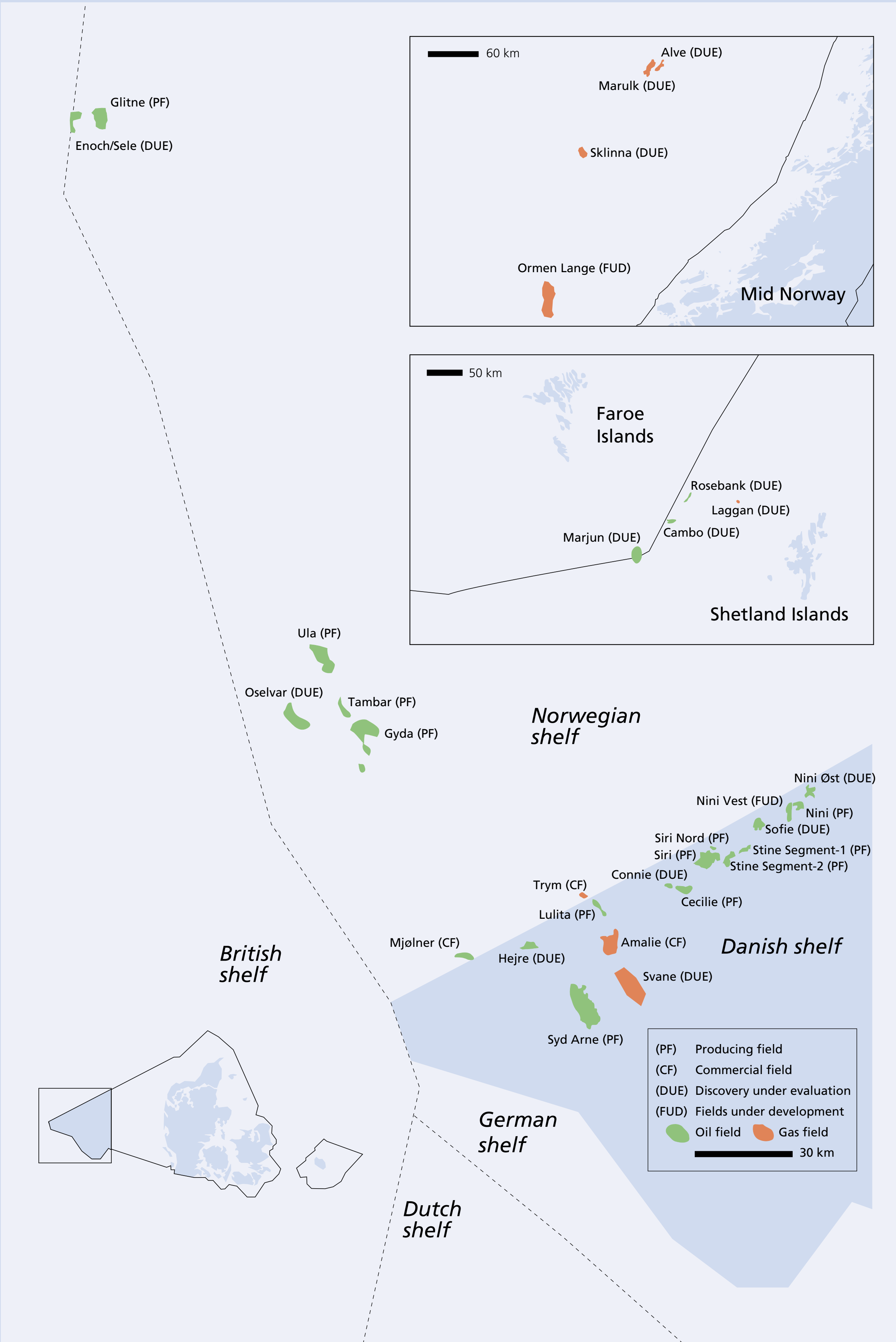
The activities include ownership interests in NESA, Energi-Gruppen Jylland and Elsam as well as activities within renewable energy technologies – primarily offshore wind farms.

## Oil pipeline

Denmark's only oil pipeline for bringing ashore crude oil is owned and operated by DONG. The oil pipeline connects the Gorm-E offshore platform with Filsø in West Jutland and onwards to the Fredericia oil terminal.

DONG maps ▷

Discoveries and fields with DONG interests



DONG's oil, natural gas and renewable energy plants


- Head Office
- Production platform*
- Natural gas treatment plant
- Natural gas storage facility
- Marine pipeline for natural gas
- Natural gas distribution
- Geothermal plant
- Wind turbines
- Pumping platform
- Pumping station
- Crudeoil terminal
- Oil pipeline
- Natural gas transmission (Gastra A/S)

*DUC owns Harald and Tyra.
The Amerada Hess Group owns Syd Arne.
A dutch consortium owns F3, and NOGAT B.V.
owns the pipeline from F3 to Den Helder.

0 50 100 km

# Contents

# Preface

2004 was one of the most eventful years in DONG's history.

The various pieces of the vision to create Denmark's leading integrated energy company started falling into place, one by one. Other highlights of the year included the preparations for the coming Initial Public Offering (IPO) and, in parallel, the realisation of major parts of the Group's long-term strategy. 2004 was also the first year with a fully liberalised gas market in Denmark, bringing, intensified competition. Lastly, 2004 was a year in which oil prices reached a new high level, while the USD exchange rate weakened.

### Performance in 2004

The liberalisation of the natural gas market in Denmark is now complete. From 1 January 2004 all gas customers in Denmark have had a free choice of supplier. Competition in the energy market is fierce, and, as expected, liberalisation has led to loss of market share; however, in volume terms, the loss of natural gas sales in Denmark was offset by increased export sales, especially to Germany and the Netherlands, although the profit margins on sales to these markets were lower.

Savings were made within the administrative areas during the year as a consequence of the efficiency improvement programmes initiated in 2003. Costs within administration and procurement are now at a competitive level.

The higher oil price level and non-recurring income of DKK 674 million (after tax and minority interests) were the main drivers behind the DKK 1,881 million net profit, which is regarded as satisfactory. The financial performance exceeded the expectations at the start of the year.

Headway was also made in the social and environmental areas. The occupational accident rate thus remained at a low level, with 4.6 accidents per million manhours for employees and contractors. Sustained action on the environmental front resulted in a reduction in the discharge of oil and chemicals from the North Sea oil production, whereas emissions of $CO_2$ equivalents temporarily increased due to the start-up of new production fields. The increase is expected to be turned around and becomes a net reduction in 2005.

### Proposed dividends

The Supervisory Board recommends that no dividend be paid for 2004. The rationale behind this is a wish for consolidation in view of the many acquisitions and investments.

### Realisation of the strategy

Various initiatives were put in place during the year under review, realising major parts of the long-term strategy and thus giving DONG a strong position and, with that, a stronger starting point for the coming IPO.

### Larger market shares abroad within gas trading

The loss of market share in Denmark in the wake of the market opening will continue. The strategy for continued growth is to expand the market position in Northern Europe with focus on Southern Sweden, Northern Germany and the Netherlands.

The area for gas trading was expanded in 2004 through the acquisition of Swedish Nova Supply, the entry into a strategic partnership in Germany, with establishment of a joint sales company and future co-ownership of Energie und Wasser Lübeck GmbH (EWL), and the rollout of natural gas sales to the Netherlands through the Nogat pipeline network.

### Vision

DONG's vision is, as the leading integrated energy company in Denmark, to create value for its customers and, thereby, add maximum value for its shareholder.

### Mission

DONG's mission is to procure, produce, distribute and trade in energy and related products in Northern Europe, with focus on Denmark and Southern Sweden.

### Strategy

DONG's strategy is three-pronged:
1) Larger market shares abroad within gas trading
2) Procurement of competitive gas
3) Integration with the electricity sector

## Procurement of competitive gas

Today, DONG buys almost all the gas it sells from the owners of the DUC fields in the North Sea. The long-term strategy is to step up production of equity gas as the production from the Danish underground begins to decline. The equity production will be supplemented by large, new purchase agreements to secure a competitive and differentiated gas portfolio. In order to bolster procurement of equity gas, DONG made its biggest ever single investment in the oil/gas sector at the end of the year when it signed an agreement to acquire BP's 10.34% stake in the Ormen Lange gas field. DONG's share of the gas reserves is equivalent to Denmark's natural gas consumption for ten years, substantially enhancing Denmark's security of supply. The acquisition was completed in the first quarter 2005, with effect from 1 January 2005. DONG also acquired stakes in various other foreign gas fields during the year.

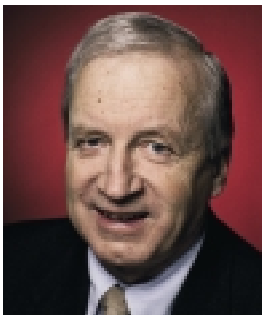
## Integration with the electricity sector

The liberalisation of the electricity sector has led to a break-up in the market, with several of the large companies being put up for sale. DONG has been working for some time now on closer integration with the electricity sector. The breakthrough came on 10 December 2004, when DONG, Elsam and the Danish Ministry of Finance reached a framework agreement the end result of which will be the actual joining of the two companies. Despite Swedish state-owned Vattenfall's bid to take over Elsam at the start of 2005, DONG succeeded in securing additional backing for a Danish solution, when a number of Elsam shareholders decided to make agreements with DONG.

The combination opens up the prospect of the new company becoming one of Northern Europe's leading and most efficient energy companies that will be able to hold its own in an increasingly competitive market. The combination will create a Danish energy company with a broad portfolio of complementary products, competent staff, a sound financial base and, not least, many interesting future prospects.

Steps to integrate the two companies cannot be taken until the competition authorities' approval has been obtained.

In February 2005 DONG signed an agreement with the City of Copenhagen on acquisition of Copenhagen Energy's electricity activities and the City of Copenhagen's 34% shareholding in the energy company Energi E2. At the same time DONG signed agreements with SEAS-NVE, Frederiksberg Municipality and four other municipalities on acquisition of their shareholdings in Energi E2. DONG also acquired Frederiksberg Forsyning's electricity activities. The agreements underpin the realisation of the vision of creating Denmark's leading energy company. The agreements are subject to competition authority approval, among other things.



Sven Riskær
Chairman of
the Supervisory Board

Anders Eldrup
CEO

## IPO preparations

On 7 October a broad political agreement was reached concerning the terms for sale of shares in DONG A/S. The preparations for the coming IPO commenced in 2004. DONG has adjusted and prepared a number of systems and procedures and, from 1 January 2005, will essentially act as a listed company.

The timing of the IPO depends on the outcome of the various regulatory approvals and on the general trend and terms in the stock market.

# Group, financial highlights

| DKK million | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| Revenue by business area: | **14,292** | 14,267 | 13,729 | 12,723 | 11,673 |
| Exploration & Production | **3,192** | 3,187 | 3,658 | 1,539 | 1,939 |
| Natural gas, Trade & Supply[1] | **10,022** | 9,988 | | | |
| Natural gas, Distribution & Storage | **861** | 884 | 9,650 | 10,953 | 9,491 |
| Natural gas, Transmission (Gastra A/S)[2] | **-** | 922 | | | |
| Oil pipeline | **373** | 445 | 432 | 390 | 375 |
| Electricity & Renewable energy | **533** | 627 | 3 | - | - |
| Other activities (including eliminations) | **(689)** | (1,787) | (14) | (159) | (132) |
| | | | | | |
| EBITDA by business area[3]: | **4,687** | 5,547 | 4,896 | 4,532 | 5,939 |
| Exploration & Production | **1,900** | 1,995 | 2,237 | 1,044 | 1,487 |
| Natural gas, Trade & Supply | **1,907** | 2,147 | | | |
| Natural gas, Distribution & Storage | **596** | 614 | 2,642 | 3,384 | 4,393 |
| Natural gas, Transmission (Gastra A/S) | **0** | 525 | | | |
| Oil pipeline | **95** | 84 | 91 | 82 | 93 |
| Electricity & Renewable energy | **141** | 123 | - | - | - |
| Other activities (including eliminations) | **48** | 59 | (74) | 22 | (34) |
| | | | | | |
| Operating profit (EBIT) | **2,421** | 3,168 | 2,546 | 2,371 | 3,790 |
| Financial items, net | **171** | 56 | 154 | 26 | (208) |
| Net profit | **1,881** | 1,941 | 1,476 | 1,657 | 2,528 |
| EBITDA margin (%) | **33** | 39 | 36 | 39 | 51 |
| EBIT margin (operating margin) (%) | **17** | 22 | 19 | 19 | 33 |
| | | | | | |
| Cash flows from operating activities | **3,539** | 4,442 | 3,594 | 3,674 | 4,822 |
| Cash flows from investing activities | **(4,600)** | (2,925) | (3,094) | (1,235) | (791) |
| - hereof investments in property, plant and equipment | **(1,857)** | (2,698) | (2,464) | (1,144) | (557) |
| Free cash flows to equity (with acquisitions)[4] | **(1,061)** | 1,517 | 500 | 2.439 | 4,031 |
| Free cash flows to equity (without acquisitions)[4] | **1,653** | 1,592 | 1,063 | 2,530 | 4,265 |
| | | | | | |
| Assets | **31,380** | 33,230 | 28,930 | 29,970 | 30,413 |
| Net interest-bearing debt | **3,186** | 2,442 | 3,264 | 3,344 | 3,577 |
| Equity | **15,649** | 16,794 | 14,655 | 13,403 | 13,088 |
| Capital employed[5] | **19,774** | 19,519 | 17,731 | 16,786 | 16,665 |
| Financial gearing[6] | **0.19** | 0.14 | 0.22 | 0.25 | 0.27 |

Note 1: DONG Naturgas A/S was unbundled into six newly formed companies on 1 January 2003. Comparative figures for 2000-2002 have not been restated to reflect the new structure.
Note 2: DONG Transmission (now Gastra A/S) was sold on 1 January 2004 and is thus not included in the financial statements for 2004.
Note 3: Earnings before interest, tax, depreciation and amortisation.
Note 4: Cash flows from operating activities +/- cash flows from investing activities.
Note 5: Equity (incl. minority interests) +/- losses/gains on hedging instruments on equity + net interest-bearing debt.
Note 6: Net interest-bearing debt divided by equity (incl. minority interests).
Financial ratios have been calculated in accordance with the Danish Society of Financial Analysts' "Recommendations & Financial Ratios 2005".
Some changes have been made in the classification of accounting items in 2003. These changes do not affect profit or equity.

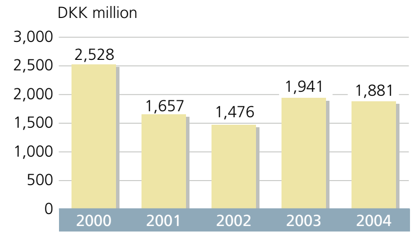
# Management's review

## Financial performance

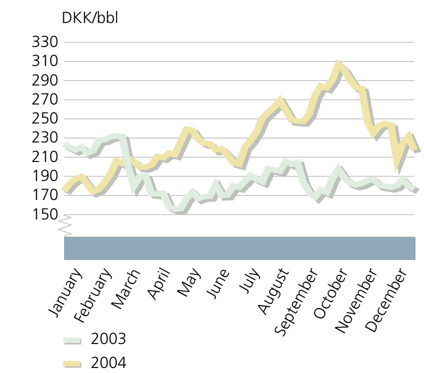
Full-year consolidated net profit was DKK 1,881 million compared with DKK 1,941 million in 2003.

Non-recurring income totalled DKK 674 million in 2004 (after tax and minority interests), consisting of proceeds on divestment of activities, revaluation of Elsam shareholding to fair value (a total of DKK 562 million) as well as reversal of a previous write-down of DKK 112 million. Net profit for 2003 similarly benefited from net non-recurring income of DKK 215 million. Profit before tax was DKK 3,059 million versus DKK 3,248 million in 2003. Operating profit (EBIT) amounted to DKK 2,421 million versus DKK 3,168 million in 2003. Free cash flows excluding acquisitions amounted to DKK 1,653 million, up from DKK 1,592 million in 2003.

Net profit




Development in oil price




Profit substantially exceeded expectations at the start of the year due mainly to non-recurring income and realisation of a higher oil price than originally assumed. The oil price, which climbed throughout 2004, has a major impact on DONG's business. The decline in net profit compared with 2003, despite higher oil prices, reflected various factors:

- The loss of market shares in Denmark - a natural consequence of the liberalisation - was offset by higher sales to Germany and the Netherlands, although these involved higher transportation costs and lower profit margins.

- A substantial part of DONG's oil and USD exchange rate exposure is hedged, as DONG's risk policy is based on active hedging of the market prices that impact on its earnings. As part of its risk policy DONG actively manages market risks for a period of up to five years ahead. The adverse effect of these hedging activities impacted more on profit in 2004 than in 2003.

- The depreciation charge in Exploration & Production was significantly higher than in 2003 due to a larger proportion of production coming from depreciation-intensive fields.

- The oil price and the USD rate are included with different time lags in DONG's natural gas purchase and sales contracts. Oil price changes consequently impact on selling prices relatively quickly, whereas purchase prices are adjusted with a time lag effect of up to 15 months. In 2003 rising oil prices generated a gain exceeding the corresponding gain for 2004.

## Major highlights

The main highlights of the year were:

**Integration with the electricity sector**

In December an agreement was made with Elsam concerning the joining of the two companies. Besides approval by the competition authorities, discussions concerning various aspects of the combination are still pending.

At the end of 2004 the DONG Goup held 24% of the shares in Elsam (incl. minority interests).

In July Barrow Offshore Wind Ltd., which is owned by DONG and UK Centrica on a fifty-fifty basis, entered into a design-build contract for the construction of Barrow Offshore Wind Farm off the UK west coast. The design-build contractor is a consortium consisting of the engineering firm Kellogg Brown & Root and the wind turbine manufacturer Vestas. The wind farm will consist of 30 wind turbines with an installed capacity of 90 MW, sufficient for one year's supply of electricity to approx. 75,000 households. The project is scheduled for completion by the end of 2005.

**Procurement of competitive gas**

In November DONG signed an agreement under which it will acquire BP's 10.34% interest in the Ormen Lange field off Mid-Norway. The transaction also included BP's 10.2% interest in the Langeled pipeline. The acquisition supports DONG's strategy of value creation through a presence in the entire value chain and offers significant synergies with the existing activities. With the Ormen Lange gas, DONG's reserves will be boosted four-fold and the portfolio becomes gas-dominated instead of being oil-dominated, in keeping with DONG's strategy. Following the acquisition, gas will make up approx. 75% of total reserves instead of, as previously, approx. 15%. The acquisition was made with effect from the start of 2005 and the purchase price was USD 1.2 billion. The continued development is expected to entail additional investments of approx. DKK 4 billion in the period 2005-2007.

In the second quarter DONG acquired 20% of the Laggan gas find west of the Shetland Islands. The discovery is located in an area in which DONG already has substantial interests.

**Larger market shares abroad within gas trading**

In November DONG signed an agreement on a long-term strategic partnership with Stadtwerke Lübeck under which DONG acquired 25.1% of the shares in the subsidiary Energie und Wasser Lübeck GmbH (EWL) with effect from the start of 2005. The purchase price for the shares was EUR 60 million. As part of the transaction, DONG is offering EWL a number of strategic advantages, including an energy portfolio agreement, co-operation on renewable energy, and the establishment of a jointly owned sales company, E-nord. DONG has offered to buy an additional 24.8% of the shares by the end of 2007.

In May DONG agreed the acquisition of the Swedish gas company Nova Naturgas' subsidiary Nova Supply. Nova Supply takes care of all Nova Naturgas' trading activities. The acquisition was a consequence of the liberalisation of the Swedish natural gas market. With the acquisition of Nova Supply, DONG took over Nova Naturgas' sales contracts in the Swedish market and the distribution pipelines to several large accounts.

**Visit from the Danish Competition Authority**

At the request of the Swedish competition authorities, the Danish Competition Authority carried out an unannounced inspection at DONG's head office in autumn 2004. After having reviewed the material, the Swedish authorities have dropped their allegation that DONG was engaged in anti-competitive practices in the Swedish market, and the matter has now been closed.

**Privatisation**

In June it was decided to privatise DONG through an IPO. In October a political agreement on the privatisation was reached. Accordingly, the previous political agreements under which the natural gas infrastructure - the natural gas network and the natural gas storage facilities - must remain in public ownership will be considered fulfilled as long as the State retains its controlling interest in DONG. In the event of the State disposing of its controlling interest, it must first buy back the natural gas network and the natural gas storage facilities. The parties to the agreement are open to a sale of all the State's shares in DONG A/S; however, any surrender by the State of its controlling interest before 1 January 2015 is subject to a unanimous decision by the parties.

In addition, on 17 December, the Folketing (Danish Parliament) decided to repeal the Act on Dansk Olie og Naturgas A/S, etc., and the Act of Implementation for Natural Gas Supply. This also implies the repeal of the Minister's approval of objects under the Articles of Association with support from a committee appointed by the Folketing and the requirement concerning approval by the Minister of amendments to the Articles of Association. It also means that the Committee of Representatives will be disbanded. The legislation thus brings DONG in line with listed companies.

**Credit rating**

In September Standard & Poor's and Moody's Investors Service Inc. published their credit ratings on DONG. Moody's Investors Service Inc. assigned DONG A/S and DONG Naturgas A/S an 'A3/negative outlook' rating, while Standard & Poor's assigned DONG A/S an 'A-/stable outlook' rating. DONG Naturgas A/S was not rated by Standard & Poor's. The rating takes account of DONG's strategy to work for a consolidation of the Danish energy sector, but will depend on the final outcome of the ongoing acquisition and combination activities. It is still critical for DONG to have a strong credit rating. The rating underlines the stability of DONG's business and will facilitate DONG's access to the international loan markets.

### Subsequent events

At the start of February 2005 DONG entered into agreements with a number of Elsam shareholders on options attaching to their shareholdings in Elsam. The shares have a market value of approx. DKK 10 billion. The agreements were made with a view to securing the continued basis for the combination of DONG and Elsam.

In continuation of these agreements DONG entered into a conditional agreement with the City of Copenhagen on acquisition of the City of Copenhagen's electricity activities and Copenhagen Energy's 34% shareholding in Energi E2 at a total price of DKK 10.5 billion. One third of the purchase price is payable in cash, while DONG can choose to pay the balance in cash, in the form of shares in DONG or a combination of the two.

DONG has also signed a conditional agreement with Frederiksberg Municipality concerning acquisition of Frederiksberg Forsyning's electricity activities and the municipality's approx. 2% stake in Energi E2. DONG has also acquired about 4% of the shares in Energi E2 from four other municipalities. The payment will be made in cash and totals DKK 1.6 billion.

Lastly, SEAS-NVE has sold its 24% stake in Energi E2 to DONG on a conditional agreement. The value of the shares is DKK 4.1 billion. DONG can choose to pay the purchase price in cash or in the form of DONG shares. With the agreements, the shares in Energi E2 can be 100% owned by DONG and Elsam.

Depending on the competition authorities' review of the transactions, most of the payments in question are expected to be made in the fourth quarter 2005. The transactions are expected to be financed partly through existing credit facilities, and partly by raising of bond loans and bank loans, and it is planned to strengthen the financial resources via a long-term revolving syndicated bank facility.

### Expectations for 2005

DONG will adopt International Financial Reporting Standards (IFRS) from 1 January 2005. The expectations expressed are based on IFRS. The expectations would not differ appreciably if they had been based on the existing Danish accounting policies.

DONG's financial performance depends to a great extent on the development in the price of oil and the USD exchange rate. DONG has hedged a substantial part of its oil price and USD exchange rate exposure in 2005 via financial instruments, in line with its risk policy. Accordingly, DONG will only benefit from the present high oil prices to a limited extent. On the other hand, the falling USD exchange rate will not impact in full on profit.

Moreover, the oil price and the USD exchange rate are incorporated in DONG's natural gas purchase and sales contracts with different time lags. This means that oil price changes and changes in the USD exchange rate impact on selling prices relatively quickly, whereas purchase prices are adjusted with a delay of up to 15 months. These time lags cannot be hedged. Because of this, the last two years' oil price increases have generated an extraordinary gain for DONG that is not expected to recur in 2005.

DONG expects further loss of market share within natural gas sales in Denmark in 2005. This is a natural and inevitable consequence of the full market opening at the start of 2004. The loss of market share is made up for by growing exports, primarily to Germany and the Netherlands; however, exports involve lower margins due to higher transportation costs and lower prices. Profit for 2005 will therefore be eroded by the loss of market share.

A net profit of DKK 1,250 million is anticipated for 2005. This estimate does not take account of any acquisitions within the electricity sector made after the close of 2004.

### Forward-looking statements

The annual report contains forward-looking statements which include projections of financial performance in 2005. These statements are not guarantees of future performance and involve certain risks and uncertainties. Therefore, actual future results and trends may differ materially from what is forecast in this report due to a variety of factors including, without limitation, the development in the oil, currency or interest rate markets; changes in legislation, regulations or standards; changes in the competitive situation in DONG's markets; security of supply; and integration of acquired activities. Reference is also made to the description of risks affecting DONG in the section on Risk management on page 24.

# Exploration & Production

The objective for the exploration and production activities is to build up reserves and production of oil and natural gas.

In order to bolster DONG's competitiveness and secure supplies for the natural gas customers in Denmark, Sweden and the other markets in Northern Europe, DONG's goal is to have production of natural gas to make up a substantial part of the total sales volume.

The basis for the future business was given a considerable boost in 2004 with the acquisition of a 10.34% stake in the Ormen Lange field in the Norwegian Sea (Norskehavet) off Mid-Norway and a 10,2% share in the Langeled pipeline. When the field comes on stream, which is scheduled for end-2007, it will be the second-largest gas field in Norway. The partners in the Ormen Lange field estimate its reserves at approx. 380 billion $Nm^3$ gas and 180 million barrels condensate.

In 2004 a strong presence was secured in the strategically important area between the Faroe Islands and the Shetland Islands with the acquisition of various licences and successful exploration and appraisal wells. The acquisitions included a 20% stake in the Laggan gas field, which is expected to come on stream in 4 to 6 years, and a promising oil and gas find was made in one of the existing licences, Rosebank/Lochnagar. Further wells will now be drilled to fully appraise the find. DONG also participated in another successful appraisal well.

Acquisitions of additional small licence stakes on the Norwegian and UK continental shelves also helped boost reserves.

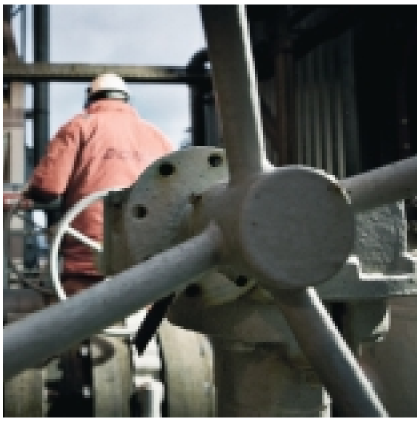
Through its participation in licensing rounds, DONG was awarded 11 new exploration licences in 2004 – 4 in Norway and 7 in the UK. The new Norwegian licences are located partly around the Ula, Gyda and Tambar fields in the southern Norwegian area of the North Sea, and partly in the Norwegian Sea off Mid-Norway, which is a key area in relation to the building up of gas reserves. The new exploration licences on the UK shelf are all in the area between the Shetland Islands and the Faroe Islands.

The Faroese area still holds out favourable prospects, and DONG was awarded another two licences at the start of 2005, both of which adjoin other licences with promising potential. No exploration wells were drilled on the Faroese shelf in 2004.

The statement of oil and natural gas reserves is made to SPE standards (Society of Petroleum Engineers) on a Proven and Probable (2P) reserve basis. Reserves were down from 126 million boe (barrels of oil equivalent) in 2003 to 95 million boe in 2004 due to technical reevaluation of the reserves and production for the year. Exploration finds are not included in reserves until a development plan has been decided on. Total reserves will increase significantly in 2005, when the share of the Ormen Lange field is included in the statement for the first time.

### Financial highlights

| DKK million | 2004 | 2003 |
|---|---|---|
| Oil and gas production, DK (million boe) | **12.2** | 10.5 |
| Oil and gas production, N (million boe) | **5.4** | 8.3 |
| Revenue | **3,192** | 3,187 |
| EBITDA | **1,900** | 1,995 |
| EBIT | **416** | 917 |
| Investments | **936** | 1,246 |



In 2004 DONG produced a total of 17.6 million boe, approx. 30% of which came from Norway.

Production from the Norwegian Tambar field was shut down in the third quarter due to a minor oil leak from the pipeline between the Tambar and Ula fields. The leak led to a limited spillage only, and production was resumed at the end of the year.

