

# ANNUAL REPORT 2014

GREEN, INDEPENDENT AND COST-EFFECTIVE ENERGY

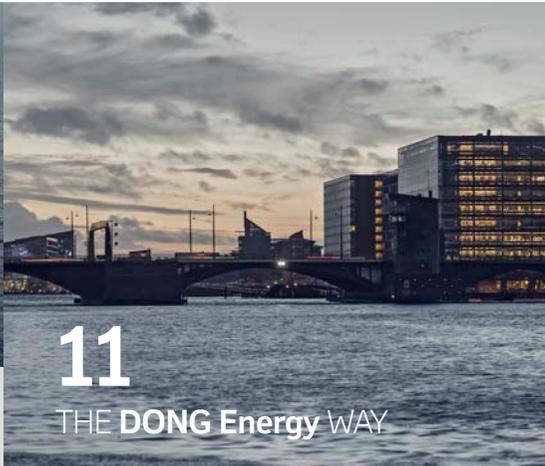


**DONG**  
energy



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FINANCIAL AND NON-  
FINANCIAL STATEMENTS

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### Media Relations

Ulrik Frøhlke  
+45 9955 9560

### Investor Relations

Allan Bødskov Andersen  
+45 9955 9769

[www.dongenergy.com](http://www.dongenergy.com)

DONG Energy A/S  
CVR No. 36213728  
Kraftværksvej 53  
7000 Fredericia  
Denmark  
+45 9955 1111

### Language

The report has been prepared in Danish and in English. In the event of any discrepancies between the Danish and the English reports, the Danish version shall prevail.

**DONG Energy is one of the energy companies in Europe that lead the transformation to renewable energy.**



”

ON BEHALF OF THE BOARD OF DIRECTORS, I WOULD LIKE TO THANK DONG ENERGY'S COMPETENT EMPLOYEES AND MANAGEMENT FOR THE GREAT RESULTS ACHIEVED IN 2014.

The European energy sector is undergoing a long-term transformation towards an ever-increasing use of renewable energy. In 2000, only 2% of Europe's electricity generation was based on renewable energy, while the figure has grown to 15% today. By 2030, renewable energy is expected to increase to one third of the total European electricity supply.

DONG Energy is one of the energy companies in Europe that lead the transformation to renewable energy, which in 2014 accounted for 46% of the Group's total electricity and heat generation. Our primary strengths are within offshore wind and biomass-fired power stations. In both areas, DONG Energy is a world leader. DONG Energy has constructed more offshore wind farms than any other company in the world, and our combined portfolio of operational and planned biomass-fired power stations is unsurpassed. This gives us the necessary expertise and economies of scale to realise our business objectives.

DONG Energy runs an efficient utility business involving the distribution and sale of energy and services. We have a leading position in Denmark, and also have significant activities in the UK, Germany and Sweden. This position allows us to offer our customers a reliable and competitive energy supply, to actively help them to reduce their energy consumption and to make the most of the opportunities inherent in the green transformation of the energy system.

DONG Energy also contributes to Europe's oil and gas supply. We run a regional E&P business in the countries around the North Sea with a daily production of more than 100,000 barrels of oil and gas. Thus we support the continued exploitation of the oil and gas resources in Northwestern Europe, on which the functioning of the society depends. Moreover, the extraction of the local resources contributes to strengthening the security of supply in the various countries and to reducing their dependence on imported oil and gas.

DONG Energy is one of the most progressive energy companies in Europe when it comes to adjusting its business platform to the

demands of the future. Our mission is to develop and enable energy systems that are green, independent and economically viable. The shareholders and the Board of Directors want to continue the transformation of DONG Energy in this direction and to maintain and further develop the strong market positions held by the Group.

The sharp drop in the oil price in the second half of 2014 shows that energy companies operate in a volatile and demanding market. It does not alter our strategy, but we do, of course, take the changed market conditions into consideration in our assessments of the value of our existing production assets as well as our current and potential projects.

It is very important to the Board of Directors that DONG Energy's employees and those of our partners carry out their duties under fair and safe working conditions. Therefore, we are pleased that 2014 saw a further reduction in the number of lost time injuries and for the second consecutive year, we have avoided accidents with fatal consequences. However, much can still be done to further strengthen our safety culture internally and in relation to our suppliers.

On behalf of the Board of Directors, I would like to thank DONG Energy's competent employees and management for the great results achieved in 2014. With the exception of the impairments recognised in our E&P business primarily due to the market price developments, the development in the Group's results for 2014 is satisfactory. The results testify to the fact that DONG Energy is on the right track in its ambitious efforts to be recognised as a winner in European energy.

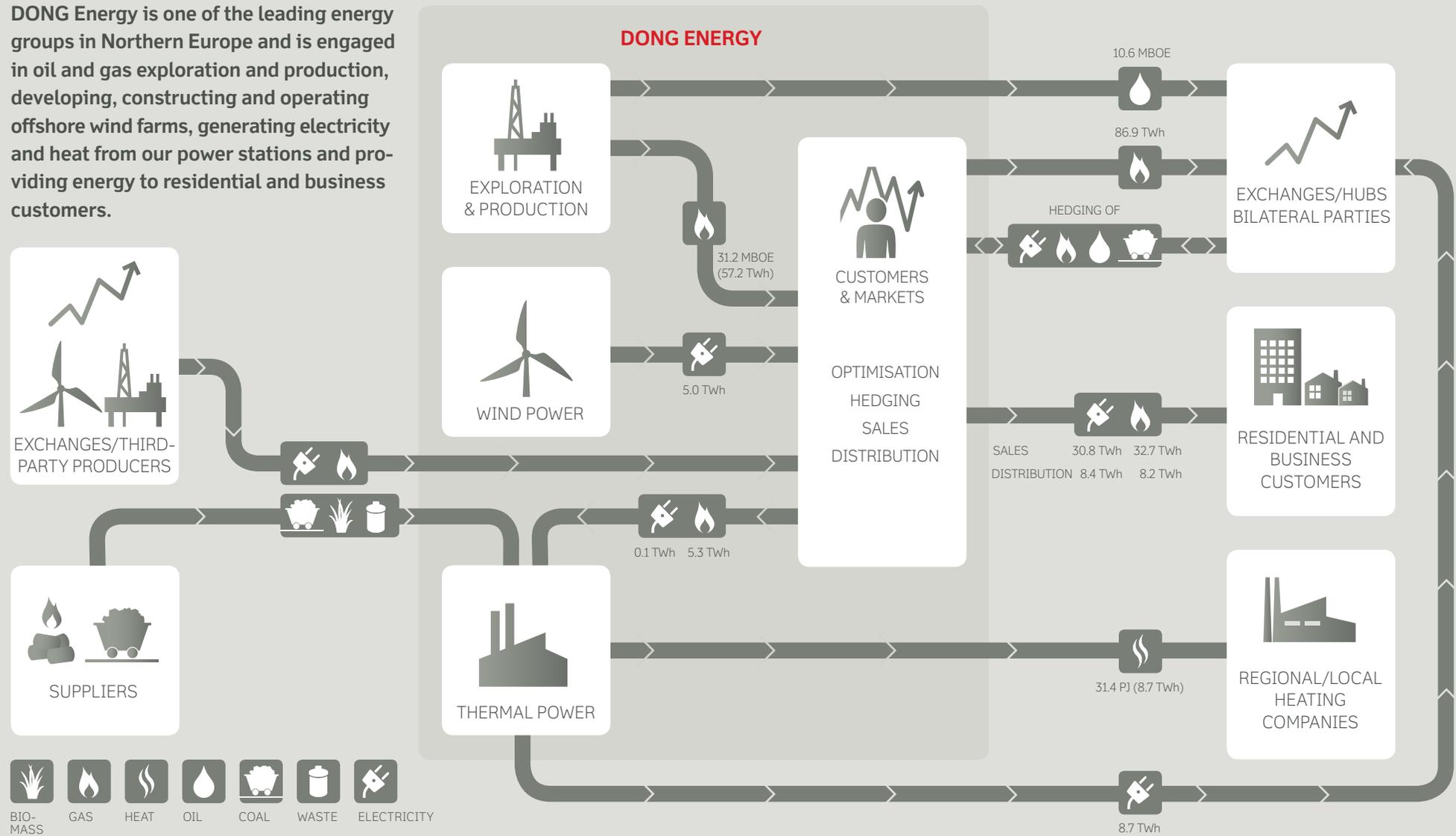
5 February 2015

A handwritten signature in black ink, appearing to read 'T. Thune Andersen', written over a white background.

**Thomas Thune Andersen**  
Chairman of the Board of Directors

# OUR BUSINESS MODEL

**DONG Energy is one of the leading energy groups in Northern Europe and is engaged in oil and gas exploration and production, developing, constructing and operating offshore wind farms, generating electricity and heat from our power stations and providing energy to residential and business customers.**



The business model shows the energy flow as reflected in the Group's financial results. In the risk management setup, all exposures are transferred to Customers & Markets and consolidated before they are hedged in the market - read more on page 38. Read more about emissions and environmental results on page 119

# OUR BUSINESS UNITS

## PREFACE AND AT A GLANCE



### EXPLORATION & PRODUCTION



### WIND POWER



### THERMAL POWER



### CUSTOMERS & MARKETS

#### KEY FIGURES 2014\*

Revenue:	DKK 14.0bn	Revenue:	DKK 9.7bn	Revenue:	DKK 6.3bn	Revenue:	DKK 48.1bn
EBITDA:	DKK 8.6bn	EBITDA:	DKK 6.1bn	EBITDA:	DKK 0.4bn	EBITDA:	DKK 1.4bn
Gross investments:	DKK 5.0bn	Gross investments:	DKK 7.8bn	Gross investments:	DKK 0.7bn	Gross investments:	DKK 1.7bn
ROCE:	Negative	ROCE:	8.6%	FCF:	Negative	ROCE:	Negative
Adjusted ROCE:**	3.9%	Adjusted ROCE:	8.6%	LTIF:	3.8	Adjusted ROCE:	Negative
LTIF:	1.2	LTIF:	2.1			LTIF:	2.3

#### CORE BUSINESS

Oil and gas exploration and production	Development, construction and operation of offshore wind farms	Electricity and heat generation from power stations	Electricity and gas sales and distribution in the wholesale and retail markets as well as optimisation and hedging of the Group's overall energy portfolio
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#### MARKET POSITION

- |   |  |   |   |
|---|--|---|---|
| <ul style="list-style-type: none"> <li>Strong market position in Northwestern Europe and one of the largest E&amp;P companies in Denmark based on reserves</li> <li>Competencies as operator across the entire E&amp;P value chain</li> <li>4-5 new fields in production by 2020</li> </ul> | <ul style="list-style-type: none"> <li>Global market-leader within offshore wind</li> <li>Has constructed one third of Europe's offshore wind capacity</li> <li>4 projects under construction and a handful projects under development towards 2020</li> </ul> | <ul style="list-style-type: none"> <li>9 central power stations in Denmark</li> <li>Generates about one third of the district heating consumed in Denmark and one fourth of the total Danish electricity generation (almost half of the Danish electricity generation from thermal power stations)</li> </ul> | <ul style="list-style-type: none"> <li>Largest Danish distributor of electricity with a market share of 26% and second-largest Danish distributor of gas with a market share of 29%</li> <li>Active participant in the energy wholesale and trading market in Northwestern Europe</li> <li>Retail sales in Denmark, Sweden, Germany and the UK</li> </ul> |
|---|--|---|---|

#### BUSINESS DRIVERS

- |  |   |   |  |
|--|---|---|--|
| <ul style="list-style-type: none"> <li>Oil and gas exploration success rate</li> <li>Field availability</li> <li>Oil and gas prices</li> <li>Execution of investment projects</li> </ul> | <ul style="list-style-type: none"> <li>Wind energy content and park availability</li> <li>Regulatory frameworks</li> <li>Reduction of offshore wind cost of electricity</li> <li>Partnerships with investors</li> <li>Execution of investment projects</li> </ul> | <ul style="list-style-type: none"> <li>Development in the price of electricity, fuels and carbon emissions as well as weather and wind conditions</li> <li>International interconnections</li> <li>Flexibility services to the market</li> <li>Regulatory frameworks</li> <li>Long-term heat contracts</li> <li>Execution of biomass conversions</li> </ul> | <ul style="list-style-type: none"> <li>Regulatory frameworks</li> <li>Renegotiation of long-term gas contracts</li> <li>Development in energy prices</li> <li>Customer satisfaction and loyalty</li> <li>Market liquidity</li> </ul> |
|--|---|---|--|

#### FINANCIAL TARGETS

ROCE: avg. 12% (2015-2020)	ROCE: 6-8% (2016) 12-14% (2020)	FCF: Positive from 2018	ROCE: >8% (2016) >10% (2020)
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\* Other activities and eliminations means that the business units' key figures for 2014 combined does not equal consolidated key figures - read more on page 61-62.

\*\* ROCE adjusted for impairments (all years) and provision for gas storage contracts and LNG capacity in 2012. See definition on page 59.

# OUR ACTIVITIES

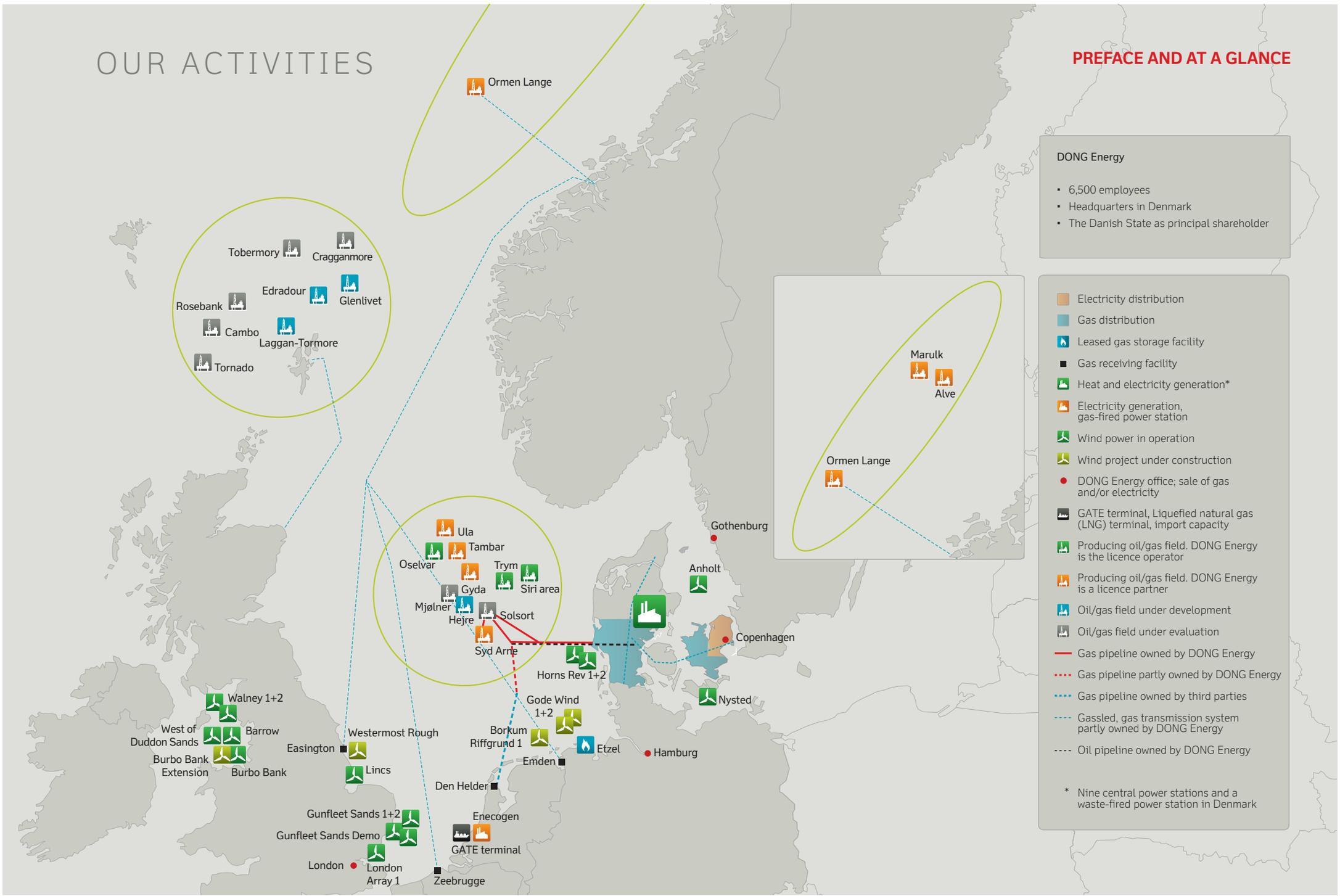
## PREFACE AND AT A GLANCE

**DONG Energy**

- 6,500 employees
- Headquarters in Denmark
- The Danish State as principal shareholder

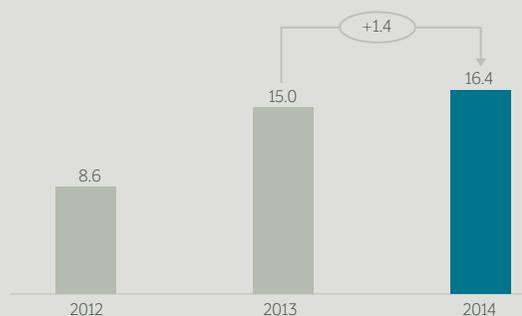
- Electricity distribution
- Gas distribution
- Leased gas storage facility
- Gas receiving facility
- Heat and electricity generation\*
- Electricity generation, gas-fired power station
- Wind power in operation
- Wind project under construction
- DONG Energy office; sale of gas and/or electricity
- GATE terminal, Liquefied natural gas (LNG) terminal, import capacity
- Producing oil/gas field. DONG Energy is the licence operator
- Producing oil/gas field. DONG Energy is a licence partner
- Oil/gas field under development
- Oil/gas field under evaluation
- Gas pipeline owned by DONG Energy
- Gas pipeline partly owned by DONG Energy
- Gas pipeline owned by third parties
- Gassled, gas transmission system partly owned by DONG Energy
- Oil pipeline owned by DONG Energy

\* Nine central power stations and a waste-fired power station in Denmark

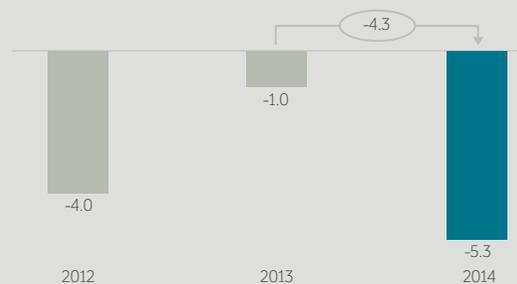


# FINANCIAL KEY FIGURES

**HIGHER OPERATING PROFIT**  
EBITDA, DKK billion



**NEGATIVE RESULT DUE TO IMPAIRMENTS**  
NET PROFIT, DKK billion



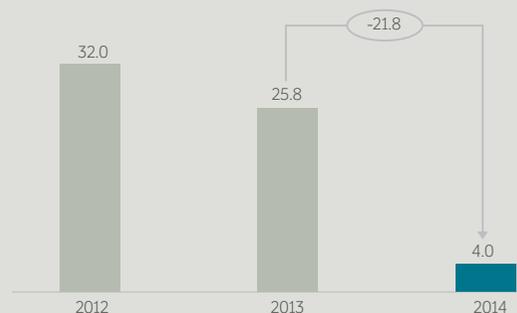
**RETURN DOWN DUE TO HIGHER TAX**  
ADJUSTED ROCE, %



**CONTINUED HIGH INVESTMENT LEVEL**  
GROSS INVESTMENTS, DKK billion



**LOWER DEBT**  
NET INTEREST-BEARING DEBT, DKK billion



**IMPROVED CREDIT METRIC**  
FFO/ADJUSTED NET DEBT, %



# SELECTED EVENTS IN 2014

## PREFACE AND AT A GLANCE

### 31 JANUARY

DONG Energy divests 50% of its share in the London Array 1 offshore wind farm to Caisse de dépôt et placement du Québec



### 20 FEBRUARY

Capital injection approved at extraordinary general meeting in DONG Energy A/S

### 31 MARCH

Marubeni Corporation and UK Green Investment Bank becomes co-owners of DONG Energy's Westermost Rough offshore wind farm



### 6 JUNE/25 JUNE

DONG Energy invests in converting the Studstrup and Skærbæk power stations to biomass

### 17 JULY

DONG Energy divests 50% of the German offshore wind farm project Gode Wind 2 to a consortium of Danish pension funds



### 7 AUGUST

Thomas Thune Andersen becomes new Chairman of DONG Energy's Board of Directors

### 20 OCTOBER

DONG Energy divests Stenlille Gas Storage Facility to Energinet.dk



### 30 OCTOBER

DONG Energy and Total agree to develop the Glenlivet and Edradour fields jointly – DONG Energy divests 5% of West of Shetland Edradour field to Total

### 26 NOVEMBER

Final approval of the repair of the Siri platform



### 19 DECEMBER

DONG Energy decides to build Burbo Bank Extension offshore wind farm in the UK

**DONG Energy made significant progress in 2014 in terms of operating profit, operational performance, competitiveness, safety and climate efforts.**



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THE INCREASED OPERATING PROFIT CAME FROM OUR MARKET-LEADING POSITION WITHIN OFFSHORE WIND AND A RECORD HIGH PRODUCTION OF OIL AND GAS.