Investments in continued recovery of reserves from the Danish fields Syd Arne, Siri, Stine, Nini and Cecilie were made in 2004. A number of initiatives have been put in motion to develop

# DONG'S PRODUCTION OF NATURAL GAS MUST MAKE UP A SUBSTANTIAL PART OF THE TOTAL SALES VOLUME

### Facts about the exploration and production activities

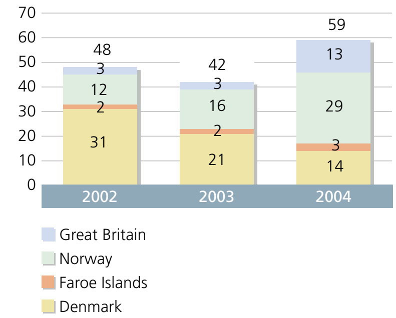
The exploration and production activities are carried out in Danish, Norwegian, British and Faroese waters, with the emphasis on the North Sea. Oil production is predominant today, but the procurement of gas reserves that can underpin DONG's gas sales activities is an important objective for the future exploration and development of fields.

Most of the production is concentrated within three geographical areas: the Syd Arne field in Denmark (about one-third of production), the Ula-Gyda-Tambar-Glitne fields in Norway (about one-third of production) and the Siri-Nini-Cecilie fields operated by DONG on the Danish/Norwegian shelf (about one-third of production).

Besides Denmark, exploration activities are concentrated in the areas between the Faroe Islands and the Shetland Islands and in the Norwegian Sea off Mid-Norway.

In the area between the Faroe Islands and the Shetland Islands DONG participates in licences in the UK and the Faroe Islands sectors, and three finds had been made by the end of 2004. The exploration activities in Norway are carried out in the Norwegian Sea off Mid-Norway and in the southern part of the Norwegian North Sea.

Geographical breakdown of production and exploration licences




production from the area around the Siri oil field, including start-up of production from the Stine 1 field. Both the Danish and Norwegian shelves of the Siri area are estimated to have potential to ensure future production, contributing to optimum utilisation of the infrastructure around the field. The investments put into infrastructure in the Syd Arne field can also be optimised by developing the adjoining finds for production.

Despite the ongoing investments, production from the Danish fields is naturally declining. In order to optimise earnings, a project aimed at reducing operating expenses has therefore been commenced on the Siri field. The aim is for DONG to be one of the most efficient operators in the North Sea by the end of 2005.

The exploration and production activities generated EBIT of DKK 416 million in 2004, down from DKK 917 million in 2003 due mainly to higher depreciation as a result of a shift in production towards more depreciation-intensive fields. Revenue was on a par with 2003. Profit did not benefit from the rising oil prices as a substantial part of production had been hedged using financial hedging transactions.

# Natural gas, Trade & Supply

Gas sales in 2004 were influenced by the increased competition in Denmark following in the wake of the liberalisation of the Danish gas market on 1 January. The market opening means that all Danish gas customers now have a free choice of supplier. The new situation led to a loss of market share for DONG, as expected. In 2004 DONG sold 2.8 billion $m^3$ gas directly to end customers in Denmark, equivalent to a market share of approx. 66% versus approx. 70% in 2003.

Various sales and marketing drives were launched in 2004 with a view to retaining as many customers as possible and improving customer satisfaction. In addition, a targeted expansion of the product portfolio took place in relation to selected customer groups. In August DONG signed an agreement with the Danish Football Association (DBU) on co-sponsorship of the Danish men's national football teams. The purpose of the sponsorship is to increase awareness of DONG and to cement its position as the Danes' preferred energy supplier.

The customers' assessment of the company is measured annually in a satisfaction index. The level of satisfaction among residential customers was maintained at a relatively high level, while the level of satisfaction among industrial customers showed an upward trend. Market surveys show that a growing proportion of the consumers would choose DONG if they were to switch energy supplier.

### Internationalisation of the trading activities

In 2004 DONG expanded its position abroad with a view to securing an increase in sales.

In Northern Germany DONG entered into a partnership with Stadtwerke Lübeck under which DONG will own 25.1% of Energie und Wasser Lübeck GmbH with effect from 1 January 2005. The parties also established the joint sales company E-nord through which it is planned to enter into various partnerships with other German players.

DONG set up a separate sales office in the Netherlands in order to underpin growth. Together with DUC, DONG has established an offshore pipeline from the Tyra platform in the Danish sector of the North Sea to the F3 platform, which is connected to Den Helder on the Dutch coast via the Nogat pipeline. The first supplies through the pipeline commenced in July, and contracts have been signed for supplies of up to 1 billion $m^3$/year to the Dutch market.

In Sweden, sales to end customers were boosted by the acquisition of the gas trading company Nova Supply and the opening of a sales office in Gothenburg. The aim is to expand DONG's position in Sweden still further when this market is liberalised in 2005.

In order to continue growing its natural gas sales, DONG must continue the internationalisation of its trading activities. Today, customers in Denmark and abroad are predominantly supplied with Danish gas purchased under long-term contracts. In step with the expected decline in Danish gas production, the Danish contracts will be replaced by a combination of new long-term contracts and equity gas production. Negotiations on long-term supply contracts with several potential suppliers were therefore initiated in 2004. In addition, the acquisition of a stake in the Ormen Lange gas field will provide equity production equivalent to approx. 30% of current sales. The international strategy is also underpinned by DONG's trading unit, which is active on the new European trading hubs and continuously monitors price trends for natural gas, electricity and oil across Europe, securing access to upfront knowledge about price trends and the factors that determine prices on foreign trading hubs. This knowledge enables DONG to prepare very specific price calculations and,

**Financial highlights**

| DKK million | 2004 | 2003 |
|---|---|---|
| Natural gas sales (million $m^3$) | **7,506** | 7,051 |
| Revenue | **10,022** | 9,988 |
| EBITDA | **1,907** | 2,147 |
| EBIT | **1,573** | 1,848 |
| Investments | **446** | 858 |

# IT IS DONG'S OBJECTIVE TO EXPAND THE POSITION AS DENMARK'S LEADING SUPPLIER OF NATURAL GAS AND TO EXPAND THE ACTIVITIES IN THE LOCAL MARKETS IN NORTHERN EUROPE

### Facts about the gas sales activities

The objective for the gas sales activities is to maintain DONG's position as the leading supplier of natural gas in Denmark and Southern Sweden, and to expand DONG's position in the export markets in Germany and the Netherlands.

Today, customers are predominantly supplied with Danish gas. In step with the expected decline in Danish gas production, Danish gas will be replaced by a combination of foreign gas purchased under long-term contracts and equity gas.

In Denmark, DONG sells natural gas to distribution companies, residential customers, industrial customers and CHP companies.

thus, to offer its customers competitive prices. It also minimises the transportation costs associated with meeting the tight supply conditions.

### Expansion of the sales activities

New products meeting the demand for energy, service and price products were developed on an ongoing basis during the year in dialogue with the customers in Denmark and abroad. In Denmark, DONG introduced sales of electricity at market prices to both industrial and residential customers. In the first year a satisfactory number of new contracts were won.

On 1 January 2005 the free electricity market in Denmark was expanded to include decentralised electricity production. In future, all stations of more than 10 MW must sell the electricity they generate at market price, and from 2007 the requirement increases to include all stations of more than 5 MW. The possibility of voluntarily changing over to market terms, regardless of the statutory minimum requirements, has been open to all decentralised CHP stations already from 1 January 2005. DONG therefore developed a CHP concept in 2004 that comprises sale of the electricity generated by the CHP stations, possibly combined with optimisation of production, and an agreement concerning hedging of the price of heat, guaranteeing the customer a fixed price. Contracts have been set up with several CHP stations.

Most major $CO_2$ emitters in Europe have been subject to a quota obligation under an EU directive since 1 January 2005. Danish companies subject to the quota obligation include DONG and all major electricity and heat producers, along with a number of industrial enterprises, including many of DONG's key gas customers. DONG has therefore become actively engaged in trading in $CO_2$ quotas in 2005.

In Denmark DONG enjoys a close partnership with the Danish oil company OK with respect to sale of gas to OK's oil customers and sale of oil to DONG's gas customers. Furthermore, DONG has signed an agreement with a number of independent HVAC companies, enabling DONG to offer service agreements across Denmark.

EBIT achieved by the gas sales activities was DKK 1,573 million in 2004, down from DKK 1,848 million in 2003, mainly reflecting lower profit margins as a result of the loss of market share in Denmark. Moreover, time lags between purchase and sales contracts did not contribute as much to EBIT in 2004 as they did in 2003.

# Natural gas, Distribution & Storage

## Distribution of natural gas

In order to provide as favourable a framework as possible for the coming competition, DONG prepared extensively for the liberalisation of the natural gas market by establishing new IT systems and, jointly with the other natural gas companies, setting up new market rules and contracts.

The IT system for handling change of gas supplier was ready to handle the first switches on 1 January 2004, when approx. 8% of the natural gas market in Denmark changed supplier. The IT system for recording the individual gas suppliers' deliveries to the individual customers has been functioning according to plan since spring 2004. The objective in connection with the full market opening was thus achieved.

Under the new market rules, DONG is required to exchange various type of information with the gas suppliers in its distribution area and with the transmission company Gastra. In 2004 these procedures were run in so that all information exchange has been electronic since August.

In DONG's distribution area approx. 200 customers with a total consumption of 150 million $m^3$ switched supplier in 2004, equivalent to approx. 14% of the volume of gas sold.

The volume of gas transported in 2004 was 1,031 million $m^3$, down from 1,084 million $m^3$ in 2003, essentially due to a single large customer taking less. The number of new customers connected was 2,700, taking the total number of gas customers at the end of 2004 to 109,000.

In connection with the liberalisation, efforts within Distribution centred on setting up an organisation that lives up to the new requirements and terms presented by the market opening. The focus on reviewing work processes to optimise and improve the efficiency of the organisation and the products supplied will be tightened still further in the years ahead.

## Storage of natural gas

Various measures were taken in 2004 to optimise operation and utilisation of the natural gas storage facilities. The primary reason was that the capacity of the gas storage facility in Stenlille on Zealand has dropped by approx. 30% in recent years. In order to counter further capacity reductions, a technical solution was established whereby the gas in the Stenlille facility is recirculated so that all gas in the storage facility is now extracted and reinjected among the various storage zones once a year. In addition, 60 million $m^3$ storage volume was restored by injection of additional gas volumes. In 2005 the possibilities for similar improvements to the capacity utilisation at the gas storage facility in Ll. Torup in Jutland will be looked into in detail.

The liberalisation of the Danish natural gas market implies increased uncertainty concerning future storage needs. As major expansions of the gas storage facilities must be planned several years in advance, DONG will in future enter into closer dialogue with the storage customers concerning their expected future capacity requirements.

At the end of 2004 there were five buyers of storage capacity. So far, no requests for storage capacity have been turned down. The tariffs for storage access are among the lowest in Northern and Central Europe. A Bulletin Board was established in 2004, enabling storage customers to contact each other with a view to exchanging storage capacity. These facilities will be developed still further in 2005.

### Financial highlights

| DKK million | **2004** | 2003 |
|---|---|---|
| Transported volumes (million $m^3$) | **1,031** | 1,084 |
| Revenue | **861** | 884 |
| EBITDA | **596** | 614 |
| EBIT | **218** | 248 |
| Investments | **208** | 101 |

# DONG'S 7,500 KILOMETRE PIPELINE NETWORK SUPPLIES 109,000 DANISH CUSTOMERS WITH NATURAL GAS

### Facts about the distribution and storage facilities

The gas distribution network covers Southern Jutland and South and West Zealand. The approx. 7,500 kilometre distribution pipelines supply 109,000 customers with natural gas.

Income from distribution is subject to income cap regulation. The income cap ensures that the costs of efficient operation and development of the distribution network, including an equitable rate of return, are covered.

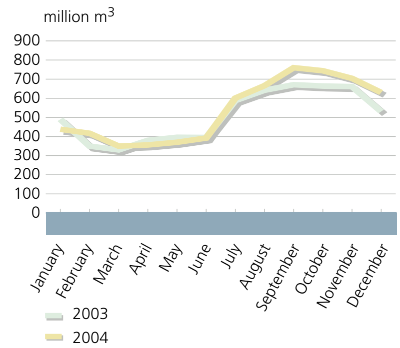
The gas storage activities are taken care of by two storage facilities located in Ll. Torup in Jutland and Stenlille on Zealand, respectively. The facilities in Ll. Torup consist of seven caverns located at a depth of approx. 1.5 kilometres in a salt dome. The caverns are between 200 and 300 metres high and have a diameter of between 50 and 65 metres. In the natural gas storage facility in Stenlille the gas is stored at a depth of approx. 1.5 kilometres in water-bearing strata of porous sandstone encapsulated by a several hundred metres thick, gas-tight clay cover.

The gas storage facilities have a total capacity of 760 million $m^3$. Just over 20% of the capacity is sold to the State's transmission company, Gastra, with a view to system balancing and emergency supply. Just under 15% is sold to other external customers, while 65% is sold internally.

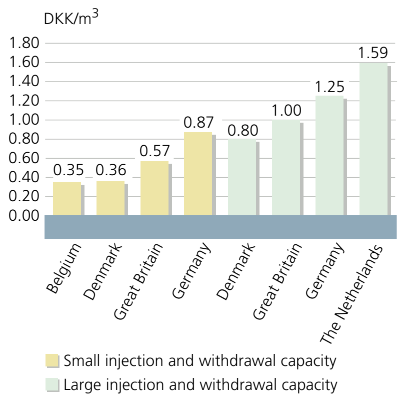
The EU is currently preparing Guidelines for Good TPA Practice for Storage System Operators (GGPSSO). DONG will follow these guidelines.

The distribution and storage activities delivered EBIT of DKK 218 million in 2004, down from DKK 248 million in 2003 due to lower transported volumes.

Inventories




Annual storage tariff in Northern Europe – 2004



# Electricity & Renewable energy

The business area Electricity & Renewable energy includes DONG's ownership interests in NESA, EnergiGruppen Jylland (EGJ) and Elsam as well as its activities within renewable energy technologies – primarily wind farms. Both areas have been significantly expanded through acquisitions and investments in the last two years.

The DONG Group holds 24% of the shares in Elsam (incl. minority interests). The equity stake was increased through acquisitions during 2004. EGJ's electricity activities were divested in 2004.

In 2004 DONG increased its stake in Barrow Offshore Wind Ltd. to 50%. This company, which owns the rights for the construction of an offshore wind farm at Barrow-in-Furness off the UK west coast, is now owned by DONG and the UK energy company Centrica on a fifty-fifty basis, with DONG as operator. In July 2004 Barrow Offshore Wind Ltd. signed an agreement with a consortium consisting of the contractor Kellogg Brown & Root and the wind turbine manufacturer Vestas on the construction of an offshore wind farm consisting of 30 wind turbines with a total capacity of 90 MW. The wind turbines will be installed in summer 2005, according to plan, and first power from this offshore wind farm is expected by the end of the year.

DONG also owns a licence to carry out preliminary investigations with a view to the establishment of an offshore wind farm at Walney Island off the UK west coast. At the start of 2005 Statkraft sold its share, and the licence is now 100% owned by DONG. The farm will have a capacity of 450 MW. DONG is the operator of the licence. An environmental impact assessment was commenced in 2004. If the necessary regulatory approvals are granted, the wind farm can be built so that it can start generating electricity between 2008 and 2010.

### Facts about Electricity & Renewable energy

The electricity activities strengthen DONG's position in the Danish energy market. The combination of gas and electricity activities enables DONG to offer its customers a broader product portfolio and, in the longer term, to use equity gas for electricity generation. In addition, there are synergies to be gained within infrastructure and operation.

The DONG Group holds 24% of the shares in Elsam (incl. minority interests). DONG also has a 13% stake in NESA. A number of agreements on acquisition of electricity activities were entered into at the start of 2005, as mentioned in the preface to this annual report.

DONG's main focus within renewable energy is on wind energy projects. DONG is also engaged in production of geothermal energy and regularly evaluates new energy technologies such as fuel cells and micro gas turbines.

In the wind energy area, the ambition is to establish DONG as an important player in the Northern European region. DONG is particularly committed to offshore wind projects, on which synergies with DONG's experience from oil/gas exploration and production can be utilised.

### Financial highlights

| DKK million | 2004 | 2003 |
|---|---|---|
| Electricity production (GWh) | **215** | 88 |
| Heat production (TJ) | **82** | 82 |
| Electricity distribution (GWh) | **629** | 453 |
| Revenue | **533** | 627 |
| EBITDA | **141** | 123 |
| EBIT | **29** | 32 |
| Investments | **366** | 454 |

DONG owns 30% of Nysted Offshore Wind Farm, which is located south of Lolland in Denmark. The farm, which was commissioned in 2003, consists of 72 Bonus wind turbines and has an installed capacity of approx. 166 MW. The expectations concerning the production level during the farm's first year of operation were met, with production in 2004 totalling 585 GWh – sufficient to supply approx. 145,000 single-family homes with renewable energy.

DONG participates with a 28% share in the Metropolitan Geothermal Alliance (HGS), which is in the process of establishing a geothermal plant on Amager. During 2004 the surface plant at the well site on Amager was completed, and the heat plant started trial operation. The plant is expected to be ready for final commissioning during the first half of 2005.

EBIT from the electricity and renewable energy activities was DKK 29 million in 2004, down from DKK 32 million in 2003 due to the fact that EGJ Varme and EGJ Forbrænding are not included in the consolidation in 2004.

# Oil pipeline

Denmark's only oil pipeline for landing crude oil is owned and operated by DONG. The oil pipeline connects the Gorm-E offshore platform with Filsø in West Jutland and onwards to the Fredericia oil terminal.

In 2004 a total of 113 million barrels of crude oil was transported for shipping from the crude oil terminal in Fredericia compared with 109 million barrels in 2003.

Earnings from the oil pipeline activities depend on the value of the oil transported through the pipeline system. Under an agreement between the Danish State and DUC - the largest user of the oil pipeline - DONG receives 5% of the value of the volume of oil transported, and the State charges 95% duty on this amount. Under the agreement, this profit element will cease in mid-2012.

The oil transportation activities contributed revenue of DKK 373 million in 2004 versus DKK 445 million in 2003. EBIT was DKK 211 million, up from a loss of DKK 104 million in 2003 due primarily to the reversal in 2004, based on a re-evaluation estimate, of a write-down made in the 2003 annual report as a result of recognition of a provision for abandonment obligations.

### Financial highlights

| DKK million | 2004 | 2003 |
|---|---|---|
| Transported volumes (million bbl) | **113** | 109 |
| Revenue | **373** | 445 |
| EBITDA | **95** | 84 |
| EBIT | **211** | (104) |
| Investments | **0** | 0 |

### Facts about the oil pipeline

DONG owns and operates the oil transportation system, which includes the Gorm-E platform in the North Sea, the oil pipeline and the crude oil terminal in Fredericia.

All expenses related to the construction and operation of the oil pipeline system are borne by the users. The users also pay DONG 5% of the value of the transported oil after deduction of transportation costs. This profit element constitutes the largest part of the transportation charge. DONG pays duty to the State amounting to 95% of the profit element.

# Quality, Health, Safety and the Environment

In 2004 DONG maintained its position as an energy supplier with a high standard of security of supply, health & safety and environmental care.

QHSE - quality, health, safety and the environment – is an integrated action area in the Group. The business areas are individually accountable for their actions in these three areas, but follow centrally determined corporate policies and apply integrated, business-orientated systems underpinning the individual policies.

As in previous years, a detailed account of DONG's QHSE efforts and performance is given in its Quality, Health, Safety and Environmental report, which is available in electronic form on www.dong.dk, along with the statutory environmental accounts for the gas storage facilities in Ll. Torup and Stenlille, the oil terminal in Fredericia and the gas treatment plant in Nybro.

### Quality

Policies, strategy and requirements were updated in 2004 so that they reflect the challenges facing the Group. The requirements concerning the QHSE systems of the various business areas have been generally simplified and tightened up. Overall corporate requirements and procedures have been established with respect to areas such as quality assurance audits, incident reporting, corrective action and document control.

In February a new strategy for internal quality assurance audits of technical activities was brought in. The new strategy focuses, to a greater extent than previously, on identifying improvement potential. As a new feature, a distinction is made between audits at corporate level and audits within individual areas of activity. Corporate audits focus on the ability of the various business areas to efficiently apply and improve their quality management systems, while the business areas audit their own activities and systems themselves.

As part of the efforts to improve quality management, extensive use is made of experience gained from unwanted events. A corporate incident reporting system was introduced in 2004 with a view to reinforcing and co-ordinating action in this area still further. The system is designed to improve the organisation's ability to continuously improve its processes and systems, and to function as a management tool for prioritising action in the QHSE area.

In 2004 all DONG-operated offshore production activities gained certification under the ISO9001 quality management standard. This means that all DONG's technical installations have gained certification. In the environmental area the drilling activities have gained certification to the ISO14001 environmental management standard, and the offshore production units are expected to gain this certification in 2005.

### Safety

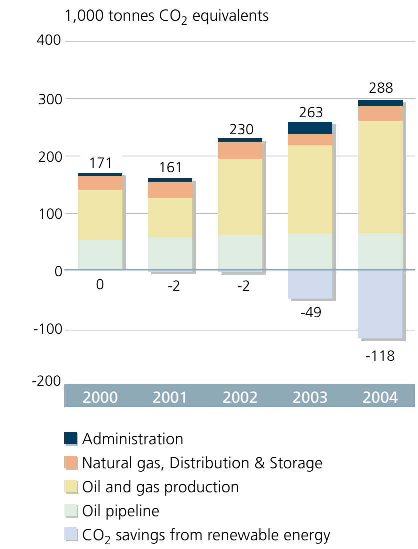
In 2004 there were 14 lost time accidents and 21 minor accidents among DONG employees and contractors within DONG-operated areas, which is on a par with 2003. 10 of the 14 lost time accidents occurred on DONG's installations and 4 in DONG's offices. The most

## QHSE policy

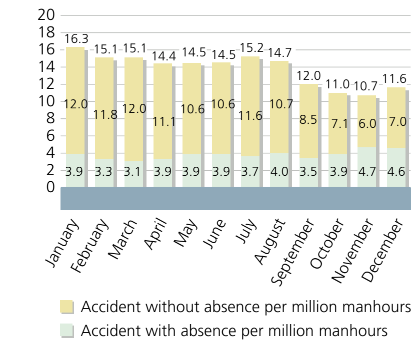
DONG procures, produces, distributes and trades in energy in accordance with its customers' needs. DONG operates responsibly and competently to the benefit of its customers, employees, society and the environment.

DONG strives:
- to develop and instil an integrated, strong QHSE culture
- to continuously improve the quality of its products and services
- to minimise resource consumption and environmental impact
- to minimise safety risks and environmental risks
- to continuously improve the working environment
- to continuously improve QHSE work processes and systems
- to co-operate with suppliers and consultants who apply similar policies

Emission of $CO_2$ and other greenhouse gases




Accident rate for DONG employees and contractors in 2004 (rolling 12 month average)




serious occupational accident in 2004 occurred on an offshore drilling rig.

The accident rate remains low relative to the Danish labour market as a whole. The accident rate for DONG's and contractors' employees was 4.6 per million manhours in 2004. According to the Danish Working Environment Authority the rate for the Danish labour market as a whole was 10.9 in 2003. The corresponding figure from the Confederation of Danish Employers (DA) was 29.0 in 2003. At the end of 2004, the total accident rate was 11.6 per million manhours for DONG employees and contractors' employees within DONG-operated areas.

The low accident rate was achieved through sustained action to instil an active safety culture among all employees. The safety organisation was restructured in 2004, partly to create synergy between the various business areas' and staff functions' safety work, and partly to simplify chains of command.

New initiatives in 2004 included an environmental and safety magazine for the distribution and storage activities and safety drives targeting specific areas.

### Environment

The most important environmental impact from DONG's activities stems from its oil and gas production and transportation. Combustion of gas and other propellants causes emission of $CO_2$ and other greenhouse gases (methane and volatile organic compounds), and chemicals are discharged in conjunction with the drilling of wells. In addition, oil and chemical residues are discharged as a by-product of oil and gas production.

The total environmental impact was reduced in 2004. Airborne emissions from oil production, which were up temporarily due to production start-up in the Nini, Cecilie and Stine fields, are now back to the normal, low level.

To compensate for its emissions of greenhouse gases, DONG produces energy from renewable energy sources, primarily wind turbines. The renewable energy replaces energy produced from fossil fuels, cutting $CO_2$ emissions to the environment. Due to growing production from the offshore wind farms, $CO_2$ reduction volumes went up in 2004.

The geothermal plant on Amager, which was completed in 2004 and will be commissioned in 2005, is expected to cut emissions to the environment by approx. 10,000 tonnes $CO_2$ annually compared with heat from a coal-fired CHP station.

In connection with the energy advice offered to customers by DONG in 2004, the air pollution from conventional oil-fired boilers and gas condensing boilers in private homes was calculated in co-operation with Danish Gas Technology Centre. One of the findings was that replacing a conventional oil-fired boiler with a modern gas condensing boiler will reduce the $CO_2$ emission of a standard household by approx. 35%, equivalent to an annual saving of approx. 2.8 tonnes.

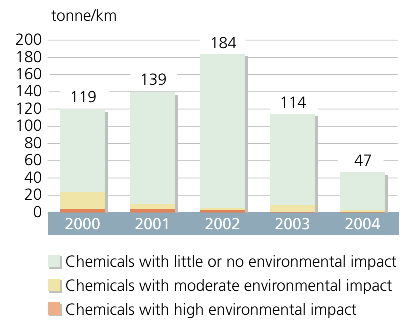
Volatile Organic Compounds (VOC) account for just over one third of DONG's total greenhouse emissions, calculated as $CO_2$ equivalents. The biggest sources are the crude oil terminal in Fredericia and loading of crude oil from offshore installations. The emissions from loading of crude oil have fallen after the new tanker "Siri Knutsen" was brought into use. The tanker discharges up to 80% less VOC than previous tankers.

To cut down on the discharge of chemicals during drilling of offshore wells, drilling mud is reused, and contaminated drill cuttings are taken onshore for decontamination. DONG minimises the discharge of environmentally harmful chemicals to sea, partly by consistently using eco-friendly chemicals, and partly by reducing discharges per kilometre drilled. Reduction in discharges was

Annual discharge from a typical one-family house

| | Natural gas boiler (condensing) | Traditional oilfired boiler |
|---|---|---|
| $CO_2$ | 4,730 kg/year | 7,490 kg/year |
| $SO_2$ | 25 g/year | 2,330 g/year |
| $NO_X$ | 1,610 g/year | 4,220 g/year |

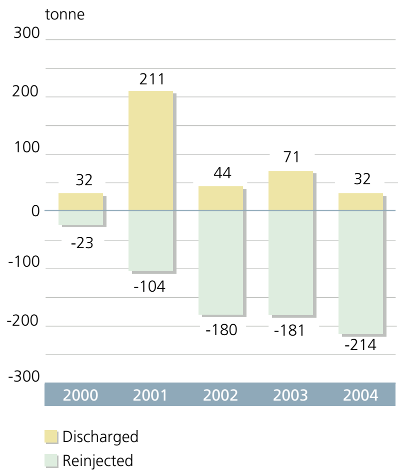
Discharge of chemicals in connection with drilling projects



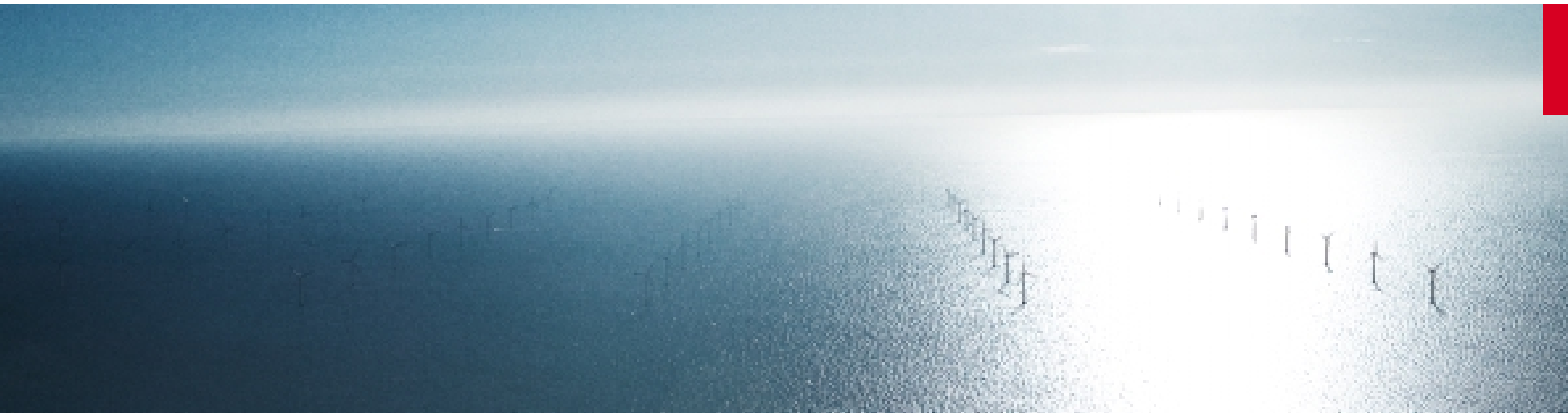

maintained in 2004 with a highly satisfactory result.