EBITDA was up 9% at DKK 16.4 billion despite a significant negative impact from the decline in oil and gas prices. The increased operating profit came from our market-leading position within offshore wind and a record high production of oil and gas.

Our primary credit metric, FFO to net debt, was significantly improved to 36%, which supports our credit ratings. The capital injection and divestments were important elements in the strengthening of our financial platform and also decisive to Standard & Poor's and Fitch changing the outlook for our BBB+ rating from 'negative' to 'stable' in the spring.

Profit after tax was a loss of DKK 5.3 billion and was affected by post-tax impairments of DKK 6.6 billion recognised on oil and gas fields primarily as a result of the decline in oil and gas prices.

The impairments, driven by the decline in oil and gas prices, led to a negative return on capital employed at -8%. Adjusted for impairments, the return was 4%. In addition to the impairments, the return is still impacted by our extensive investments in future earnings. Thus, we invested DKK 15 billion in new assets in 2014. A significant level of investment, which we expect to maintain over the coming years.

In spite of the significantly deteriorated market prices for our E&P business, we maintain our target of delivering a return on capital employed of 10% and an EBITDA of around DKK 20 billion in 2016.

Carbon emissions per kWh of electricity generated were reduced by 16% from 2013 to 374g in 2014, a historical low for the Group. The reduced emissions can be ascribed to the increased firing of biomass at the power stations and an increased share of electricity generation from wind.

#### **Safety and job satisfaction are crucial**

Safety is a top priority for DONG Energy. In 2014, the lost time injury frequency (LTIF) was reduced further to 2.4 from 3.2 in 2013.

An ever stronger focus on safety among managers, employees and

suppliers is thus having an effect. A positive example of this is the Group-wide "Safety Through the Line" programme which focused on strengthening the safety culture throughout DONG Energy. However, much more can be done. We will therefore continue our accident prevention efforts and have reinforced our LTIF target for 2016 to max. 2.0.

We are committed to ensuring a high level of satisfaction and motivation among our employees. In 2014, 94% of employees completed the employee survey, which showed that job satisfaction and motivation are generally at a high level compared with benchmarks. The survey also testified a high degree of loyalty to DONG Energy and thereby dedication in the daily work. This is crucial to the Group's success.

#### **Wind Power**

2014 marked a breakthrough with regards to securing the pipeline which will lead to realising the target of a total installed offshore wind capacity of 6.5 GW in 2020. The deciding factor was the award of subsidies for the three UK offshore wind farm projects Burbo Bank Extension, Walney Extension and Hornsea. Against this background, the Board of Directors decided in December to go ahead with Burbo Bank Extension.

The UK offshore wind farm West of Duddon Sands went into full production, and the UK Westermost Rough wind farm produced the first power.

The partial divestment of the wind farms London Array, Westermost Rough and Gode Wind 2 confirms a consistent, strong market interest in investing in DONG Energy's offshore wind farms through our leading partnership model.

Finally, Wind Power has taken significant steps to reduce the costs of electricity generation from offshore wind through the standardisation of modules and components in close collaboration with suppliers.

### Exploration & Production

A record average daily production of 115,000 barrels of oil and gas was achieved in 2014. The high level of production can be ascribed partly to the full-year effect of an increased ownership interest in the Ormen Lange field, and partly to a high level of field availability.

The repair of Siri was completed after nearly four years of work and normal operations were resumed on the platform.

At the same time, the Hejre project reached a major milestone marked by the installation of the platform's foundation in the North Sea and the drilling of the first production well. The work on the Hejre platform topside was, however, challenged by delays at our supplier consortium. The expected start-up of production was therefore postponed to 2017.

In addition, the operator of the Laggan-Tormore field announced delays in the construction of the gas processing plant on the Shetland Islands. The expected start-up of production was therefore postponed from the end of 2014 to 2015.

Together with the operator Total, it was decided to undertake a joint development of the Glenlivet and Edradour gas fields to be connected with the Laggan-Tormore infrastructure. In connection with the agreement, DONG Energy reduced its ownership interest to 20%. Total owns the remaining 80%.

In recent years, exploration results have not lived up to expectations. Together with lower oil and gas prices, delayed development projects and changes to the national tax rules, this resulted in a downward adjustment of the ROCE target for the E&P business from 20% to 12% on average for the 2015-2020 period.

A new strategy for the ongoing replacement of the long-term reserves is being implemented. Focus is on maintaining a sustainable and value-creating business in a challenging market.

### Thermal Power

The market conditions for electricity and heat generation were difficult in 2014. In Denmark, the average temperature was the highest ever recorded, which resulted in an unfavourable development in electricity prices and the demand for heat. This led to a significant decline in volumes generated.

In 2014, it was decided to convert the Studstrup and Skærbæk power stations from coal and gas to sustainable biomass. The investments represent an important step in the direction of increas-

ing the share of biomass in Danish electricity and heat generation. The Group's target is for at least half of the Danish generation to be biomass-based by 2020.

The Inbicon and REnescience biotechnologies are making steady progress towards commercialisation. We hope to enter into the first contracts in 2015 and 2016.

### Customers & Markets

Feedback from customers on their direct contact with employees in our sales and distribution businesses is positive. However, when it comes to our general reputation, our score is low among our Danish residential customers. This is partly attributable to the massive media coverage of DONG Energy over the past three years, but we take this feedback from our customers very seriously. Consequently, we are investing in systems, processes, products and communication in order to further strengthen our customers' experience of our company.

In Denmark, we continued the preparations for the implementation of the new supplier centric model which is expected to come into effect for the Danish electricity supply in spring 2016. The model ensures, among other things, that consumers will receive a single energy bill from the sales company, that in addition to the supply of electricity, also will be invoicing the services supplied by the distribution companies and by Energinet.dk as well as taxes on behalf of the Danish tax authorities.

2014 was also the year when we completed the cable laying project. A project where we have replaced 4,200 kilometres of overhead lines and 120,000 electricity pylons with 8,000 kilometres of underground cables. This has significantly reduced the risk of electricity supply disruptions during storms.

A great focus was also put into the renegotiation of the Group's long-term gas sourcing contracts. One contract was renegotiated in 2014 with a result in line with our expectations. As part of the renegotiations, arbitration proceedings were initiated against several of our suppliers. We still expect to complete a number of renegotiations in 2015 and 2016.

Unlike previous years, the energy markets showed significant volatility in 2014. In spite of these, our business managed the Group's exposures highly satisfactory with relatively minor fluctuations in value while creating a good result for the year.

### The DONG Energy Way

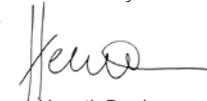
After a comprehensive process involving employee representatives, top management, the Board of Directors and input from customers and external stakeholders, the Group Executive Management in September presented 'The DONG Energy Way'. A single page summarising what DONG Energy wants to contribute to society and the way in which we want to do so.

Our mission *is to develop and enable energy systems that are green, independent and economically viable*. We believe that in this way DONG Energy will contribute to more sustainable developments in the countries in which we operate; at the same time, the mission implies considerable potential for the continued profitable growth of our business.

Through working with The DONG Energy Way, we have also established a handful of principles that will guide us in the development of the company and in our daily cooperation internally and in relation to our business partners.

2014 was a good year for DONG Energy. We made significant progress in the transformation of the Group's business platform in order to ensure its long-term, profitable growth and competitiveness. We operate in an unpredictable energy market and still have many battles that must be won, but thanks to our 6,500 skilled and committed employees we are well on our way.

5 February 2015



Henrik Poulsen  
CEO and President

# THE DONG ENERGY WAY

ALL SOCIETIES NEED ENERGY TO DEVELOP

**DONG Energy creates value by serving the energy needs of our customers and the societies that we are part of. We make use of the energy resources provided by nature and turn them into products and solutions that enable our customers to live their daily lives and run their businesses. We want to be the preferred supplier for our customers, delivering reliable, energy-efficient and competitive solutions.**

The way we produce energy is changing rapidly. Since DONG Energy was formed in 2006, we have transformed from one of the most coal-intensive utilities in Europe to a global leader in renewable energy. We are the world leader in deploying offshore wind, helping to reduce carbon emissions and harvest Europe's own energy resources. At the same time, we are taking the lead in converting existing coal- and gas-fired power stations to sustainable biomass, providing a heat and power supply which is both green and flexible.

While we expand renewable energy, we recognise that the world still needs oil and gas. That is why we invest in unlocking scarce European oil and gas resources, to keep society running, extend European security of supply and reduce dependence on imported fossil fuels.

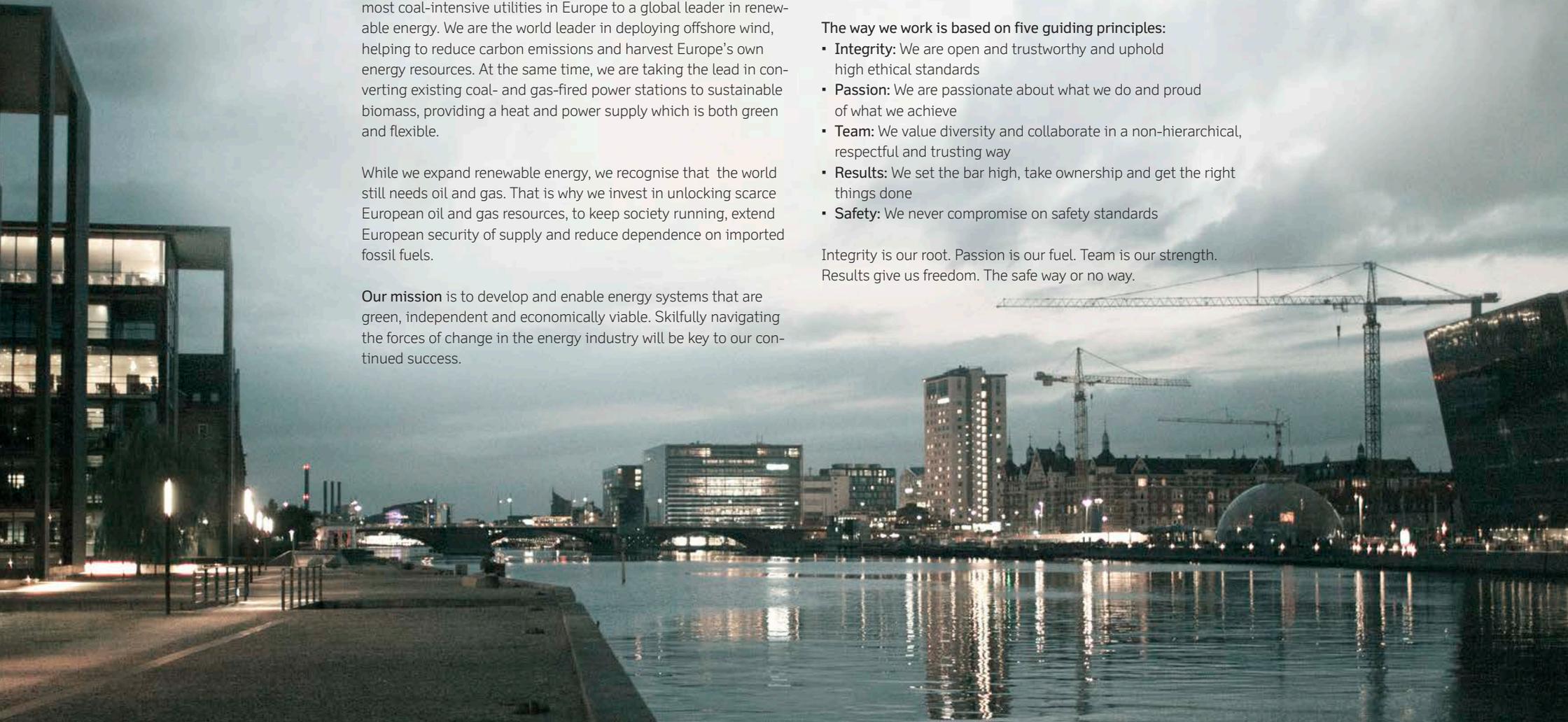
**Our mission** is to develop and enable energy systems that are green, independent and economically viable. Skilfully navigating the forces of change in the energy industry will be key to our continued success.

**Our vision** is to lead the energy transformation. We want DONG Energy to be recognised as a winner in European energy.

**The way we work is based on five guiding principles:**

- **Integrity:** We are open and trustworthy and uphold high ethical standards
- **Passion:** We are passionate about what we do and proud of what we achieve
- **Team:** We value diversity and collaborate in a non-hierarchical, respectful and trusting way
- **Results:** We set the bar high, take ownership and get the right things done
- **Safety:** We never compromise on safety standards

Integrity is our root. Passion is our fuel. Team is our strength. Results give us freedom. The safe way or no way.



# FOCUSED STRATEGY LEADS DONG ENERGY'S TRANSFORMATION

**DONG Energy's 2020 strategy is based on a mission to support the development of a green, independent and economically viable European energy system. The strategy leads the transformation of the Group towards 2020.**

## The targets are:

- To transform the business from a classic utility with operation of large central power stations to an energy company creating profitable growth
- To expand the position as a global leading operator of offshore wind
- To maintain a strong regional E&P business with a sustainable long-term platform
- To shift thermal electricity and heat generation from coal and gas to sustainable biomass technologies to achieve significant reductions in carbon emissions
- To remain strongly rooted in the Danish energy market for efficient and flexible power station operations, distribution operations with a high degree of security of supply and a customer-oriented and competitive sales business
- To ensure high satisfaction among customers
- To be a good, stimulating and safe place to work
- To create financial value with a target return on capital employed of 10% in 2016 and 12% in 2020.

## BACKGROUND OF THE STRATEGY

### Extensive changes in the energy sector

Since the 1990s, the European energy sector has undergone extensive changes involving a fundamental change of the production facilities. Production from renewable energy sources has increased from 2% of the European electricity supply in 2000 to 15% today. In 2030 the share is expected to increase to one third. The conventional power stations have come under pressure from growth in renewable energy. Coal and oil accounted for 37% of the European electricity generation in 2000; this share is expected to fall to 14% in 2030. At the same time, the demand for electricity is stagnating due to energy optimisations and the macro-economic downturn.

In parallel, the European energy markets have become more connected, liquid and competitive. This development has meant that the

market players are able to buy the energy they need when they need it. This has challenged the role of wholesalers. Also, an independent gas price formation system has emerged, based on market supply and demand, which means that oil and gas prices are no longer linked.

To navigate in this market, DONG Energy has restructured its original core business and established a new business platform.

### Restructuring of core business

In 2008, 60-70% of DONG Energy's earnings were based on a classic utility business with operation of large, central power stations and wholesale of energy, not least gas.

To adjust the original core business to the new market conditions, DONG Energy has since 2008 reduced its total power station capacity by more than 40%, restructured its energy trading activities to restore profitability and reduced the cost of its sales and distribution businesses by more than 30% in order to strengthen competitiveness.

### Creation of new business platform

Concurrently with the restructuring of the classic utility business, the Group has focused on developing a new business platform to be able to seize the opportunities that have also emerged in the wake of the extensive changes sweeping the European energy market.

## STRATEGIC PRIORITIES



### EXPLORATION & PRODUCTION

- Optimise extraction and ensure efficient operations and high field availability
- Complete the development of the Hejre, Laggan-Tormore, Glenlivet and Edradour fields
- Mature projects in the pipeline in the North Sea and West of Shetlands
- Invest in focused exploration activities
- Screen the market for potential value-creating acquisitions



### WIND POWER

- Ensure effective operation and high availability of production assets
- Complete initiated investment projects\*
- Mature pipeline projects\*\*
- Develop pipeline for beyond 2020
- Reduce costs of electricity generation from offshore wind
- Ensure co-financing through the partnership model



### THERMAL POWER

- Complete initiated biomass conversions (Studstrup and Skærbæk)
- Mature pipeline of biomass projects
- Continue to increase operational efficiency
- Increase power station flexibility
- Commercialise biotechnologies in New Bio Solutions



### CUSTOMERS & MARKETS

- Increase customer satisfaction
- Reduce costs in the sales and distribution businesses
- Renegotiate long-term gas contracts
- Optimise LNG business
- Hedge and optimise the total energy-flow of the Group

\* Borkum Riffgrund 1, Westermøst Rough, Gode Wind 1+2, Burbo Bank Extension

\*\* Race Bank, Walney Extension and Hornsea

# FOCUSED STRATEGY LEADS DONG ENERGY'S TRANSFORMATION CONTINUED

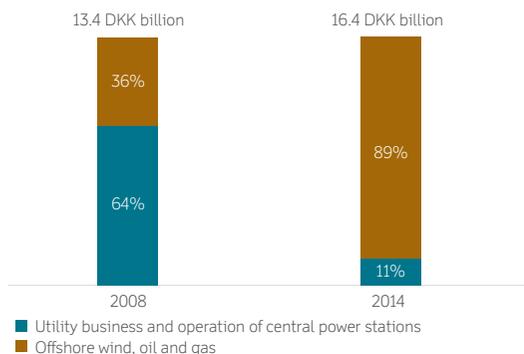
Since 2008, DONG Energy has constructed 1.9 GW of offshore wind, a total of 2.5 GW at the end of 2014, thereby attaining a world-leading position within this fast-growing energy technology. Also, the daily production of oil and gas has increased from 51,000 barrels to 115,000 barrels within the Group's geographical focus area in the Danish, Norwegian and UK sectors of the North Sea.

Electricity generation from offshore wind and oil and gas production accounted for 36% of the Group's total earnings (EBITDA) in 2008 and has increased to 89% in 2014.

The first phase of the adaptation of the Group's Danish power station portfolio consisted in reducing capacity to market demand and in cutting costs to maintain profitability. The second phase has now started and includes the ambitious conversion of the power stations to the firing of sustainable biomass. Towards 2020, DONG Energy aims to convert several of the existing Danish central power stations, so that at least half of the heat generation is based on sustainable biomass. The scope of this conversion programme means that DONG Energy expands its leading position in the field of biomass conversion of conventional power stations.

The extensive transformation of DONG Energy's electricity and heat generation to offshore wind and biomass means that in less than ten years, the Group has gone from being one of Europe's most coal-intensive utilities to being one of the leading renewable energy companies in the world.

DISTRIBUTION OF EBITDA - 2008 AND 2014, %



## Strategic transformation under pressure

In 2012, the strategic transformation of DONG Energy came under pressure. Due to a number of structural changes in the European gas market, the Group in 2012 recognised substantial losses on its long-term gas storage contracts, LNG capacity and gas-fired power stations. Together with high levels of investment in Wind Power and Exploration & Production, this meant that the earnings-to-debt ratio significantly deteriorated and fell substantially short of the target. In October 2012, DONG Energy's rating was downgraded by Standard & Poor's, which at the same time changed its outlook to 'negative'.

If the transformation of DONG Energy was to continue, the Group's financial basis had to be restored. In February 2013, a financial action plan was therefore launched to restore the Group's financial foundation together with a strategy intended to lead the transformation of DONG Energy towards 2020. As part of the strategy, it was decided to focus investments within offshore wind, oil and gas as well as biomass conversions of CHP plants and also to continue the investments in the Group's Danish electricity and gas distribution networks.

## Financial action plan

The financial action plan included a comprehensive programme of divestment of non-core assets and a reduction of the ownership interest in core activities. The divestments amount to DKK 23 billion during the 2013-2014 period. The capital freed up through the divestments has been used to reduce the Group's debt and to invest in the focus areas.

In addition to the divestments, it was necessary to inject additional equity to strengthen the Group's capital structure and the basis for continued growth. In February 2014, a capital injection of DKK 13 billion was effected, as a result of which the investment bank Goldman Sachs and the Danish pension funds ATP and PFA achieved a combined ownership interest of 25%.

Altogether the divestments and the capital injection meant that DONG Energy's capital base was strengthened by DKK 36 billion during the 2013-2014 period.

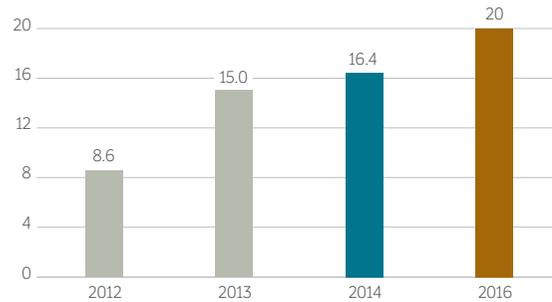
Concurrently, management has focused on strengthening the Group's operational efficiency. Cost savings of more than DKK 1.4 billion have been achieved, corresponding to 12% of the cost base in 2012, while the loss-making gas business has been restructured.

Following the implementation of the financial action plan, DONG Energy once again complies with the target for the capital structure key ratio, FFO to adjusted net debt, of approximately 30%.



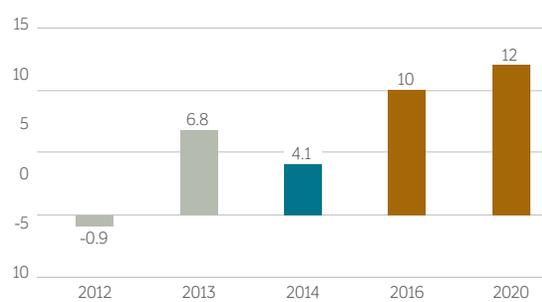
# STRATEGIC TARGETS

EBITDA, DKK billion



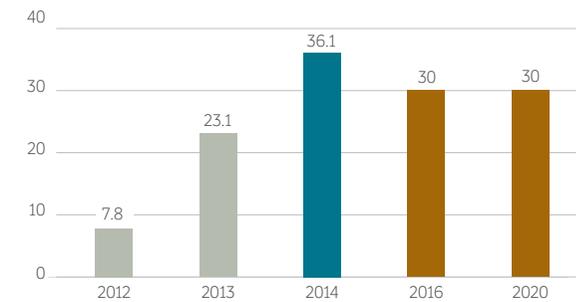
The increase in EBITDA towards 2016 will be driven by new assets on stream, reduced costs as the repair of the Siri platform is completed and renegotiation of gas contracts

ADJUSTED ROCE, %



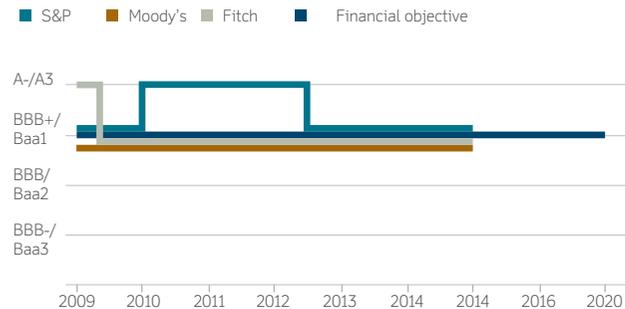
The improvement of ROCE towards 2016 will primarily be driven by the increase in EBITDA

FFO/ADJUSTED NET DEBT, %



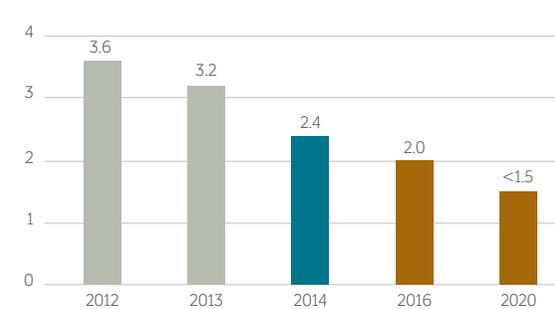
The long-term objective is for FFO to be around 30% of adjusted net debt to maintain the current ratings

RATING, category



In the first half of 2014, Standard & Poor's and Fitch changed DONG Energy's BBB+ rating outlook from "negative" to "stable". The current ratings from all three agencies are in line with DONG Energy's objective of a minimum floor rating of BBB+/Baa1

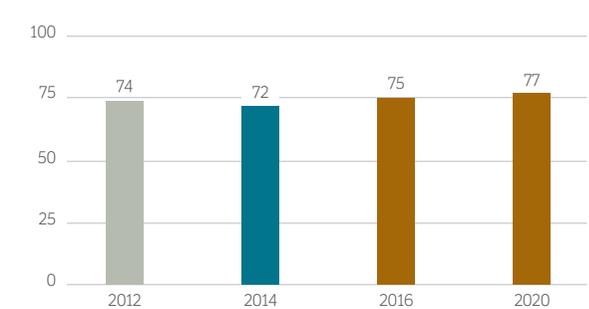
SAFETY, LTIF\* per 1 million hours worked



\* Lost Time Injury Frequency. Frequency of occupational injuries resulting in absence from work

The targets for 2016 and 2020 will be met by maintaining a constant focus on safety and involving suppliers in contributing to a safe working environment in DONG Energy. The Group's ever-increasing focus on safety and the improvements achieved in 2013 and 2014 have resulted in a reinforcement of the target for 2016 from 2.5 to 2.0

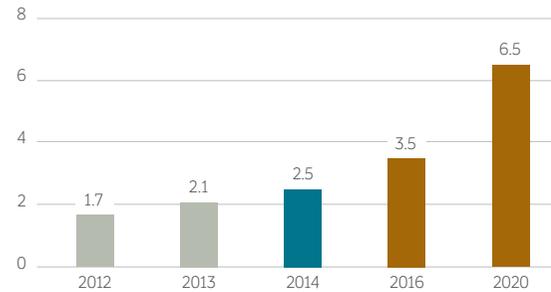
EMPLOYEE SATISFACTION AND MOTIVATION, score (0-100)



Regular follow-ups are made on the annual survey of employee satisfaction and motivation to create the best possible framework for the employees' continued development and well-being

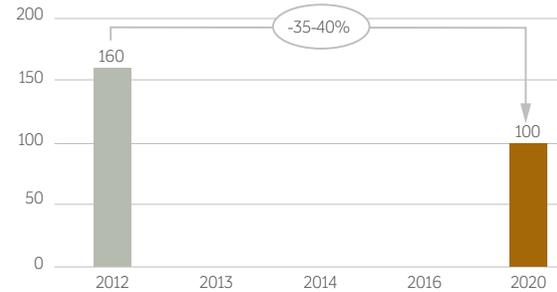
# STRATEGIC TARGETS CONTINUED

INSTALLED OFFSHORE WIND CAPACITY, GW



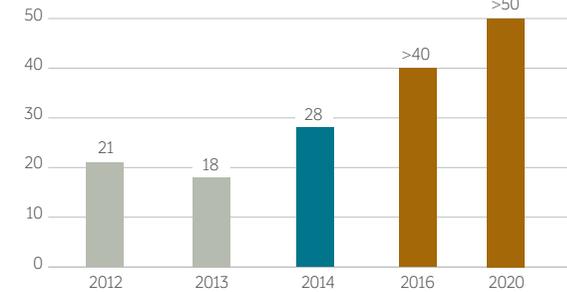
DONG Energy currently has four offshore wind farms under construction with a total capacity of almost 1.4 GW which will meet the target for 2016 of 3.5 GW. The target for 2020 is close to being fulfilled exclusively by the construction of decided projects as well as Walney Extension, Race Bank and Hornsea

OFFSHORE WIND COST OF ELECTRICITY, EUR/MWh



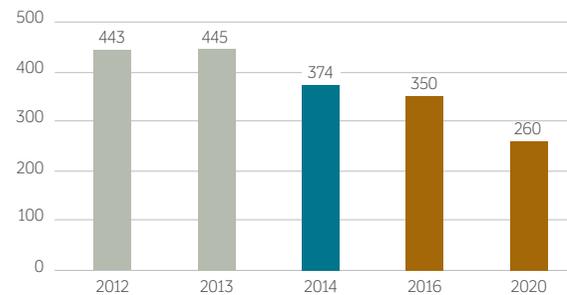
The fulfillment of the target for 2020 requires continued close dialogue with suppliers and a continued focus on the standardisation of design, construction and components under the Group's "Develop Standard Wind Farm" programme

BIOMASS SHARE IN DANISH CHP GENERATION, %



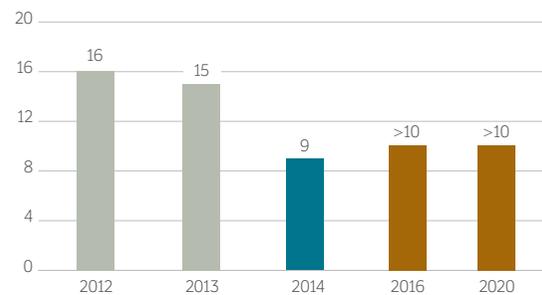
The targets for 2016 and 2020 are expected to be met through continued investments in conversion of existing power stations to biomass, including the already approved biomass conversions of Skærbæk and Studstrup

CARBON EMISSIONS, g/kWh



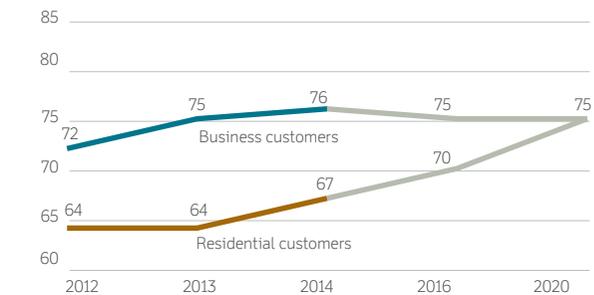
The reduction of carbon emissions in 2016 and 2020 is expected to be achieved by an ever-greater share of the Group's electricity generation from offshore wind as well as conversions of existing coal and gas-fired power stations to biomass

OIL AND GAS R/P RATIO, times



The long-term objective is to maintain a reserves (2P)-to-production (R/P) ratio of at least 10. The decrease relative to 2013 was due to a record high production in 2014 due to high field availability and full year effect from the higher ownership interest in Ormen Lange

CUSTOMER SATISFACTION, score (1-100)



DONG Energy is constantly striving to improve its customers' experiences with the sales business. Among other things in 2015, a project will be launched to help residential customers to reduce their total electricity bill

# STAKEHOLDER DIALOGUE IS IMPORTANT FOR DONG ENERGY

The energy supply plays a key role in our everyday lives, but it also has a major impact on the production and competitiveness of companies, on the environment and the climate, and on geopolitics. Therefore, energy attracts an interest from customers, politicians, the authorities, trade associations, NGOs, scientists, and many other stakeholders.

In DONG Energy, our dialogue with stakeholders is key to the way in which we run and develop our business. Dialogue is important to understand the expectations of our stakeholders with regard to us as a company and the way in which we are developing the energy supply.

Through dialogue, we identify the issues and challenges which are of the utmost importance to our stakeholders. Such insights are important elements in the continued development of DONG Energy's business and sustainability strategy.

Based on our dialogue with stakeholders, we have identified

five main priorities which are both at the forefront of our stakeholders' minds and of importance to our business. By pursuing these priorities through the way we conduct our business, we create value for our stakeholders and for DONG Energy. The following pages describe how we are working with these five priorities.

**Reliable and independent energy:**  
How do we continuously renew the energy supply?

**Cost-effective energy:**  
How do we provide cost-effective energy and contribute to the creation of growth and jobs?

**Green energy:**  
How do we produce greener energy?

**People matter:**  
How do we promote safety, the right skills and a motivating working environment?

**Business integrity:**  
How do we ensure that we operate our business with high integrity?

Read more about the priorities and our activities in DONG Energy's sustainability report and our UN Global Compact communication on progress entitled "DONG Energy in society" (<http://www.dongenergy.com/sustainability2014>), which constitutes our reporting in accordance with Section 99a of the Danish Financial Statements Act.



## NEED FOR CONTINUED INVESTMENTS IN THE ENERGY SUPPLY

Europe needs energy to work and develop. The demand for energy is expected to be stable up to 2035, but there is still a need for major investments in the energy system. This is due partly to the fact that assets need renewing as they get to the end of their technical lives, and partly to the fact that electricity will account for an increasing share of total energy consumption as the energy supply increasingly will be based on electricity. Toward 2035, the EU countries will be replacing and constructing the equivalent of more than 80% of the current electricity capacity. The need for capacity replacements is a unique opportunity to replace fossil fuel-fired power stations with new renewable energy technologies which ensure a cleaner and more environmentally friendly energy supply.

While Europe is converting its electricity and heat generation to more renewable energy, there will still be a need for oil and gas for many years to come, not least for transport purposes. Even in a scenario where the global

temperature increases are limited to 2°C – the target defined by researchers to prevent massive, destructive global climate changes – oil and gas will continue to represent almost 50% of the EU's total primary energy consumption in 2030. The continued need for oil and gas must be seen in light of the decline in the EU's own production of oil and gas and of the EU's increasing dependence on imported oil and gas.

Major investments are required in the European energy supply in the coming years – both to create a greener electricity and heat supply and to maintain the security of supply of oil and gas. The IEA is estimating that in the period up until 2035, Europe must invest almost EUR 2,500 billion in renewing the energy supply.

### DONG Energy invests in the transformation

With its presence in Northwestern Europe and an ambitious investment programme towards 2020, DONG Energy is contributing to developing the European energy capacity. In total, DONG Energy expects to invest DKK 35-40 billion in 2015-2016. In the 2015-2020 period, around 60% of the investments are expected to go to offshore wind and 30% to oil and gas activities, while the remaining 10% is expected to go to the power stations and distribution operations. The investment programme is designed to create growth within DONG Energy's positions of strength, offshore wind and oil and gas extraction, to contribute to the continued development of Europe's energy supply and create value for the Group's owners.

### Developing offshore wind

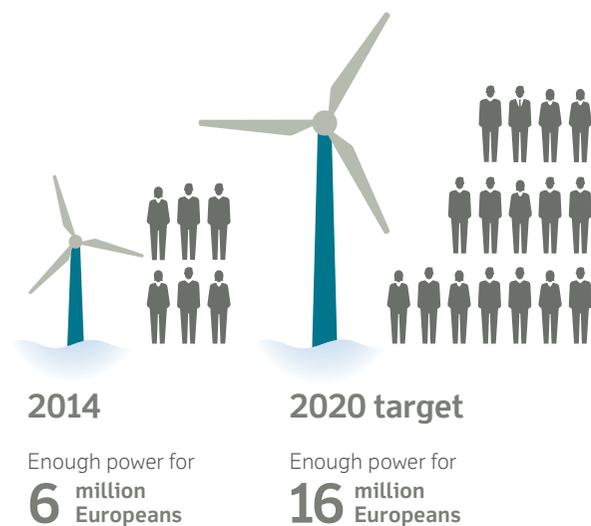
DONG Energy has installed more offshore wind capacity than any other player in the world. The Group distinguishes itself both by having the expertise to drive all phases of the construction of an offshore wind farm – from the early development phase through construction and operation and maintenance of the wind farms – and through its unique model for partnerships with financial investors.

DONG Energy has developed offshore wind farms in Denmark, the UK and Germany. With the inauguration of West of Duddon Sands in the UK in October 2014, DONG Energy has constructed more than 15 offshore wind farms with a total capacity of 2.5 GW, enough to cover the annual electricity consumption of 6 million Europeans. The target is 6.5 GW by 2020.

In 2014, Wind Power secured most of the pipeline needed to meet the

THE NEED FOR CAPACITY REPLACEMENTS IS A **UNIQUE OPPORTUNITY** TO REPLACE FOSSIL FUEL-FIRED POWER STATIONS WITH **NEW RENEWABLE ENERGY TECHNOLOGIES** WHICH ENSURE A CLEANER AND MORE ENVIRONMENTALLY FRIENDLY ENERGY SUPPLY

## DONG Energy contributes to developing renewable energy in Europe



# NEED FOR CONTINUED INVESTMENTS IN THE ENERGY SUPPLY CONTINUED

2020 target with the award of CfD certificates for the three wind farms Burbo Bank Extension, Walney Extension and Hornsea.