Discharges of chemicals and oil to sea from oil production in the North Sea also

Discharge of oil and chemicals in connection with DONG's oil and gas production in the North Sea




declined. The water produced with the oil from the reservoir is increasingly separated and reinjected back into the reservoir. The water is accompanied by oil and chemical residues. In 2004 approx. 90% of this water was reinjected into the underground.



## Glossary

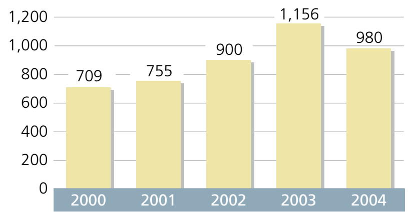
**Carbon dioxide, $CO_2$** is the predominant greenhouse gas. In Denmark, the main sources of $CO_2$ emissions are energy production and transport. All forms of combustion produce $CO_2$ as a result of the oxidation of the carbon content of the fuels in connection with the combustion processes. Natural gas contributes less to $CO_2$ emissions than coal and oil because the ratio of hydrogen to carbon is higher in natural gas.

**Sulphur dioxide, $SO_2$.** Sulphur dioxide emissions develop during combustion when sulphur compounds in oil and coal react with the oxygen in the air to form sulphur dioxide. CHP stations and industry are by far the largest $SO_2$ emitters in Denmark. The sulphur content in natural gas is very low.

**Nitrogen oxides, $NO_X$.** Nitrogen oxide emissions develop during high-temperature combustion, when both the nitrogen compounds in the fuel and the nitrogen in the air are oxidised. The atmosphere has a natural nitrogen content of 78%. CHP stations, industry, residential heating and traffic contribute to nitrogen emissions.

**VOC** (Volatile Organic Compounds) is a collective term for a number of volatile organic compounds. They are formed and emitted naturally, but also as a consequence of the consumption of coal, oil products and natural gas as well as evaporation in connection with use of solvents.

Number of employees at year end




## Employees

DONG had 980 employees at 31 December 2004, down from 1,156 in 2003. The fall in the number of employees was due to the sale of activities, including Gastra. Overall employee turnover was 10.8% versus 4.9% in 2003.

Registered absence due to illness was 2.0% in 2004, which is low. According to statistics from DA (The Confederation of Danish Employers), absence due to illness in Denmark as a whole was 3.7% in 2003. DONG makes every effort to provide a working environment that results in minimum absence due to illness and maximum employee satisfaction. In order to develop and motivate its employees, DONG gives high priority to training and education. In 2004 DONG thus spent DKK 13,488 per employee on training and education activities, and each employee used five working days, on average, on training and education. All managers in DONG undergo a fixed management development programme.

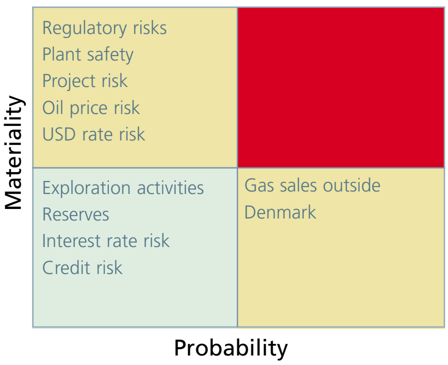
In 2004 DONG cut back the number of employees in administrative functions with a view to aligning the company to the conditions in a market with intensifying competition. The efficiency improvements led to a surplus of employees. DONG has initially sought to alleviate this situation through redeployment, in-service training and natural wastage.

# Risk management

DONG's activities, financial position, results and future growth are affected by a number of non-financial and financial risks. DONG therefore regularly reviews these identified risks and the associated risk policies to ensure that there is always an appropriate balance between the risk exposure and DONG's activities.

Risk management is undertaken at both strategic and operational level. DONG makes every effort to ensure that risk management is applied optimally. The risk management is always based on DONG's activities.

Risks are assessed based on importance and probability of the risk materialising. The risk map below shows a net assessment of DONG's commercial risks ranked by importance and probability. The net assessment takes account of the risk-reducing measures that have been put in place.




## Non-financial risks

### Regulatory risks

The liberalisation of the energy sector implies changes in the statutory basis and regulatory conditions, and this may impact adversely on financial performance and future growth.

Earnings from the operation of wind farms, for example, depends on national regulation.

DONG seeks to counter the regulatory risks by continuously keeping abreast of market regulation and regulatory matters. Where required to comply with legislation, DONG operates with strict separation of business units to prevent exchange of confidential information between these.

### Safety of DONG's installations

Oil and gas production and transportation call for special attention to physical safety. The consequences of bodily injury or damage to installations can be serious and may lead to failure of the supply of oil/gas/flow and, not least, to potential loss of life. The safety level and accident statistics are also taken into consideration in connection with the award of oil and natural gas exploration and production licences.

Due to the potentially adverse consequences of inadequate safety, DONG maintains a high level of safety for all its activities, from production in the North Sea through to transportation and distribution of oil and gas. The individual operating components on land-based and offshore installations are replaced regularly to ensure state-of-the-art production technology and continuous operation. DONG makes stringent requirements of suppliers and carries out preventive maintenance to reduce the risk of accidents. All DONG's technical installations have gained ISO9001 certification.

Damage to plant, bodily injury, etc., are insured through reputable insurance companies.

### Project risk

As DONG is an investment-intensive company, the requirements concerning management of project-related risks are particularly stringent. DONG's investment projects are often complex, increasing the risk of budget overruns and delays. Such project risks are reduced by application of a standardised decision-making process and by drawing on DONG's experience from and competencies within investment projects.

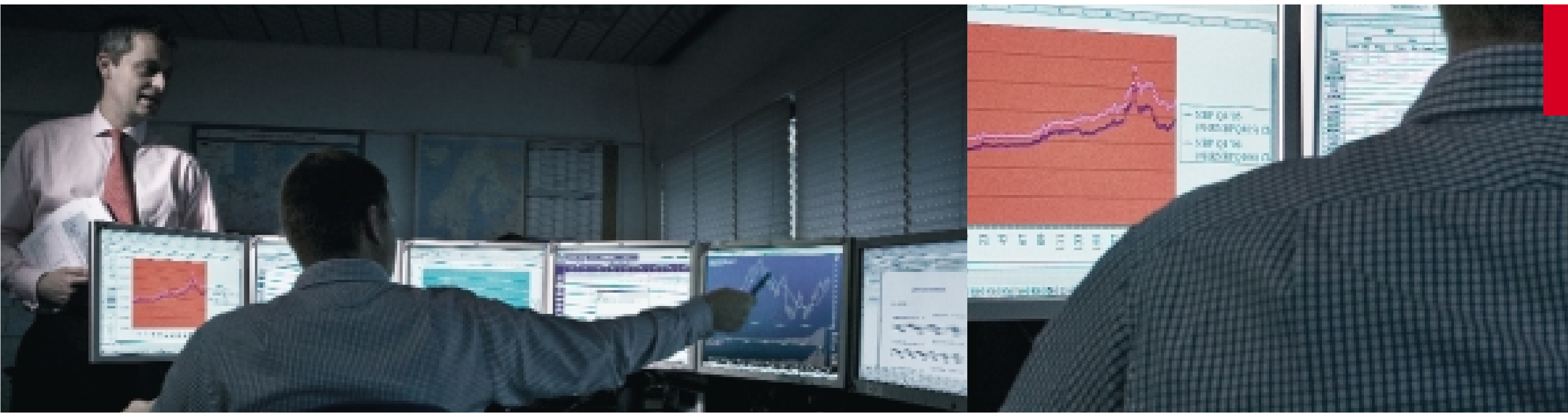
### Exploration activities and evaluation of reserves

Oil and natural gas exploration by its nature involves uncertainty with respect to the possibilities for making new oil and gas finds. DONG seeks to establish the optimum decision-making basis by carrying out preliminary investigations prior to drilling each well. This reduces the risk of negative results.

Evaluating the size of the reserves of producing fields is a complex process involving various parameters, each of which is subject to uncertainty. In an evaluation of reserves, geological models and independent third-party evaluations are used.

### Gas trading outside Denmark

DONG stepped up its commitment to gas trading in and outside Denmark, establishing a gas trading unit in 2004



that buys and sells gas on the newly established trading hubs in Europe. The trading unit is charged with optimising the trading contracts entered into.

The trading activities account for a limited portion of total revenue and are operated within a pre-defined framework.

The risk associated with gas trading is the non-performance of contractual obligations, which can lead to claims for damages from customers, the imposition of penalties by the transmission companies and increased transportation costs.

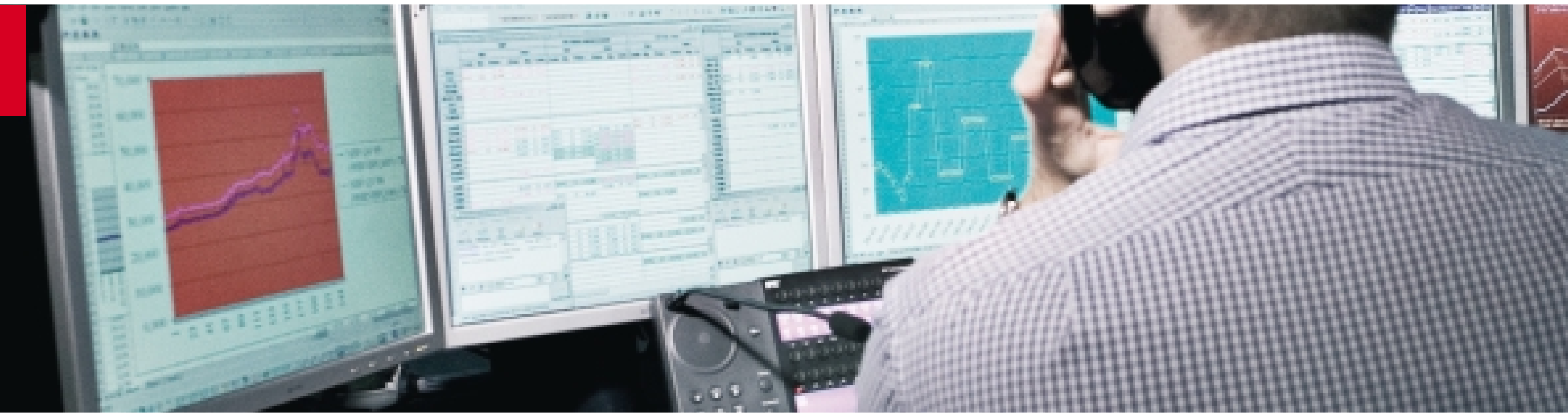
The contracts are complex, and DONG focuses on minimising its risk under these contracts.

## Financial risks

DONG's operations involve a number of financial risks, and risk management of these is an important focus area. Risk management is applied to ensure an optimum balance between investment and return. One of the benefits of the strategic focus on building up leading-edge risk management skills is that DONG is able to offer a number of sophisticated commercial products that are all aimed at reducing the price risk for the customers. DONG considers that optimal risk management alone can strengthen existing business opportunities while at the same time creating new ones. The risk policy for managing financial risks has been laid down by the Supervisory Board. It is DONG's policy to identify and assess all material financial risks with a view to their inclusion in the risk management. To this end all financial risk management is gathered centrally.

DONG's risk policy is based on active hedging of the market prices that affect DONG's earnings. As part of its risk policy DONG actively manages market risks up to five years ahead by concluding financial hedging contracts with a view to reducing the risk of losses. DONG uses financial hedging instruments solely with a view to reducing its financial exposure. The most important market risks are related to the USD exchange rate and the oil price.

These risks are hedged using forwards, swaps and various option strategies. DONG's operating profit may fluctuate considerably from year to year as a result of the development of the price of oil and USD, despite the oil price and USD exchange rate exposure having been largely hedged. The reason for this is the so-called time lag effect, where DONG's purchase and selling prices for natural gas are adjusted at different time intervals, with the selling prices for example being adjusted on the basis of the previous month's market prices for USD and oil while the purchase prices are adjusted with a delay of up to 15 months. A change in the price of oil and/or USD exchange rate in January may thus affect DONG's selling prices in February, but will not be felt on purchase prices till June of the following year. For that reason the effect of a change in primarily the oil price and the USD exchange rate may be felt in different years for purchase contracts and sales contracts, respectively; however,



the fluctuations will balance each other out over a number of years.

**Oil price risk**

DONG's oil price risk relates primarily to equity oil and to the difference between purchase and selling prices for natural gas. To this should be added new price products offered to the customers. The exposure is mainly in crude oil, but also in a number of other oil products such as fuel oil and gas oil. Hedging is mainly in the underlying oil types to reduce the risk of price fluctuations between the various types of oil. DONG primarily hedges the oil price risk by buying put options and by forward sale of oil. At the end of 2004 DONG had hedged a considerable part of each of the coming five years' oil price risk.

**Currency risk**

The main currency risk is still related to USD, although the exposure in NOK and GBP is growing. The USD exchange rate risk is mainly attributable to the oil price exposure, as oil is settled in USD. DONG primarily hedges its currency exposure by using forwards and swaps and, to a lesser extent, options. At the end of 2004 DONG had hedged a considerable part of each of the coming five years' currency risk.

**Interest rate risk**

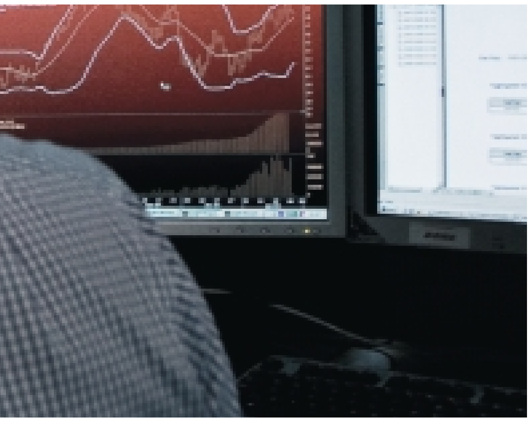
DONG's interest rate risk relates mainly to its loan portfolio, cash, including bonds, and concluded financial hedging contracts. The interest rate risk is managed in relation to DONG's net financing requirement and capital structure, with the interest rate risk being aligned to the current need for loan finance. To reduce its interest rate exposure DONG has elected to swap its loan portfolio from floating-rate loans to longer-term fixed-rate loans, while at the same time reducing the interest rate risk on its cash funds. At the end of 2004 the net interest rate risk was calculated as an approx. DKK 374 million change in the market value of interest rate-dependent items in the event of a one percentage point interest rate increase.

**Credit risk**

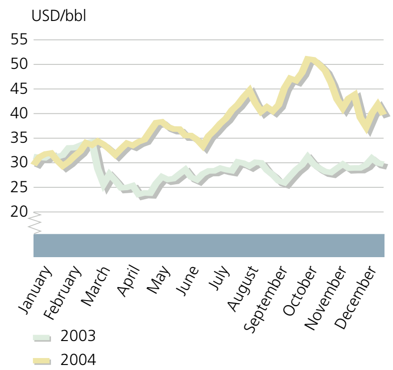
As a consequence of the liberalisation of the gas market and an increase in financial contracts, DONG has tightened its focus on credit risk management. To this end internal counterparty credit lines have been established (commercial as well as financial) along with structured follow-up on the current counterparty exposure. DONG typically establishes counterparty credit lines by reference to credit ratings from external rating agencies.

**Cash flow risk and financial resources**

One of the main financial management tasks is to secure sufficient, flexible financial resources in relation to the day-to-day operations and implementation of DONG's strategy. To this end internal management objectives have been set up for the extent of the financial resources, taking into account factors such as DONG's debt maturity profile. DONG's financial resources consist primarily of a number of committed and uncommitted credit facilities. The existing committed facilities have been taken out for one year at a time.



Development in oil price (dated Brent)



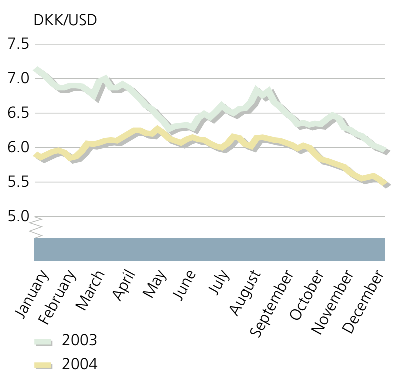

The Group's cash funds dropped in the course of 2004 due to the increasing investment and acquisition activity. The financial resources will therefore be based, to a greater extent, on long-term committed credit facilities.

### Finance

At the end of 2004, the Group had total interest-bearing debt of DKK 3,898 million with an average remaining duration of 3.5 years, which is a reduction of 0.2 years from 2003. A DKK 2,234 million reduction in consolidated debt due to the sale of Gastra at the start of 2004, redemption of DKK 1,035 million and raising of new debt of DKK 1,169 million all impacted on interest-bearing debt in 2004. The new debt consists of long-term loan agreements with multilateral institutions and drawdowns on credit facilities.

New financing is basically raised by the parent company and then distributed to the individual business areas in the form of intra-Group loans and equity. Cash and cash equivalents stood at DKK 746 million at the end of 2004, down DKK 2,864 million on 2003 due to the increasing investing activity. DONG expects to finance its investments in 2005 partly through existing credit facilities, and partly by raising of bond loans and bank loans, and it is planned to strengthen the financial resources via a long-term revolving syndicated bank facility.

Development in USD




### Rating

DONG was rated by Moody's Investors Service and Standard & Poor's in 2004. The ratings were established to underpin the Group's financial activities and its growing international gas trading activities. DONG's ratings appear from the table below.

**Credit rating:**

| | DONG A/S | DONG Naturgas A/S |
|---|---|---|
| Standard & Poor's | A-/Stable outlook | No rating |
| Moody's | A3/Negative outlook | A3/Negative outlook |

# Corporate governance

Good corporate governance is based on the Supervisory Board and its relationship with shareholders, society and the Executive Board. In Denmark the Nørby Committee's recommendations from 2001 and the Copenhagen Stock Exchange's recommendations from 2004 represent the cornerstones of good corporate governance. Although its recommendations are aimed at listed companies, the Nørby Committee suggests that they should also be observed by state-owned enterprises as appropriate.

DONG endeavours to ensure that its objectives and the overall principles and structures regulating the interaction between its management bodies, owner and other stakeholders are compatible with good corporate governance at all times. DONG's Supervisory Board thus carries out an annual corporate governance review based on best practice in the area, including the Nørby Committee's and the Copenhagen Stock Exchange's recommendations, which are essentially complied with.

The Supervisory Board has established a communication policy according to which credibility, clarity and precision are critical to ensure understanding and acceptance of DONG's activities and products by the public. This is the basis for doing business, thereby creating earnings for the Group, the owner and society. Information about the Group's activities is therefore communicated systematically, also when it concerns the negative aspects of DONG's activities. The public is informed via www.dong.dk, press releases, notices to the Danish Commerce and Companies Agency and quarterly reports. DONG's financial reporting conforms to the provisions applying to listed companies. DONG is preparing for the presentation of IFRS-compliant financial statements for 2005. Environment, health & safety are a special area for DONG and DONG prepares a separate annual Quality, Health, Safety and Environmental Report, which is available on www.dong.dk.

### Organisation

DONG is a State-owned public limited company. The shareholders (the Danish State) have the ultimate authority over the company, within the framework established by law, and they exercise their right to make decisions at the general meetings. The company has a two-tier management structure consisting of a Supervisory Board and an Executive Board. The Supervisory Board monitors the company's financial performance, management and organisation on behalf of the shareholders, while the Executive Board has the day-to-day responsibility for the company's operations. The Supervisory Board and the Executive Board are two separate entities and have no joint members.

On 17 December 2004 the Folketing passed a resolution repealing the Act on Dansk Olie og Naturgas A/S, etc., with effect from 1 January 2005. The legislation relating to DONG is thus being brought into line with other listed companies. As a consequence of the repeal of the Act, the Committee of Representatives has been disbanded. The purpose of the Committee of Representatives was to accommodate the information needs of the State and the general public. These information needs will now be met through the general reporting.

### Annual General Meetings

General meetings must be convened by not less than two weeks' notice. The agenda and the complete resolutions to be proposed must be forwarded not later than eight days before the general meeting or, if the notice has been waived, at the same time as the notice convening the meeting. At the Annual General Meeting the annual report must be adopted and auditors appointed.

### Supervisory Board

At the end of 2004 the Supervisory Board had 8 members. Five of these were elected at the Annual General Meeting and three are DONG employees elected by the employees. According to the Articles of Association, the Supervisory Board may have max. 6 members elected by the shareholders in general meeting.

Each year the three longest-serving members elected by the shareholders in general meeting must retire; however, retiring members may be re-elected to the Supervisory Board without limitation. According to Danish legislation, the employees are entitled to have a number of representatives on the Supervisory Board equivalent to half the number of members elected by the shareholders in general meeting. The employee-elected members are elected for four-year terms.

DONG's overall objectives and strategies are determined by the Supervisory Board, which is also responsible for appointing a competent Executive

Board. At the end of 2004 DONG did not have any permanent Supervisory Board committees for the purpose of preparing the Supervisory Board's tasks.

With a view to improving the Supervisory Board's work, the chairman of the Supervisory Board can arrange, every two years, for a self-evaluation of the Supervisory Board and its individual members to be conducted and of the Supervisory Board's performance and composition. The evaluation, which was performed most recently in 2004, is discussed by the entire Supervisory Board. Particulars concerning the individual members are given on page 96.

The Supervisory Board held 17 meetings in 2004, including 9 ordinary meetings.

### Executive Board

The Executive Board consists of four persons and is responsible for the day-to-day operation of the company. Only Anders Eldrup, President and CEO, is registered as President and CEO of DONG A/S.

In instructions, the Supervisory Board lays down the detailed rules for the Executive Board, including the distribution of responsibilities between the Supervisory Board and the Executive Board and the Executive Board's powers to enter into agreements on behalf of the company.

The Executive Board represents the company to the public, unless the Supervisory Board decides otherwise in specific cases.

The chairman of the Supervisory Board evaluates the Executive Board's performance annually, including how the co-operation between the Supervisory Board and the Executive Board has functioned. The findings are presented to the entire Supervisory Board.

Information about the Executive Board is given on page 96.

### Remuneration of the Supervisory Board and the Executive Board

DONG's remuneration policy is based on a wish to attract, retain and motivate the members of the Supervisory Board and the Executive Board. The remuneration has therefore been fixed at a competitive level.

In 2004 the Supervisory Board received fixed remuneration totalling DKK 1.4 million, as in 2003. The Supervisory Board's remuneration is fixed at the Annual General Meeting in connection with the adoption of the financial annual report.

The Executive Board's remuneration is fixed by the Supervisory Board. In 2004 the Executive Board received DKK 9 million in fixed remuneration including pension. This included the salary of the President and CEO, which amounted to DKK 2.7 million. To this should be added a performance-based bonus of DKK 0.4 million to the President and CEO relating to 2003. The performance-based bonus for the entire Executive Board for 2004 cannot exceed DKK 1.5 million. DONG does not offer any share options, subscription rights or similar bonus schemes. If the employment of a member ceases for reasons other than his/her resignation, he/she is entitled to compensation equivalent to 24 months' salary.

In addition, following the conclusion of the Elsam framework agreement, it has been agreed that the Executive Board will be comprised by a retention bonus scheme entitling the members to six months' salary.

### Risk management and internal control

DONG seeks to identify risk factors that can impact adversely on the Group's activities, financial position and results. The Supervisory Board evaluates the risk policy for all relevant factors annually based on the Executive Board's recommendation.

The day-to-day risk management is taken care of by DONG's Risk Management Committee under the guidance of the CFO.

The Supervisory Board has the overall responsibility for the internal control environment. In consultation with the Supervisory Board, the Risk Committee prepares and plans appropriate internal controls.

### Auditors

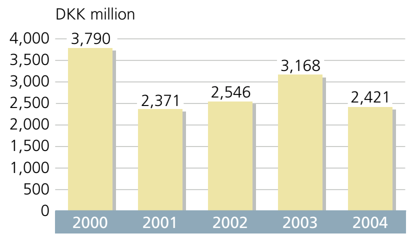
In consultation with the Executive Board, the Supervisory Board recommends external auditors for appointment at the Annual General Meeting. The recommendation is based on an evaluation of the auditors' competencies, objectivity and independence, as well as effective audit performance. The auditors report material issues directly to the Supervisory Board at meetings of the Supervisory Board and in the long-form audit report.

# Financial review

## Profit for the year

Consolidated net profit amounted to DKK 1,881 million in 2004 versus DKK 1,941 million in 2003. Profit before tax was DKK 3,059 million versus DKK 3,248 million in 2003. Full-year profit exceeded the DKK 1.7 billion forecast in the quarterly report for the third quarter. Profit benefited from non-recurring income due to the divestment of activities, value adjustment of shares in Elsam, and reversal of a previously made write-down.

EBIT (operating profit)




EBIT was DKK 2,421 million versus DKK 3,168 million in 2003. The reason why EBIT did not go up despite the rising oil prices was that sales had been predominantly hedged to the effect that the full benefit of the high oil prices was not felt. Moreover, time lags between purchase and sales contracts did not contribute as much to EBIT in 2004 as they did in 2003, and, lastly, margins realised on natural gas sales in Denmark were down due to the loss of market share in Denmark.

### Special factors in the 2004 financial year

Divestment of activities and revaluation of the shareholding in Elsam to fair value at 31 December 2004 contributed DKK 562 million to net profit.

A re-evaluation of an abandonment obligation resulted in the reversal in 2004 of a write-down of DKK 112 million (after tax) made in 2003.

### Exploration & Production

EBIT was DKK 416 million in 2004, down from DKK 917 million in 2003 due mainly to higher depreciation and impairment losses. Revenue generated by the exploration and production activities was DKK 3,192 million in 2004 versus DKK 3,187 million in 2003. Oil and gas production was 17.6 million boe (barrels of oil equivalent) versus 18.8 million boe in 2003. Production in Norway was down on 2003, partly because of a production shut-down on the Tambar field due to a pipeline leak.

### Natural gas, Trade & Supply

EBIT amounted to DKK 1,573 million in 2004, down 15% on 2003, due primarily to increased transportation costs and lower prices as a consequence of increasing exports as well as time lags between purchase and sales contracts, which did not contribute as much to profit in 2004 as in 2003.

Natural gas revenue reached DKK 10,022 million in 2004, up from DKK 9,988 million in 2003.

Sales totalled 7,506 million $m^3$, up 455 million $m^3$ from 2003.

### Natural gas, Distribution & Storage

EBIT was DKK 218 million in 2004, down 12% on 2003, reflecting lower revenue from the distribution activities due to fewer degree days. Profit from the storage activities was in line with the 2003 figure. Revenue was DKK 861 million versus DKK 884 million in 2003.

Transported volumes amounted to 1,031 million $m^3$ versus 1,084 million $m^3$ in 2003.

### Electricity & Renewable energy

EBIT totalled DKK 29 million in 2004 versus DKK 32 million in 2003.

Revenue amounted to DKK 533 million versus DKK 627 million in 2003.

The decline in EBIT and revenue was due to the fact that EGJ Varme and EGJ Forbrænding were not included in the consolidation in 2004, but were recognised as an investment at fair value.

## Oil pipeline

EBIT amounted to DKK 211 million in 2004, up from a loss of DKK 104 million in 2003, due to the reversal of the DKK 160 million write-down (DKK 112 million after tax) and higher oil prices.

Revenue amounted to DKK 373 million versus DKK 445 million in 2003.

## Revenue

Revenue totalled DKK 14,292 million compared with DKK 14,267 million in 2003.

Revenue benefited from the higher oil prices, offset in part by the adverse impact of hedging transactions.

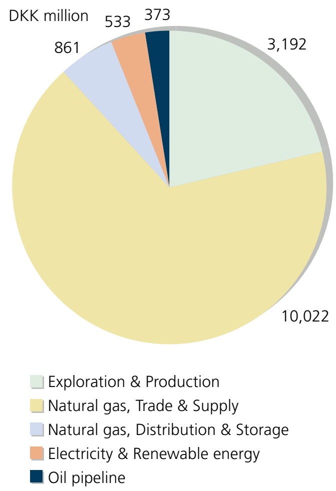
## Net financial items

The Group's financial items showed income of DKK 171 million net in 2004 versus DKK 56 million in 2003. Financial income included value adjustment of investments in Elsam (DKK 318 million), net interest income (DKK 29 million), the interest element of abandonment costs (DKK 53 million), and a net foreign exchange loss of DKK 35 million. Fair value adjustments of financial instruments featured with a loss of DKK 114 million.