Four wind farms are under construction with a total capacity of almost 1.4 GW, with Westermost Rough in the UK and Borkum Riffgrund 1 in Germany being the ones nearest to completion. They are expected to be officially inaugurated in the second half of 2015. In 2014, DONG Energy invested a total of DKK 7.8 billion in expanding its wind activities. In 2015, investments are expected to remain high with the construction of the Gode Wind offshore wind farms, completion of Borkum Riffgrund 1 and Westermost Rough as well as the preparation of the Burbo Bank Extension for the construction phase and the development of new pipeline projects.

## Oil and gas production

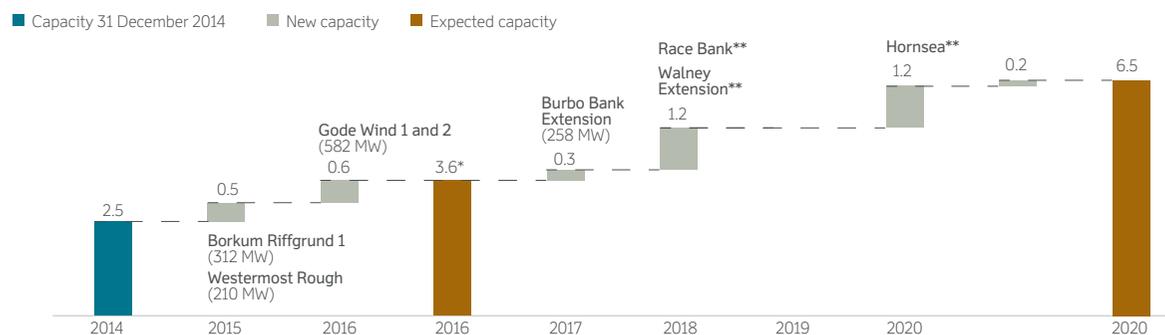
DONG Energy produces oil and gas in Denmark and Norway and explores for new oil and gas fields in the waters around Denmark, Norway and the UK. DONG Energy has ownership interests in 66 licences. 13 fields are in production, and four are under development. The other licences are at various stages of maturation, including collection of seismic data, evaluation of geological data, analysis of financial potential, etc.

We expect to complete the development of the Laggan-Tormore gas fields in the course of 2015, in addition to which a number of oil and gas finds are in the pipeline in the area. In October DONG Energy sold 5% of the Edradour licence, and earlier in the year 60% of the Glenlivet licence, to Total and at the same time decided to develop both areas with Total as the operator. DONG Energy now owns 20% of the UK fields Laggan-Tormore, Edradour and Glenlivet in the area west of the Shetland Islands. Edradour and Glenlivet will be connected to the existing Laggan-Tormore infrastructure, and the fields are expected to enter into production in 2018. Also, work is continuing on the Hejre platform in the Danish part of the North Sea, where production is expected to start in 2017.

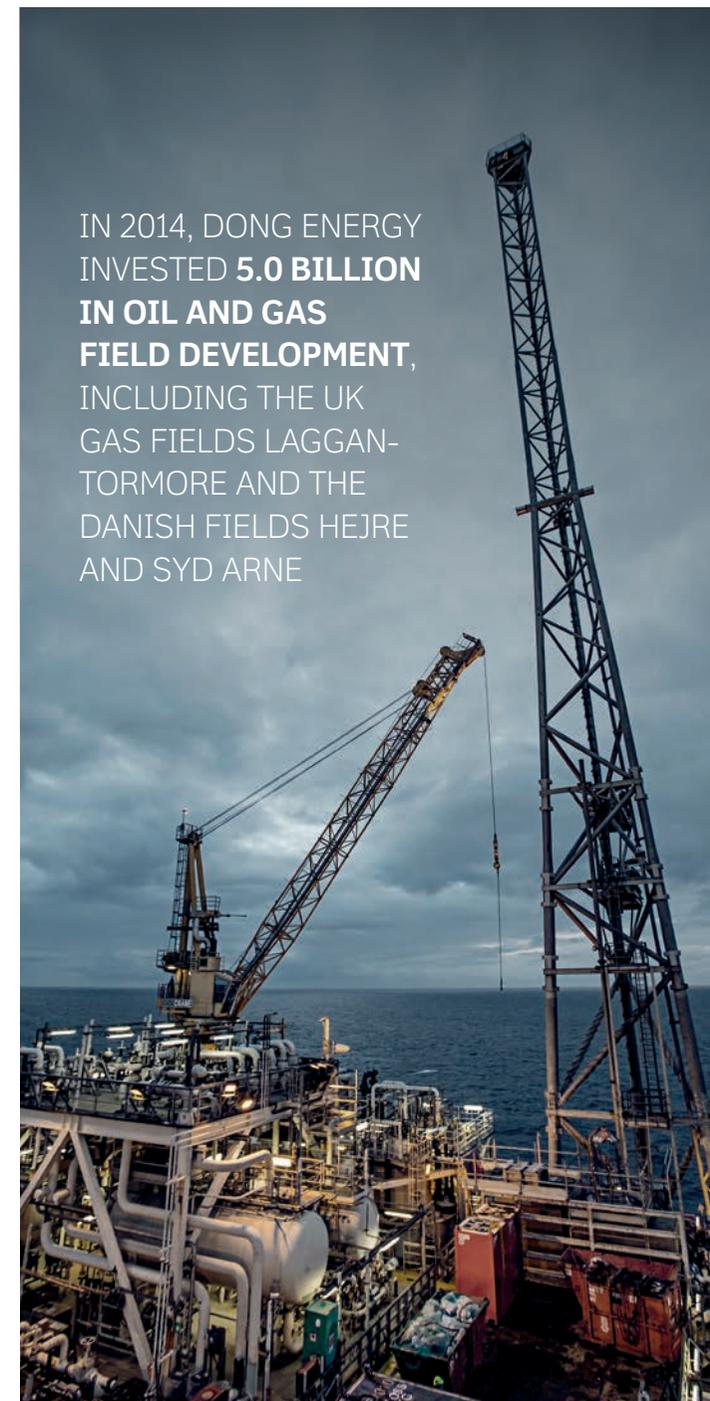
In 2014, DONG Energy invested DKK 5.0 billion in oil and gas field development, including the UK gas fields Laggan-Tormore and the Danish fields Hejre and Syd Arne. In 2015, further substantial investments are expected to be made in developing the Hejre platform and the Laggan-Tormore infrastructure.

In 2014, production totalled 115,000 boe per day. At the end of the year, the oil and gas reserves (2P) totalled 391 million boe, corresponding to nine years of production at current production levels.

## EXPECTED DEVELOPMENT IN INSTALLED OFFSHORE WIND CAPACITY, GW



Installed capacity is stated gross, ie. before any divestments. Wind farms constructed over several years are only shown in the year in which they become fully operational  
 \*Based on the construction projects in progress, the expected installed capacity in 2016 is 3.6 GW relative to target of 3.5 GW  
 \*\*Planned, but not yet decided projects



IN 2014, DONG ENERGY INVESTED **5.0 BILLION** IN OIL AND GAS FIELD DEVELOPMENT, INCLUDING THE UK GAS FIELDS LAGGAN-TORMORE AND THE DANISH FIELDS HEJRE AND SYD ARNE

# RENEWABLE ENERGY MUST BE CHEAPER

Today, traditional energy sources such as coal and gas are cheaper than renewable energy sources like offshore wind and solar energy. The reason is that the traditional energy sources have been on the market for longer and have had time to mature. For the renewable energy technologies, continued cost reductions are needed to make renewable energy competitive relative to the conventional forms of energy. This has already been achieved for onshore wind, which has attracted investments as well as special subsidies for more than 30 years. In windy locations, onshore wind is today the cheapest renewable energy technology and fully competitive with fossil fuels.

The reduction in the cost of renewable energy will not be achieved in the laboratory. Many energy technologies look promising in the laboratory, but the real challenge is taking them to an industrial scale while at the same time reducing costs sufficiently for them to be competitive with conventional energy sources. This can only be done by investing in new facilities and by gaining experience.

Just over ten years ago, DONG Energy installed the world's first large-scale commercial offshore wind farm, Horns Rev 1, off the west coast of Denmark. Today, offshore wind is undergoing the same development that onshore wind has been through, driven

by the fact that offshore wind is the most powerful and scalable renewable energy technology on the market. With the strong winds at sea, offshore installations can generate approximately 50% more electricity than the equivalent onshore capacity. That is why offshore wind is one of the most attractive renewable energy technologies for the industrial-scale delivery of green, independent and cost-effective energy.

## Investments and targeted efforts can reduce the price of renewable energy

DONG Energy and the rest of the offshore wind industry are dedicated to reducing the costs of constructing wind farms. DONG Energy aims to reduce costs by 35-40%, leading to a price per megawatt hour generated by a standard project in the UK, where the final investment decision will be made in 2020, of EUR 100 per MWh compared to EUR 160 per MWh in 2012. The costs of individual projects will always vary depending on the specific project conditions – size of the wind farm, sea depths and seabed properties, distance from the coast and wind speed – but DONG Energy expects the efforts to gradually be reflected in generally lower costs for offshore wind in the coming years.

## A standard offshore wind farm

DONG Energy's strategy for cost reductions is based on standardisation. DONG Energy is developing an offshore wind farm concept which is based on a standardised design, standard components and construction in areas characterised by the best possible conditions with regards to wind, distance from the coast, sea depths and seabed properties. The concept reduces the price of offshore wind considerably. For an industry characterised by high investment levels, especially in the construction phase, the biggest potential is in reducing construction costs.

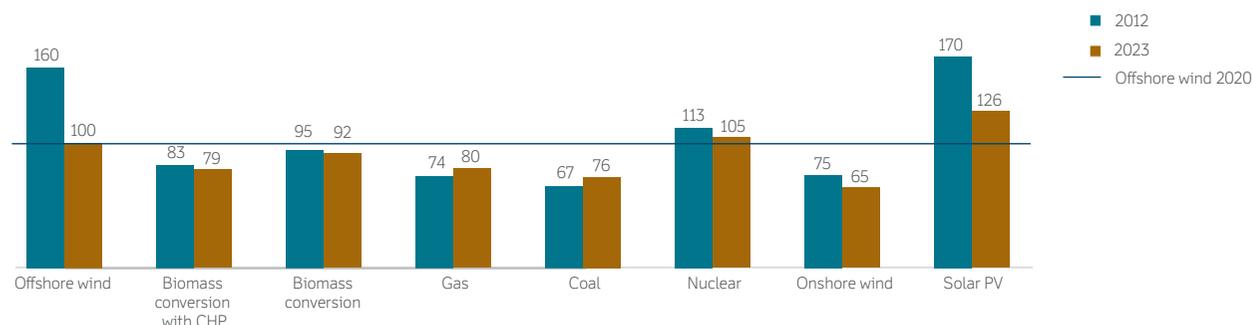
## Centralised design and procurement process

With a view to promoting standardisation, DONG Energy has identified a number of standard modules, which are divided into four product lines: turbines, foundations, substations and electrical systems. For each product line and each module, a cost target has been defined, and a plan for realising it has been developed to enable DONG Energy to monitor progress towards the 2020 target.

Standardisation also makes it possible to enter into framework agreements with suppliers and to combine orders and send out tender documents for several projects at the same time. Through entering into major framework agreements, DONG Energy expects to achieve significant cost reductions. This requires close cooperation with suppliers, to ensure that they can deliver a product that meets the required specifications, in the desired quality and at the right price. Only suppliers with detailed cost reduction and quality control programmes are considered.

## OFFSHORE WIND PROJECTS INVESTED IN BY DONG ENERGY IN 2020 AND WHICH START PRODUCTION IN 2023 HAS TO BE 35-40% CHEAPER COMPARED TO 2012

Average cost for projects commissioned in 2023, compared to 2012, EUR/MWh in 2012 real prices.



Source: Modelling based on IEA's 'World Energy Outlook 2014' fuel and CO<sub>2</sub> prices from New Policies Scenario, pages 45, 48. Technology costs modelling is based on Danish Energy Agency's 'Technology Data for Energy Plants 2014', IEA's 'Energy Technology Perspectives 2014', and DECC's 'Electricity Generation Costs 2013'.

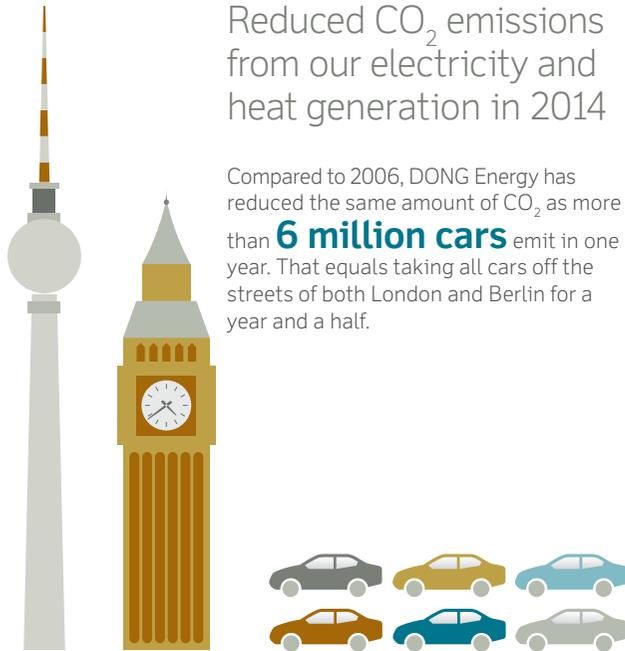
# BIOMASS GIVES A GREEN, STABLE AND EFFICIENT ENERGY SUPPLY

Global carbon emissions must be reduced if the global average temperature is to be prevented from increasing by more than 2°C. Energy production is responsible for a significant share of total carbon emissions, and the energy sector, therefore, has an important role to play.

With sun, wind, and water, electricity can be generated from renewable sources of energy. However, the power stations will still have a place in the energy supply of the future. They guarantee that we have electricity as and when we need it, even when no electricity is supplied to the grid from renewable energy sources. At the same time, CHP plants guarantee the supply of district heating to most Danes. However, at the moment, most of the European power stations are still fossil fuel-fired.

## Reduced CO<sub>2</sub> emissions from our electricity and heat generation in 2014

Compared to 2006, DONG Energy has reduced the same amount of CO<sub>2</sub> as more than **6 million cars** emit in one year. That equals taking all cars off the streets of both London and Berlin for a year and a half.



### DONG Energy speeds up the conversion to biomass-based electricity and heat generation

DONG Energy has decided to convert its Danish central power stations from coal and gas to sustainable wood chips and wood pellets, so that at least half of the energy generated by the Danish CHP plants will be based on biomass in 2020. From a socio-economic point of view, the conversions are a cheap and efficient way of reducing carbon emissions, which can make a significant contribution to the transition to green energy. With the conversions, we are also making the most of the existing flexible capacity, which is crucial to being able to integrate variable renewable energy in the system as a whole. In this way, the biomass conversions are making a cost-effective contribution to stable, green energy.

In DONG Energy, we are speeding up the conversion to sustainable wood chips and wood pellets to ensure that our power stations can deliver green electricity and heat. Since 2006, we have more than halved our coal consumption while the share of biomass has increased. In 2014, 28% of the production from the Danish central CHP plants was thus based on biomass. In 2020, the share must be at least 50%.

### Conversions to sustainable biomass

To achieve the target, DONG Energy is converting a number of its nine central Danish CHP plants from coal and gas to sustainable wood pellets, wood chips and straw. For a number of years, unit 2 at the Avedøre power station, unit 3 at the Studstrup power station and the Herring power station have been partially biomass-fired. In 2014, unit 2 at the Avedøre power station was converted to firing with 100% biomass, and it was also decided to invest in converting unit 3 at the Studstrup power station and unit 3 at the Skærbæk power station to sustainable biomass. The conversion started in summer 2014, and the power stations are expected to produce the first biomass-based energy at around the turn of the year 2016/2017.

In total, DONG Energy has initiated conversions totalling more than DKK 4 billion. They will make the Group one of the world's leading players within biomass-based electricity and heat generation.

### Sustainable biomass significantly reduces carbon emissions

DONG Energy only uses sustainable biomass. This ensures a reduction in carbon emissions of between 80% and 90% over the full life cycle, including biomass processing and transport to the power stations.

Together with electricity generation from offshore wind, biomass will contribute to realising DONG Energy's overall goal of reducing carbon emissions from the electricity and heat generation by 60% from 2006 to 2020. In 2014, emissions had been reduced by 41%.

#### Sustainable biomass

The wood pellets and the wood chips used by DONG Energy come from sustainable forestry operations which base their production on wood waste and wood from thinning of forests. For DONG Energy, biomass must be sustainable to ensure significant and real carbon reductions.

As no international political guidelines for sustainable biomass have yet been broadly adopted, DONG Energy developed "Programme for Sustainable Biomass Sourcing". The programme is based on the certification system for sustainable biomass which DONG Energy has developed in the Sustainable Biomass Partnership together with a number of European energy companies which use biomass for energy production.

Once the programme has been fully implemented, DONG Energy will only be using suppliers that have documented compliance with a number of sustainability criteria in third-party audits. Among other things, there must be continuous replanting, so that the carbon emitted to the atmosphere when firing the biomass can be absorbed by a constant or increasing forest cover. At the same time, biomass production must protect the biodiversity and ecosystems of the forests.

These criteria ensure that DONG Energy complies with the agreement formed with members of the Danish energy industry on sustainable biomass announced in December 2014.

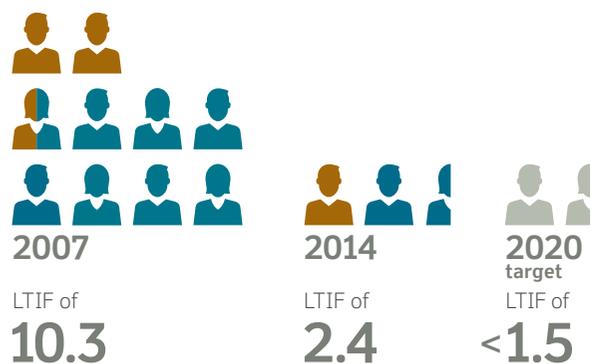
# THE SAFE WAY OR NO WAY

In the energy business, much work is performed involving large, heavy constructions and machines, and often at sea and at height. Even the smallest of errors entails a risk that something can go seriously wrong. Both for the people involved and for the environment, the consequences can be severe.

Carefully defined work standards and procedures are essential to a safe working environment. In DONG Energy, safety is one of the five guiding principles for the way in which we work. Based on our corporate policy, we establish safety standards, develop action plans and safety procedures which ensure compliance with the policy by all business units, as well as arranging drills for employees and contractors. The drills enable everybody to assess the safety of a given task and to discontinue an activity if deemed unsafe.

## Fewer accidents in DONG Energy

- Own employees
- Contractor employees



Lost Time Injury Frequency (LTIF) is the number of accidents which result in absence of a day or more per one million working hours. The figure includes both DONG Energy employees and contractors' employees working on sites which are either owned or operated by DONG Energy.

### Culture is crucial for high safety standards

Clearly defined safety procedures are not enough. It is crucial that safety is embedded in our corporate culture, whether work is carried out in high-risk areas on the production platforms or construction sites, or in an office.