## Tax

The average effective tax rate for 2004 was 32% versus 40% in 2003. The tax charge in 2004 totalled DKK 968 million. The lower average tax rate was due to proceeds on divestment of activities and value adjustments of investments that were subject to limited tax liability only. The reason for the generally high average tax rate was the Norwegian hydrocarbon taxation.

Revenue by business areas in 2004
(incl. intra Group revenue)



## Cash flows

Free cash flows to equity excluding acquisitions amounted to DKK 1,653 million in 2004 versus DKK 1,592 million in 2003. Free cash flows including acquisitions amounted to minus DKK 1,061 million in 2004 versus DKK 1,517 million in 2003. Cash flows from operations were DKK 3,539 million, down from DKK 4,442 million in 2003 due to a DKK 860 million decline in EBITDA and an increase in funds tied up in working capital. Cash flows from investing activities were DKK 4,600 million compared with DKK 2,925 million in 2003. Investing activities benefited from the sale of the gas transmission activities to the tune of DKK 1,433 million.

The acquisition of Elsam shares accounted for a substantial part of investing activities in 2004.

## Balance sheet

The consolidated balance sheet total stood at DKK 31,380 million at 31 December 2004, compared with DKK 33,230 million at the end of 2003.

### Intangible assets and property, plant and equipment

Fixed assets amounted to DKK 16,570 million at 31 December 2004, down from DKK 22,509 million in 2003 due, in particular, to the disposal of the gas transmission activities.

Additions to intangible assets in 2004 included primarily a sum of DKK 475 million in respect of acquisition of rights for use in connection with gas transportation.

The main additions to property, plant and equipment were the connection to the Nogat pipeline, which connects the DUC fields with the Netherlands, and abandonment obligations. The capitalised abandonment obligations accounted for DKK 789 million of total property, plant and equipment of DKK 15,821 million.

Total net investment spend on property, plant and equipment was DKK 1,857 million in 2004 versus DKK 2,698 million in 2003. As in previous years, a revaluation was carried out at the end of the year of the carrying amounts for the natural gas storage facilities, the natural gas distribution system and the offshore pipelines. The valuation is based on an estimate of future earnings from treatment, storage and distribution of natural gas.

The value of the German natural gas pipeline was written up by DKK 57 million directly on equity.

### Investments

Other investments include the investments in NESA A/S (13% ownership interest) and Elsam A/S (24% ownership interest incl. minority interests). Elsam was not accounted for as an associate at the end of 2004, as the DONG Group could not exercise significant influence over the company. At the end of 2004 the shares in Elsam were therefore recognised at fair value based on the most recently completed trades in 2004 (price of 890).

### Current assets

Current assets fell by DKK 610 million to DKK 7,955 million.

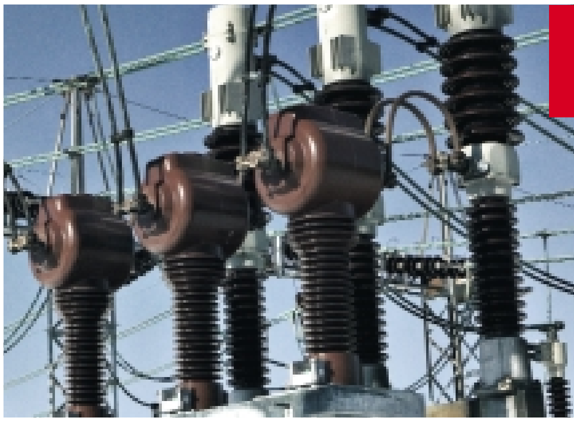
Consolidated receivables increased by DKK 2,201 million, due partly to receivables in respect of divestment of activities. The value of securities and cash was DKK 746 million versus DKK 3,610 million in 2003.

### Equity

Consolidated equity stood at DKK 15,649 million at the end of 2004 versus DKK 16,794 million in 2003, equiv-

## Change in net interest-bearing debt

| DKK million | 2004 | 2003 |
|---|---|---|
| Cash flows from operating activities | **3,539** | 4,442 |
| Cash flows from investing activities | **(4,600)** | (2,925) |
| Dividends | **(1,906)** | (440) |
| Disposal on sale of subsidiaries | **2,226** | - |
| Other | **(3)** | (255) |
| Change | **(744)** | 822 |
| Net interest-bearing debt at year end | **3,186** | 2,442 |



## Effect on financial highlights of disposal of the gas transmission activities

| DKK million | DONG 31/12-2003 | Gas transmission activities | Adjusted DONG 31/12-2003 |
|---|---|---|---|
| Profit for the year | 1,941 | 61 | 1,880 |
| Revenue | 14.267 | (141) | 14,408 |
| EBIT | 3,168 | 223 | 2,945 |
| Property, plant and equipment | 22,120 | 4,844 | 17,276 |
| Current assets | 8,565 | 494 | 8,071 |
| Liabilities other than provisions | 10,784 | 2,431 | 8,353 |

alent to an equity ratio of 50%. Undistributable reserves within the electricity activities were released in 2004 as a result of the Energy Agreement. Moreover, regulated activities based on the principle of self-financing are no longer included in the consolidation. This has reduced undistributable reserves by DKK 248 million.

Equity benefited from net profit for the year of DKK 1,881 million, but was constrained by dividends paid of DKK 1,906 million and the year's value adjustments of financial hedging instruments, amounting to DKK 735 million before tax. Value adjustments amounted to DKK minus 333 million at the end of 2004 versus DKK 402 million at the end of 2003.

### Liabilities other than provisions

Consolidated debt stood at DKK 10,603 million at 31 December 2004 versus DKK 10,784 million in 2003, including interest-bearing debt of DKK 3,898 million, versus DKK 5,998 million in 2003. Net interest-bearing debt amounted to DKK 3,186 million in 2004 compared with DKK 2,442 million in 2003.

### Provisions

Deferred tax amounted to DKK 3,050 million, down DKK 1,052 million from 2003 due mainly to the disposal of the gas transmission activities.

Other provisions amounted to DKK 1,366 million, including abandonment obligations of DKK 1,308 million. In 2004, an amount of DKK 342 million was added to provisions for abandonment obligations.

## DONG A/S parent company

A forward exchange contract that is accounted for as trading but was entered into in order to hedge a future payment in a subsidiary eroded the parent company financial statements. In the consolidated financial statements the amount in question is recognised as value adjustments of hedging instruments under equity.

# Statement by the Executive and Supervisory Boards

The Executive and Supervisory Boards have today considered and approved the annual report for 2004.

The annual report has been prepared in accordance with the Danish Financial Statements Act and operative Danish Accounting Standards. We consider the accounting policies applied to be appropriate. Accordingly, the annual report gives a true and fair view of the Group's and the parent company's assets and liabilities, financial position at 31 December 2004 and of the results of the Group's and the parent company's operations and cash flows for the financial year 1 January – 31 December 2004.

We recommend that the annual report be approved at the Annual General Meeting.

Hørsholm, 1 March 2005

**Executive Board:**

Anders Eldrup
*CEO*

**Supervisory Board:**

Sven Riskær
*Chairman*

Lars Nørby Johansen
*Deputy Chairman*

Asbjørn Larsen

Lars Torpe Christoffersen

Svend Sigaard

Jesper Magtengaard*

Thorkild Meiner-Jensen*

Bent Stubkjær Pedersen*

* Employee-elected member

# Auditors' report

## To the shareholder of DONG A/S

We have audited the annual report of DONG A/S for the financial year 1 January - 31 December 2004, pages 1-90, prepared in accordance with the Danish Financial Statements Act and Danish Accounting Standards.

The annual report is the responsibility of the Company's Executive and Supervisory Boards. Our responsibility is to express an opinion on the annual report, pages 1 – 90, based on our audit.

## Basis of opinion

We conducted our audit in accordance with Danish Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual report. An audit also includes assessing the accounting policies used and significant estimates made by the Executive and Supervisory Boards, as well as evaluating the overall annual report presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not result in any qualification.

## Opinion

In our opinion, the annual report gives a true and fair view of the Group's and the parent company's financial position at 31 December 2004 and of the results of the Group's and the parent company's operations and cash flows for the financial year 1 January - 31 December 2004 in accordance with the Danish Financial Statements Act and Danish Accounting Standards.

Copenhagen, 1 March 2005

KPMG C.Jespersen
Statsautoriseret Revisionsinteressentskab

Flemming Brokhattingen
*State Authorised Public Accountant*

Torben Bender
*State Authorised Public Accountant*

PricewaterhouseCoopers
Statsautoriseret Revisionsinteressentskab

Carsten Gerner
*State Authorised Public Accountant*

Jørgen Antonsen
*State Authorised Public Accountant*

# Accounting policies

## Basis of preparation

The annual report has been prepared in accordance with the provisions applying to class D-companies under the Danish Financial Statements Act and operative Danish Accounting Standards. As a class D-company DONG is comprised by the same rules in the Danish Financial Statements Act as listed companies.

The consolidated and parent company financial statements have been prepared in accordance with the same accounting policies as last year. Compared with last year, editorial changes and clarifications have been made in this statement concerning accounting policies.

### Changed classification and discontinuation of consolidation, etc.

In 2004 DONG reassessed the classification of goodwill acquired in connection with prior year acquisitions. Based on a detailed analysis, it has been deemed that, in the case of some acquisitions, the acquired goodwill relates, wholly or in part, to know-how and rights. Comparative figures for 2003 and financial highlights have been restated to reflect the changed classification. The changed classification has no effect on profit or equity.

Clarifications have been made in 2004 of the classification of derivative financial instruments in the balance sheet. Comparative figures for 2003 and financial highlights have been restated accordingly. The changes have no effect on profit, total assets or equity.

The classification of an investment in a wind farm was changed in 2004 so that it is now classified as a joint venture recognised by proportionate consolidation. The investment was previously classified as an associate and accounted for as an equity method investment. The comparative figures for 2003 and financial highlights have been restated accordingly. The change has no effect on profit or equity.

Based on a reassessment, income tax receivable is no longer set off against income tax payable in the financial statements in the case of some tax jurisdictions. The change has increased the balance sheet total at 31 December 2003 by DKK 220 million in total. Comparative figures for 2003 have been restated. The change has no effect on profit or equity.

The value of the German natural gas pipeline was reassessed in 2004 in accordance with DONG's accounting policies, whereby natural gas pipelines are revalued at fair value. The German natural gas pipeline was not valued in previous years, and the DKK 57 million revaluation gain has therefore been recognised with accounting effect from 1 January 2004. The comparative figures for 2003 have not been restated.

In 2004 DONG reassessed its accounting treatment of regulated companies that are regulated according to a principle of self-financing, where there is no regulatory access for the shareholder to receive a return on the undistributable reserves tied up in these activities. Against that background it has been decided that there is no basis for maintaining the consolidation. The investments in these companies are therefore instead measured at fair value. The changed accounting treatment of the consolidation has not affected profit for 2004, but has reduced consolidated equity at 31 December 2004 by a total of DKK 248 million in undistributable reserves. The comparative figures for 2003 have not been restated.

In the cash flow statement, cash and cash equivalents totalling DKK 34 million at 31 December 2004 related to regulated activities have been reclassified, based on a reassessment, so that they are now recognised as part of operating activities. The comparative figures for 2003 and financial highlights for 2003 have been restated accordingly.

### Consolidated financial statements

The consolidated financial statements comprise the parent company and subsidiaries in which DONG A/S holds, directly or indirectly, more than 50% of the voting rights or which it controls in some other way. Regulated companies that operate according to a principle of self-financing and where DONG A/S does not have direct or indirect access to receive a return are not included in the consolidation, but are instead measured at fair value as investments. Companies in which the Group has significant influence, but not control, are accounted for as associates. Significant influence is typically achieved by holding, directly or indirectly, more than 20% but less than 50% of the voting rights, although this is based on a specific assessment of the possibility of exercising influence. If these companies satisfy the criteria for joint control they are instead accounted for as joint ventures investments.

The consolidated financial statements have been prepared by aggregation of the parent company's and the individual subsidiaries' individual financial statements, applying 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.

Investments in subsidiaries are offset against the proportionate share of the fair value of the subsidiaries' assets and liabilities at the date of acquisition or formation.

Companies acquired or formed during the year are recognised in the consolidated financial statements from the date of acquisition or formation. Companies disposed of during the year are recognised in the consolidated income statement until the date of disposal.

Comparative figures are not restated to reflect acquisitions or disposals.

On acquisition of companies the purchase method is applied whereby the identifiable assets and liabilities of the acquired companies are restated at fair value at the date of acquisition. Provision is made for any costs related to restructuring in the acquired company decided and announced in connection with the acquisition. The tax effect of the restatement of assets and liabilities is taken into account.

Any excess of the cost of acquisition over the fair value of the identifiable assets and liabilities acquired (goodwill), including restructuring provisions, is recognised as intangible assets and amortised systematically in the income statement on the basis of individual assessment of the useful life of each asset, normally estimated at five years. Any excess of the fair value over the cost of acquisition (negative goodwill), representing expected unfavourable development in the acquired companies, is recognised in the balance sheet as deferred income and recognised in the income statement as the unfavourable development materialises. Negative goodwill not related to any expected unfavourable development is recognised in the balance sheet with an amount corresponding to the fair value of non-monetary assets. The amount is subsequently recognised in the income statement over the average useful lives of the non-monetary assets.

Goodwill and negative goodwill from acquired companies may be adjusted until the end of the year following their acquisition if the fair value of identifiable assets and liabilities at the time of acquisition subsequently proves to differ from the recognised value. Hereinafter, goodwill is only adjusted in the event of any provisions for restructuring in the acquired company is not utilised as assumed and therefore has to be reversed, or as a consequence of changes in estimated contingent purchase considerations. All other adjustments are recognised in the income statement.

Gains or losses on disposal of subsidiaries and associates are stated as the difference between the selling price and the carrying amount of net assets at the date of disposal plus anticipated disposal costs.

### Joint venture investments

Joint venture investments include jointly operated oil exploration and oil production licences as well as wind farms and geothermal plants within renewable energy.

Recognition of an investment as a joint venture investment is conditional upon the existence of a contractual arrangement stipulating joint control. The contractual arrangement must also stipulate whether the joint venturers are jointly and severally liable or whether they are liable for their proportionate shares only.

Joint venture investments are recognised in the consolidated financial statements as the Group's share of the jointly controlled assets and liabilities, classified by nature, and the Group's share of revenue from the sale of the joint product, along with the Group's share of the expenses incurred by the jointly controlled operation. Liabilities and expenses incurred by the Group in respect of the jointly controlled operation are also recognised.

Joint venture investments are recognised in the parent company financial statements as the parent company's share of the jointly controlled assets and liabilities, classified by nature, and the parent company's share of revenue from the sale of the joint product, along with the parent company's share of the expenses incurred by the jointly controlled operation. Liabilities and expenses incurred by the parent company in respect of the jointly controlled operation are also recognised.

On consolidation, intra-Group income and expenses, balances and realised and unrealised gains and losses arising from intra-Group transactions are eliminated on a pro rata basis based on ownership interest.

### Minority interests

The items in the subsidiaries' financial statements are recognised in full in the consolidated financial statements. The proportion of the subsidiaries' profits/losses and equity that relates to minority interests is recognised as separate items in the income statement and the balance sheet.

### Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated into Danish kroner at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial items.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest annual report is recognised in the income statement as financial income and expenses.

Gains and losses on hedging transactions in connection with purchases and sales of goods are recognised at the same time as and in the same item as the hedged item.

On recognition of foreign subsidiaries and associates that are separate entities, the income statements are translated at average exchange rates for the month and the balance sheet items are translated at the exchange rates at the balance sheet date. Goodwill is translated at the exchange rate at the date of initial recognition. Foreign exchange adjustments arising on translation of the opening equity of foreign subsidiaries at the exchange rates at the balance sheet date, on translation of loans granted on equity-like terms and on translation of the income statements from average exchange rates to the exchange rates ruling at the balance sheet date are recognised directly in equity.

### Hedging and derivative financial instruments

Derivative financial instruments and loans are used to hedge interest rate risks, currency risks and price risks related to the price of oil and natural gas, etc.

Derivative financial instruments are recognised initially in the balance sheet at cost and are subsequently stated at fair value. Fair value is calculated on the basis of market data and recognised valuation methods. Positive and negative fair values of derivative financial instruments are recognised as Other receivables and Other payables, respectively.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as hedges of the fair value of a recognised asset or liability are recognised in the income statement together with changes in the value of the hedged asset or liability in respect of the risk that is hedged.

Changes in the fair value of derivative financial instruments and foreign exchange adjustments of loans designated as and qualifying for recognition as hedges of future cash flows are recognised directly in equity. For options used as hedges, only the actual value of the option is accounted for as a hedge. The adjustment relating to the individual hedging instrument is transferred from equity on realisation of the hedged item and recognised in the same item as the hedged item.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the income statement as Financial income or Financial expenses when they occur, apart from instruments concluded in the course of the Group's ordinary trading activities.

Changes in the fair value of derivative financial instruments that are used to hedge net investments in foreign subsidiaries or associates and that function as effective hedges against changes in foreign exchange rates in these companies are recognised directly in equity under a separate reserve for foreign exchange adjustments. Foreign exchange adjustments of balances with foreign companies that are accounted for as part of the total net investment in the company in question are recognised in the consolidated financial statements directly under equity.

### Impairment of assets

The carrying amounts of the Group's intangible assets, property, plant and equipment and investments are reviewed annually to determine if any indication of impairment exists.

If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's net selling price and its value in use. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in the income statement as Production costs, Sales and marketing, Management and administration or amortisation of and impairment losses on rights, etc..

In the case of assets that have previously been revalued, impairment losses are recognised in equity, although only up to the amount of the revaluation reserve.

## Income statement

### Revenue

Revenue from sales comprises sales and transportation of natural gas and crude oil, electricity, heat and related services. Revenue is recognised in the income statement if delivery and transfer of risk to 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 exclusive of duty on crude oil transportation and other duties and VAT that are dependent on the sales amount, and exclusive of sales discounts.

Overlift is recognised at realisable value and reduced in revenue.

Physical trading contracts for gas, electricity, etc., that concluded in the course of the Group's trading activities with a view to generating gains from short-term price fluctuations are market value-adjusted under revenue.

### Production costs, etc.

Production costs comprise costs, including cost of sales, depreciation and amortisation and salaries, relating to:

- equity of natural gas and crude oil during the year,
- operation and maintenance of the natural gas system and the oil transportation system
- exploration, including costs for exploration licences, own costs for geological data, seismic surveys, licence administration, write-down of exploration wells, etc.
- electricity, heat and wind activities.

Underlift is recognised at cost.

Public subsidies for electricity activities, preliminary investigations in connection with the establishment of installations, etc., are set off against the associated production costs, insofar as they do not qualify for recognition as fixed assets. Public subsidies for capital expenditure are offset against the cost of the installation and recognised in the income statement as the assets to which the subsidy relates are depreciated.

### Sales and marketing

Sales and marketing comprise expenses for negotiation and conclusion of contracts for the purchase and sale of natural gas and marketing of DONG and DONG’s products. This item includes direct expenses as well as allocated indirect expenses.

### Management and administration

Management and administration comprise primarily staff costs for management and administrative staff. This item includes direct expenses as well as allocated indirect expenses.

### Other operating income and expenses

Other operating income and expenses comprise items secondary in nature to the company's principal activities, including gains and losses on disposal of intangible assets and property, plant and equipment.

### Profits/losses from investments in subsidiaries and associates

The proportionate share of the pre-tax profits/losses of the individual subsidiaries is recognised in the parent company's income statement after full elimination of intra-Group profits/losses and less goodwill amortisation. The share of the subsidiaries’ taxes is recognised as tax on the profit/loss for the year.

The proportionate share of the pre-tax profits/losses of associates is recognised in both the parent company and the consolidated income statements after elimination of the proportionate share of intra-Group profits/losses and goodwill amortisation. The share of the associates’ taxes is recognised as tax on the profit/loss for the year.

### Financial income and expenses

Financial income and expenses comprise interest income and expense, realised and unrealised gains and losses in respect of securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc. Financial income and expenses also include realised and unrealised gains and losses on derivative financial instruments that do not qualify for hedge accounting or have been concluded in the course of the Group’s trading activities. Financial income and expenses are recognised with the amounts that relate to the financial year.

### Tax on the profit for the year

Tax for the year comprises current tax and changes in deferred tax for the year. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

The parent company is jointly taxed with the Group's wholly-owned Danish subsidiaries and some foreign wholly-owned subsidiaries. Jointly taxed Danish subsidiaries with taxable income pay a joint taxation contribution of 30% to the parent company, equivalent to payable tax as if the subsidiary was taxed separately. Provision for deferred tax is made in the respective subsidiaries.

The Group is subject to the on-account tax scheme. Surcharges/refunds are recognised in the parent company as Financial income and Financial expenses, respectively.

Subsidiaries that are engaged in hydrocarbon recovery are subject to the hydrocarbon tax legislation in the countries in which they operate. Hydrocarbon taxes are recognised as tax on the profit/loss for the year.

## Balance

### Intangible assets

*Patents*

Patents are measured at cost less accumulated amortisation and impairment losses.

Patents are amortised on a straight-line basis over the remaining patent period, although not exceeding 5 years.

Gains and losses on disposal of patents are calculated 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.

*Goodwill*

Goodwill is measured at cost less accumulated amortisation and impairment losses.

Goodwill is amortised on a straight-line basis over the estimated useful life of the asset, which is determined on the basis of management's experience of the specific business areas. The amortisation period is longest for strategic acquisitions with a strong market position and a long-term earnings profile. Recognised goodwill is amoritised over 5 - 10 years.

*Know-how*
Know-how is measured at cost less accumulated amortisation and impairment losses.
Know-how is amortised on a straight-line basis over the estimated useful life, which is estimated to be 5 years.

*Rights*
Rights are measured at cost less accumulated amortisation and impairment losses.

Rights are amortised on a straight-line basis over the estimated useful life of the asset, which is determined on the basis of management's experience of the specific business areas, and the assets to which the right relates. Capitalised rights are estimated to have a useful life of 4 - 20 years.

*IT software*
IT software is measured at cost less accumulated amortisation and impairment losses.

Cost includes direct and indirect costs associated with acquisition and implementation until the date the asset is available for use. Cost includes costs for subsuppliers, consultants and own labour.

IT software is amortised on a straight-line basis over the estimated useful life, which, as a rule, is estimated to be 5 years.

Amortisation and impairment losses on intangible assets are recognised in the income statement as Production costs, Sales and marketing, and Management and administration, respectively.

**Property, plant and equipment**

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, apart from natural gas pipelines and natural gas storage facilities, which are measured at cost plus revaluation less accumulated depreciation and impairment losses.

Cost comprises 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 costs of materials, components, subsuppliers and labour.

Property, plant and equipment include provisions for future abandonment obligations, which are depreciated together with the relevant assets.

Natural gas pipelines and natural gas storage facilities are written up to fair value if this is higher than the carrying amount. Revaluation less deferred tax related to the revaluation is recognised directly in equity in the item Revaluation reserve. Deferred tax related to such revaluation is recognised as Deferred tax under Provisions. Annual reviews are carried out of the recoverable amount of natural gas pipelines and natural gas storage facilities.

Exploration comprises the exploration expenses recognised in the balance sheet that relate directly to successful wells on which production has not yet begun. Expenses are recognised using the successful efforts method. Under the successful efforts method general exploration expenses and expenses relating to unsuccessful exploration wells are charged to the income statement. Recognition in the balance sheet is maintained pending evaluation of whether the discovery is commercial. All exploration expenses determined as unsuccessful are recognised in the income statement as Production costs.

Other exploration expenses are recognised in the income statement as Production costs when incurred.

Recognised exploration expenses in respect of commercial finds are transferred to Oil and gas production assets (Production assets) when a field has been fully developed and production begins.

Exploration and production assets include provisions for future abandonment costs, which are depreciated together with the relevant assets.

In the case of Oil and gas production assets, cost is depreciated using the unit-of-production method based on the ratio of current production to estimated proved reserves by individual field.

Cost and revaluation for other property, plant and equipment are basically depreciated on a straight-line basis over the estimated useful lives as follows:

| | |
|---|---|
| • Buildings used for own purposes | 20 years |
| • Buildings not used for own purposes (investment properties) | 20 years |
| • Production assets: | |
| Natural gas distribution system | 20 years |
| Natural gas storage facilities | 20 years |
| Offshore pipelines | 20 years |
| Geothermal plants | 20 years |
| Distribution grid, electricity | 10 - 50 years |
| Distribution grid, heat | 10 - 50 years |
| Oil transportation system | 15 years |
| Wind turbines[2] | 15 - 20 years |
| • Exploration[1] | Not depreciated |
| • IT hardware | 3 years |
| • Other fixtures and fittings, tools and equipment | 5 years |
| • Assets under construction[1] | Not depreciated |

1) Depreciation does not commence until the assets/fields are taken into use, at

which time they are transferred to production assets. Like other fixed assets, these assets are reviewed for indication of any impairment.

2) The depreciation profile takes account of the fact that the earnings profile of a wind turbine changes substantially over its life.

Depreciation and impairment losses are recognised in the income statement as Production costs, Sales and marketing, and Management and administration, respectively.

Gains and losses on disposal of property, plant and equipment are calculated 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

*Investments in subsidiaries and associates*

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

Investments in subsidiaries and associates are measured in the balance sheet at the proportionate share of the companies' net asset values calculated in accordance with the parent company's accounting policies, plus goodwill, and minus or plus unrealised intra-Group profits and losses.

On acquisition of subsidiaries the purchase method is applied, cf. the description in the foregoing under Consolidated financial statements.

*Other equity investments*

Other equity investments are recognised initially in the balance sheet at cost and are subsequently stated at fair value. For listed securities, this corresponds to the market price at the balance sheet date. For unlisted securities, an estimated fair value is used, if this is considered reliable; alternatively, the cost is used.

Changes in the fair value of other equity investments, and dividend on investments, are recognised in the income statement as Financial income and expenses.

## Inventories

Inventories consist of natural gas and recovered crude oil in storage facilities, as well as raw materials and consumables, and fuel inventories.

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

In the case of natural gas, cost is calculated as a weighted average of the previous month's buying prices, incl. transportation costs. In the case of crude oil, cost is calculated as the average of the production costs. The cost of other inventories is measured using the FIFO method. The net realisable value of inventories is calculated as the expected selling price less any completion costs and costs incurred to execute the sale. The net realisable value is determined on the basis of marketability, obsolescence and development of expected selling price.

As producing fields have several participants, there may be situations in which a participant has lifted and sold more or less oil than the participant's relative entitlement at the time of lifting. Such a situation is called overlift and underlift, respectively. Overlift and underlift are accounted for as deferred income under Short-term liabilities other than provisions and Current assets, respectively.

## Receivables

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

## Other receivables

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

Underabsorption is a negative difference between the payments the consumers are charged and the income caps in companies that are comprised by statutory price regulation. The amount thus due from the consumers is recognised to the extent that it is expected to be realised via the coming years' prices.

## Income tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes; however, deferred tax is not recognised on temporary differences in respect of goodwill not deductible for tax purposes, office properties or other items - apart from business combinations - where temporary differences have arisen at the date of acquisition without having any effect on profit or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured on the basis of the planned use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are recognised as 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.

Adjustment of deferred tax is made relating to eliminations of unrealised intra-Group 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.

### Prepayments

Prepayments comprise costs incurred in respect of subsequent financial years. Prepayments include underlift of crude oil, etc., cf. the description under Inventories.

### Securities

Securities, comprising bonds, are recognised initially in the balance sheet at cost and are subsequently stated at fair value.

Changes in the fair value of securities are recognised in the income statement as Financial income and expenses.

### Equity

*Undistributable reserves*
Undistributable reserves in regulated companies comprised by the consolidated financial statements are presented in a separate reserve under equity. Undistributable reserves in regulated companies are the part of total equity that is distributable in accordance with separate legislation only and may thus not be distributed to the shareholders of DONG A/S.

*Dividends*
Proposed dividends expected to be paid for the year are disclosed as a separate item under equity.

Proposed dividends are recognised as a liability at the date of their adoption at the Annual General Meeting (declaration date).

*Net revaluation according to the equity method*
Net revaluation of investments in subsidiaries and associates is transferred to the reserve under equity to the extent that the carrying amount exceeds the cost.

### Pensions

Pensions relate to pensions to public servants in connection with the takeover of municipally owned regional gas companies. The obligation has been calculated using an actuarial calculation.

### Other provisions

Provisions are recognised when, as a result of a past event, the Group has a legal or constructive obligation, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions comprise estimated costs for removal of production plant, reinstatement of drilling sites or other technical installations, any guarantee commitments, restructuring, etc.