### Safety Through the Line

To realise the 2020 target of reducing the number of lost-time injuries (LTIF) to <1.5 per 1 million working hours, DONG Energy has launched the Safety Through the Line programme. The aim is to create a common safety culture and a sense of commitment throughout the line management.

Therefore, the programme has been rolled out throughout the Group in 2013 and 2014 with mandatory workshop driven by each individual manager. The focus has been on making safety relevant to each and every employee, making everybody take responsibility for thinking safety into their own work and that of others, and on creating role models in the organisation.

A DONG Energy motto is "You see it, you own it". All employees are responsible for thinking their own safety and that of others into their work and for reacting if they experience situations which may pose a safety risk. The safety workshop was therefore followed up by an e-learning course which taught employees where and how to register and describe the near-incidents observed so that preventive measures can be implemented. In 2014, 97% of employees had completed the course.

### Role models

In 2014, it became mandatory for all new managers to participate in DONG Energy's "Safety Leadership Onboarding" course. It prepares managers for acting as role models and creating a framework within which they and their employees can contribute to the common safety culture. Safety is also one of the eight competences that all managers must be in possession of, and which is evaluated in their annual performance and development dialogues.

In addition, safety has been integrated into DONG Energy's annual employee satisfaction survey and into the employees' annual performance and development dialogues with their immediate superior. This ensures that safety is an integral part of all the managers'

dialogue with the employees on well-being, performance and scope for improvement.

### Efforts pay off

Our figures show that the efforts have paid off. Since the launch of Safety Through the Line in August 2013, LTIF has fallen by 38%. The number of accidents does not only say something about personal safety. It also says something about the Group's ability to deliver well-planned processes and results throughout the value chain. A good safety culture contributes to minimising risk in general, and the efforts are therefore also paying off for that reason.

### Cooperation with contractors

Success also requires collaboration with contractors and their employees. In addition to local safety routines, anybody working in areas either owned or managed by DONG Energy must do an e-learning course and attend a safety briefing.

Safety is important to our choice of contractors. Based on the Group's safety requirements, DONG Energy estimates whether a task involves safety risks. If so, further safety requirements specified which must be met by contractors. This signals to our contractors that safety is such a central aspect of our collaboration with all our contractors that it must be addressed right from the start.

DONG Energy follows up on the contractor's compliance with the safety requirements, and in the event of safety issues arising at any point, DONG Energy's management will meet with the supplier's management to discuss the challenges and to ensure a continued dialogue on how best to address them.

# OPERATING WITH HIGH INTEGRITY

At DONG Energy we want to be open and trustworthy and uphold high ethical standards. We take pride in running a business where high integrity is the fundamental basis for everything we do. Because it is the right thing to do and because companies with integrity are simply more healthy companies.

Making the right decision is not always straightforward. As a company and as individuals, we are faced with financial, technical, commercial and human challenges every single day. Because our employees are only humans it can be difficult – even for someone with the best of intentions – to make the right decision. But we have to do the right thing.

## Integrity in our operations

To operate with integrity is one of our five guiding principles. DONG Energy's Policy of Good Business Conduct gives guidance to how employees should act in situations that could lead to inappropriate or even illegal behaviour, such as fraud, bribery, corruption, use of insider information or anti-competitive behaviour. The policy was updated in 2014.

We work systematically to uphold high integrity in our business, supported by our Internal Audit department. It is an independent body controlling that our processes, controls and governance support is in compliance with our rules and that the decisions are made in the right way. In 2014 Internal Audit carried out audits of managers' and employees' knowledge of, and adherence to, the policy on good business behavior in three out of four business units.

## A reputation challenge

Our reputation with our customers is one of the challenges we are faced with. When we ask our customers what they think about DONG Energy, some of the specific areas that they rank low are trustworthiness, ethical behaviour and meeting the customer's needs. However, those of our customers who have been in contact with us rate us significantly higher than the general perception.

To address the challenge, we have a constant focus on improving the customer experience, and we will increase the level of customer oriented communication. By 2020, we want to be rated at 75 out of 100 on how positively both Danish residential and business customers perceive us. In 2014 we were rated 67 out of 100

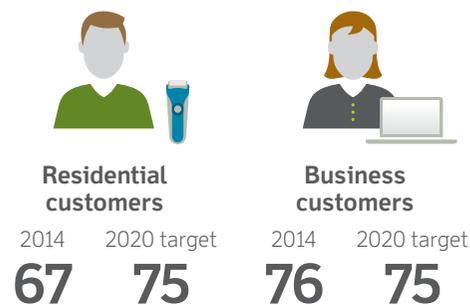
among our residential customers and 76 out of 100 among our business customers.

## A responsible supply chain

Integrity is also about a company's supply chain. DONG Energy has more than 20,000 suppliers globally. Some of these are located in countries where compliance with international standards for human and labour rights, the environment or anti-corruption is less reliable. Whenever we enter into a new business relationship, our Code of Conduct for suppliers is part of our contract with that supplier. The Code of Conduct gives us the right to end the commercial relationship with a supplier in case of serious and repeated breaches. However, we much prefer to work with the supplier to improve practices and support that real improvement takes place.

In 2014, we launched an enhanced version of our Responsible Sourcing Programme. The programme strengthens and expands our risk based due diligence, which is conducted every time we enter a new contract with a value exceeding DKK 3 million. We assess smaller contracts in an annual analysis. We have also expanded the programme to cover new joint venture partnerships. The partner programme will be implemented in the first quarter of 2015.

We want our customers to perceive DONG Energy positively



# FIVE-YEAR RECORD

## FINANCIAL PERFORMANCE AND OUTLOOK

### BUSINESS PERFORMANCE

DKK million	2014	2013	2012	2011	2010
<b>Income statement</b>					
Revenue:	67,048	73,105	67,179	56,717	54,523
Exploration & Production	14,011	12,344	11,871	10,469	8,264
Wind Power	9,728	11,960	7,737	4,215	2,880
Thermal Power	6,338	9,658	9,063	11,466	11,888
Customers & Markets	48,055	49,663	46,569	37,551	36,953
Other activities / eliminations	(11,084)	(10,520)	(8,061)	(6,984)	(5,462)
EBITDA:	16,389	15,004	8,639	13,743	14,077
Exploration & Production	8,591	7,324	6,550	5,684	5,052
Wind Power	6,057	4,253	2,479	1,772	1,670
Thermal Power	422	744	1,067	1,863	2,124
Customers & Markets	1,404	2,348	(1,455)	4,383	5,100
Other activities / eliminations	(85)	335	(2)	41	131
EBITDA adjusted for current hydrocarbon tax	12,863	13,899	6,490	12,667	13,509
EBIT	(1,177)	2,041	(3,324)	6,100	8,095
Adjusted operating profit (loss)	(5,721)	378	(6,457)	4,879	7,404
Profit (loss) for the year	(5,284)	(993)	(4,021)	2,882	4,499
<b>Key ratios</b>					
Funds from operation (FFO)	8,605	10,026	3,418	10,711	11,471
FFO/adjusted net debt, %	36.1	23.1	7.8	31.4	37.5
Return on capital employed (ROCE), %	(8.0)	0.5	(7.9)	6.3	10.2
Adjusted ROCE, %	4.1	6.8	(0.9)	7.4	10.8
<b>Working conditions</b>					
Employees (FTE), number	6,500	6,496	7,000	6,098	5,874
Lost time injury frequency (LTIF), per 1 million hours worked	2.4	3.2	3.6	4.1	4.6
Fatalities, number	0	0	1	3	3

### IFRS

DKK million	2014	2013	2012	2011	2010
<b>Income statement</b>					
Revenue	71,829	72,199	65,860	58,313	54,505
EBITDA	20,333	14,199	7,166	15,568	14,030
EBIT	2,767	1,236	(4,797)	7,925	8,048
Gain on divestment of enterprises	1,253	2,045	2,675	225	905
Net financial income and expenses	(1,710)	(3,800)	(1,356)	(303)	(1,556)
Profit (loss) for the year	(2,310)	(1,591)	(5,126)	4,250	4,464
<b>Balance sheet</b>					
Assets	149,914	145,672	157,489	152,926	136,734
Additions to property, plant and equipment	15,350	19,437	16,549	18,702	14,546
Net working capital	(1,212)	2,599	(605)	33	2,324
Net working capital ex. trade payables relating to capital expenditure	1,203	4,150	2,544	2,995	3,361
Interest-bearing debt	36,713	46,460	52,745	40,287	38,098
Net interest-bearing debt	3,978	25,803	31,968	23,179	21,913
Adjusted net debt	23,813	43,382	43,850	34,074	30,557
Equity	61,533	51,543	50,016	57,740	51,308
Capital employed	65,511	77,345	81,984	80,919	73,222
<b>Cash flows</b>					
Cash flows from operating activities	14,958	9,729	7,891	12,396	14,312
Cash flows from investment activities	(14,796)	(6,483)	(19,202)	(18,726)	(14,699)
Gross investments	(15,359)	(21,234)	(17,660)	(17,907)	(15,627)
Net investments	(4,706)	(5,902)	(13,350)	(12,659)	(8,464)
<b>Volumes</b>					
Oil and gas production, million boe	41.8	31.7	28.5	26.4	24.4
Daily oil and gas production, thousand boe	115.0	87.0	78.0	72.0	67.0
Electricity generation, TWh	13.7	19.1	16.1	20.4	20.2
- thermal	8.7	13.8	11.5	16.0	16.2
- wind and hydro	5.0	5.3	4.6	4.4	4.0
Heat generation, PJ	31.4	40.2	43.0	42.6	53.2
Gas sales (excl. own consumption at power stations), TWh	119.6	134.6	127.9	113.7	116.7
Electricity sales (excl. own consumption at power stations), TWh	30.8	16.8	12.6	9.9	10.4
Gas distribution, TWh	8.2	8.8	9.1	9.9	11.4
Electricity distribution, TWh	8.4	8.6	8.7	8.8	9.1

# FINANCIAL PERFORMANCE

## HIGHLIGHTS

DKK million	2014	2013	Δ
Revenue	67,048	73,105	(6,057)
EBITDA	16,389	15,004	1,385
Profit (loss) for the year	(5,284)	(993)	(4,291)
Cash flow from operating activities	14,958	9,729	5,229
FFO/adjusted net debt	36.1%	23.1%	13.0%-p
Return on capital employed (ROCE)	(8.0%)	0.5%	(8.5%-p)
Adjusted ROCE	4.1%	6.8%	(2.7%-p)

DONG Energy's revenue decreased by 8% in 2014, while EBITDA and cash flows from operating activities increased by 9% and 54%, respectively. Net profit was a loss of DKK -5.3 billion and was affected by post-tax impairment losses of DKK 7.3 billion, primarily relating to the falling oil and gas prices. Funds from operations (FFO) to adjusted net debt was up at 36% in 2014 from 23% in 2013. ROCE fell to -8.0% from 0.5% in 2013. Adjusted for impairment losses, ROCE was 4.1% in 2014 against 6.8% in 2013.

## INCOME STATEMENT

### Revenue

DKK million.	2014	2013	Δ
Revenue	67,048	73,105	(6,057)

Revenue decreased by 8% to DKK 67.0 billion in 2014. The decline reflected lower oil, gas and electricity prices, lower electricity and heat generation and gas sales as well as lower income

### Business performance

Management's review comments on the business performance results, unless otherwise stated. For an explanation of the differences between business performance and IFRS results, reference is made to note 2.5 to the consolidated financial statements.

from construction contracts, only partly offset by higher oil and gas production.

The total oil and gas production was 41.8 million boe against 31.7 million boe in 2013. The 32% increase was primarily due to higher production of gas and hydrocarbon condensate both from the Ormen Lange field as a result of the ownership interest increase from 10.3% to 14.0% as of 1 July 2013, and from the Alve and Marulk fields where production was curtailed in 2013.

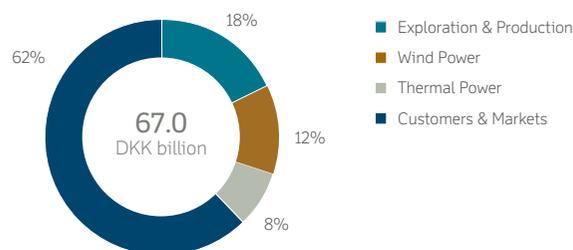
Electricity generation was 13.7 TWh in 2014 compared with 19.1 TWh in 2013. The decrease reflected lower thermal electricity generation at the Danish power stations due to the warm weather as well as the loss of electricity generation from the thermal, onshore and hydropower activities divested in 2013, partly offset by higher offshore electricity generation.

Gas sales (excluding sales to own power stations) totalled 119.6 TWh, which was 11% lower than in 2013. The decrease reflected a drop in demand due to the warm weather.

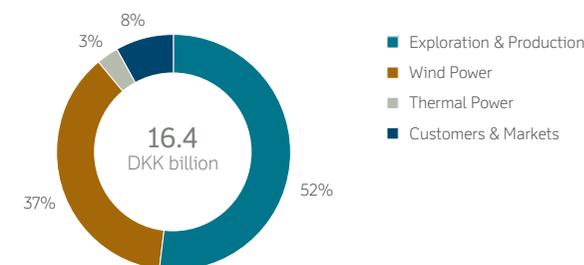
## EBITDA

DKK million	2014	2013	Δ
Exploration & Production	8,591	7,324	1,267
Wind Power	6,057	4,253	1,804
Thermal Power	422	744	(322)
Customers & Markets	1,404	2,348	(944)
Other activities / eliminations	(85)	335	(420)
<b>Consolidated EBITDA</b>	<b>16,389</b>	<b>15,004</b>	<b>1,385</b>

REVENUE, 2014



EBITDA, 2014



EBITDA totalled DKK 16.4 billion in 2014 compared with DKK 15.0 billion in 2013. The business units contributed to the 9% increase as follows:

- In Exploration & Production, EBITDA was up DKK 1.3 billion at DKK 8.6 billion due to higher production, mainly from Ormen Lange, partly offset by lower oil and gas prices
- In Wind Power, EBITDA was up DKK 1.8 billion at DKK 6.1 billion due to a gain from the divestment of 50% of DONG Energy's ownership interest in the offshore wind farm London Array and the offshore wind project Westermost Rough, full electricity generation from the Anholt wind farm, which was inaugurated in Q3 2013 and lower expensed project development costs. This was partly offset by lower earnings from construction contracts and the divested activities
- In Thermal Power, EBITDA decreased by DKK 0.3 billion to DKK 0.4 billion, primarily due to warm weather, resulting in lower generation, lower green dark spread and divested activities
- In Customers & Markets, EBITDA was down DKK 0.9 billion at DKK 1.4 billion due to lower gas sales and falling oil and gas prices. The combination of 23% lower gas prices and only 9% lower oil prices on average for the year led to a higher loss on the long-term oil-indexed gas sourcing contracts which have not yet been renegotiated. As these renegotiations are completed, DONG Energy receives a lump-sum payment as compensation for historical losses and the future sourcing price is adjusted.

# FINANCIAL PERFORMANCE

CONTINUED

## Depreciation, impairment losses and EBIT

DKK million	2014	2013	Δ
Depreciation	(9,242)	(7,955)	(1,287)
Impairment losses, net	(8,324)	(5,008)	(3,316)
Depreciation and impairment losses	(17,566)	(12,963)	(4,603)
EBIT	(1,177)	2,041	(3,218)

Depreciation and impairment losses totalled DKK 17.6 billion, which was DKK 4.6 billion higher than in 2013.

Depreciation was DKK 1.3 billion higher than in 2013. The increase was attributable to Wind Power as a result of the commissioning of new assets and to E&P due to the higher production and lower reserve estimates for the Oselvar field.

Impairment losses amounted to DKK 8.3 billion in 2014. In E&P, impairment losses of DKK 8.1 billion were recognised primarily as a result of the lower oil and gas prices. Assets in the West of Shetland area were impaired by DKK 3.8 billion, the Danish field Hejre by DKK 2.5 billion, the Norwegian Ula, Tambar and Oselvar fields by DKK 1.3 billion and the fields in the Siri area by DKK 0.5 billion.

Impairment losses totalled DKK 5.0 billion in 2013 in respect of the Ula, Tambar and Oselvar fields (DKK 1.8 billion), the fields in the Siri area (DKK 0.9 billion), the Gyda field (DKK 0.5 billion), the Gassled ownership interest (DKK 0.4 billion), the gas-fired power station Enecogen (DKK 1.0 billion) as well as capitalised project development costs in Wind Power (DKK 0.3 billion).

EBIT decreased by DKK 3.2 billion, which was due to the fact that the higher EBITDA was more than offset by increased depreciation and impairment losses.

## Gain on divestment of enterprises

DKK million	2014	2013	Δ
Gain on divestment of enterprises	1,258	2,045	(787)

The gain on divestment of enterprises totalled DKK 1.3 billion in 2014 and related primarily to the divestment of the Stenlille Gas Storage Facility. The year before, the gain related primarily to the Swedish hydropower company Kraftgården, Polish and Danish onshore wind businesses, Stadtwerke Lübeck and the gas-fired Severn power station.

## Share of profit (loss) of associates and joint ventures

DKK million	2014	2013	Δ
Share of profit (loss) of associates and joint ventures	(484)	(57)	(427)

The profit (loss) of associates and joint ventures which are not part of the Group's principal activities, amounted to DKK -0.5 billion for 2014 and related primarily to an impairment loss of the value of the ownership interest in a German gas storage business.

## Net financial income and expenses

DKK million	2014	2013	Δ
Interest paid, net	(1,145)	(1,661)	516
Interest element of provisions etc.	(572)	(501)	(71)
Early redemption of loans and associated interest rate swaps	0	(665)	665
Value adjustments of derivative financial instruments, net	(255)	(293)	38
Exchange rate adjustments, net	534	(210)	744
Divestment of assets held under finance leases	0	(201)	201
Value adjustments of securities, net	(297)	(189)	(108)
Other financial income and expenses, net	25	(80)	105
Net financial income and expenses	(1,710)	(3,800)	2,090

Net financial income and expenses amounted to a net expense of DKK 1.7 billion compared with DKK 3.8 billion in 2013. The decrease was due especially to lower net interest payments as a result of lower average interest-bearing net debt and a positive impact from exchange rate adjustments. In 2013, net financial income and expenses were negatively impacted by the early redemption of loans and interest rate swaps and a loss from the divestment of the Norwegian gas-fired power station Mongstad.

# FINANCIAL PERFORMANCE AND OUTLOOK

## Income tax

DKK million	2014		
	Profit before tax	Tax hereof	Tax percentage
Oil and gas activities in Norway (hydrocarbon income)	4,531	(3,889)	86%
Oil and gas exploration activities in the UK and Faroe Islands	(4,975)	0	0%
Gain/loss on divestments and other non-taxable income and non-deductible costs	2,467	(52)	2%
Effect of changes in tax rate	0	(79)	n.a.
Rest of DONG Energy	(4,136)	849	21%
Effective tax for the year	(2,113)	(3,171)	(150%)

DKK million	2013		
	Profit before tax	Tax hereof	Tax percentage
Oil and gas activities in Norway (hydrocarbon income)	2,622	(1,869)	71%
Oil and gas exploration activities in the UK and Faroe Islands	(757)	0	0%
Gain/loss on divestments and other non-taxable income and non-deductible costs	2,287	(121)	5%
Effect of changes in tax rate	0	(21)	n.a.
Rest of DONG Energy	(3,923)	790	20%
Effective tax for the year	229	(1,221)	534%

Tax on profit (loss) for the year amounted to DKK 3.2 billion, which was DKK 1.9 billion higher than in 2013.