Provision for removal of production plant is calculated as the present value of the expected future liability in respect of reinstatement and decommissioning as estimated at the balance sheet date. The amount recognised is determined on the basis of existing requirements and estimated costs, which are discounted to present value. These liabilities are recognised as they arise and are adjusted on a regular basis to reflect changes in requirements and price level, etc. The equivalent value of the provision is recognised under property, plant and equipment and depreciated together with relevant assets. The increase in time of the present value is recognised in the income statement under Financial items.

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

### Financial liabilities

Payables to mortgage credit institutions and credit institutions are recognised at the date of borrowing at the net proceeds received less transaction costs incurred. In subsequent periods, the financial liabilities are measured at amortised cost, corresponding to the capitalised value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal amount is recognised in the income statement over the term of the loan.

Other liabilities, comprising trade payables and other payables, are measured at amortised cost.

Financial liabilities the value of which has been effectively hedged are adjusted to fair value as far as concerns the hedged risk. The value adjustment is recognised in the income statement as Financial income or Financial expenses.

### Other payables

Other payables include negative fair values of derivative financial instruments, certain realised and unrealised gains and losses on loans in DONG Olierør, overabsorption, etc.

In DONG Olierør realised gains and losses in connection with loan refinancing and unrealised foreign exchange adjustments on loans raised are settled through the users' payments over the depreciation period for the oil transportation system.

Overabsorption is the sum payable to the consumers as a consequence of a positive difference between the payments charged and the regulatory income caps in companies that are comprised by statutory price regulation.

### Deferred income

Deferred income comprises payments received, etc., in respect of income in subsequent years. Deferred income includes overlift of crude oil, the value of non-recognised amounts in respect of natural gas delivered under contract, investment contributions, etc.

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.

Investment contributions comprise prepaid investment contributions from the consumers for electrical installations, other installations, etc. Investment contributions are recognised initially at cost, corresponding to the amount received.

Prepaid investment contributions are recognised as income over the depreciation period for the electrical installations. Prepaid investment contributions relating to other installations are recognised as income over 30 years.

## Cash flow statement

The cash flow statement shows the Group's and the parent company's 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 statement is presented according to the indirect method.

### Cash flows from operating activities

Cash flows from operating activities are calculated as the Group's or the parent company's share of the profit/loss adjusted for non-cash operating items, changes in working capital and income tax paid.

### Cash flows from investing activities

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of companies and activities and of intangible assets, property, plant and equipment and investments.

Cash flows relating to acquired companies are recognised from the date of acquisition, and cash flows relating to companies disposed of are recognised until the date of disposal.

### Cash flows from financing activities

Cash flows from financing activities comprise the raising of loans, repayment of debt, and payment of dividends.

### Cash and cash equivalents

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

## Segment information

Information is provided on business segments (primary segments) and geographical markets (secondary segments). The segment information is based on the Group's accounting policies, risks and financial management.

Segment income and expenses and segment assets and liabilities comprise items directly attributable to the individual segment, and items that can be indirectly allocated to the individual segment on a reasonable basis. Non-allocated items comprise primarily assets and liabilities and income and expenses relating to the Group's administrative functions, investing activities, income taxes, etc.

Fixed segment assets comprise fixed assets used directly in the segment's operating activities, including intangible assets, property, plant and equipment, and investments in associates. Current segment assets comprise the current assets used directly in the segment's operating activities, including inventories, trade receivables, other receivables, prepayments and cash.

Segment liabilities comprise liabilities resulting from the segment's operating activities, including trade payables and other payables.

## Financial ratios

Financial ratios have been calculated in accordance with the Danish Society of Financial Analysts' “Recommendations & Financial Ratios 2005”.

# Consolidated income statement for the year ended 31 December 2004

| DKK million | Note | 2004 | 2003 |
|---|---|---|---|
| Revenue | 1, 2 | **14,292.0** | 14,266.9 |
| Production costs | 3, 4 | **(11,220.4)** | (10,479.4) |
| **Gross profit** | | **3,071.6** | 3,787.5 |
| Sales and marketing | 3 | **(218.0)** | (184.3) |
| Management and administration | 3 | **(286.9)** | (312.0) |
| Other operating income and expenses | 5 | **(5.1)** | (11.2) |
| **Profit before amortisation of and impairment losses on rights, etc.** | | **2,561.6** | 3,280.0 |
| Amortisation of and impairment losses on rights, etc. | 6 | **(140.7)** | (111.8) |
| **Operating profit (EBIT)** | | **2,420.9** | 3,168.2 |
| Profit on sale of subsidiaries | | **481.1** | 0.0 |
| Share of pre-tax profits (losses) of associates | 12 | **(13.9)** | 24.1 |
| Financial income | 7 | **1,197.2** | 1,141.5 |
| Financial expenses | 8 | **(1,026.1)** | (1,085.8) |
| **Profit before tax** | | **3,059.3** | 3,248.0 |
| Tax on the profit for the year | 9 | **(968.2)** | (1,299.4) |
| **Profit for the year** | | **2,091.1** | 1,948.6 |
| Minority interests' share of subsidiaries' profits | 18 | **(210.1)** | (7.2) |
| **Group share of profit for the year** | | **1,881.0** | 1,941.4 |
| *Transfer to undistributable reserves in regulated companies* | | **0.0** | (8.4) |
| ***Shareholders' share of profit for the year*** | | **1,881.0** | 1,933.0 |

# Consolidated balance sheet at 31 December 2004

| DKK million | Note | 2004 | 2003 |
|---|---|---|---|
| **Asssets** | | | |
| Goodwill | | 0.0 | 0.0 |
| Know-how | | 0.0 | 27.1 |
| Rights | | 467.2 | 102.8 |
| IT software | | 239.5 | 154.5 |
| IT projects in progress | | 42.1 | 104.8 |
| **Intangible assets** | 10 | 748.8 | 389.2 |
| Land and buildings | | 247.0 | 331.4 |
| Production assets | | 14,814.0 | 20,253.1 |
| Exploration | | 309.1 | 163.8 |
| Other fixtures and fittings, tools and equipment | | 30.9 | 57.1 |
| Assets under construction | | 420.3 | 1,314.7 |
| **Property, plant and equipment** | 11 | 15,821.3 | 22,120.1 |
| Investments in associates | | 188.4 | 174.2 |
| Other equity investments | | 5,659.7 | 1,906.7 |
| Other investments | | 1,006.5 | 74.8 |
| **Investments** | 12 | 6,854.6 | 2,155.7 |
| **Fixed assets** | | 23,424.7 | 24,665.0 |
| **Inventories** | 13 | 461.3 | 409.5 |
| Trade receivables | 14 | 2,534.4 | 1,991.5 |
| Receivables from associates | | 0.3 | 11.8 |
| Income tax | 22 | 820.0 | 503.4 |
| Other receivables | 15 | 3,253.7 | 1,765.5 |
| Prepayments | 16 | 139.3 | 274.0 |
| **Receivables** | | 6,747.7 | 4,546.2 |
| **Securities** | 31 | 196.2 | 841.3 |
| **Cash** | 31 | 550.2 | 2,768.2 |
| **Current assets** | | 7,955.4 | 8,565.2 |
| **Total assets** | | 31,380.1 | 33,230.2 |

# Consolidated balance sheet at 31 December 2004

| DKK million | Note | 2004 | 2003 |
|---|---|---|---|
| **Equity and liabilities** | | | |
| Share capital | | **2,143.6** | 2,143.6 |
| Revaluation reserve | | **2,017.2** | 5,168.0 |
| Retained earnings | | **11,487.9** | 6,913.5 |
| Proposed dividends | | **0.0** | 1,905.5 |
| **Equity excluding undistributable reserves in regulated companies** | | **15,648.7** | 16,130.6 |
| Undistributable reserves in regulated companies | | **0.0** | 663.4 |
| **Equity** | 17 | **15,648.7** | 16,794.0 |
| **Minority interests** | 18 | **694.5** | 563.7 |
| Deferred tax | 19 | **3,050.3** | 4,102.3 |
| Pensions | 20 | **18.2** | 19.4 |
| Other provisions | 20 | **1,365.9** | 966.6 |
| **Provisions** | | **4,434.4** | 5,088.3 |
| Bond loans | | **0.0** | 500.0 |
| Mortgage loans | | **622.5** | 1,249.6 |
| Bank loans | | **1,816.8** | 2,088.3 |
| Other long-term liabilities other than provisions | | **8.2** | 298.0 |
| **Long-term liabilities other than provisions** | 21 | **2,447.5** | 4,135.9 |
| Mortgage loans | 21, 31 | **60.1** | 70.9 |
| Bank loans | 21 | **1,390.6** | 2,089.2 |
| Trade payables | | **2,511.5** | 1,509.1 |
| Income tax | 22 | **212.6** | 220.1 |
| Other payables | 23 | **3,640.0** | 2,187.2 |
| Deferred income | 24 | **340.2** | 571.8 |
| **Short-term liabilities other than provisions** | | **8,155.0** | 6,648.3 |
| **Liabilities other than provisions** | | **10,602.5** | 10,784.2 |
| **Total equity and liabilities** | | **31,380.1** | 33,230.2 |
| Notes without reference | 32, 33 | | |
| Contingent liabilities | 34 | | |
| Related party transactions | 35 | | |
| Group structure | 36 | | |
| Licences | 37 | | |

# Consolidated statement of changes in equity for the year ended 31 December 2004

DKK million

| | Share capital | Revaluation reserve | Retained earnings | Proposed dividends | Undistributable reserves in regulated companies | Total |
|---|---|---|---|---|---|---|
| Equity at 1 January 2003 | 2,143.6 | 5,168.0 | 6,903.7 | 440.0 | 0.0 | 14,655.3 |
| Dividends paid | - | - | 0.0 | (440.0) | - | (440.0) |
| Profit for the year | - | - | 1,941.4 | - | - | 1,941.4 |
| Foreign exchange adjustments, foreign companies | - | - | (104.3) | - | - | (104.3) |
| Value adjustments of hedging instruments | - | - | 133.0 | - | - | 133.0 |
| Tax on equity items | - | - | (39.4) | - | - | (39.4) |
| Addition of undistributable reserves in acquired regulated companies | - | - | - | - | 655.0 | 655.0 |
| Transfer to undistributable reserves in regulated companies | - | - | (8.4) | - | 8.4 | 0.0 |
| Other adjustments | - | - | (7.0) | - | - | (7.0) |
| Proposed dividends | - | - | (1,905.5) | 1,905.5 | - | 0.0 |
| **Equity at 1 January 2004** | 2,143.6 | 5,168.0 | 6,913.5 | 1,905.5 | 663.4 | 16,794.0 |
| Adjustments at start of year concerning natural gas pipeline | - | 57.2 | - | - | - | 57.2 |
| Reclassification concerning non-consolidated subsidiaries | - | - | - | - | (248.4) | (248.4) |
| Dividends paid | - | - | | (1,905.5) | | (1,905.5) |
| Profit for the year | - | - | 1,881.0 | - | - | 1,881.0 |
| Foreign exchange adjustments, foreign companies | - | - | 14.7 | - | - | 14.7 |
| Foreign exchange adjustments of equity-like loans | - | - | (16.0) | - | - | (16.0) |
| Value adjustments of hedging instruments | - | - | (735.4) | - | - | (735.4) |
| Tax on equity items | - | - | 224.9 | - | - | 224.9 |
| Disposal on sale | - | - | 8.4 | - | (415.0) | (406.6) |
| Released reserves on sale of subsidiaries | - | (3,208.0) | 3,208.0 | - | - | 0.0 |
| Other adjustments | - | - | (11.2) | - | - | (11.2) |
| Proposed dividends | - | - | 0.0 | 0.0 | - | 0.0 |
| **Equity at 31 December 2004** | 2,143.6 | 2,017.2 | 11,487.9 | 0.0 | 0.0 | 15,648.7 |

# Consolidated cash flow statement for the year ended 31 December 2004

| DKK million | Note | 2004 | 2003 |
|---|---|---|---|
| Cash flows from operations (operating activities) | 25 | 4,231.4 | 6,473.2 |
| Interest income and similar items | | 902.4 | 699.6 |
| Interest expense and similar items | | (730.9) | (1,012.6) |
| Income tax paid | | (864.4) | (1,718.0) |
| **Cash flows from operating activities** | | 3,538.5 | 4,442.2 |
| Acquisition of intangible assets | | (93.4) | (191.0) |
| Acquisition of property, plant and equipment | | (1,857.1) | (2,698.2) |
| Disposal of property, plant and equipment | | 2.6 | 3.9 |
| Acquisition of Group enterprises | 26 | (716.7) | (52.0) |
| Acquisition of minority interests in Group enterprises | 27 | (176.9) | 0.0 |
| Payments concerning acquisitions of Group enterprises in previous years | 28 | (340.4) | 0.0 |
| Sale of Group enterprises | 29 | 883.4 | 0.0 |
| Repayment of subordinated loan on sale of DONG Transmission | | 544.8 | 0.0 |
| Acquisition of associates | | (9.2) | (21.7) |
| Acquisition of other equity investments and securities | | (1,958.1) | (1.5) |
| Sale of other equity investments and securities | 30 | 0.0 | 0.0 |
| Advance payment in respect of investment in Ormen Lange | | (941.1) | 0.0 |
| Dividends received | | 62.1 | 36.0 |
| **Cash flows from investing activities** | | (4,600.0) | (2,924.5) |
| Instalment on subordinated loan | | 0.0 | (400.0) |
| Decrease in other loans | | (257.9) | (855.4) |
| Dividends paid to shareholders in the parent company | | (1,905.5) | (440.0) |
| **Cash flows from financing activities** | | (2,163.4) | (1,695.4) |
| Net cash flows from operating, investing and financing activities | | (3,224.9) | (177.7) |
| Cash and cash equivalents at 1 January | | 3,448.7 | 3,626.4 |
| Reclassification concerning non-consolidated subsidiaries | | (79.7) | 0.0 |
| Unrealised foreign exchange adjustments | | 1.3 | 0.0 |
| Cash and cash equivalents at 31 December | 31 | 145.4 | 3,448.7 |

# Parent company income statement for the year ended 31 December 2004

| Dkk million | Note | 2004 | 2003 |
|---|---|---|---|
| Revenue | | 359.3 | 301.1 |
| Production costs | 3, 4 | (343.3) | (239.4) |
| **Gross profit** | | 16.0 | 61.7 |
| Share of pre-tax profits of Group enterprises | 12 | 2,915.1 | 2,615.9 |
| Management and administration | 3 | (40.6) | (57.4) |
| Other operating income and expenses | 5 | 0.1 | 0.4 |
| **Operating profit (EBIT)** | | 2,890.6 | 2,620.6 |
| Profit on sale of subsidiaries | | (42.3) | 0.0 |
| Share of pre-tax profits (losses) of associates | 12 | (24.5) | 14.3 |
| Financial income | 7 | 2,709.5 | 1,275.4 |
| Financial expenses | 8 | (2,815.2) | (672.7) |
| **Profit before tax** | | 2,718.1 | 3,237.6 |
| Tax on the profit for the year | 9 | (915.1) | (1,296.2) |
| **Profit for the year** | | 1,803.0 | 1,941.4 |
| *Transfer to undistributable reserves in regulated companies* | | 0.0 | (8.4) |
| **Shareholders' share of profit for the year** | | 1,803.0 | 1,933.0 |

**Proposal for profit appropriation**

The Supervisory Board proposes that the profit for the year, DKK 1,803.0 million, be appropriated as follows:

| | 2004 | 2003 |
|---|---|---|
| Dividends | 0.0 | 1,905.5 |
| Transfer to undistributable reserves in regulated companies | 0.0 | 8.4 |
| Transfer to reserve for net revaluation according to the equity method | (644.6) | 1,508.0 |
| Retained earnings | 2,446.3 | (1,480.5) |
| | 1,803.0 | 1,941.4 |
| Dividend per DKK 100 share | 0.0 | 88.9 |

# Parent company balance sheet at 31 December 2004

| Dkk million | Note | 2004 | 2003 |
|---|---|---|---|
| **Assets** | | | |
| IT software | | 212.4 | 134.8 |
| IT projects in progress | | 42.1 | 88.2 |
| **Intangible assets** | 10 | 254.5 | 223.0 |
| Land and buildings | | 225.2 | 233.9 |
| Other fixtures and fittings, tools and equipment | | 11.7 | 13.5 |
| Assets under construction | | 0.0 | 3.1 |
| **Property, plant and equipment** | 11 | 236.9 | 250.5 |
| Investments in subsidiaries | | 10,973.1 | 12,706.9 |
| Investments in associates | | 95.4 | 152.4 |
| Other equity investments | | 1,371.7 | 1,370.1 |
| Subordinated loans to subsidiaries | | 3,566.2 | 2,594.3 |
| **Investments** | 12 | 16,006.4 | 16,823.7 |
| **Fixed assets** | | 16,497.8 | 17,297.2 |
| Trade receivables | 14 | 14.1 | 3.8 |
| Receivables from subsidiaries | | 3,831.5 | 2,392.5 |
| Income tax | 22 | 815.8 | 503.4 |
| Other receivables | 15 | 2,195.2 | 1,748.7 |
| Prepayments | 16 | 3.7 | 1.6 |
| **Receivables** | | 6,860.3 | 4,650.0 |
| **Securities** | 31 | 196.2 | 186.0 |
| **Cash** | | 72.3 | 1,620.6 |
| **Current assets** | | 7,128.8 | 6,456.6 |
| **Total assets** | | 23,626.6 | 23,753.8 |

# Parent company balance sheet at 31 December 2004

| DKK million | Note | 2004 | 2003 |
|---|---|---|---|
| **Equity and liabilities** | | | |
| Share capital | | 2,143.6 | 2,143.6 |
| Net revaluation according to the equity method | | 7,114.6 | 7,757.9 |
| Retained earnings | | 6,390.5 | 4,323.6 |
| Proposed dividends | | 0.0 | 1,905.5 |
| **Equity excluding undistributable reserves in regulated companies** | | 15,648.7 | 16,130.6 |
| Undistributable reserves in regulated companies | | 0.0 | 663.4 |
| **Equity** | 17 | 15,648.7 | 16,794.0 |
| Deferred tax | 19 | 498.0 | 330.1 |
| **Provisions** | | 498.0 | 330.1 |
| Mortgage loans | | 160.6 | 160.4 |
| Bank loans | | 1,085.7 | 963.2 |
| Other long-term liabilities other than provisions | | 8.2 | 298.0 |
| **Long-term liabilities other than provisions** | 21 | 1,254.5 | 1,421.6 |
| Mortgage loans | 21 | 0.0 | 4.1 |
| Bank loans | 21, 31 | 512.8 | 113.8 |
| Trade payables | | 134.7 | 104.9 |
| Payables to subsidiaries | | 3,053.7 | 2,571.7 |
| Other payables | 23 | 2,524.2 | 2,413.6 |
| **Short-term liabilities other than provisions** | | 6,225.4 | 5,208.1 |
| **Liabilities other than provisions** | | 7,479.9 | 6,629.7 |
| **Total equity and liabilities** | | 23,626.6 | 23,753.8 |

| | |
|---|---|
| Notes without reference | 32, 33 |
| Contingent liabilities | 34 |
| Related party transactions | 35 |
| Group structure | 36 |
| Licences | 37 |

# Parent company statement of changes in equity for the year ended 31 December 2004

DKK million

| | Share capital | Net revaluation according to the equity method | Retained earnings | Proposed dividends | Undistributable reserves in regulated companies | Total |
|---|---|---|---|---|---|---|
| Equity at 1 January 2003 | 2,143.6 | 6,943.2 | 5,128.5 | 440.0 | 0.0 | 14,655.3 |
| Dividends paid | - | - | - | (440.0) | - | (440.0) |
| Profit for the year | - | - | 1,941.4 | - | - | 1,941.4 |
| Transfer to net revaluation according to the equity method | - | 1,516.3 | (1,516.3) | - | - | 0.0 |
| Equity items in subsidiaries | - | 647.7 | - | - | - | 647.7 |
| Transfer following transfer of shares to subsidiary and merger | - | (383.6) | 383.6 | - | - | 0.0 |
| Correction in respect of prior years | - | (302.3) | 302.3 | - | - | 0.0 |
| Addition of undistributable reserves in acquired regulated companies | - | (655.0) | - | - | 655.0 | 0.0 |
| Transfer to undistributable reserves in regulated companies | - | (8.4) | - | - | 8.4 | 0.0 |
| Foreign exchange adjustments, foreign associates | - | - | 2.4 | - | - | 2.4 |
| Value adjustments of hedging instruments during period | - | - | (15.2) | - | - | (15.2) |
| Tax on equity items | - | - | 4.6 | - | - | 4.6 |
| Other adjustments | - | - | (2.2) | - | - | (2.2) |
| Proposed dividends | - | - | (1,905.5) | 1,905.5 | - | 0.0 |
| **Equity at 1 January 2004** | 2,143.6 | 7,757.9 | 4,323.6 | 1,905.5 | 663.4 | 16,794.0 |
| Adjustments at start of year concerning natural gas pipeline | - | 57.2 | - | - | - | 57.2 |
| Reclassification concerning non-consolidated subsidiaries | - | - | 248.4 | - | (248.4) | 0.0 |
| Dividends paid | - | (1,530.0) | 1,530.0 | (1,905.5) | - | (1,905.5) |
| Profit for the year | - | 1,908.6 | (105.6) | - | - | 1,803.0 |
| Equity items in subsidiaries | - | (1,105.6) | - | - | - | (1,100.6) |
| Disposal on sale | - | 8.4 | 406.6 | - | (415.0) | 0.0 |
| Foreign exchange adjustments, foreign associates | - | - | 1.2 | - | - | 1.2 |
| Foreign exchange adjustments of equity-like loans | - | - | (16.0) | | | (16.0) |
| Value adjustments of hedging instruments during period | - | - | 15.4 | - | - | 15.4 |
| Tax on equity items | - | - | 0.2 | - | - | 0.2 |
| Other adjustments | - | 12.8 | (12.8) | | | 0.0 |
| Proposed dividends | - | - | 0.0 | 0.0 | - | 0.0 |
| **Equity at 31 December 2004** | 2,143.6 | 7,113.3 | 6,391.8 | 0.0 | 0.0 | 15,648.7 |

# Parent company cash flow statement for the year ended 31 December 2004

| DKK million | Note | 2004 | 2003 |
|---|---|---|---|
| Cash flows from operations (operating activities) | 25 | (1,154.6) | 3,397.7 |
| Interest income and similar items | | 1,136.0 | 281.3 |
| Interest expense and similar items | | (1,028.8) | (153.1) |
| Income tax paid | | (445.6) | (1,090.9) |
| **Cash flows from operating activities** | | (1,493.0) | 2,435.0 |
| Acquisition of intangible assets | | (91.6) | (157.8) |
| Acquisition of property, plant and equipment | | (8.1) | (34.6) |
| Disposal of property, plant and equipment | | 1.6 | 2.8 |
| Acquisition of Group enterprises | 26 | 0.0 | (114.4) |
| Payments concerning acquisitions of Group enterprises in previous years | 28 | (298.0) | 0.0 |
| Sale of Group enterprises | 29 | 1,088.2 | 0.0 |
| Acquisition of associates | | (5.0) | (5.0) |
| Repayment of subordinated loan on sale of DONG Transmission | | 544.8 | 0.0 |
| Loans to Group enterprises | | (1,052.3) | 0.0 |
| Acquisition of other equity investments and securities | | (367.1) | 0.0 |
| Sale of other equity investments and securities | 30 | 0.0 | 0.0 |
| Dividends received | | 1,530.0 | 462.7 |
| **Cash flows from investing activities** | | 1,342.5 | 153.7 |
| Instalment on subordinated loan | | 0.0 | (400.0) |
| Decrease in other loans | | 0.0 | (13.6) |
| Increase in loans | | 517.5 | 0.0 |
| Dividends paid to shareholders in the parent company | | (1,905.5) | (440.0) |
| **Cash flows from financing activities** | | (1,388.0) | (853.6) |
| Net cash flows from operating, investing and financing activities | | (1,538.5) | 1,735.1 |
| Cash and cash equivalents at 1 January | | 1,806.6 | 71.5 |
| Unrealised foreign exchange adjustments | | 0.4 | 0.0 |
| Cash and cash equivalents at 31 December | 31 | 268.5 | 1,806.6 |

# Notes to the income statement

DKK million

## Note 1. Segment information

The Group's primary business segments comprise:

- Exploration & Production
- Natural gas, Trade & Supply
- Natural gas, Distribution & Storage
- Oil pipeline
- Electricity & Renewable energy

Reference is made to Management's review for a description of the Group's business segments.
Transactions between segments are priced on arm's length terms.

**Activities - 2004**

| | Exploration & Production | Natural gas, Trade & Supply | Natural gas, Distribution & Storage | Electricity & Renew-able energy | Oil pipeline | Non allocated/ Elimi-nations | Group total |
|---|---|---|---|---|---|---|---|
| Revenue | 3,191.8 | 10,022.2 | 860.7 | 533.1 | 372.8 | (688.6) | 14,292.0 |
| - of which intra-Group revenue | 24.1 | 134.9 | 630.9 | 1.0 | 0.4 | (791.3) | 0.0 |
| EBITDA | 1,899.6 | 1,906.3 | 596.2 | 141.4 | 95.3 | 47.3 | 4,686.5 |
| EBIT | 415.6 | 1,572.3 | 217.6 | 29.0 | 211.0 | (25.0) | 2,420.9 |
| Share of profits for the year of associates | 0.0 | 11.6 | 0.1 | (1.1) | 0.0 | (24.5) | (13.9) |
| Profit on sale of subsidiaries | | | | | | 481.2 | 481.2 |
| Financial items, net | | | | | | 171.1 | 171.1 |
| Tax | | | | | | (968.2) | (968.2) |
| Minority interests' share of subsidiaries' profits | | | | | | (210.1) | (210.1) |
| Profit for the year | | | | | | 1,881.0 | 1,881.0 |
| Assets | 6,973.6 | 11,116.4 | 6,224.7 | 6,641.0 | 652.0 | (227.6) | 31,380.1 |
| - including investments in associates | 0.0 | 73.2 | 2.7 | 17.1 | 0.0 | 95.4 | 188.4 |
| Liabilities | 5,386.2 | 4,545.9 | 4,899.8 | 4,570.4 | 542.5 | (4,907.9) | 15,036.9 |
| Additions of intangible assets and property, plant and equipment | 1,229.5 | 565.0 | 404.6 | 327.4 | 0.0 | 41.2 | 2,567.8 |
| Depreciation and amortisation | (1,436.0) | (323.1) | (378.6) | (92.4) | (44.3) | (72.3) | (2,346.7) |
| Impairment losses | (48.0) | (10.8) | 0.0 | (20.0) | 0.0 | (0.1) | (78.9) |
| Reversal of impairment losses | 0.0 | 0.0 | 0.0 | 0.0 | 160.0 | 0.0 | 160.0 |
| Provisions for abandonment obligations | 800.1 | 138.8 | 202.7 | 26.2 | 139.7 | 0.0 | 1,307.5 |

**Geographical breakdown of revenue by customer location**

| | Denmark | Rest of EU | Rest of world | Group total |
|---|---|---|---|---|
| Revenue | 7,142.3 | 6,072.2 | 1,077,5 | 14,292.0 |

DKK million

## Note 1. Segment information (continued)

### Geographical breakdown of assets by physical location

| | Denmark | Germany | Sweden | Norway | UK | Rest of world | Group total |
|---|---|---|---|---|---|---|---|
| Segment assets | 28,282.5 | 71.6 | 379.4 | 2,241.2 | 405.4 | 0.0 | 31,380.1 |

### Activities - 2003

| | Exploration & Production | Natural gas, Trade & Supply | Natural gas, Distribution & Storage | Natural gas, Transmission | Electricity & Renewable energy | Oil pipeline | Non allocated/ Eliminations | Group total |
|---|---|---|---|---|---|---|---|---|
| Revenue | 3,186.7 | 9,988.0 | 884.0 | 921.7 | 626.7 | 445.1 | (1,785.9) | 14,266.9 |
| - of which intra-Group revenue | 72.9 | 2.0 | 766.1 | 795.0 | 0.0 | 0.3 | (1,636.3) | 0.0 |
| EBITDA | 1,994.8 | 2,147.1 | 614.3 | 524.7 | 123.4 | 84.3 | 58.4 | 5,547.0 |
| EBIT | 917.2 | 1,847.7 | 248.0 | 223.1 | 31.6 | (104.2) | 4.8 | 3,168.2 |
| Share of profits for the year of associates | 0.0 | 11.8 | 0.0 | 0.0 | (2.0) | 0.0 | 14.3 | 24.1 |
| Financial items, net | - | - | - | - | - | - | 55.7 | 55.7 |
| Tax | - | - | - | - | - | - | (1,299.4) | (1,299.4) |
| Minority interests' share of subsidiaries' profits | | | | | | | (7.2) | (7.2) |
| Profit for the year | - | - | - | - | - | - | 1,941.4 | 1,941.4 |
| | | | | | | | | |
| Assets | 6,309.8 | 10,500.6 | 6,130.2 | 5,361.0 | 2,922.4 | 728.0 | 1,278.6 | 33,230.2 |
| - of which investments in associates | 0.0 | 0.2 | 2.7 | 0.7 | 18.2 | - | 152.4 | 174.2 |
| Liabilities | 4,301.7 | 3,635.0 | 4,808.8 | 4,230.2 | 4,312.1 | 760.0 | (6,175.3) | 15,872.5 |
| | | | | | | | | |
| Additions of intangible assets and property, plant and equipment | 1,413.0 | 867.1 | 102.9 | 70.0 | 487.4 | 0.0 | 583.5 | 3,524.0 |
| Depreciation and amortisation | (1,077.6) | (299.4) | (366.3) | (301.6) | (91.8) | (28.4) | (53.7) | (2,218.8) |
| Impairment losses | 0.0 | - | - | - | - | (160.0) | - | (160.0) |
| Provisions for abandonment obligations | 579.4 | 0.0 | 3.7 | 0.0 | 33.5 | 350.0 | - | 966.6 |

DKK million

## Note 1. Segment information (continued)

### Geographical breakdown of revenue by customer location

| | Denmark | Rest of EU | Rest of world | Group total |
|---|---|---|---|---|
| Revenue | 8,029.5 | 5,860.1 | 377.3 | 14,266.9 |

### Geographical breakdown of assets by physical location

| | Denmark | Germany | Sweden | Norway | UK | Rest of world | Group total |
|---|---|---|---|---|---|---|---|
| Segment assets | 31,688.1 | 13.5 | 0.0 | 1,458.5 | 70.1 | 0.0 | 33,230.2 |

## Note 2. Revenue

Revenue includes market value adjustments of DKK 11.8 million (2003: DKK 0) in respect of physical contracts concerning trading in gas and electricity and in respect of financial contracts.