The effective tax rate was -150% against 534% in 2013 and reflected opposing effects. The tax rate went up as a result of the earnings from oil and gas production in Norway, where a tax rate of 78% on hydrocarbon income together with non-deductible amortisation of licence rights led to an effective tax rate of 86%.

# FINANCIAL PERFORMANCE

## CONTINUED

In addition, the tax rate was affected by losses from oil and gas exploration as well as impairment losses in the UK, where tax assets are not recognised as there is uncertainty about the possibilities of offsetting these losses in the foreseeable future. Finally, the tax rate was also affected by non-taxable gains and non-deductible losses on divestments.

### Total tax contribution

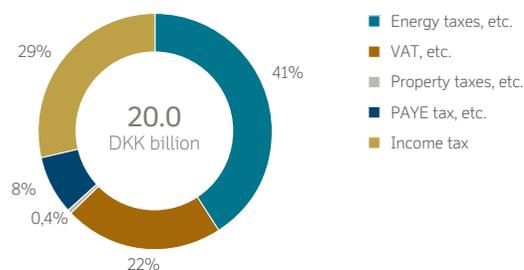
DONG Energy's contribution to society in the form of taxes and duties totalled DKK 20.0 billion in 2014 compared with DKK 20.3 billion in 2013. In 2014, DKK 15.1 billion (75%) of the tax contribution was paid in Denmark. The tax contribution is calculated according to the Total Tax Contribution (TTC) model.

### Profit (loss) for the year

DKK million	2014	2013	Δ
Profit (loss) for the year	(5,284)	(993)	(4,291)

Net profit for the year was a loss of DKK -5.3 billion, down DKK 4.3 billion relative to 2013 despite the fact that EBITDA was higher than in 2013. The decrease was attributable to higher depreciation and impairment losses, a lower gain from the divestment of enterprises and higher earnings in Norway, resulting in higher tax, partly offset by lower net financial income and expenses.

### TOTAL DIRECT AND INDIRECT TAXES, 2014 (TTC-model)



### INTEREST-BEARING NET DEBT

DKK million	2014	2013	Δ
Net debt at 1 January	25,803	31,968	(6,165)
Cash flows from operating activities	(14,958)	(9,729)	(5,229)
Gross investments	15,359	21,234	(5,875)
Divestments	(10,653)	(15,332)	4,679
Capital injection, net	(13,007)	0	(13,007)
Additions, hybrid capital, net	0	(3,399)	3,399
Dividends and hybrid coupon paid	1,267	955	312
Exchange rate adjustments, etc.	167	106	61
<b>Net debt at 31 December</b>	<b>3,978</b>	<b>25,803</b>	<b>(21,825)</b>

Interest-bearing net debt totalled DKK 4.0 billion at the end of 2014 against DKK 25.8 billion at the end of 2013. The decrease of DKK 21.8 billion was primarily attributable to the net equity increase of DKK 13.0 billion, and to cash flows from operating activities significantly exceeding net investments.

### Cash flows from operating activities

DKK million	2014	2013	Δ
EBITDA	16,389	15,004	1,385
Financial instruments and loans	682	1,324	(642)
Other adjustments	(236)	1,183	(1,419)
Interest expense, net	(1,065)	(2,872)	1,807
Income tax paid	(3,835)	(2,856)	(979)
Change in working capital	3,023	(2,054)	5,077
<b>Cash flows from operating activities</b>	<b>14,958</b>	<b>9,729</b>	<b>5,229</b>

Cash flows from operating activities totalled DKK 15.0 billion in 2014 compared with DKK 9.7 billion in 2013. The positive development was primarily due to a release of funds tied up in working capital, lower interest paid and a higher EBITDA. This was partly offset by a portion of the higher EBITDA being attributable to gains on divestments, where the cash flow effect is included as part of net investments and thus reversed through cash flows from operating activities under Other adjustments.

The change in working capital was due to lower receivables from contracts for the construction of offshore wind farms for

## FINANCIAL PERFORMANCE AND OUTLOOK

co-investors and offshore transmission assets in connection with wind farms in the UK, as well as lower trade receivables due to lower electricity and heat generation and lower gas sales.

### Investments

DKK million	2014	2013	Δ
Gross investments	(15,359)	(21,234)	5,875
Divestments	10,653	15,332	(4,679)
<b>Net investments</b>	<b>(4,706)</b>	<b>(5,902)</b>	<b>1,196</b>

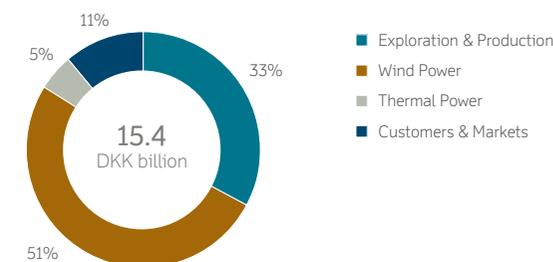
Net investments totalled DKK 4.7 billion in 2014 compared with DKK 5.9 billion in 2013.

The main gross investments in 2014 were as follows:

- Development of wind activities (DKK 7.8 billion), including the UK offshore wind farms West of Duddon Sands and Westermost Rough and the German offshore wind farms Borkum Riffgrund 1 and Gode Wind
- Development of oil and gas fields (DKK 5.0 billion), including the Danish Hejre and Syd Arne fields as well as the UK Laggan-Tormore field.

In 2014, divestments totalled DKK 10.7 billion and related mainly to the offshore wind farm London Array, where DONG Energy sold 50% of its 50% ownership interest to Canadian La Caisse de Dépôt Placement du Québec, the offshore wind farm project Westermost Rough, where DONG Energy sold 50% to Marubeni

### GROSS INVESTMENT, 2014



# FINANCIAL PERFORMANCE

CONTINUED

Corporation and UK Green Investment Bank, and the Stenlille Gas Storage Facility which was sold to Energinet.dk. In addition, minor proceeds were generated by a number of other divestments.

The most significant divestments the year before were Swedish hydropower, a UK and a Norwegian gas-fired power station, the transmission assets relating to London Array, the Polish and Danish onshore wind businesses and the office building in Gentofte.

## Dividends

In 2014, total dividend paid to minority shareholders amounted to DKK 0.5 billion against DKK 0.3 billion in 2013.

## Equity

DKK million	2014	2013	Δ
Equity at 1 January	51,543	50,016	1,527
Profit (loss) for the year	(5,284)	(993)	(4,291)
Other comprehensive income and business performance adjustments	3,288	(232)	3,520
Capital injection, net	13,007	0	13,007
Additions, hybrid capital	0	3,698	(3,698)
Hybrid coupon paid	(754)	(675)	(79)
Dividends paid	(528)	(319)	(209)
Transactions with non-controlling interests	38	128	(90)
Other adjustments	223	(80)	303
<b>Equity at 31 December</b>	<b>61,533</b>	<b>51,543</b>	<b>9,990</b>

Equity totalled DKK 61.5 billion at the end of 2014 against DKK 51.5 billion the year before. This represented an increase of DKK 10.0 billion, primarily as a result of the capital injection of DKK 13.0 billion (net) in February 2014.

## KEY RATIOS

### Credit metric

DKK million	2014	2013	Δ
EBITDA	16,389	15,004	1,385
Adjusted interest expense, net	(2,494)	(2,796)	302
Reversal of recognised lease payment	545	354	191
Current tax	(5,835)	(2,536)	(3,299)
<b>Funds from operation (FFO)</b>	<b>8,605</b>	<b>10,026</b>	<b>(1,421)</b>
Adjusted net debt	23,813	43,382	(19,569)
<b>FFO/adjusted net debt</b>	<b>36.1%</b>	<b>23.1%</b>	<b>13.0%-p</b>

Funds from operation (FFO) to adjusted net debt totalled 36% in 2014 against 23% in 2013. The improvement was due to significantly lower net debt, partly offset by a lower FFO.

### Return on capital employed (ROCE)

DKK million	2014	2013	Δ
EBITDA	16,389	15,004	1,385
Depreciation, amortisation and impairment losses	(17,566)	(12,963)	(4,603)
<b>Operating profit (loss) (EBIT)</b>	<b>(1,177)</b>	<b>2,041</b>	<b>(3,218)</b>
Share of profit (loss) of associates and joint ventures	(484)	(57)	(427)
Hydrocarbon tax	(3,526)	(1,105)	(2,421)
Interest element of provisions	(534)	(501)	(33)
<b>Adjusted operating profit (loss)</b>	<b>(5,721)</b>	<b>378</b>	<b>(6,099)</b>
Capital employed	65,511	77,345	(11,834)
<b>Return on capital employed (ROCE)</b>	<b>(8.0%)</b>	<b>0.5%</b>	<b>(8.5%-p)</b>
<b>Adjusted ROCE</b>	<b>4.1%</b>	<b>6.8%</b>	<b>(2.7%-p)</b>

The return on capital employed amounted to -8.0% in 2014 against 0.5% in 2013. The return in 2014 was negatively impacted by impairment losses of DKK 8.8 billion (including impairment losses in associates). Adjusted for impairment losses, ROCE amounted to 4.1% in 2014 against 6.8% in 2013. In 2013, ROCE was positively affected by extraordinary hydrocarbon tax deductions and

## FINANCIAL PERFORMANCE AND OUTLOOK

thus lower hydrocarbon tax, as a result of the increased ownership interest in the Ormen Lange gas field. This was due to the fact that DONG Energy had to pay the difference between the new and previous ownership interest of the total investments in the field to achieve a higher share of production. This payment was deductible in 2013.

### FOLLOW-UP ON ANNOUNCED OUTLOOK

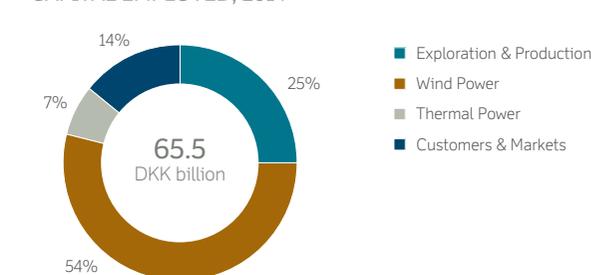
In connection with the annual report for 2013, the outlook announced was of an EBITDA for 2014 of DKK 15-17 billion, net investments in 2014-2015 of about DKK 30 billion and an FFO/adjusted net debt ratio of around 25%.

In connection with the presentation of the interim report for 9M 2014, the outlook was adjusted to an EBITDA in excess of DKK 16 billion due to better results than originally expected for 9M 2014. EBITDA for 2014 totalled DKK 16.4 billion and thus fulfilled both the most recent and the original expectations.

In the same interim report, the outlook for FFO/adjusted net debt was adjusted to exceed 28%. The ratio for 2014 amounted to 36% and thus fulfilled expectations.

The outlook for the net investments was unchanged through 2014. Net investments totalled DKK 4.7 billion in 2014.

### CAPITAL EMPLOYED, 2014



# EXPLORATION & PRODUCTION

Exploration & Production explores for and produces oil and gas and contributes to society by delivering stable and independent energy. At the end of 2014, DONG Energy had 66 licences; 12 in Denmark, 22 in the UK, 28 in Norway, 1 in Greenland and 3 on the Faroe Islands.

Revenue:  
DKK 14.0 billion

**18%**

Employees (FTE):  
749

**12%**

EBITDA:  
DKK 8.6 billion

**52%**

Capital employed:  
DKK 17.5 billion

**25%**

The percentages for the financial figures indicate the share of reportable segments that the business unit accounted for in 2014 (read more on page 61). The percentage for employees indicate the business unit's share of the Group.

Performance highlights		2014	2013
<b>Volumes</b>			
Oil and gas production	million boe	41.8	31.7
- oil (incl. condensate)	million boe	10.6	8.2
- gas	million boe	31.2	23.5
<b>Financial performance</b>			
Revenue	DKK million	14,011	12,344
EBITDA	DKK million	8,591	7,324
EBITDA adjusted for current hydrocarbon tax	DKK million	5,065	6,219
EBIT	DKK million	(3,439)	736
Adjusted operating profit (loss)	DKK million	(7,238)	(598)
Gross investments	DKK million	(5,032)	(9,610)
Capital employed	DKK million	17,538	20,663
ROCE	%	(37.9)	(3.1)
Adjusted ROCE	%	3.9	15.5
<b>Working conditions</b>			
Employees (FTE)	number	749	689
Lost time injury frequency (LTIF)	per 1 million hours worked	1.2	0.5
<b>Environment</b>			
EU ETS	million		
CO <sub>2</sub> emissions	tonnes	0.1	0.1
Gas flaring	million Nm <sup>3</sup>	7.6	6.1
Oil discharged to sea	tonnes	37	19
Reinjection of produced water on production platforms	%	65	79

Read more on page 119 for more information about our environmental results.

## Volumes

Oil and gas production totalled 41.8 million boe, up 32% relative to 2013. The Norwegian fields accounted for 90% of production, while 10% came from Danish fields.

Gas production, which came primarily from the Ormen Lange field in Norway, increased by 33% to 31.2 million boe in 2014 as a result of the increase in the ownership interest in the Ormen Lange field from 10.3% to 14.0% as of 1 July 2013. In addition, production from the Norwegian fields Alve, Marulk and Trym was also up. Production from Alve and Marulk was limited in 2013 due to problems on the associated production vessel Norne.

Oil production amounted to 10.6 million boe, up 29% relative to 2013. The increase can be ascribed to the upped extraction of condensate from the Ormen Lange field as well as higher production from Syd Arne as a result of new production wells from the expansion of phase 3.

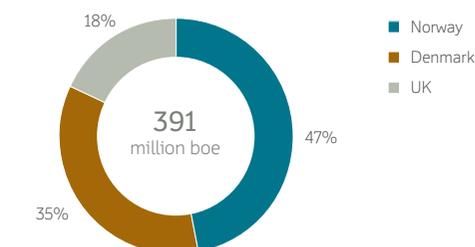
The higher production from Ormen Lange was partly due to the higher ownership interest and partly due to the fact that DONG Energy over a period of approximately 2½ years from 1 July 2013 will receive the historical volumes that the company is entitled to given the higher ownership interest from the start-up of production to 30 June 2013.

## Financial performance

Revenue totalled DKK 14.0 billion, up DKK 1.7 billion relative to 2013 due to higher oil and gas production, partly offset by lower oil and gas prices.

EBITDA increased by DKK 1.3 billion to DKK 8.6 billion in 2014. The increase was mainly due to an increase in production, partly offset by lower oil and gas prices and higher costs related to the repair work of the Siri platform. In spite of the hedging of the oil and gas production at the end of 2013, EBITDA was impacted by the lower oil and gas prices,

## 2P RESERVES BY COUNTRY, 31 December 2014



2P reserves: The sum of proved and probable reserves

especially from the Norwegian activities, as the expected gas and oil production is hedged on a reduced exposure volume to take hydrocarbon taxation into account to achieve the desired cash flow effect after tax.

EBIT was heavily impacted by impairment losses primarily due to lower oil and gas prices and decreased by DKK 4.2 billion to DKK -3.4 billion in 2014. In addition, depreciation increased due to higher production and lower reserve estimates for the Oselvar field.

Impairment losses amounted to DKK 8.1 billion in 2014. Assets in the West of Shetland area were impaired by DKK 3.8 billion, the Danish field Hejre by DKK 2.5 billion, the Norwegian Ula, Tambar and Oselvar fields by DKK 1.3 billion and the fields in the Siri area by DKK 0.5 billion. Impairment losses totalled DKK 3.7 billion in 2013, including the Ula, Tambar and Oselvar fields (DKK 1.8 billion), the Siri fields (DKK 0.9 billion), the Gyda field (DKK 0.5 billion) and the Gassled ownership interest (DKK 0.4 billion).

# WIND POWER

Wind Power develops, constructs and operates offshore wind farms in Northern Europe. The focus is on the UK, Germany and Denmark as the largest growth markets. DONG Energy strives to develop a robust and balanced project pipeline across countries and markets and to be self-sufficient in all parts of the project value chain. At the same time, the business unit focuses on reducing the cost of electricity by streamlining and standardising wind farms and processes.

Revenue:  
DKK 9.7 billion

**12%**

EBITDA:  
DKK 6.1 billion

**37%**

Employees (FTE):  
2,080

**32%**

Capital employed:  
DKK 38.7 billion

**54%**

The percentages for the financial figures indicate the share of reportable segments that the business unit accounted for in 2014 (read more on page 61). The percentage for employees indicate the business unit's share of the Group.

Performance highlights		2014	2013
<b>Volumes</b>			
Electricity generation, wind and hydropower	TWh	5.0	5.3
Owned offshore wind capacity	GW	1.4	1.3
<b>Financial performance</b>			
Revenue	DKK million	9,728	11,960
EBITDA	DKK million	6,057	4,253
EBIT	DKK million	3,483	1,894
Adjusted operating profit	DKK million	3,395	1,779
Gross investments	DKK million	(7,827)	(9,485)
Capital employed	DKK million	38,701	39,935
ROCE	%	8.6	4.6
Adjusted ROCE	%	8.6	5.4
<b>Working conditions</b>			
Employees (FTE)	number	2,080	1,909
Lost time injury frequency (LTIF)	per 1 million hours worked	2.1	3.9

## Volumes

Electricity generation from wind and hydropower decreased by 6% to 5.0 TWh in 2014. This was due to the divestment of hydropower and onshore wind activities in 2013, while offshore wind generation increased, particularly from the British offshore wind farm West of Duddon Sands, which was officially inaugurated in October, and the Anholt wind farm in Denmark, which has been in commercial operation since July 2013.

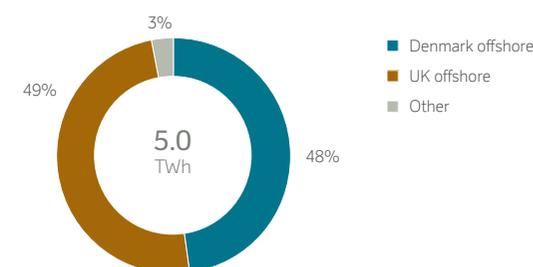
Electricity generation from wind and hydropower accounted for 36% of the Group's total electricity generation in 2014 compared with 28% in 2013.

## Financial performance

Revenue decreased by DKK 2.2 billion to DKK 9.7 billion in 2014, primarily as a result of lower income from contracts for the construction of offshore wind farms for co-investors and offshore transmission assets in connection with offshore wind farms in the UK.

EBITDA was up DKK 1.8 billion at DKK 6.1 billion in 2014, primarily due to the gain on the divestment of 50% of DONG Energy's ownership interests in London Array and Westermost Rough, a full year of electricity generation from Anholt and a lower amount of expensed project development costs. This was partly offset by lower earnings from construction contracts due to lower activity than in 2013, where the Anholt project was completed, as well as a lower share of earnings from London Array as a result of the partial divestment.

## ELECTRICITY GENERATION FROM WIND\*, 2014



\* One-line consolidated companies not included

EBIT increased by DKK 1.6 billion to DKK 3.5 billion in 2014. The lower increase in EBIT than in EBITDA was due to depreciation of new offshore wind farms, partly offset by the impairment of capitalised development costs of DKK 0.3 billion in 2013.

# THERMAL POWER

Thermal Power generates electricity and heat at thermal power stations. Most of the thermal generation output comes from central coal, gas and biomass-fired CHP plants in Denmark. Biomass is an important resource in the energy system of the future, and DONG Energy continues to convert electricity and heat generation from coal to sustainable biomass. The business unit also develops innovative solutions for utilising waste and biomass for both energy and other resources.

Revenue:  
DKK 6.3 billion

8%

EBITDA:  
DKK 0.4 billion

3%

Employees (FTE):  
856

13%

Capital employed:  
DKK 4.8 billion

7%

The percentages for the financial figures indicate the share of reportable segments that the business unit accounted for in 2014 (read more on page 61). The percentage for employees indicate the business unit's share of the Group.

Performance highlights		2014	2013
<b>Volumes</b>			
Electricity generation, thermal	TWh	8.7	13.8
- Denmark	TWh	7.8	10.8
- abroad	TWh	0.9	3.0
Heat generation	PJ	31.4	40.2
<b>Financial performance</b>			
Revenue	DKK million	6,338	9,658
EBITDA	DKK million	422	744
EBIT	DKK million	(983)	(1,802)
Adjusted operating profit (loss)	DKK million	(1,020)	(1,861)
Gross investments	DKK million	(725)	(680)
Capital employed	DKK million	4,837	6,412
ROCE	%	(18.1)	(18.2)
Adjusted ROCE	%	(18.1)	(8.1)
<b>Working conditions</b>			
Employees (FTE)	number	856	967
Lost time injury frequency (LTIF)	per 1 million hours worked	3.8	4.1
<b>Environment</b>			
Biomass share of Danish CHP production	%	28	18
EU ETS	million		
CO <sub>2</sub> emissions	tonnes	6.1	9.2
Nitrogen oxides (NO <sub>x</sub> )	g/kWh	0.27	0.33
Sulphur oxides (SO <sub>2</sub> )	g/kWh	0.05	0.07

Read more on page 119 for more information about our environmental results.

## Volumes

Electricity generation totalled 8.7 TWh and heat generation totalled 31.4 PJ. The decreases by 37% and 22% compared to 2013 were primarily due to the warm weather throughout the year which reduced demand. In 2014, temperatures were in fact the highest ever measured in Denmark. Electricity generation was also adversely affected by the divestment of the Severn power station in 2013.

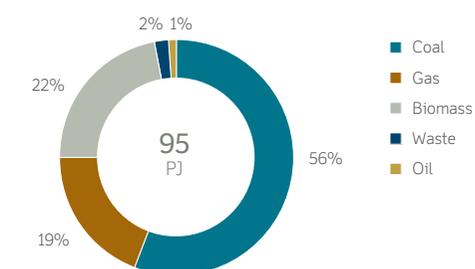
## Financial performance

Revenue decreased by DKK 3.3 billion to DKK 6.3 billion in 2013 as a result of lower electricity and heat generation and lower electricity prices.

EBITDA was DKK 0.4 billion in 2014, down DKK 0.3 billion relative to 2013. The decrease was due to the lower revenue and lower green dark spread.

EBIT improved by DKK 0.8 billion and totalled DKK -1.0 billion for 2014. The increase on last year was primarily due to the DKK 1.0 billion impairment loss recognised on the Enecogen power station in 2013.

## FIRED FUELS AT POWER STATIONS, PJ



As foreign power stations are included, the proportion of biomass is less than stated in connection with the strategic target for biomass at Danish power stations.

# CUSTOMERS & MARKETS

Customers & Markets is responsible for the direct customer liaison, serving customers in Denmark, Sweden, Germany and the UK with electricity, gas and climate partnerships as well as related energy products. Customers & Markets also operates and maintains the Group's electricity, gas and oil infrastructure. The business unit is responsible for optimising the value of DONG Energy's overall energy portfolio and hedging the Group's market risks associated with the production, purchase and sale of energy.

Revenue:  
DKK 48.1 billion

**62%**

EBITDA:  
DKK 1.4 billion

**8%**

Employees (FTE):  
1.543

**24%**

Capital employed:  
DKK 9.9 billion

**14%**

The percentages for the financial figures indicate the share of reportable segments that the business unit accounted for in 2014 (read more on page 61). The percentage for employees indicate the business unit's share of the Group.

Performance highlights		2014	2013
<b>Volumes</b>			
Gas sales	TWh	124.9	139.3
- wholesale and gas hubs	TWh	92.1	95.4
- retail	TWh	32.7	43.9
Electricity sales	TWh	30.9	16.8
Gas distribution	TWh	8.2	8.8
Electricity distribution	TWh	8.4	8.6
Oil transport	million bbl	54	58
<b>Financial performance</b>			
Revenue	DKK million	48,055	49,663
EBITDA	DKK million	1,404	2,348
EBIT	DKK million	(133)	913
Adjusted operating profit (loss)	DKK million	(756)	758
Gross investments	DKK million	(1,739)	(1,447)
Capital employed	DKK million	9,902	14,551
ROCE	%	(6.2)	4.8
Adjusted ROCE	%	(0.8)	4.9
<b>Working conditions</b>			
Employees (FTE)	number	1,543	1,639
Lost time injury frequency (LTIF)	per 1 million hours worked	2.3	3.7
<b>Environment</b>			
Gas flaring	million Nm <sup>3</sup>	1.0	1.0

Read more on page 119 for more information about our environmental results.

## Volumes

Gas sales (including sales to own power stations) decreased by 10% to 124.9 TWh as a result of the warm weather.

Electricity sales (including sales to own power stations) totalled 30.9 TWh, up 84% on 2013. The increase was due to higher sales of green certificates and higher electricity sales in the UK.

The distribution of gas decreased by 7% and totalled 8.2 TWh in 2014 as a result of the warm weather, while the distribution of electricity was only marginally lower.

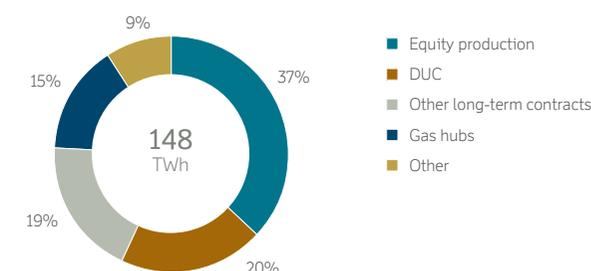
## Financial performance

Revenue decreased by 3% to DKK 48.1 billion. Revenue was negatively affected by lower gas sales and an average fall by more than 20% in the gas and electricity prices, partly offset by a positive effect from hedging and by higher sales of green certificates.

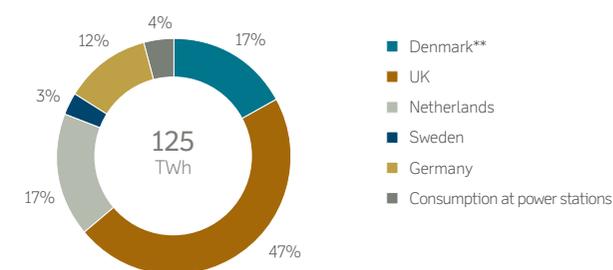
EBITDA decreased by DKK 0.9 billion to DKK 1.4 billion in 2014 as a result of lower gas sales and lower margins, partly offset by lower fixed costs. The combination of 23% lower gas prices and only 9% lower oil prices on average for the year led to a higher loss on the long-term oil-indexed gas sourcing contracts which have not yet been renegotiated. As these renegotiations are completed, DONG Energy receives a lump-sum payment as compensation for historical losses and the future sourcing price is adjusted.

EBIT decreased by DKK 1.0 billion to DKK -0.1 billion due to the lower EBITDA and impairment of goodwill in respect of sales activities in the UK and Germany due to the prospect of consistently difficult market conditions.

## GAS SOURCING, 2014



## GAS SALES\*, 2014



\* Total gas sales (gas hubs, wholesale customers, retail customers)

\*\* Total gas sales in Denmark (public obligation and market terms)

# MARKET PRICES

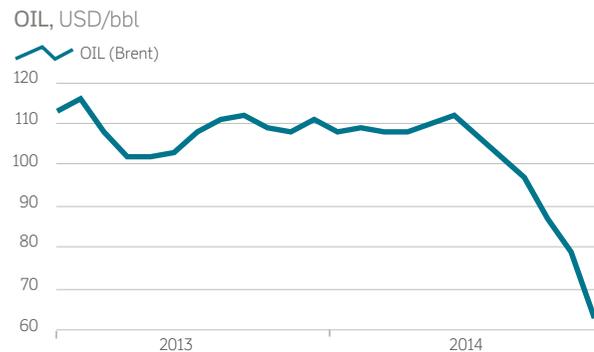
(average)		Forwards 30 Jan 15 (rest of year)	Actual 2014	Actual 2013
Oil, Brent	USD/bbl	53	99	109
Oil, Brent	DKK/bbl	349	553	610
Gas, TTF	EUR/MWh	20	21	27
Gas, NBP	EUR/MWh	20	21	27
Electricity, Nord Pool System	EUR/MWh	28	30	38
Electricity, Nord Pool DK <sup>1</sup>	EUR/MWh	31	31	39
Electricity, EEX	EUR/MWh	32	33	38
Electricity UK	EUR/MWh	56	50	59
Coal, API 2	USD/tonne	58	75	82
CO <sub>2</sub> , EUA	EUR/tonne	7.1	6.0	4.5
Green dark spread, DK <sup>1</sup>	EUR/MWh	6.4	5.3	12.8
Green spark spread, NL	EUR/MWh	(4.1)	(2.6)	(3.8)
USD exchange rate	DKK/USD	6.6	5.6	5.6
GBP exchange rate	DKK/GBP	9.9	9.2	8.8

Sources: Platts, Argus, Nord Pool, LEBA, APX & ECX.

<sup>1</sup> Based on average prices in DK1 and DK2.

## Oil prices

The oil price in 2014 was USD 99 per barrel (average), 9% lower than in 2013. The price was relatively stable in the first half of the



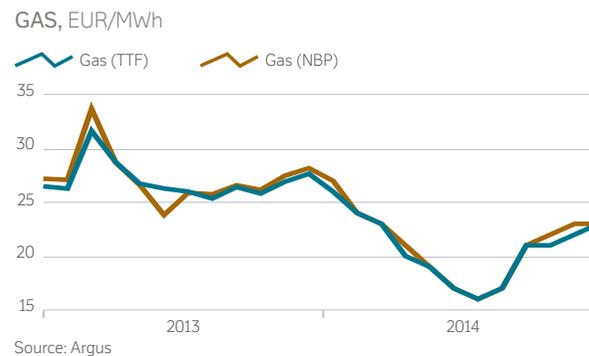
year, supported by restricted production in a number of OPEC countries and the unrest in Syria. The price fell significantly in the course of the second half of the year, driven primarily by a continued rapid increase in US oil production and increased production from Libya, while OPEC production was unchanged. Weaker economic growth in a number of major economies such as China and a strengthening of the US dollar, particularly in second half of the year, also contributed to the oil price decline.

## Gas prices

The continental European gas hub price (TTF) was EUR 21/MWh in 2014 (average), 22% lower than in 2013; the lowest level of around EUR 16/MWh was seen in June. The lower level in 2014 was due, in particular, to the fact that the weather was significantly warmer than normal throughout the year, which reduced demand and resulted in larger gas inventories than normal. In contrast, 2013 was characterised by a long, cold winter, where low gas storage levels contributed to keeping prices up. The political situation in Ukraine had no direct impact on gas supplies through Ukraine to the rest of Europe, but contributed to the general uncertainty about supplies to Europe.

## Electricity prices

In 2014, the electricity price in the two Danish price areas averaged EUR 31/MWh, which was 21% lower than in 2013. The fall was primarily attributable to the fact that the weather was significantly warmer than normal, which reduced the demand, and the availability



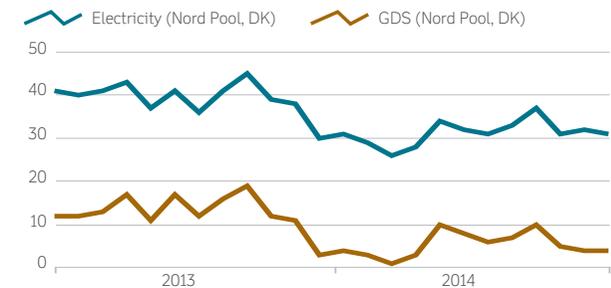
# FINANCIAL PERFORMANCE AND OUTLOOK

of significantly more hydropower in the Nordic region than in 2013. Moreover, lower coal prices and increased electricity generation from renewable energy sources also contributed to lower electricity prices in all of Western Europe. In 2014, the price in Germany was EUR 33/MWh, representing a fall of 13% compared to 2013.

## Spreads

In the Danish price areas, the green dark spread fell to EUR 5.3/MWh from EUR 12.8/MWh in 2013 as a result of the lower electricity prices and higher CO<sub>2</sub> prices, which, however, were partially offset by lower coal prices. The Dutch green spark spread was negative at EUR -2.6/MWh, marginally better than in 2013.

## ELECTRICITY AND GREEN DARK SPREAD (GDS), EUR/MWh



Source: Nord Pool, Argus and ECX

## HYDROLOGICAL BALANCE, Twh



Source: SKM Market Predictor

# OUTLOOK

## EBITDA for 2015

Business performance EBITDA is expected to total DKK 15.5-17.5 billion in 2015. The outlook is based on financial forecasts for the various business units and thus reflects expectations concerning production from existing and new assets, profits from construction contracts, the renegotiation of gas contracts, gains and lost EBITDA in connection with divestments, and the market price outlook.

A large portion of the price exposure for 2015 has been hedged using financial contracts to limit the impact of price fluctuations. As the impact of the price fluctuations on cash flows and profit after tax is reduced by the tax in the respective countries, the hedging of production volumes is after tax. The result is stable cash flows after tax. Hedging after tax means, however, that EBITDA is affected by price changes, even though most of the production has been hedged. The difference between the impact on cash flows after tax and EBITDA is particularly pronounced for the gas and oil activities in Norway, where the total tax rate is 78%.

The expectation reflects that EBITDA in 2015 will be negatively affected by the significant decline in oil and gas prices.

In Q1 and Q2 2015, EBITDA is expected to be lower than in the same quarters in 2014, as these were positively affected by gains on divestments in Wind Power.

## Investments

Net investments for the 2015-2016 period are expected to total DKK 35-40 billion.

## Capital structure

In 2015, funds from operations (FFO) to adjusted net debt is expected to be around 30% which is in line with the long-term target.

Outlook (5 February)	Guidance for 2015
EBITDA	DKK 15.5-17.5 billion
Net investments	DKK 35-40 billion (2015-2016)
FFO/adjusted net debt	~30%

## Forward-looking statements

The annual report contains forward-looking statements, which include projections of short and long-term financial performance and targets. 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 variety of factors, including, but not limited to, changes in temperature, wind, and precipitation levels; the development in oil, gas, electricity, coal, CO<sub>2</sub>, currency and interest rate markets; changes in legislation, regulation or standards; renegotiation of contracts; changes in the competitive environment in DONG Energy's markets; and security of supply. Reference is made to the Risk and risk management chapter and to note 6.



# FINANCING AND LIQUIDITY

## Capital base

At the end of 2014, DONG Energy's capital base totalled DKK 100 billion; it consists of equity, non-controlling interests, hybrid capital, bonds and bank loans. The overall objectives for the capital structure are a rating of Baa1/BBB+ and an FFO/adjusted net debt ratio of around 30%.

In 2014, the capital structure was strengthened through the injection of equity capital of DKK 13 billion from new investors, existing minority shareholders and employees. As a result of the capital increase and the divestment of assets, DONG Energy was able to prepay bank loans in the amount of DKK 6 billion.

The credit spread of DONG Energy's bonds was narrowed in 2014 – both in absolute terms and relative to similar bonds of other major European energy companies. At the end of 2014, the credit spread was among the lowest in the benchmark group.

## Financing strategy

DONG Energy diversifies the raising of capital across several financing markets, lenders and maturities. To ensure flexible and efficient access to financing in the bond market, the Group has an EUR 7 billion bond programme (Euro Medium Term Note).

The Group's business units arrange financing on arm's length terms through an internal bank function in the parent company. The purpose is to ensure optimal terms and to maintain a simple and transparent capital structure. At the same time, uniform loan terms are made in relation to various financing institutions, and uniform loan documentation is ensured.

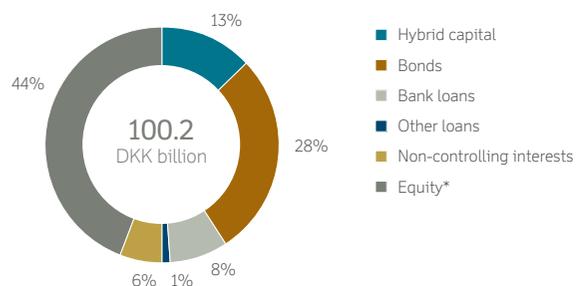
## Cash management

DONG Energy has decided to maintain a solid liquidity reserve to ensure the robustness of its capital resources at all times and to limit the company's sensitivity to unrest in financial markets. The liquidity reserve consists of liquid assets, in the form of bank deposits and securities, as well as committed credit facilities from a group of strong Nordic and international banks. The cash resources are made available to the Group via the internal bank.

At the end of 2014, the freely available cash and cash equivalents and securities were at a relatively high level, DKK 28 billion, as a result of the above-mentioned injection of equity and the divestment of assets. Unutilised credit facilities amounted to DKK 17 billion.



CAPITAL BASE, at 31 December 2014



\* Equity excluding hybrid capital and non-controlling interests

## RATING

	Moody's	Standard & Poor's	Fitch
Rating	Baa1	BBB+	BBB+
Senior bonds	Baa1	BBB+	BBB+
Hybrid bonds	Baa3	BBB- / BB+	BBB-
Outlook	Stable	Stable	Stable
Latest update	May 2014	Jun 2014	Dec 2014

## FINANCIAL CALENDAR 2015

Date	Activity
5 February	Annual report 2014
4 March	Annual General Meeting
28 April	Interim financial report Q1 2015
19 August	Interim financial report H1 2015
29 October	Interim financial report 9M 2015

SPREAD TO THE SWAP RATE (CREDIT MARGIN) MEASURED IN BASIS POINTS, 2014



\* Composite index consisting of bonds in the same currency and with largely the identical maturity in large European energy companies.

# RISK AND RISK MANAGEMENT

Risks are a natural part of DONG Energy's business activities and a precondition for being able to generate income and create value. Through risk management, risks are reduced to an acceptable level.

## Risk management

DONG Energy develops, constructs and operates facilities for the production and sale of oil, gas, electricity and heat. Certain risks are inherent to this type of business, and a precondition for income generation. The purpose of the Group's risk management is to continuously identify, assess and manage financial and non-financial risks and reducing them to an acceptable level.