## Note 3. Operating expenses

Operating expenses comprise Production costs, Sales and marketing, Management and administration, and Other operating expenses.

Operating expenses include staff costs, depreciation, amortisation and impairment losses, and fees to auditors:

| DKK million | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| **Staff costs** | | | | |
| Wages, salaries and remuneration | (535.5) | (530.3) | (122.3) | (106.7) |
| Pension contributions | (51.6) | (57.5) | (12.4) | (11.7) |
| Other social security costs | (5.0) | (6.4) | (0.7) | (0.5) |
| **Staff costs** | (592.1) | (594.2) | (135.4) | (118.9) |
| Including: | | | | |
| Remuneration to the Committee of Representatives | (0.3) | (0.3) | (0.3) | (0.3) |
| Remuneration to the members of the Supervisory Board | (1.4) | (1.4) | (1.4) | (1.4) |
| Remuneration to the Executive Board, salary | (2.7) | (2.3) | (2.7) | (2.3) |
| Remuneration to the Executive Board, bonus | (0.4) | (0.4) | (0.4) | (0.4) |
| **Total** | (4.8) | (4.4) | (4.8) | (4.4) |

Bonus schemes have been introduced for the Executive Board. The contracts of service of the members of the Executive Board include severance packages under which a member will be entitled to twenty-four months' salary if his/her contract of employment is terminated by the company.

| DKK million | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| **Number of full-time employees:** | | | | |
| Average for the financial year | 1,043 | 1,125 | 234 | 226 |
| At 31 December | 980 | 1,156 | 244 | 230 |
| **Depreciation, amortisation and impairment losses by function:** | | | | |
| Production costs | (2,111.9) | (2,259.1) | (72.4) | (53.7) |
| Management and administration | (13.0) | (7.9) | 0.0 | 0.0 |
| Know-how and rights | (140.7) | (111.8) | 0.0 | 0.0 |
| **Depreciation, amortisation and impairment losses** | (2,265.6) | (2,378.8) | (72.4) | (53.7) |

## Note 3. Operating expenses (continued)

| DKK million | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| **Fees to auditors:** | | | | |
| KPMG C.Jespersen | | | | |
| Audit fees | (3.4) | (2.6) | (1.1) | (1.1) |
| Non-audit fees | (16.2) | (9.2) | (8.1) | (5.7) |
| | (19.6) | (11.8) | (9.2) | (6.8) |
| PricewaterhouseCoopers | | | | |
| Audit fees | (0.6) | (1.0) | (0.2) | (0.1) |
| Non-audit fees | (0.3) | (1.3) | (0.1) | (0.4) |
| | (0.9) | (2.3) | (0.3) | (0.5) |
| Other firms of accountants | | | | |
| Non-audit fees | (0.5) | 0.0 | (0.3) | 0.0 |
| | (0.5) | 0.0 | (0.3) | 0.0 |
| **Total fees to auditors** | (21.0) | (14.1) | (9.8) | (7.3) |

## Note 4. Production costs

| DKK million | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| Oil and gas exploration | (311.4) | (209.4) | 0.0 | 0.0 |
| Oil and gas production | (2,302.6) | (1,648.7) | 0.0 | 0.0 |
| Natural gas, Trade & Supply | (7,714.2) | (7,199.5) | 0.0 | 0.0 |
| Natural gas, Distribution & Storage | (481.3) | (485.1) | 0.0 | 0.0 |
| Oil pipeline | (114.8) | (454.6) | 0.0 | 0.0 |
| Electricity & Renewable energy | (296.1) | (482.1) | 0.0 | 0.0 |
| Services | 0.0 | 0.0 | (343.3) | (239.4) |
| **Production costs** | (11,220.4) | (10,479.4) | (343.3) | (239.4) |

## Note 5. Other operating income and expenses

| DKK million | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| Gains on sale of fixed assets | 0.4 | 2.4 | 0.0 | 0.5 |
| Investment contribution | 1.0 | 1.8 | 0.0 | 0.0 |
| Other operating income | 7.7 | 1.6 | 0.1 | 0.0 |
| **Other operating income** | 9.1 | 5.8 | 0.1 | 0.5 |
| Loss on sale of fixed assets | (0.4) | (1.0) | 0.0 | 0.0 |
| Elimination of underabsorption | (12.7) | 0.0 | 0.0 | 0.0 |
| Other operating expenses | (1.1) | (16.0) | 0.0 | (0.1) |
| **Other operating expenses** | (14.2) | (17.0) | 0.0 | (0.1) |
| **Other operating income and expenses** | (5.1) | (11.2) | 0.1 | 0.4 |

## Note 6. Amortisation of and impairment losses on rights, etc.

| DKK million | Group 2004 | Group 2003 |
|---|---|---|
| Amortisation of exploration activities | (16.8) | (16.8) |
| Impairment losses on exploration activities | (18.1) | 0.0 |
| **Amortisation of and impairment losses on exploration activities** | (34.9) | (16.8) |
| Amortisation of natural gas activities | (95.0) | (95.0) |
| Impairment losses on natural gas activities | (10.8) | 0.0 |
| **Amortisation of and impairment losses on natural gas activities** | (105.8) | (95.0) |
| **Amortisation of and impairment losses on rights, etc.** | (140.7) | (111.8) |

## Note 7. Financial income

| DKK million | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| Interest income | 215.3 | 250.8 | 112.2 | 33.3 |
| Intra-Group interest income | - | - | 127.4 | 164.9 |
| Realised capital gains on securities | 3.3 | 4.5 | 1.8 | 1.4 |
| Unrealised capital gains on securities | 3.5 | 11.3 | 3.5 | 0.0 |
| Value adjustments of other equity investments | 319.0 | 474.7 | 0.9 | 474.7 |
| Dividends | 27.0 | 12.9 | 3.5 | 3.5 |
| Gains on raw material derivatives | 0.0 | 0.0 | 1,542.4 | 519.4 |
| Fair value adjustments of financial instruments | 53.6 | 4.0 | 27.1 | 0.0 |
| Foreign exchange gains | 564.5 | 383.2 | 862.4 | 78.1 |
| Other value adjustments | 11.0 | 0.1 | 28.3 | 0.1 |
| **Financial income** | 1,197.2 | 1,141.5 | 2,709.5 | 1,275.4 |

## Note 8. Financial expenses

| DKK million | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| Interest expense | (186.7) | (297.1) | (91.9) | (72.7) |
| Intra-Group interest expense | - | - | (51.2) | (27.7) |
| Interest element of abandonment costs | (52.6) | (28.2) | 0.0 | 0.0 |
| Index adjustment of mortgage loans | (2.3) | (13.9) | 0.0 | (0.2) |
| Realised capital losses on securities | (11.9) | (47.5) | (6.2) | (2.1) |
| Unrealised capital losses on securities | (5.3) | (1.9) | (5.8) | (0.9) |
| Losses on raw material derivatives | 0.0 | 0.0 | (1,542.4) | (519.4) |
| Fair value adjustments of financial instruments | (167.9) | (299.5) | (238.1) | 0.0 |
| Foreign exchange losses | (599.4) | (397.7) | (849.1) | (49.7) |
| Other value adjustments | 0.0 | 0.0 | (30.5) | 0.0 |
| **Financial expenses** | (1,026.1) | (1,085.8) | (2,815.2) | (672.7) |
| Revenue for the year includes foreign exchange adjustments of: | 435.1 | 251.8 | 0.0 | 0.0 |
| Profit for the year includes foreign exchange adjustments of: | 400.2 | 237.3 | 13.3 | 28.4 |

| DKK million | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|

## Note 9. Tax on the profit for the year

| | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| Tax for the year can be broken down as follows: | | | | |
| Tax on the profit for the year | (968.2) | (1,299.4) | (915.1) | (1,296.2) |
| Tax on changes in equity | 224.9 | (39.4) | 0.2 | 4.6 |
| Tax on changes in equity in subsidiaries | 0.0 | 0.0 | 191.3 | (44.2) |
| **Tax for the year** | (743.3) | (1,338.8) | (723.2) | (1,335.8) |
| Tax on profit for the year can be broken down as follows: | | | | |
| Current tax (ordinary tax and hydrocarbon tax) calculated using normal tax rates | (562.7) | (841.1) | (340.7) | (646.8) |
| Special tax, hydrocarbon tax calculated using higher tax rate | (209.2) | (330.7) | 0.0 | 0.0 |
| Deferred tax, ordinary tax rates | (211.1) | (182.1) | (171.3) | (211.8) |
| Deferred tax, special tax rates | 17.3 | 81.7 | 0.0 | 0.0 |
| Tax in Group enterprises | - | - | (422.3) | (453.0) |
| Tax in associates | (1.7) | (13.5) | (1.7) | (13.5) |
| Adjustment of current tax re prior years | 19.1 | 9.9 | 20.5 | 27.0 |
| Adjustment of deferred tax re prior years | (19.9) | (23.6) | 0.4 | 1.9 |
| **Tax on the profit for the year** | (968.2) | (1,299.4) | (915.1) | (1,296.2) |
| Tax on profit for the year can be broken down as follows: | | | | |
| Calculated 30% tax on profit before tax | (917.8) | (974.4) | (815.4) | (971.3) |
| Adjustment of calculated tax in foreign Group enterprises in relation to 30% | (27.9) | 1.2 | (27.9) | 1.2 |
| Special tax, hydrocarbon tax | (151.8) | (153.8) | (151.8) | (153.8) |
| Tax effect of: | | | | |
| Non-taxable income | 288.8 | 6.5 | 235.0 | 6.5 |
| Non-deductible costs in general | (152.8) | (159.0) | (146.3) | (158.9) |
| Share of post-tax profits (losses) of associates | (5.9) | (6.2) | (5.9) | (6.2) |
| Adjustment of tax re prior years | (0.8) | (13.7) | (2.8) | (13.7) |
| **Tax on the profit for the year** | (968.2) | (1,299.4) | (915.1) | (1,296.2) |
| Effective tax rate | 31.6 | 40.0 | 33.7 | 40.0 |

The parent company has repatriated a total joint taxation contribution from subsidiaries of DKK 412.4 million for 2004.

The Group's total tax charge was DKK 739.2 million, DKK 417.8 million of which was payable to Denmark and DKK 321.4 million abroad.

DKK million

## Note 10. Intangible assets

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Goodwill | Know-how | Rights | IT software | IT projects in progress | Total |
| Cost at 1 January | 2,959.1 | 0.0 | 0.0 | 220.5 | 104.8 | 3,284.4 |
| Reclassification at 1 January | (559.1) | 84.1 | 475.0 | 0.0 | 0.0 | 0.0 |
| Additions | 0.0 | 0.0 | 10.8 | 8.0 | 85.4 | 104.1 |
| Disposal on sale of company | 0.0 | 0.0 | 0.0 | 0.0 | (3.3) | (3.3) |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 | (7.7) | (7.7) |
| Transfers | 0.0 | 0.0 | 475.0 | 137.1 | (137.1) | 475.0 |
| **Cost at 31 December** | 2,400.0 | 84.1 | 960.8 | 365.6 | 42.1 | 3,852.6 |
| Amortisation and impairment losses at 1 January | (2,829.2) | 0.0 | 0.0 | (66.0) | 0.0 | (2,895.2) |
| Reclassification at 1 January | 429.2 | (49.2) | (380.0) | 0.0 | 0.0 | 0.0 |
| Amortisation for the year | 0.0 | (16.8) | (102.8) | (60.1) | 0.0 | (179.7) |
| Impairment losses for the year | 0.0 | (18.1) | (10.8) | 0.0 | 0.0 | (28.9) |
| Amortisation and impairment losses at 31 December | (2,400.0) | (84.1) | (493.6) | (126.1) | 0.0 | (3,103.8) |
| **Carrying amount at 31 December** | 0.0 | 0.0 | 467.2 | 239.4 | 42.1 | 748.8 |
| Amortised over | 5 - 10 years | 5 years | 5 - 20 years | 5 years | - | |

An amount of DKK 22.2 million (2003: DKK 31.4 million) was capitalised in 2004 in respect of work carried out by the Group on its own account.

| | Parent company | | |
|---|---|---|---|
| | IT software | IT projects in progress | Total |
| Cost at 1 January | 194.3 | 88.2 | 282.5 |
| Additions | 6.7 | 85.0 | 91.7 |
| Disposals | 0.0 | (7.7) | (7.7) |
| Transfers | 123.4 | (123.4) | 0.0 |
| Cost at 31 December | 324.4 | 42.1 | 366.5 |
| Amortisation and impairment losses at 1 January | (59.5) | 0.0 | (59.5) |
| Amortisation for the year | (52.5) | 0.0 | (52.5) |
| Amortisation and impairment losses at 31 December | (112.0) | 0.0 | (112.0) |
| Carrying amount at 31 December | 212.4 | 42.1 | 254.5 |
| Amortised over | 5 years | - | |

An amount of DKK 22.2 million (2003: DKK 27.6 million) was capitalised in 2004 in respect of work carried out by the parent company on its own account.

DKK million

## Note 11. Property, plant and equipment

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Land and buildings | Production assets | Exploration | Other fixtures and fittings, tools and equipment | Assets under construction | Total |
| Cost at 1 January | 499.9 | 29,809.3 | 163.8 | 112.8 | 1,290.8 | 31,876.6 |
| Foreign exchange adjustments | 0.0 | 41.9 | (2.8) | 0.1 | 0.8 | 40.0 |
| Addition on acquisition of company | 0.0 | 101.3 | 0.0 | 0.0 | 0.0 | 101.3 |
| Additions | 1.0 | 1,394.5 | 237.4 | 9.9 | 820.7 | 2,463.6 |
| Disposals | 0.0 | (415.7) | (29.9) | (14.2) | (27.3) | (487.1) |
| Disposal on sale of company | (100.7) | (3,746.2) | 0.0 | (37.2) | (37.5) | (3,921.6) |
| Reclassification concerning non-consolidated subsidiaries | 0.0 | (651.4) | 0.0 | (0.2) | (1.7) | (653.3) |
| Transfers | 6.0 | 1,138.8 | 0.0 | 0.0 | (1,625.5) | (480.7) |
| **Cost at 31 December** | 406.2 | 27,672.5 | 368.5 | 71.2 | 420.3 | 28,938.8 |
| Revaluation at 1 January | 0.0 | 7,600.0 | 0.0 | 0.0 | 0.0 | 7,600.0 |
| Disposal on sale of company | 0.0 | (4,800.0) | 0.0 | 0.0 | 0.0 | (4,800.0) |
| Revaluation at 31 December | 0.0 | 2,800.0 | 0.0 | 0.0 | 0.0 | 2,800.0 |
| Depreciation and impairment losses at 1 January | (168.5) | (17,156.2) | 0.0 | (55.5) | 0.0 | (17,380.2) |
| Foreign exchange adjustments | 0.0 | (21.9) | 0.0 | (0.2) | 0.0 | (22.2) |
| Depreciation, disposals | 0.0 | 132.8 | 29.9 | 11.4 | 0.0 | 174.1 |
| Depreciation charge for the year | (18.8) | (2,071.9) | (59.4) | (16.9) | 0.0 | (2,167.0) |
| Impairment losses for the year | 0.0 | (20.0) | (29.9) | (0.1) | 0.0 | (50.0) |
| Reversal of impairment losses in previous years | | 160.0 | | | 0.0 | 160.0 |
| Disposal on sale of company | 28.1 | 3,166.6 | 0.0 | 20.7 | 0.0 | 3,215.5 |
| Reclassification concerning non-consolidated subsidiaries | 0.0 | 152.1 | 0.0 | 0.3 | 0.0 | 152.4 |
| **Depreciation and impairment losses at 31 December** | (159.2) | (15,658.5) | (59.4) | (40.3) | 0.0 | (15,917.5) |
| **Carrying amount at 31 December** | 247.0 | 14,814.0 | 309.1 | 30.9 | 420.3 | 15,821.3 |
| Carrying amount excl. revaluation | 247.0 | 12,714,0 | 309.1 | 30.9 | 420.3 | 13,721.3 |
| Depreciated over | 20 years | 10 - 50 years | - * | 3 - 5 years | - | |
| Value according to public land assessment | 440.2 | | | | | |

* Unit of production

## Note 11. Property, plant and equipment (continued)

An amount of DKK 54.7 million (2003: DKK 27.9 million) was capitalised in 2004 in respect of work carried out by the Group on its own account.

Depreciation and impairment losses for the year, DKK 2,057.0 million in total, are recognised in the income statement as Production costs and Management and administration, respectively. Reference is made to note 3. The depreciation charge for the year in respect of revaluation amounted to DKK 140 million (2003: DKK 380 million).

The carrying amounts of the natural gas network were reviewed again at the end of 2004. External valuers were not used in connection with the valuation.

Based on a conservative assessment of the expected future earnings from treatment and storage of natural gas, the measurement of the technical installations has been written up by DKK 2.8 billion in total. Provision for deferred tax on the revaluation amount has been made. The balance has been taken to a special revaluation reserve under equity. From 2000, depreciation is charged over 20 years on the basis of the written-up values.

DKK million

## Note 11. Property, plant and equipment (continued)

| | Parent company | | | |
|---|---|---|---|---|
| | Land and buildings | Other fixtures and fittings, tools and equipment | Assets under construction | Total |
| Cost at 1 January | 349.7 | 28.1 | 3.0 | 380.8 |
| Additions | 1.0 | 4.1 | 3.0 | 8.1 |
| Transfers | 6.0 | 0.0 | (6.0) | 0.0 |
| Disposals | 0.0 | (3.5) | -0.0 | (3.5) |
| Cost at 31 December | 356.7 | 28.7 | 0.0 | 385.4 |
| Depreciation and impairment losses at 1 January | (115.8) | (14.6) | 0.0 | (130.4) |
| Depreciation, disposals | 0.0 | 1.8 | 0.0 | 1.8 |
| Depreciation charge for the year | (15.7) | (4.2) | 0.0 | (19.9) |
| Depreciation and impairment losses at 31 December | (131.5) | (17.0) | 0.0 | (148.5) |
| Carrying amount at 31 December | 225.2 | 11.7 | 0.0 | 236.9 |
| Depreciated over | 20 years | 3 - 5 years | - | |
| Value according to public land assessment | 142.4 | | | |
| Of which not used for own purposes (investment properties) | 66.5 | | | |

Depreciation and impairment losses for the year, DKK 19.9 million in total, are recognised in the income statement as Production costs. Reference is made to note 3 and 4.

DKK million

## Note 12. Investments

| | Group | | | |
|---|---|---|---|---|
| | Investments in associates | Other equity investments | Other investments | Total |
| Cost at 1 January | 91.1 | 583.2 | 74.8 | 749.1 |
| Reclassification at 1 January | (15.8) | 649.7 | 0.0 | 633.9 |
| Additions | 9.2 | 1,590.5 | 964.7 | 2,564.4 |
| Addition on acquisition of subsidiaries | 0.0 | 2,058.3 | 0.0 | 2,058.3 |
| Disposals | (0.9) | (8.1) | (23.0) | (32.0) |
| Cost at 31 December | 83.6 | 4,873.6 | 1,016.5 | 5,973.7 |
| Value adjustments at 1 January | 98.9 | 1,323.5 | 0.0 | 1,422.4 |
| Reclassification at 1 January | 0.0 | (650.3) | 0.0 | (650.3) |
| Revaluation at start of year concerning natural gas pipelines | 57.2 | 0.0 | 0.0 | 57.2 |
| Share of profits for the year | 13.9 | - | - | 13.9 |
| Goodwill amortisation | (28.9) | - | - | (28.9) |
| Value adjustments, etc. | (0.7) | 317.9 | (10.0) | 307.2 |
| Other value adjustments | (0.0) | 0.8 | 0.0 | 0.8 |
| Dividends received | (35.1) | - | - | (35.1) |
| Disposals | 0.1 | (205.8) | 0.0 | (205.7) |
| Value adjustments at 31 December | 104.8 | 786.1 | (10.0) | 880.9 |
| Carrying amount at 31 December | 188.4 | 5,659.7 | 1,006.5 | 6,854.6 |

Other investments include an advance payment of DKK 931.7 million in respect of the investment in the Ormen Lange gas field.

The DONG Group acquired the following companies in 2004, all of which have been accounted for in accordance with the purchase method:

- 100% of the shares in DONG Sverige AB (formerly Nova Supply AB) via DONG Naturgas A/S, accounting effect from 29 October 2004, total purchase price DKK 113.0 million.
- 77% of the shares in EM El Holding A/S via DONG El A/S, accounting effect from 31 December 2004, total purchase price DKK 1,083.2 million.
- The remaining approx. 35.4% of the shares in EnergiGruppen Jylland El Holding A/S via DONG El A/S, accounting effect from 31 December 2004, total purchase price DKK 227.7 million.

In connection with the disposal of activities in EnergiGruppen Jylland A/S a final settlement was made for a number of the conditional payments associated with the acquisition on 1 April 2003, including the undistributable reserves within electricity activities.

DKK million

## Note 12. Investments (continued)

| | Parent company | | | |
|---|---|---|---|---|
| | Investments in subsidaries | Investments in associates | Other equity investments | Subordinanted loans to Group companies |
| Cost at 1 January | 4,399.1 | 49.8 | 536.3 | 2,594.3 |
| Reclassification at 1 January 2004 | 0.0 | 0.0 | 366.4 | 0.0 |
| Additions | 0.0 | 5.0 | 0.7 | 2,213.0 |
| Disposals | (500.0) | 0.0 | 0.0 | (1,228.0) |
| **Cost at 31 December** | 3,899.1 | 54.8 | 903.4 | 3,579.3 |
| Undistributable reserves in regulated companies at 1 January | 663.4 | 0.0 | - | - |
| Reclassification concerning non-consolidated subsidiaries | (248.4) | 0.0 | - | - |
| Disposal on sale | (415.0) | 0.0 | | |
| **Undistributable reserves in regulated companies at 31 December** | 0.0 | 0.0 | - | - |
| Value adjustments at 1 January | 7,644.4 | 102.6 | 833.8 | 0.0 |
| Reclassification at 1 January 2004 | 0.0 | 0.0 | (366.4) | 0.0 |
| Revaluation at start of year concerning natural gas pipelines | 57.2 | 0.0 | 0.0 | 0.0 |
| Share of profits for the year | 1,934.8 | 2.7 | - | - |
| Goodwill amortisation | 0.0 | (28.9) | - | - |
| Value adjustments of hedging instruments | (653.9) | 0.0 | - | - |
| Tax on value adjustments of hedging instruments | 195.5 | 0.0 | - | - |
| Value adjustments, etc. | 13.5 | (0.7) | 0.0 | (13.1) |
| Disposals | (622.1) | 0.0 | 0.0 | - |
| Other value adjustments | (0.5) | 0.0 | 0.9 | 0.0 |
| Dividends received | (1,494.9) | (35.1) | - | 0.0 |
| **Value adjustments at 31 December** | 7,074.0 | 40.6 | 468.2 | (13.1) |
| **Carrying amount at 31 December** | 10,973.1 | 95.4 | 1,371.7 | 3,566.2 |
| Proposed dividends | 1,208.8 | | | |

DKK million

## Note 12. Investments (continued)

**Subsidiaries:**

| | Registred office | Share capital | Ownership | Profit (loss) before tax 2004 | Profit (loss) before tax 2003 | Equity 2004 | Equity 2003 |
|---|---|---|---|---|---|---|---|
| DONG Naturgas A/S | Birkerød, Denmark | 1,020 | 100% | **1,633.6** | 1,770.0 | **6,505.2** | 6,857.0 |
| DONG Distribution A/S | Birkerød, Denmark | 150 | 100% | **18.8** | 51.0 | **693.4** | 715.6 |
| DONG Lager A/S | Birkerød, Denmark | 100 | 100% | **82.9** | 48.6 | **631.4** | 605.9 |
| DONG Transmission A/S (Gastra A/S) | Birkerød, Denmark | 500 | 0% | **0.0** | 87.3 | **0.0** | 1,130.5 |
| DONG Olierør A/S | Birkerød, Denmark | 1 | 100% | **202.3** | (108.9) | **109.6** | (32.0) |
| DONG Efterforskning og Produktion A/S | Birkerød, Denmark | 300 | 100% | **304.5** | 734.5 | **1,587.4** | 2,008.1 |
| DONG EL A/S | Birkerød, Denmark | 100 | 100% | **672.3** | 19.6 | **1,053.9** | 1,076.0 |
| DONG VE A/S | Birkerød, Denmark | 330 | 100% | **(10.3)** | 2.1 | **322.2** | 332.7 |
| DONG Olieforsyning A/S | Birkerød, Denmark | 1 | 100% | **0.0** | 0.0 | **1.7** | 1.7 |
| DONG Litauen A/S | Birkerød, Denmark | 7 | 100% | **0.1** | 0.1 | **2.9** | 2.9 |
| DANGAS GmbH | Kiel, Germany | EUR 26,000 | 100% | **10.9** | 11.6 | **65.4** | 8.5 |
| Pre-tax profits and share of equity of subsidiaries | | | | **2,915.1** | 2,615.9 | **10,973.1** | 12,706.9 |
| Tax on the profit for the year | | | | **(980.3)** | (1,100.6) | | |
| Post-tax profits of subsidiaries | | | | **1,934.8** | 1,515.3 | | |

**Associates:**

| | Registred office | Ownership | Profit (loss) before tax 2004 | Profit (loss) before tax 2003 | Investment 2004 | Investment 2003 |
|---|---|---|---|---|---|---|
| Nova Naturgas AB | Stockholm, Sweden | 20% | **8.3** | 31.3 | **75.7** | 133.8 |
| Nunaoil A/S | Nuuk, Greenland | 50% | **(3.9)** | (5.4) | **19.7** | 18.6 |
| Goodwill amortisation | | | **(28.9)** | (11.6) | **-** | - |
| **Parent company, total** | | | **(24.5)** | 14.3 | **95.4** | 152.4 |
| Dansk Gasteknisk Center A/S | Birkerød, Denmark | 37% | **0.1** | 0.0 | **2.7** | 3.4 |
| Fordonsgas AB | Gothenburg, Sweden | 33% | **0.0** | 0.0 | **4.2** | 0.0 |
| Deudan GmbH | Kiel, Germany | 49% | **0.0** | 0.0 | **0.1** | 0.1 |
| Deudan GmbH & Co. KG | Kiel, Germany | 49% | **11.6** | 11.7 | **68.9** | 0.1 |
| P/S BI New Energy Solutions | Copenhagen, Denmark | 22% | **(1.1)** | (1.9) | **17.1** | 18.2 |
| **Group, total** | | | **(13.9)** | 24.1 | **188.4** | 174.2 |

**Other equity investments:**

Other equity investments comprise companies in which DONG has a an ownership interest of less than 20% or in which DONG does not have significant influence. Reference is made to the Group structure in note 36, in which a breakdown of other equity investments, etc., is given.

# Notes to the balance sheet

| DKK million | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|

## Note 13. Inventories

| | | | | |
|---|---|---|---|---|
| Raw materials and consumables | 9.7 | 13.8 | 0.0 | 0.0 |
| Natural gas and crude oil | 451.6 | 395.7 | 0.0 | 0.0 |
| Inventories at 31 December | 461.3 | 409.5 | 0.0 | 0.0 |

## Note 14. Trade receivables

All receivables fall due for payment less than one year after the close of the financial year.

## Note 15. Other receivables

| | | | | |
|---|---|---|---|---|
| Fair value of derivative financial instruments | 1,242.9 | 1,198.8 | 2,170.7 | 34.3 |
| Recivable from disposal of activities | 1,189.8 | 0.0 | 0.0 | 0.0 |
| Other receivables | 821.0 | 566.7 | 24.5 | 56.4 |
| Other receivables at 31 December | 3,253.7 | 1,765.5 | 2,195.2 | 1,714.4 |

## Note 16. Prepayments

| | | | | |
|---|---|---|---|---|
| Underlift | 65.4 | 99.0 | 0.0 | 0.0 |
| Other prepayments | 73.9 | 175.0 | 3.7 | 1.6 |
| Prepayments at 31 December | 139.3 | 274.0 | 3.7 | 1.6 |

## Note 17. Equity

| | | | | |
|---|---|---|---|---|
| Share capital | | | | |
| At start and at end of year | 2,143.6 | 2,143.6 | 2,143.6 | 2,143.6 |

DKK million

## Note 17. Equity continued

**Composition of share capital:**

| Number of shares | | Nominal value (DKK '000) | | Total (DKK '000) |
|---|---|---|---|---|
| 20 | at | 1 | = | 20 |
| 18 | at | 10 | = | 180 |
| 149 | at | 100 | = | 14,900 |
| 1 | at | 500 | = | 500 |
| 1,173 | at | 1,000 | = | 1,173,000 |
| 15 | at | 5,000 | = | 75,000 |
| 1 | at | 10,000 | = | 10,000 |
| 1 | at | 20,000 | = | 20,000 |
| 17 | at | 50,000 | = | 850,000 |
| | | | | 2,143,600 |

The entire share capital is held by the Danish State.

| | Group | | Parent company | |
|---|---|---|---|---|
| **Foreign exchange adjustments:** | 2004 | 2003 | 2004 | 2003 |
| Accumulated foreign exchange adjustments at 1 January | **70.2** | 34.1 | **2.9** | 0.5 |
| Foreign exchange adjustments for the year, foreign companies | **14.7** | (104.3) | **1.2** | 2.4 |
| Foreign exchange adjustments for the year, equity-like loans | **(16.0)** | 0.0 | **(16.0)** | 0.0 |
| **Accumulated foreign exchange adjustments at 31 December** | **68.9** | 70.2 | **(11.9)** | 2.9 |
| **Value adjustments of hedging instruments:** | | | | |
| Value adjustments of hedging instruments at 1 January | **402.2** | 269.2 | **1.1** | 16.3 |
| Value adjustments for the year, hedging instruments | **(735.4)** | 133.0 | **15.4** | (15.2) |
| **Value adjustments of hedging instruments at 31 December** | **(333.2)** | 402.2 | **16.5** | 1.1 |
| **Tax on value adjustments of hedging instruments:** | | | | |
| Tax on value adjustments of hedging instruments at 1 January | **(120.9)** | (81.5) | **(0.3)** | (4.9) |
| Tax on value adjustments of hedging instruments | **224.9** | (39.4) | **0.2** | 4.6 |
| **Tax on value adjustments of hedging instruments at 31 December** | **104.0** | (120.9) | **(0.1)** | (0.3) |

DKK million

## Note 18. Minority interests

| | Distributable reserves | Undistributable reserves | Total |
|---|---|---|---|
| Minority interests at 1 January | 217.8 | 345.9 | 563.7 |
| Reclassification concerning non-consolidated subsidiaries | 0.0 | (155.9) | (155.9) |
| Transfer as a result of Energy Agreement | 190.0 | (190.0) | 0.0 |
| Addition on acquisition of subsidiary | 329.4 | 0.0 | 329.4 |
| Disposal on sale of subsidiary | (20.1) | 0.0 | (20.1) |
| Acquisition of minority interests in subsidiaries | (227.7) | 0.0 | (227.7) |
| Share of profit for the year and equity items | 205.1 | 0.0 | 205.1 |
| **Minority interests at 31 December** | 694.5 | 0.0 | 694.5 |

## Note 19. Deferred tax

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Deferred tax at 1 January | 4,102.3 | 4,092.2 | 330.1 | 78.0 |
| Reclassification concerning non-consolidated companies | (8.1) | 0.0 | 0.0 | - |
| Addition by merger | - | - | - | 42.2 |
| Addition on acquisition of subsidiary | 9.1 | 11.6 | - | - |
| Disposal on sale of subsidiary | (1,262.8) | 0.0 | - | - |
| Deferred tax for the year | 193.8 | 100.4 | 171.3 | 211.8 |
| Prior year adjustments | 19.9 | 23.6 | (0.4) | (1.9) |
| Reclassifications | (8.6) | (68.0) | (3.0) | - |
| Foreign exchange adjustments | 4.7 | (57.5) | - | - |
| **Deferred tax at 31 December** | 3,050.3 | 4,102.3 | 498.0 | 330.1 |
| **Deferred tax relates to:** | | | | |
| Intangible assets | (22.8) | (172.1) | 76.3 | 66.8 |
| Property, plant and equipment | 3,388.7 | 4,586.2 | 17.7 | 17.2 |
| Investments | 240.6 | 140.2 | 240.6 | 140.2 |
| Current assets | 9.4 | 16.5 | 0.0 | 0.0 |
| Provisions | (652.5) | (502.8) | 0.0 | 0.0 |
| Other liabilities other than provisions | (1.2) | (13.6) | 75.3 | 58.0 |
| Re-taxation | 88.1 | 47.9 | 88.1 | 47.9 |
| | 3,050.3 | 4,102.3 | 498.0 | 330.1 |

## Note 20. Pensions and other provisions

| DKK million | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| **Pensions** | | | | |
| Provisions at 1 January | **19.4** | 14.7 | **0.0** | 0.0 |
| Utilised during the year | **0.0** | 0.0 | **0.0** | 0.0 |
| Reversal | **(2.0)** | 0.0 | **0.0** | 0.0 |
| Provision for the year, including change in present values as a result of the lapse of time, etc. | **0.8** | 4.7 | **0.0** | 0.0 |
| **Provisions at 31 December** | **18.2** | 19.4 | **0.0** | 0.0 |
| **Other provisions** | | | | |
| Provisions at 1 January | **966.6** | 367.5 | **0.0** | 0.0 |
| Utilised during the year | **0.0** | 0.0 | **0.0** | 0.0 |
| Reversal | **(231.2)** | 0.0 | **0.0** | 0.0 |
| Provision for the year, including change in present values as a result of the lapse of time, etc. | **630.5** | 599.1 | **0.0** | 0.0 |
| **Provisions at 31 December** | **1,365.9** | 966.6 | **0.0** | 0.0 |

The provisions at 31 December are expected to be payable in:

| | Group Pensions | Group Other Provisions |
|---|---|---|
| 0 - 1 years | 2.0 | 58.4 |
| 1 - 5 years | 7.2 | 363.7 |
| > 5 years | 9.0 | 943.8 |
| **Provisions at 31 December** | 18.2 | 1,365.9 |

| DKK million | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|

## Note 21. Short-term and long-term loans

| | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| The short-term portion of Group long-term loans are made up as follows: | | | | |
| Instalments on long-term loans | 883.5 | 2,053.2 | 512.8 | 117.9 |
| Short-term loans at 31 December | 883.5 | 2,053.2 | 512.8 | 117.9 |

The Group's loans can be broken down by currency as follows:

| | Short-term loans | | Long-term loans | | Total | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | Per cent | 2003 | Per cent |
| DKK, fixed | 372.8 | 1,273.4 | 1,042.1 | 2,406.0 | 1,444.9 | 43 | 3,687.4 | 63 |
| DKK, floating | 11.7 | 0.0 | 766.0 | 344.7 | 777.7 | 23 | 344.7 | 6 |
| EUR | 371.9 | 148.9 | 21.3 | 117.2 | 393.2 | 12 | 266.1 | 5 |
| USD | 124.5 | 630.9 | 562.1 | 846.9 | 686.6 | 21 | 1,477.8 | 24 |
| GBP | 2.6 | 0.0 | 0.0 | 0.0 | 2.6 | 0 | 0.0 | 0 |
| JPY | 0.0 | 0.0 | 52.7 | 111.3 | 52.7 | 1 | 111.3 | 2 |
| | 883.5 | 2,055.2 | 2,444.2 | 3,826.1 | 3,327.7 | 100 | 5,979.3 | 100 |
| Hedging adjustments | 0.0 | 0.0 | 3.3 | 11.8 | 3.3 | 0 | 11.8 | 0 |
| Group loans | 883.5 | 2,053.2 | 2,447.5 | 3,837.9 | 3,331.0 | | 5,891.1 | |
| Weighted average interest rate | | | | | 3.8 | | 3.6 | |

The fair value of short-term and long-term loans corresponds essentially to the carrying amount.

Mortgage loans totalling DKK 631.7 million are secured on plant with a carrying amount of DKK 847.7 million at year end.

Of the total loans of DKK 3,331.0 million, payables to Gældsafviklingsselskabet Naturgasselskabet i Sydjyske Region I/S and Gældsafviklingsselskabet Naturgas Sjælland I/S represent DKK 593 million.

## Note 22. Income tax receivable and payable

| DKK million | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| Income tax receivable at 1 January | 503.4 | 72.0 | 503.4 | 72.0 |
| Addition on acquisition of subsidiary | 1.9 | 0.0 | 0.0 | 0.0 |
| Adjustments of current tax re prior years | 20.4 | 27.0 | 20.5 | 27.0 |
| Payments in respect of prior years | (514.4) | (64.2) | (514.4) | (64.2) |
| Current tax for the year | (374.2) | (646.8) | (340.7) | (646.8) |
| Tax for the year on equity including jointly taxed companies | 229.0 | (39.6) | 195.6 | (39.6) |
| Payments for the year | 962.5 | 1,155.0 | 960.0 | 1,155.0 |
| Reclassifications | (8.6) | 0.0 | (8.6) | 0.0 |
| **Income tax receivable at 31 December** | 820.0 | 503.4 | 815.8 | 503.4 |
| Income tax payable at 1 January | 220.1 | 346.1 | 0.0 | 0.0 |
| Foreign exchange adjustments | 9.6 | (41.1) | 0.0 | 0.0 |
| Adjustments of current tax re prior years | 1.5 | 17.1 | 0.0 | 0.0 |
| Payments in respect of prior years | (233.5) | (333.5) | 0.0 | 0.0 |
| Current tax for the year | 397.7 | 525.0 | 0.0 | 0.0 |
| Payments for the year | (182.8) | (293.5) | 0.0 | 0.0 |
| **Income tax payable at 31 December** | 212.6 | 220.1 | 0.0 | 0.0 |

## Note 23. Other payables

| DKK million | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| Fair value of derivative financial instruments | 1,897.3 | 701.7 | 2,472.8 | 1,823.5 |
| Purchase prices payable | 1,136.2 | 0.0 | 0.0 | 0.0 |
| Other liabilities other than provisions | 606.5 | 1,485.5 | 51.4 | 590.1 |
| Other payables | 3,640.0 | 2,187.2 | 2,524.2 | 2,413.6 |

## Note 24. Deferred income

Deferred income comprises prepayments from customers and the value of gas received free of charge. These amounts are recognised over a number of years.

Deferred income can be broken down as follows:

| DKK million | Group 2004 | Group 2003 |
|---|---|---|
| Value of gas received free of charge | 102.1 | 131.1 |
| Other deferred income | 238.1 | 440.7 |
| **Deferred income** | 340.2 | 571.8 |

# Notes to the cash flow statement

## Note 25. Cash flows from operations (operating activities)

| DKK million | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| Operating profit (EBIT) | 2,420.9 | 3,168.2 | 2,890.6 | 2,620.6 |
| Depreciation, amortisation and impairment losses | 2,265.6 | 2,378.8 | 72.4 | 53.7 |
| Operating profit before depreciation, amortisation and impairment losses (EBITDA) | 4,686.5 | 5,547.0 | 2,963.0 | 2,674.3 |
| Profits of Group enterprises | - | - | (2,915.1) | (2,615.9) |
| Other corrections | 245.1 | (56.5) | 40.2 | 33.8 |
| **Cash flows from operations (operating activities) before changes in working capital** | 4,931.6 | 5,490.5 | 88.1 | 92.2 |
| Change in inventories | (236.4) | 103.4 | 0.0 | 0.0 |
| Change in trade receivables | (625.4) | 574.2 | (10.4) | (3.3) |
| Change in other receivables | (515.3) | (810.8) | 680.7 | (821.2) |
| Change in trade payables | 1,047.7 | 525.7 | 29.8 | 59.5 |
| Change in other payables, etc. | (370.8) | 590.2 | (1,942.8) | 4,070.5 |
| **Changes in working capital** | (700.2) | 982.7 | (1,242.7) | 3,305.5 |
| **Cash flows from operations (operating activities)** | 4,231.4 | 6,473.2 | (1,154.6) | 3,397.7 |

## Note 26. Acquisition of Group enterprises

The value of the acquired assets and liabilities is as follows:

| DKK million | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| Intangible assets | (10.8) | (0.1) | - | - |
| Property, plant and equipment | (101.3) | (815.7) | - | - |
| Investments | (2,062.5) | (363.9) | 0.0 | (412.4) |
| Inventories | (1.3) | (6.9) | - | - |
| Receivables | (2.6) | (101.6) | - | - |
| Cash | (0.1) | (40.9) | - | - |
| Provisions | 4.2 | 7.6 | - | - |
| Liabilities other than provisions | 649.9 | 254.1 | - | - |
| Goodwill | (3.7) | 0.0 | - | - |
| Including undistributable reserves | 0.0 | 655.0 | - | - |
| Acquisition cost | (1,528.2) | (412.4) | 0.0 | (412.4) |
| Minority interests | 329.4 | 0.0 | - | - |
| Portion recognised as purchase price payable | 1,085.4 | 298.0 | 0.0 | 298.0 |
| Intra-Group payables acquired | (603.4) | 0.0 | - | - |
| Cash acquired | 0.1 | 62.4 | 0.0 | 0.0 |
| Cash purchase price | (716.7) | (52.0) | 0.0 | (114.4) |

| DKK million | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|

## Note 27. Acquisition of minority interests in Group enterprises

| | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| Purchase price | (227.7) | 0.0 | - | - |
| Portion recognised as purchase price payable | 50.8 | 0.0 | - | - |
| Cash purchase price | (176.9) | 0.0 | - | - |

## Note 28. Payments concerning acquisitions of Group enterprises in previous years

| | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| Payables concerning acquisition of Group enterprises at 1 January | (298.0) | 0.0 | (298.0) | 0.0 |
| Adjustment of purchase price prior years | (42.4) | 0.0 | 0.0 | 0.0 |
| Payables concerning acquisition of Group enterprises at 31 December | 0.0 | 0.0 | 0.0 | 0.0 |
| Payments concerning acquisitions of Group enterprises in previous years | (340.4) | 0.0 | (298.0) | 0.0 |

## Note 29. Sale of Group enterprises

The value of the transferred assets and liabilities is as follows:

| | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| Intangible assets | 3.3 | 0.0 | - | - |
| Property, plant and equipment | 5,888.3 | 0.0 | - | - |
| Investments | 0.7 | 0.0 | 1,088.2 | 0.0 |
| Inventories | 183.8 | 0.0 | - | - |
| Receivables | 163.6 | 0.0 | - | - |
| Cash | 242.4 | 0.0 | - | - |
| Provisions | (1,254.6) | 0.0 | - | - |
| Liabilities other than provisions | (3,044.8) | 0.0 | - | - |
| **Selling price** | 2,182.7 | 0.0 | 1,088.2 | 0.0 |
| Minority interests | (20.1) | 0.0 | - | - |
| Portion recognised as selling price receivable | (1,036.8) | 0.0 | 0.0 | 0.0 |
| Transferred cash | (242.4) | 0.0 | 0.0 | 0.0 |
| **Cash selling price** | 883.4 | 0.0 | 1,088.2 | 0.0 |

# Notes to the cash flow statement

| DKK million | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|

## Note 30. Sale of other equity investments

| | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| Receivables at 1 January | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposed of during year | 153.0 | 0.0 | 0.0 | 0.0 |
| Receivables at 31 December | (153.0) | 0.0 | 0.0 | 0.0 |
| **Cash selling price** | 0.0 | 0.0 | 0.0 | 0.0 |

## Note 31. Cash and cash equivalents

Cash and cash equivalents at 31 December include:

| | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| Securities that are part of the ongoing cash management | 196.2 | 841.3 | 196.2 | 186.0 |
| Available cash | 516.4 | 2,714.3 | 72.3 | 1,620.6 |
| Bank overdrafts | (567.2) | (106.9) | 0.0 | 0.0 |
| **Cash and cash equivalents at 31 December** | 145.4 | 3,448.7 | 268.5 | 1,806.6 |

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

| | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| Securities that are part of the ongoing cash management | 196.2 | 841.3 | 196.2 | 186.0 |
| Other securities | 0.0 | 0.0 | 0.0 | 0.0 |
| **Securities at 31 December** | 196.2 | 841.3 | 196.2 | 186.0 |

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

| | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| Available cash | 516.4 | 2,714.3 | 72.3 | 1,620.6 |
| Cash not available for use | 33.8 | 53.9 | 0.0 | 0.0 |
| **Cash at 31 December** | 550.2 | 2,768.2 | 72.3 | 1,620.6 |

Bank loans at 31 December can be broken down as follows:

| | Group 2004 | Group 2003 | Parent company 2004 | Parent company 2003 |
|---|---|---|---|---|
| Bank overdrafts | 567.2 | 106.9 | 0.0 | 0.0 |
| Instalments on long-term loans | 823.4 | 1,982.3 | 512.8 | 113.8 |
| **Bank loans at 31 December** | 1,390.6 | 2,089.2 | 512.8 | 113.8 |

DKK million

## Note 32. Currency risks, interest rate risks and oil and gas price risks

As part of its financial management, DONG hedges currency risks, interest rate risks, oil and gas price risks and electricity price risks. Full or partial hedging of recognised assets and liabilities (hedging of fair value) and of future transactions (hedging of cash flows) is carried out in accordance with the framework laid down in the financial risk policy implemented by DONG. Both primary financial instruments, primarily loans (only currency risks), and derivative financial instruments such as forwards, swaps and options, are used as hedges.

### Currency risks

*Recognised assets and liabilities (hedging of fair values)*

| Currency | Receivables | Payables | Hedged using forward exchange contracts and currency swaps | Net position |
|---|---|---|---|---|
| EUR | 189.6 | (553.9) | 21.3 | (343.0) |
| USD | 818.7 | (522.0) | 76.7 | 373.4 |
| GBP | 618.8 | (169.7) | 0.0 | 449.1 |
| SEK | 269.9 | (252.9) | 0.0 | 17.0 |
| NOK | 1,846.3 | (1,556.0) | 0.0 | 290.3 |
| CHF | 1.4 | 0.0 | 0.0 | 1.4 |
| JPY | 0.0 | (52.7) | 52.7 | 0.0 |
| | 3,744.7 | (3,107.2) | 150.7 | 788.2 |

At 31 December 2004 unrealised value adjustments of derivative financial instruments for currency hedging of recognised assets and liabilities totalled DKK 9.3 million (31 December 2003: minus DKK 59.3 million), which has been recognised in the income statement.

DKK million

## Note 32. Currency risks, interest rate risks and oil and gas price risks (continued)

*Future transactions (hedging of cash flows)*

DONG uses forward exchange contracts, currency options and loans denominated in foreign currencies to hedge expected future currency risks related to purchases, sales and investments. Hedging is primarily of USD within fixed ceilings of the expected net positions. Financial instruments used for currency hedging of expected future transactions can be broken down as follows:

| | | Contractual principal | | Fair value | | Of which recognised in equity | |
|---|---|---|---|---|---|---|---|
| | Term | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Forward exchange contracts | 0 - 4 years | 7,171.6 | 2,280.2 | 31.0 | 330.5 | 302.9 | 429.7 |
| Currency swaps | 0 - 5 years | 2,019.6 | 2,885.1 | 651.9 | 548.4 | 411.0 | 492.6 |
| Currency options | 0 - 1 years | 0.0 | 302.4 | 0.0 | 34.3 | 0.0 | 34.3 |
| Derivative financial instruments, total | | 9,191.2 | 5,467.7 | 682.9 | 913.2 | 713.9 | 956.6 |
| Loans in foreign currency | 0 - 5 years | 522.1 | 682.6 | 522.5 | 682.8 | 188.0 | 170.8 |
| Financial instruments, total | | 9,713.3 | 6,150.3 | 1,205.4 | 1,596.0 | 901.9 | 1,127.4 |

Equity at 31 December 2004 also includes realised net gains on financial instruments for hedging of currency risks for later recognition in the income statement of DKK 338.1 million (31 December 2003: DKK 110.4 million.).

Forward exchange contracts denominated in GBP with a principal of DKK 250 million at 31 December 2004 (2003: DKK 0) have been entered into for hedging of currency risks relating to investments in foreign subsidiaries.

### Interest rate risks

Interest rate risks are the risk that changes in agreed interest rates beyond the Group's control lead to increased interest expense or reduced interest income for the Group.

Contractual review and maturity dates for the Group's financial assets and liabilities, depending on which date occurs first:

| | Term | | | | |
|---|---|---|---|---|---|
| | 0 - 1 years | 1 - 5 years | > 5 years | Total | Effective interest rate (per cent) |
| Trade receivables | 2,534.0 | 0.0 | 0.0 | 2,534.0 | 0 |
| Other receivables | 3,254.0 | 0.0 | 0.0 | 3,254.0 | 0 |
| Convertible securities | 19.9 | 56.5 | 119.8 | 196.2 | 4 - 9 |
| Other long-term securities | 12.0 | 36.0 | 26.0 | 74.0 | 7 - 14 |
| Mortgage loans and bank loans | (1,450.7) | (1,235.5) | (1,212.0) | (3,898.2) | 1 - 6 |
| Other short-term liabilities other than provisions | (6,121.50) | 0.0 | 0.0 | (6,121.5) | 0 |
| Swaps | 6,751.0 | (5,353.0) | (1,398.0) | 0.0 | 0 |
| | 4,998.8 | (6,496.0) | (2,464.2) | (3,961.4) | |

DKK million

## Note 32. Currency risks, interest rate risks and oil and gas price risks (continued)

*Interest rate hedges*

As part of its financial management, DONG swaps the interest basis on loans from a fixed rate to a floating rate or vice versa using interest rate swaps.

For loans converted from a fixed rate to a floating rate (hedging of fair value) the value adjustment at 31 December 2004 totalled DKK 3.3 million (31 December 2003: DKK 11.8 million), which has been recognised in the income statement.

For interest rate swaps converting floating-rate loans to fixed-rate loans (hedging of cash flows), value adjustments recognised directly in equity at 31 December 2004 totalled minus DKK 4.6 million (31 December 2003: minus DKK 27.7 million).

For interest rate swaps hedging interest rate risks relating to future loans for financing Ormen Lange, value adjustments recognised directly in equity at 31 December 2004 totalled DKK 8.3 million (31 December 2003: DKK 0).

*Oil and gas price risks*

DONG engages in oil options and oil swaps to hedge the oil and gas price risks associated with its expected future purchases and sales. The expected crude oil equivalent net position is hedged within fixed ceilings. Derivative financial instruments used for hedging expected future transactions:

| | | Contractual principal | | Fair value | | Of which recognised in equity | |
|---|---|---|---|---|---|---|---|
| | Term | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Oil swaps | 0 - 3 years | **2,105.3** | 4,552.4 | **(1,332.2)** | (791.1) | **(1,332.2)** | (791.1) |
| Oil options | 0 - 4 years | **2,556.5** | 3,057.6 | **41.2** | 46.6 | **0.0** | (16.6) |
| Gas swaps | 0 - 4 years | **338.0** | 0.0 | **(19.0)** | 0.0 | **(19.0)** | 0.0 |
| Electricity swaps | 1 - 5 years | **199.5** | 0.0 | **6.9** | 0.0 | **6.9** | 0.0 |
| | | **5,414.7** | 7,610.0 | **(1,303.1)** | (744.5) | **(1,344.3)** | (807.7) |

Equity at 31 December 2004 also includes realised net gains on financial instruments for hedging of oil and gas price risks for later recognition in the income statement of minus DKK 114.9 million (31 December 2003: DKK 0).

## Note 33. Credit risks

Credit risks are the risk that a book loss will be realised in the event of a party to an agreement being unable to perform its obligations under the agreement.

The Group's credit risk comprises primarily trade receivables from the sale of oil and natural gas. Credit rating of customers and other business partners is carried out on a regular basis to generally minimise this risk.

The amounts with which the items in question feature in the balance sheet correspond to the Group's maximum credit risk. Losses on receivables from individual customers or business partners have historically been relatively low. In the company’s opinion, there are no special concentrations of credit risks.

The Group’s credit risk in connection with derivative financial instruments is limited as they have primarily been entered into with major international banks with a high credit rating.

## Note 34. Contingent liabilities and other liabilities

At year end the Group and the parent company had the following contingent liabilities, guarantees, indemnities, etc.:

*Contractual obligations*
DONG Naturgas is a party to gas purchase agreements with the DUC partners, transportation agreements with Nova Naturgas AB, BEB and Ruhrgas, and the parent company DONG stands as guarantor for performance of these agreements.

DONG Naturgas and the regional companies HNG and Midt-Nord have concluded an agreement under which DONG Naturgas will provide a financial guarantee securing HNG and Midt-Nord the necessary annual income from transportation activities to pay off their debt in 2014. From 1 January 2005 the guarantee is limited to a sum of DKK 285 million, which will be written down successively by DKK 15 million annually from 1 January 2005 to 1 January 2012. DONG Naturgas' maximum payment obligation will also be written down by the amounts paid in total by DONG Naturgas from the 2004 calendar year.

The parent company has furnished the Danish Ministry of Economic and Business Affairs with a guarantee for performance of all obligations and liability to the Danish State or third parties incurred by DONG Efterforskning og Produktion as co-holder of the licences in which the company participates, irrespective of whether the obligations and liability rest on DONG Efterforskning og Produktion alone or jointly and severally with others. However, the guarantee is limited to a sum corresponding to twice DONG Efterforskning og Produktion's share of each obligation or liability.

As a condition for approval of its participation in hydrocarbon exploration and production on the Norwegian and Faroese continental shelves, the parent company has furnished the undertaking normally required by the local authorities to act as guarantor with primary liability. The guarantee covers obligations and liability incurred or assumed by DONG Efterforskning og Produktion in connection with its exploration and production activities. The guarantee has no maximum limit and the parent company is jointly and severally liable with the other partners for obligations and liability.

DONG Efterforskning og Produktion has furnished the undertakings normally required by the UK licensing authorities (DTI) in connection with the award of the licences on the UK shelf, and in connection with other licence acquisitions on the UK shelf.

DONG has provided a guarantee in respect of Barrow Offshore Wind obligations under an electricity sales agreement with British Gas Trading. The guarantee amount relating to DONG's 50% stake in Barrow Offshore Wind is GBP 10 million.

In connection with the establishment of an offshore wind farm at Barrow off the UK west coast, DONG VE, which has a 50% equity stake in Barrow Offshore Wind through its wholly-owned subsidiary DONG Wind (UK) has furnished the undertaking normally required by the local authorities to act as guarantor with primary liability, up to a maximum of DKK 40 million, as a condition for conclusion of a lease with Crown Estate Commissioner.

In connection with the establishment of the offshore wind farm at Barrow referred to above, DONG VE has provided a guarantee in respect of Kellogg Brown & Root/Vestas's (the supplier of the design-build contract) obligations to the supplier for the performance of geotechnical investigations on the Barrow site. The guarantee is unlimited in the event of claims due to intentional or gross negligence on the part of KBR/Vestas. The guarantee provided by DONG VE is covered in part by the co-owner of Barrow Offshore Wind, Centrica, in relation to its proportionate 50% equity stake.

DONG VE has provided a parent company guarantee to the UK network operator United Utilities Electricity plc in respect of the Barrow offshore wind farm in connection with network connection. DONG VE's share of the guarantee amounts to DKK 50 million.

In connection with the establishment of the offshore wind farm at Barrow on the UK west coast DONG VE has entered into an EPIC (Engineering, Procurement, Installation and Commissioning) contract and operation and maintenance contracts with a consortium consisting of Kellogg Brown & Root and Vestas. In connection with the signing of the contract DONG has provided a parent company guarantee to KBR/Vestas. At 31 December 2004 the guarantees under the EPIC contract totalled DKK 400 million.

In connection with DONG's disposal of DONG Transmission DONG has provided a DKK 545 million guarantee. The guarantee expires on the date of Gastra's Annual General Meeting in 2005.

DONG has provided a parent company guarantee in respect of DONG Norge AS's obligations in connection with the acquisition of Ormen Lange. The investment amounts to USD 1.2 billion.

DONG has provided a parent company guarantee in respect of DONG Norge AS's obligations in connection with the establishment of a natural gas pipeline.

DONG Naturgas has provided a guarantee in respect of DONG Sverige AB's obligations in connection with the acquisition of gas sales contracts in Sweden.

*Contingent liabilities*
According to the legislation, DONG's natural gas companies, DONG Olierør, DONG Efterforskning og Produktion and DONG Grønland are liable to pay compensation for damage caused by their oil and natural gas activities, even where there is no proof of negligence (strict liability). The usual insurance has been taken out to cover any such claims.

DONG Efterforskning og Produktion participates in 56 oil and natural gas exploration licences. Continued participation in these licences commits the companies to invest substantial amounts in future.

DONG Efterforskning og Produktion is jointly and severally liable in respect of the individual licences together with the other licence partners for obligations and liability under the licences.

In connection with the unbundling of the former DONG Naturgas, the receiving companies DONG Distribution, DONG Lager, DONG Naturgas and DONG Faste Vilkår, are liable for any obligations in the discontinuing company that existed at the time of publication of the unbundling plan, although only up to an amount equivalent to the added or remaining net value at the time of publication. As a consequence of the subsequent merger between DONG Ejendomme and DONG, DONG has taken over DONG Ejendomme' liability. Likewise, DONG Naturgas has subsequently taken over DONG Individuelle Vilkår's liability by merger.

DONG VE's part of joint ventures relating to renewable energy projects. DONG VE is jointly and severally liable with the other joint venturers for obligations and liability under agreements concluded.

*Litigation*
DONG is not engaged in any proceedings in which claims for compensation have been raised against DONG or in which claims can otherwise be advanced against DONG that could affect the Group's financial position.

## Note 35. Related party transactions

Related parties that have control over the Group and the parent company comprise the Danish State, represented by the Danish Ministry of Finance, which is the sole owner of the parent company.

Related parties that exercise significant influence comprise the companies' Supervisory and Executive Boards, senior executives and close members of their families. Related parties also comprise companies over which the persons referred to above exercise significant influence.

The Group and the parent company were involved in the following transactions with related parties in the year under review:

*Licences from the Danish State*
Following the unbundling of DONG Naturgas into a number of new natural gas companies, DONG has received natural gas storage and distribution licences from the Danish State pursuant to Sections 10 and 59 of the Danish Natural Gas Supply Act. The licences have been granted for the period up to 2023.

Under Sections 24, 25 and 59 of the Natural Gas Supply Act, DONG has also been awarded a licence to engage in natural gas supply activities on firm terms on the conditions laid down in the Natural Gas Supply Act. Accordingly, the licence to engage in natural gas supply activities on firm terms has been granted for a period of five years up to 2008.

*Guarantees from the Danish State*
The former DONG Naturgas, DONG and the Danish State entered into an agreement with the former Naturgas Syd in 1999 and with the former Naturgas Sjælland in 2000 concerning transfer of these two regional companies' assets and liabilities to DONG Naturgas. The values were fixed on the basis of financial calculations of the future earnings potential. All loans remained with the two regional natural gas companies, which changed their names to Gældsafviklingsselskabet Naturgas Syd and Gældsafviklingsselskabet Naturgas Sjælland, respectively. DONG Naturgas issued instruments of debt to the debt repayment partnerships under which DONG Naturgas pays interest and instalments on the loan.

The instruments of debt were transferred to the companies DONG Distribution and DONG Lager in connection with the unbundling. The State has granted an unconditional and irrevocable guarantee to the debt repayment partnerships in respect of all payments. The State has recourse against DONG Distribution and DONG Lager in respect of any amounts paid by the State under the guarantees.

**Other transactions**
Subject to the constraints following from the capacity of the pipeline, DONG Olierør is under obligation to transport through its pipeline all crude oil and condensate recovered on the Danish continental shelf in the North Sea. The authorities may grant DONG Olierør exemption from this obligation if, in the Minister's opinion, transportation through the pipeline is uneconomical or inexpedient.
Under the Danish Pipeline Act, DONG Olierør is under obligation to pay duty to the State amounting to 95% of the profit made.

DONG Efterforskning og Produktion has participated as a partner in all exploration licences granted in Denmark since 1984. From and including the fourth licensing round in 1995, the company has participated in all licences with a paying share of 20% at the date of award. DONG Efterforskning og Produktion has provided services to the licences in which it participates.

DONG VE has an interest in two geothermal energy exploration and recovery licences. One of the licences, in which DONG VE is the sole licensee, comprises one third of Denmark's territory with the exception of the Metropolitan region. One third of the area was relinquished in 2003, and the remaining one third must be relinquished in 2013. The other licence, in which DONG VE has a 28% interest, comprises the Metropolitan area. The licence was granted on 19 February 2001, initially for 15 years. During the year under review, DONG VE provided services in connection with the establishment of the geothermal plant, as operator of the Metropolitan Geothermal Alliance (HGS).

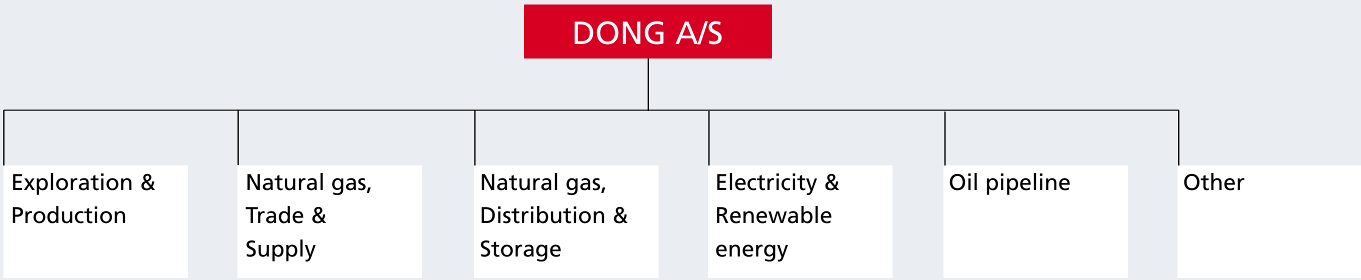
The Group's trade with associates comprises:

- buying and selling of natural gas
- exploration and production activities
- agreements on administration

The transactions are made on arm's length terms.

Apart from intra-Group transactions that have been eliminated in the consolidated financial statements and apart from normal management remuneration, there have been no other transactions with the Supervisory or Executive Boards, senior executives, the Danish State or any other related parties during the year under review. Remuneration to the Supervisory and Executive Boards is disclosed in note 3.

## Note 36. Group structure




| Company name | Registered office | Currency | Share capital in millions | DONG group's ownership interest |
|---|---|---|---|---|
| **Exploration & Production** | | | | |
| DONG Efterforskning og Produktion A/S | Birkerød, Denmark | DKK | 300 | 100 |
| DONG Norge AS | Stavanger, Norway | NOK | 69 | 100 |
| DONG Føroyar P/F | Torshavn, Faroe Islands | DKK | 5 | 100 |
| DONG Grønland A/S | Nuuk, Greenland | DKK | 1 | 100 |
| DONG (UK) Limited | London, UK | GBP | 10 | 100 |
| **Natural gas, Trade & Supply** | | | | |
| DONG Naturgas A/S | Birkerød, Denmark | DKK | 1,020 | 100 |
| DONG Faste Vilkår A/S | Birkerød, Denmark | DKK | 10 | 100 |
| DONG Sverige AB | Gothenburg, Sweden | SEK | 0.1 | 100 |
| Fordonsgas AB | Gothenburg, Sweden | SEK | 6 | 33 |
| DONG Netherlands BV | Amsterdam, the Netherlands | EUR | 0.018 | 100 |
| DONG Germany GmbH* | Dorsten, Germany | EUR | 0.025 | 100 |
| DANGAS GmbH* | Kiel, Germany | EUR | 0.026 | 100 |
| Deudan GmbH | Kiel, Germany | EUR | 0.026 | 49 |
| Deudan GmbH & Co. KG | Kiel, Germany | EUR | 0.025 | 49 |
| **Natural gas, Distribution & Storage** | | | | |
| DONG Distribution A/S | Birkerød, Denmark | DKK | 150 | 100 |
| Dansk Gasteknisk Center A/S | Birkerød, Denmark | DKK | 9 | 37 |
| DONG Lager A/S | Birkerød, Denmark | DKK | 100 | 100 |
| **Electricity & Renewable energy** | | | | |
| **Electricity** | | | | |
| DONG El A/S | Birkerød, Denmark | DKK | 100 | 100 |
| DONG EGJ A/S | Birkerød, Denmark | DKK | 100 | 100 |
| EnergiGruppen Jylland EL Holding A/S | Herning, Denmark | DKK | 250 | 100 |
| EnergiGruppen Jylland El A/S | Herning, Denmark | DKK | 75 | 100 |
| Elsam A/S | Fredericia, Denmark | DKK | 2,000 | 12 |
| EnergiGruppen Jylland A/S | Herning, Denmark | DKK | 1.320 | 66 |
| EnergiGruppen Jylland Varme A/S | Herning, Denmark | DKK | 50 | 66 |
| EnergiGruppen Jylland Forbrænding A/S | Herning, Denmark | DKK | 0,5 | 66 |
| Dansk Restprodukthåndtering Amba | Odense, Denmark | DKK | 0,5 | 4 |

## Note 36. Group structure (continued)

| Company name | Registered office | Currency | Share capital in millions | DONG group's ownership interest |
|---|---|---|---|---|
| EnergiGruppen Jylland Biogas A/S | Herning, Denmark | DKK | 1 | 66 |
| EM El Holding A/S | Silkeborg, Denmark | DKK | 110 | 77 |
| EM El A/S | Silkeborg, Denmark | DKK | 110 | 77 |
| Elsam A/S | Fredericia, Denmark | DKK | 2.000 | 12 |
| Nesa A/S | Gentofte, Denmark | DKK | 135 | 13 |
| **Renewable energy** | | | | |
| DONG VE A/S | Birkerød, Denmark | DKK | 330 | 100 |
| DONG Vind A/S | Birkerød, Denmark | DKK | 1 | 100 |
| DONG Wind (UK) Limited | London, UK | GBP | 1,8001 | 100 |
| DONG Walney (UK) Limited | London, UK | GBP | 0,0001 | 100 |
| Barrow Offshore Wind Limited** | Slough, UK | GBP | 0,0001 | 50 |
| P/S BI New Energy Solutions | Copenhagen, Denmark | DKK | 96,750 | 22 |
| **Oil pipeline** | | | | |
| DONG Olierør A/S | Birkerød, Denmark | DKK | 1 | 100 |
| **Other companies in the Group** | | | | |
| Nova Naturgas AB | Stockholm, Sweden | SEK | 120 | 20 |
| Nunaoil A/S | Nuuk, Greenland | DKK | 14 | 50 |
| DONG Olieforsyning A/S | Birkerød, Denmark | DKK | 1 | 100 |
| DONG Litauen A/S | Birkerød, Denmark | DKK | 7 | 100 |
| **Foreign branches in the Group** | | | | |
| Dutch branch of Efterforskning og Produktion A/S | The Netherlands | | - | 100 |

* Subsidiaries that are not audited by the parent company's auditors
** Recognised using the pro rata method
*** Regulated companies that are regulated according to a principle of self-financing, not included in the consolidation.

## Note 37. Licences

The Group's licences at 31 December 2004:

| Licence number | Name | Registered office | DONG Group's share |
|---|---|---|---|
| 7/86 | Amalie | Denmark | 30% |
| 7/89 | Syd Arne | Denmark | 34.375% |
| 1/90 | Lulita | Denmark | 43.59% |
| 4/95 | Nini | Denmark | 40% |
| 6/95 | Siri | Denmark | 50% |
| 9/95 | Maja | Denmark | 20% |
| 4/98 | North Valdemar | Denmark | 20% |
| 5/98 | East Gert | Denmark | 20% |
| 11/98 | Ravn | Denmark | 25% |
| 16/98 | Cecilie | Denmark | 22% |
| 5/99 | Kraka Extension | Denmark | 20% |
| 1/02 | Roxane | Denmark | 20% |
| 1/03 | - | Denmark | 20% |
| 1/04 | - | Denmark | 20% |
| P911 | Laggan | UK | 20% |
| P912 | Torridon | UK | 5.66% |
| P967 | Tobermory | UK | 22.5% |
| P1026 | Rosebank | UK | 10% |
| P1027 | Bedlington | UK | 16.83% |
| P1028 | Cambo | UK | 20% |
| P1029 | Faroes Ext. | UK | 16.83% |
| P1163 | MacAllan | UK | 19% |
| P1189 | Blackrock | UK | 20% |
| P1192 | Rosebank S | UK | 10% |
| P1193 | Stelkur | UK | 20% |
| P1194 | Glenlivet | UK | 100% |
| PL113 | Mjølner | Norway | 20% |
| PL147 | Trym | Norway | 20% |
| PL019A | Ula | Norway | 5% |
| PL019B | Gyda | Norway | 34% |
| PL019C | - | Norway | 35% |
| PL048B | Glitne | Norway | 9.30% |
| PL065 | Tambar | Norway | 45% |
| P159B | Alve | Norway | 15% |
| PL271 | - | Norway | 40% |
| PL273 | - | Norway | 10% |
| PL274 | Oselvar | Norway | 100% |
| PL284 | - | Norway | 30% |
| PL122 | Marulk | Norway | 30% |
| PL122B | - | Norway | 30% |

| Licence number | Name | Registered office | DONG Group's share |
|---|---|---|---|
| PL122C | - | Norway | 30% |
| PL239 | - | Norway | 40% |
| PL256 | Sklinna | Norway | 10% |
| PL288 | - | Norway | 40% |
| PL289 | - | Norway | 70% |
| PL299 | - | Norway | 40% |
| PL300 | Tambar Øst | Norway | 45% |
| PL301 | - | Norway | 40% |
| PL302 | - | Norway | 40% |
| PL329 | - | Norway | 20% |
| PL336 | - | Norway | 40% |
| PL346 | - | Norway | 30% |
| PL352 | - | Norway | 30% |
| F001 | Marjun | The Faroe Islands | 16.98% |
| F003 | Longan | The Faroe Islands | 30% |
| F006 | Kappa | The Faroe Islands | 20% |

The management of the licences is set out in the contract basis.

## Changes in accounting policies

From 1 January 2005 DONG will make the transition to financial reporting in accordance with International Financial Reporting Standards (IFRS) and the additional financial reporting disclosure requirements applying to State-owned public limited companies in accounting class D in the Danish Financial Statements Act. The transition to IFRS will also be within the framework of the EU-approved accounting standards. In that connection the accounting policies of both the Group and the parent company will be changed.

In accordance with IFRS 1 the opening balance sheet at 1 January 2004 and the comparative figures for 2004 have been prepared in accordance with the standards applying at 31 December 2005.

The basis is that the opening balance sheet at 1 January 2004 has been prepared as if these standards and interpretations contributions have always been applied, although, as described below, the DONG Group has elected to apply a number of the possible transitional provisions in connection with the transition to IFRS.

However, on one point, the effect of the transition to IFRS is uncertain. It has yet to be clarified whether acquired licence shares in joint ventures are subject to IFRS 3. This will affect the acquisition of licence shares where differences have been ascertained between the carrying amounts and the tax base of the acquired assets and liabilities. If these licence shares are subject to IFRS 3 they must be measured at fair value before tax with recognition of the difference between the fair value and the cost recognised as deferred tax. If the licence shares are not subject to IFRS 3 they must be recognised at cost without recognition of deferred tax.

The IASB (International Accounting Standards Board) adopted IFRS 6 "Exploration for and Evaluation of Mineral Resources" in December 2004. IFRS 6 regulates the accounting treatment of exploration and recovery activities, including the conditions relating to the impairment test in the extractive industry. IFRS 6 is a provisional standard, as IASB expects to initiate a more extensive project concerning the extractive industry.

Under IFRS 6:

- a company can continue applying the accounting policies including recognition and measurement of exploration and recovery assets that it applied immediately prior to the transition to IFRS.
- the requirements concerning the impairment test in the extractive industry are specified, including the level for determination of cash-generating units in connection with the performance of the impairment test
- guidelines are introduced for classification of exploration and recovery assets in the balance sheet.

IFRS 6 enters into effect on 1 January 2006, but may be implemented before that date.

DONG has decided to implement IFRS 6 from the 2005 accounting period.

DONG generally monitors international developments in relation to the accounting treatment of exploration and recovery assets, especially the project that is expected to be initiated by the IASB.

### Explanation of changes in accounting policies on transition to IFRS

The application of IFRS results in changes in the accounting policies within the following areas:

a. The DONG Group applies IFRS 3 with effect from 1 January 2004, which means that goodwill is no longer amortised. In accordance with IAS 36, tests were performed at 1 January 2004 to ensure that the recoverable amount exceeds the carrying amount.

b. The minority interests' proportionate share of profit was previously deducted before the parent company's share of consolidated profit, and the minority interests' proportionate share of equity was recognised as a separate item outside equity. In accordance with IAS 27, the minority interests' proportionate share of subsidiaries' profits and equity is now recognised as an integral part of profit for the year and equity.

c. The parent company's investments in subsidiaries and associates were previously measured according to the equity method. On transition to IFRS the parent company's investments in subsidiaries and associates must be measured at cost in accordance with IAS 27 and IAS 28. In the opening balance sheet at 1 January 2004 value adjustments from cost to net asset value have been reversed, including the carrying amount of goodwill.

d. In the opening balance sheet at 1 January 2004 discontinued activities have been eliminated from the line items in which they were originally recognised and instead presented in a separate line item as discontinuing activities, in accordance with IFRS 5.

e. The accounting policies will be changed on transition to IFRS so that all property, plant and equipment will in future be recognised at cost less depreciation and any impairment losses. Natural gas installations were previously recognised as property, plant and equipment revalued at fair values.

f. The effect of deferred tax as a result of the accounting policy changes on transition to IFRS-compliant financial reporting has also been recognised.

g. The share of profits (losses) of associates was previously presented as a pre-tax figure. The share of tax on profits (losses) of associates was previously recognised under tax on the profit for the year. In the opening balance sheet at 1. January 2004 and on the share of profits (losses) of associates will be presented as a post-tax figure.

**Reclassifications**

Besides the changes in accounting policies in accordance with the provisions in IFRS, various reclassifications of accounting items and changes to the format have been made.

- Deferred tax assets were previously classified as current assets. Deferred tax assets are classified as fixed assets in the opening balance sheet at 1 January 2004 and will be classified as such in future periods.
- Deferred tax liabilities, pension and other provisions were previously presented as items under a separate main group in the balance sheet designated provisions. These accounting items are classified instead as long-term and short-term liabilities, respectively, in the opening balance sheet at 1 January 2004 and will be classified as such in future periods.

The reclassifications have not had any effect on either profit or equity.

**Transitional provisions applied**

In connection with the transition to IFRS, DONG has applied the following exemption and commencement provisions in IFRS 1 on first-time adoption of IFRS:

- for business combinations effected before 1 January 2004 the acquired balance sheets have not been restated in accordance with IFRS 3. Instead, such business combinations have been recognised in accordance with the existing Danish accounting regulation in the opening balance sheet. The carrying amount of goodwill calculated in accordance with the Group's existing policies has thus been used as the deemed cost of goodwill in the opening balance sheet calculated in accordance with IFRS
- for recognition of property, plant and equipment, the carrying amount at 1 January 2004 of natural gas installations recognised as property, plant and equipment has been used as the deemed cost (initial value) on transition to IFRS. Natural gas installations were previously valued at fair values in accordance with the existing accounting policies.
- IAS 32 and IAS 39 on financial instruments have not been implemented until 1 January 2005, i.e. comparative figures for 2004 have not been restated.
- in the case of discontinued activities the comparative figures for the period prior to 1 January 2004 (financial highlights) have not been restated, but instead been presented in the same way as under the previous accounting policies.

As far as IAS 32 and IAS 39 are concerned, DONG is of the opinion that transition to these standards will not entail any material differences with respect to recognition and measurement compared with the existing accounting policies in accordance with Danish accounting regulation. However, documentation concerning hedge accounting at the start of 2004 does not satisfy all requirements under IAS 39 and therefore could not have been retained in 2004.

DKK million

## Accounting effect of transition to IFRS

The accounting effect of the transition from financial reporting in accordance with national financial reporting legislation to IFRS-compliant financial reporting can be described as follows:

**Effect of applying IFRS to financial highlights**

| | | 2004 | | |
|---|---|---|---|---|
| | References | Existing accounting policies | IFRS-effect | After transition to IFRS |
| Revenue | | 14,292 | 0 | 14,292 |
| EBITDA | | 4,686 | 0 | 4,686 |
| EBIT | | 2,421 | 0 | 2,421 |
| Profit for the year | b | 1,881 | 210 | 2,091 |
| Balance sheet total | | 31,381 | 0 | 31,380 |
| Net interest-bearing debt | | 3,186 | 0 | 3,186 |
| Equity | b | 15,649 | 695 | 16,344 |
| Invested capital | | 19,744 | 0 | 19,774 |
| EBITDA margin (%) | | 33 | 0 | 33 |
| EBIT margin (%) | | 17 | 0 | 17 |

DKK million

## Accounting effect of transition to IFRS - continued

### Effect of applying IFRS to the income statement

| | References | 2004 Existing accounting policies | 2004 IFRS-effect | 2004 After transition to IFRS |
|---|---|---|---|---|
| Revenue | | 14,292.0 | 0.0 | 14,292.0 |
| Production costs | | (11,220.4) | 0.0 | (11,220.4) |
| **Gross profit** | | 3,071.6 | 0.0 | 3,071.6 |
| Sales and marketing | | (218.0) | 0.0 | (218.0) |
| Management and administration | | (286.9) | 0.0 | (286.9) |
| Other operating income and expenses | | (5.1) | 0.0 | (5.1) |
| **Profit before amortisation of and impairment losses on rights, etc.** | | 2,561.6 | 0.0 | 2,561.6 |
| Amortisation of and impairment losses on rights, etc. | | (140.7) | 0.0 | (140.7) |
| **Operating profit** | | 2,420.9 | 0.0 | 2,420.9 |
| Profit on sale of subsidiaries | | 481.2 | 0.0 | 481.2 |
| Share of profits (losses) of associates | g | (13.9) | (1.7) | (15.6) |
| Financial income | | 1,197.2 | 0.0 | 1,197.2 |
| Financial expenses | | (1,026.1) | 0.0 | (1,026.1) |
| **Profit before tax** | | 3,059.3 | (1.7) | 3,057.5 |
| Tax on the profit for the year | g, f | (968.2) | 1.7 | (966.5) |
| **Profit for the year** | | 2,091.1 | 0.0 | 2,091.1 |
| Minority interests' share of subsidiaries' profits | | (210.1) | 210.1 | - |
| Group share of profit for the year | | 1,881.0 | (1,881.0) | - |
| **Profit for the year is appropriated as follows:** | | | | |
| DONG shareholders | | - | 1,881.0 | 1,881.0 |
| Minority interests | | - | 210.1 | 210.1 |
| **Profit for the year** | | - | 2,091.1 | 2,091.1 |

DKK million

## Accounting effect of transition to IFRS - continued

**Effect of applying IFRS to the balance sheet**

| | | 2004 | | |
|---|---|---|---|---|
| | References | Existing accounting policies | IFRS-effect | After transition to IFRS |
| Intangible assets | | 748.8 | | 748.8 |
| Property, plant and equipment | | 15,821.3 | 0.0 | 15,821.3 |
| Investments in associates | | 188.4 | 0.0 | 188.4 |
| Other investments | | 6,666.2 | 0.0 | 6,666.2 |
| Inventories | | 461.3 | 0.0 | 461.3 |
| Receivables | | 6,747.7 | 0.0 | 6,747.7 |
| Cash and securities | | 746.4 | 0.0 | 746.4 |
| **Assets** | | 31,380.1 | 0.0 | 31,380.1 |
| Equity | b | 15,648.7 | 694.5 | 16,343.2 |
| Minority interests | b | 694.5 | (694.5) | 0.0 |
| Liabilities | | 15,036.9 | 0.0 | 15,036.9 |
| **Equity and liabilities** | | 31,380.1 | 0.0 | 31,380.1 |

# Company information

Company information at 31 December 2004.

### Company

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Agern Allé 24-26
DK-2970 Hørsholm
Telephone +45 4517 1022
Fax +45 4517 1044
dong@dong.dk • www.dong.dk
Registration No. 36 21 37 28

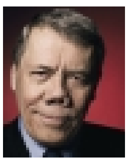
### Shareholder

The entire share capital is held by the Danish State through the Ministry of Finance.

### Supervisory Board*

Sven Riskær, Managing Director (Chairman), b. 1938. Joined the Supervisory Board in 1995, Chairman 1996, re-elected 1998, 2000, 2002, 2003. Term of office expires in 2005. Other managerial posts and Supervisory Board memberships: IFU (Managing Director), ISS A/S (Deputy Chairman), Kapacitet A/S (Chairman), Air Liquide A/S (member), Vennelyst A/S (member).

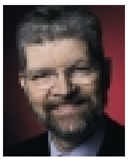
Lars Nørby Johansen, CEO (Deputy Chairman), b. 1949. Joined the Supervisory Board in 1997, re-elected 1998, 2000, Deputy Chairman 2001, 2003. Term of office expires in 2005. Other managerial posts and Supervisory Board memberships: Group 4 Securicor plc (CEO), Falck A/S (Chairman), William Demant Holding A/S (Deputy Chairman) and a number of Danish and foreign subsidiaries of the Group 4 Securicor Group.



Asbjørn Larsen, MSc (business economics), b. 1936. Joined the Supervisory Board in 2003. Term of office expires in 2005. Other managerial posts and Supervisory Board memberships: Belships ASA (Chairman), FMC Technologies Inc. (member), Saga Fjordbase AS (Deputy Chairman), Selvaag Gruppen AS (member).

Svend Sigaard, Managing Director, b. 1958. Joined the Supervisory Board in 2002, re-elected 2004. Term of office expires in 2006. Other managerial posts and Supervisory Board memberships: Vestas Wind Systems A/S (Managing Director), Kvik Holding A/S (Chairman), Club 8 Company A/S (Chairman), Denka Holding A/S (Chairman) and a number of Danish and foreign subsidiaries of the Vestas Group.

Lars Torpe Christoffersen, CEO, b. 1964. Joined the Supervisory Board in 2004. Term of office expires in 2006. Other managerial posts and Supervisory Board memberships: MACH ApS (CEO), MACH S.a.r.l (CEO and Chairman), Aktieselskabet Danatech Engineering (member), LTC Holding A/S (member).



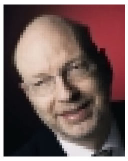
Jesper Magtengaard**, Senior Asset Manager, b. 1947. Joined the Supervisory Board in 2003. Term of office expires in 2007.

Thorkild Meiner-Jensen**, Lawyer, b. 1944. Joined the Supervisory Board in 1981, re-elected 1983, 1985, 1987, 1991, 1995, 1999, 2002, 2003. Term of office expires in 2007.

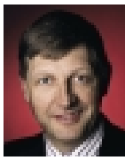
Bent Stubkjær Pedersen**, Head of Department, b. 1953. Joined the Supervisory Board in 2002, re-elected 2003. Term of office expires in 2007.

### Executive Board*

Anders Eldrup (CEO***)
Other managerial posts and Supervisory Board memberships: none.



Søren Gath Hansen
Other managerial posts and Supervisory Board memberships: Nunaoil A/S (Deputy Chairman).



Kurt Bligaard Pedersen
Other managerial posts and Supervisory Board memberships: BRFkredit A/S (member).

Carsten Krogsgaard Thomsen
Other managerial posts and Supervisory Board memberships: NNIT A/S (member).

* Other managerial posts and Supervisory Board memberships refer solely to posts in Danish or foreign public limited companies.
** Employee-elected.
***Registered with the Danish Commerce and Companies Agency as CEO.

### Auditors

KPMG C.Jespersen, Statsautoriseret Revisionsinteressentskab

PricewaterhouseCoopers, Statsautoriseret Revisionsinteressentskab

### Financial calendar 2005

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|---|---|
| Release of Annual Report | 1 April 2005 |
| Annual General Meeting | 12 April 2005 |
| *Release of group financial statements:* | |
| 1st quarter | 10 May 2005 |
| 2nd quarter | 22 August 2005 |
| 3rd quarter | 9 November 2005 |