DONG Energy's income is to a large extent generated by single major assets, including not least the Ormen Lange gas field. However, the composition of the Group's energy portfolio contributes to robustness and to evening out the risks due to the different business drivers in the four business units. The energy portfolio risk is changed by investments in new assets as well as divestments. The impact of a given decision on the portfolio is therefore assessed in advance.

The Group works systematically with risks and follows a yearly plan according to which each business units and selected Group

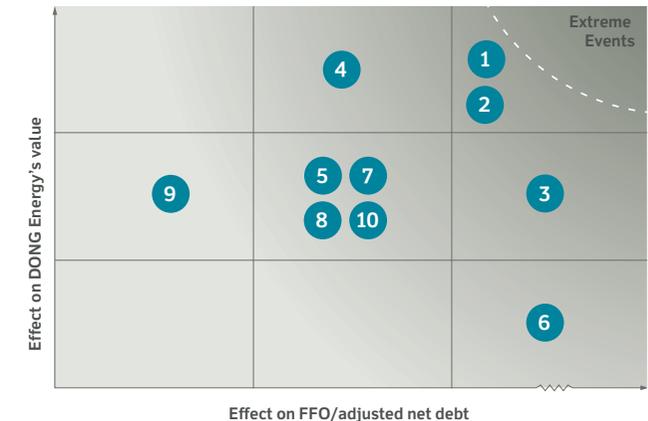
function identify and prioritise their business risks. An assessment is made of the potential financial impact of individual risks and of whether they are of a short-term, long-term or recurring nature. The risks are consolidated and then prioritised at Group level. The ultimate responsibility for the individual risks rests with a member of the Group Executive Management.

The ten most significant risks identified in connection with the autumn 2014 process are listed in the table below and are illustrated in the figure on the right based on their potential impact on DONG Energy's value and capital structure ratio in the next few years. The five most important risks are described on the following pages.

In addition, DONG Energy is exposed to risks entailing a very small probability of having a considerable impact on the Group's finances and/or reputation. These include, among other things, a 1,000-year storm, explosion or fire at or collision with offshore oil and gas installations, damage to pipes at the Nybro gas treatment plant, power station breakdowns and collapse of financial markets.

## FINANCIAL PERFORMANCE AND OUTLOOK

TOP 10 RISKS - EFFECT ON DONG ENERGY'S VALUE AND CREDIT METRIC



## DONG ENERGY'S 10 PRINCIPAL RISKS

2014 Rank	2013 Rank					
#1	(#1)	MARKET RISKS				
#2	(#2)	DEVELOPMENT AND CONSTRUCTION OF PRODUCTION ASSETS				
#3	(#5)	RENEGOTIATION OF OIL-INDEXED GAS CONTRACTS				
#4	(#2)	CONSUTRUCTION OF THE HEJRE PLATFORM				
#5	(#4)	RESERVES AND OPERATION OF GAS AND OIL FIELDS				
#6	(#9)	PARTNERSHIPS IN WIND POWER				
#7	(#10)	OFFSHORE WIND COST OF ELECTRICITY				
#8	(#4)	OPERATION OF WIND FARMS				
#9	(new)	OIL AND GAS RESERVES REPLACEMENT				
#10	(#6)	ECONOMIC SCHEMES IN WIND POWER				

- Short term risk
  - Long term risk
  - Recurring risk
  - Market risk
  - Operational risk
  - Regulatory risk
  - Risk affecting entire business
  - Level of possible management influence
- Low High

Read more about interest rate risk and liquidity risk in note 4, market risk and credit risk in note 6 and about personal safety on page 21.

# RISK AND RISK MANAGEMENT

## CONTINUED

### Development in risks in 2014

In 2014, some risks were reduced while the potential financial impact of other risks developed unfavourably.

The events which entailed a risk reduction included the completion of the long-running repair of the Siri platform, the decision to reduce the scope of the exploration activities of the oil and gas business, an agreement on fixed tariffs (CfD) for the three UK offshore projects Burbo Bank Extension, Walney Extension and Hornsea and the passing of legislation which allows an hourly-based calculation of fuels and thus duties in connection with heat generation. Finally, the Group's financial foundations were strengthened by an injection of capital and significant divestments.

An unfavourable development was seen in the potential financial impact of risks no. 1, 2 and 5 from the list of the top-10 risks in the 2013 annual report. These are briefly described below.

Market risks (#1 in 2013 annual report): The development in energy prices in 2014 was unfavourable for DONG Energy. If remaining low, the declining gas and oil prices can have a particularly negative impact on long-term earnings. Measured in terms of profit after tax, the declining prices were of limited importance in 2014, when disregarding the derived impairment losses, but in terms of EBITDA they had a significant negative impact. This is due to the fact that the hedging of the oil and gas exposures is based on a tax-adjusted exposure to achieve the desired cash flow effect after tax. In addition, a negative impact was seen from the combination of gas prices falling more strongly than oil prices until September and not yet renegotiated oil-indexed gas contracts in 2014. This is due to the fact that the hedging is based on the expected price exposures at the time of completion of the renegotiations.

Development and construction of production assets (#2 in 2013): The Hejre and Laggan-Tormore developments were delayed due to challenges with the upper part of the platform and delays in the construction of the gas treatment plant in the Shetland Islands respectively. The construction of the foundations and the laying of cables to the offshore wind farms Borkum Riffgrund 1 and Westermost Rough progressed well, although the projects were challenged by delayed wind turbine deliveries in the second half of 2014.

Renegotiation of oil-indexed gas contracts (#5 in 2013): The renegotiation of one contract was finalised in 2014, which was less

than expected. The renegotiations have involved a lot of activity, but it has not been possible to agree on the historical and future purchase price. Some of the renegotiations have therefore ended in arbitration, which are not expected to be concluded until 2015 and 2016.

### Top-5 risks for 2015

As was the case in 2013, two of the most important risks identified in connection with the risk process in autumn 2014 were market risks and development and construction of production assets.

The Hejre project has been singled out as a separate risk (#4 2014) due to the size of the project, problems in 2014 and the impact on earnings in the E&P business once production starts.

The renegotiation of oil-indexed gas contracts is considered the third-largest risk in 2015 due to the number of simultaneous renegotiations, and as the size of the expected lump-sum payments is increasing in step with the prolonged negotiations.

The last of the five risks described in more detail on the following pages is the uncertainty surrounding the oil and gas reserves and the gas and oil field operations.



# RISK AND RISK MANAGEMENT

## CONTINUED

### 1 MARKET RISKS

The management of DONG Energy's market risks is based on the Group's desire for stable and robust financial key ratios to ensure a solid foundation for the Group's growth strategy.

DONG Energy's most important market risks relate primarily to the volatile prices of oil, gas and electricity. In addition, uncertainty attaches to the size of the Group's energy exposure as a result of fluctuations in production volumes, uncertainty about future sales volumes and changes in the exposures in connection with the renegotiation of gas purchase contracts.

Energy price risks can be divided into direct price risks, where the exposure depends on a specific price, and spread risks, where the exposure depends on the difference between two or more prices. An example of direct price risks is the uncertainty about the price of the oil and gas produced by the Group's North Sea platforms, while spread risks relate, for example, to the production of electricity at a coal-fired power station, where earnings depend on the spread between the sales price of electricity and the purchase price of coal and carbon emission allowances (green dark spread). The direct price risks are normally considered to be greater than the spread risks, as the price of a particular commodity is typically more volatile than the difference between fully or partly co-variant energy prices.

### Risk mitigation

To reduce the fluctuations in the Group's cash flows in the short and medium terms, hedging agreements are concluded within a risk management horizon of up to five years (currencies up to ten years). The energy price risks are hedged in accordance with the minimum hedging levels decided for each of the four business units. In the near future (the next two years), a high degree of hedging is wanted to secure results and cash flows, while the degree of hedging is lower in subsequent years. The approach is chosen partly because there is less certainty about long-term production volumes, and partly because the financial and physical markets for price hedging instruments are less liquid in the long term.

The hedging strategy thus ensures that energy price changes in the near future have only a limited impact on the Group's cash flows and financial results (after tax).

The Group's market risks in the long term (beyond the five-year horizon) are determined by the strategic choices made in respect of the composition of the Group's production assets and long-term physical contracts, and they cannot be controlled actively by the financial markets.

Energy and currency exposures are transferred from the individual business units to Customers & Markets and the Group's central finance department, where they are consolidated prior to hedging in the market, thus using the Group's natural internal hedges. For

## FINANCIAL PERFORMANCE AND OUTLOOK

example, oil-indexed gas purchase contracts can contribute to reducing the long-term oil price exposure from the equity production of oil.

DONG Energy's consolidated exposures relative to oil-, gas- and electricity prices are shown in the figures below. For 2015-2019, oil, gas and electricity exposures after hedges total DKK 7.5 billion, DKK 11.3 billion and DKK 4.0 billion, respectively. The exposures of the individual business units are described in the following sections.

Exposure is calculated as the expected production (or net purchase/sale) times the forward price for the respective years. The oil and gas exposure is calculated on the basis of a reduced exposure volume to take into account the difference between the taxation of hydrocarbon income and hedging instruments. In addition, the exposure is determined on the basis of the expected exposure after renegotiation.

PRICE EXPOSURE, OIL, DKK billion



PRICE EXPOSURE, GAS, DKK billion



PRICE EXPOSURE, ELECTRICITY, DKK billion



# RISK AND RISK MANAGEMENT

## CONTINUED

### Customers & Markets – Purchase and sale of energy

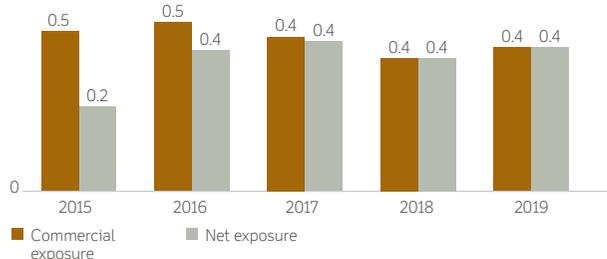
Customers & Markets' price exposure primarily originates from the purchase and sale of gas and electricity.

The price risk associated with the purchase and sale of gas results from differences in the indexing of sales and purchase prices. Both gas purchases and sales are expected to be increasingly indexed to pure gas prices, while the conventional indexing relative to oil is expected to fall. In 2014, oil-indexed gas sourcing accounted for 22% of total Customers & Markets gas sourcing. Risk management is based on the indexing which is expected to apply after completion of the current renegotiations of the oil-indexed gas purchase contracts. If the results of the renegotiations deviate from expectations, hedging transactions which have already been entered into may need adjusting.

The price risk associated with Customers & Markets' electricity purchases and sales is more easily calculated as it is constituted by the difference between the purchase and sale of fixed and variable power prices. The price risk relates primarily to timing differences between purchases and sales and is therefore considered to be limited.

For 2015-2019, the business unit's gas, oil and electricity exposures after hedges constitute DKK 2.1 billion, DKK 3.2 billion (short position) and DKK 0.2 billion (short position), respectively, DKK 5.5 billion in total.

PRICE EXPOSURE, THERMAL ELECTRICITY GENERATION, DKK billion



### Exploration & Production – Equity production of gas and oil

Exploration & Production's price exposure originates from production of gas and oil.

The hedging of the gas and oil exposures is carried out after tax, including the special hydrocarbon tax, to achieve the desired stabilisation of cash flows after tax.

For 2015-2019, the gas and oil exposures amount to DKK 9.2 billion and DKK 10.7 billion, respectively, DKK 19.9 billion in total.

### Thermal Power – Sale of thermal electricity generation

DONG Energy's power station portfolio consists of gas, coal and biomass-fired power stations in Denmark and a gas-fired power station in the Netherlands. The profitability of the individual power stations depends on the general supply and demand situation, the relative prices of the individual fuels, the price of carbon emissions as well as the varying production from renewable energy sources such as hydro, wind and solar power.

Risk management for the power stations is based on locking-in the contribution margin for future electricity generation by selling electricity while at the same time buying fuel and carbon emission allowances. Heat generation does not give rise to direct exposures as the associated costs are borne by the heating customers, but to indirect exposures as a large number of the Group's power stations generate both electricity and heating. The risk management horizon is three years

BREAKDOWN OF INCOME FROM OFFSHORE WIND ELECTRICITY GENERATION, %



## FINANCIAL PERFORMANCE AND OUTLOOK

and thus shorter than for oil and gas due to lower liquidity in the market for electricity, coal and carbon price hedging instruments.

At the end of 2014, 47% of the expected thermal electricity generation in 2015 had been hedged. The total exposure after hedges associated with thermal electricity generation for the period 2015-2019 is DKK 1.9 billion.

### Wind Power – Sale of electricity generation from wind turbines

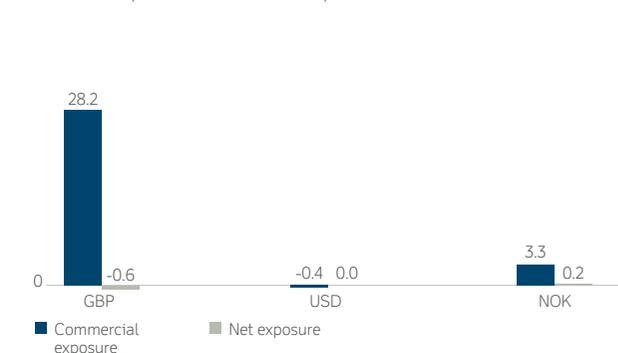
Earnings from the generation of electricity from offshore wind farms depends, in particular, on publicly regulated prices. The most important elements are fixed tariffs (Denmark, Germany and the UK) and guaranteed minimum prices for green certificates (the UK).

At the end of 2014, such fixed tariffs and guaranteed minimum prices accounted for 79% of the expected revenue from the wind power portfolio over the next five years.

The market price risk primarily concerns sales of electricity in the UK. It is regarded as a direct price risk and is managed with a time horizon of up to five years.

The exposure after hedges associated with electricity generation from renewable energy sources amounts to DKK 4.2 billion for the 2015-2019 period.

EXPOSURE, EXCHANGE RATES, DKK billion



# RISK AND RISK MANAGEMENT

## CONTINUED

### Exchange rates

DONG Energy's international activities entail a financial risk in relation to exchange rate fluctuations. The most important currency risks relate to GBP, USD and NOK.

Currency exposures are calculated on the basis of relatively reliable expected cash flows, primarily derived from:

- Hedged energy exposures
- Green certificates and fixed tariff elements
- Investments and operating expenses paid in foreign currencies
- Loans raised in foreign currencies
- Unutilised tax deductions in foreign companies.

Currency exposures are calculated on an ongoing basis for the Group as a whole. The Group endeavours to minimise its exposures as much as possible.

The risk management horizon is up to ten years, and is based on maximum net exposure limits for each currency (except EUR), both aggregated and on an annual basis over the coming three years.

At the end of 2014, most of the total currency exposure for the next ten years had been hedged.

### Market Trading

When the Group's desired hedging level has been determined, the Market Trading function in Customers & Markets is responsible for executing the necessary physical and financial energy transactions in the market. It is not always possible to hedge the transferred price risks in full. DONG Energy therefore has some remaining exposure resulting from these activities in the trading portfolio. The Market Trading function can also take positions in the market in order to make a profit on short-term fluctuations in energy prices. The trading activities takes place within mandates approved by the Board. Read more in note 2.5.

## 2 DEVELOPMENT AND CONSTRUCTION OF PRODUCTION ASSETS

DONG Energy's strategy covers the construction of large investment projects, especially in Wind Power and Exploration & Production. Value creation from new projects depends to a large extent on choosing the right technical and commercial solutions, on the design and construction phase progressing as planned, on avoiding investment budget overruns and on the timely start-up of production. In the

design and construction phases, the dependence on external suppliers is considerable.

Most of the new investments are made in offshore assets, which naturally increases risks in the construction phase. The nature of the seabed, weather conditions and dependence on installation vessels are some of the risks associated with the construction of offshore assets.

### Risk mitigation

DONG Energy seeks to mitigate the risks by drawing on past experience, by entering into fixed contracts for a large proportion of its investment budgets before start-up and by including an appropriate contingency reserve.

## 3 RENEGOTIATION OF OIL-INDEXED GAS CONTRACTS

DONG Energy is party to a number of long-term gas purchase contracts. The contract price for most of these have historically been indexed to the oil price, which at the time of conclusion also reflected the selling price in relation to end-customers. However, the gas market has evolved in a way so that the oil price and the gas price no longer change in unison, and demand by end-customers is now primarily priced in relation to the market price on the liquid gas hubs. In recent years, the difference between the prices of purchase and sales contracts has led to losses.

### Risk mitigation

DONG Energy is continuously renegotiating contracts to change the indexation to gas and reduce purchase prices. The outcome of the negotiations depends on the specific wording of the contracts. As the financial consequences of the outcome of the renegotiations are substantial, some of them have to be settled through arbitration. One contract was renegotiated in 2014.

## 4 CONSTRUCTION OF THE HEJRE PLATFORM.

Hejre is the first Exploration & Production development project involving a manned platform. It is also the Group's first high-pressure, high-temperature (HPHT) field.

## FINANCIAL PERFORMANCE AND OUTLOOK

The field will have a significant impact on DONG Energy's EBITDA when production starts up, which is expected to be in 2017. In addition to the risks associated with the construction of the field, the reserve estimate can affect the value of the project considerably, as it is subject to some uncertainty.

### Risk mitigation

DONG Energy has taken various steps to reduce the uncertainty pertaining to the reserve estimates, for example through the purchase of additional seismic data improving the understanding of the reservoir, thus enabling DONG Energy to optimise the location of wells and evaluate the potential of nearby areas.

To mitigate the risk, DONG Energy has also attached importance to the safety equipment on the platform having been tested before and to the developer having experience with HPHT.

## 5 RESERVES AND OPERATION OF GAS AND OIL FIELDS

The production of gas and oil is associated with a risk of production asset defects, of wells not delivering the expected volumes and of the costs associated with the operation of the field being higher than expected.

Most of DONG Energy's production of gas and oil comes from a small number of fields which deliver most of the production from a relatively limited number of wells. This entails a high degree of dependence on the individual fields and wells.

### Risk mitigation

To reduce the uncertainty associated with operations and reserves, DONG Energy has adopted a strategy for the maintenance of all fields in its portfolio. This includes, for example, risk-based supervision and regular inspections of production equipment and facilities. To minimise problems associated with individual wells, production is monitored. Furthermore, regular analyses are carried out to establish how long the individual wells are expected to remain in production, and when it would be appropriate to invest in lifetime extensions. As regards the fields in which DONG Energy is a partner, the Group is actively engaged in considerations concerning risk management and maintenance of production equipment and facilities.

DONG Energy has decided to apply the 'Recommendations on Corporate Governance' prepared by the Danish Committee on Corporate Governance. The recommendations can be found at [www.corporategovernance.dk](http://www.corporategovernance.dk).

### Shareholders and capital structure

In February 2014, DONG Energy received a capital injection of DKK 13 billion from the investment bank Goldman Sachs and the Danish pension funds Arbejdsmarkedets Tillægspension (ATP) and PFA Pension Forsikringsaktieselskab as well as a number of the existing minority shareholders. At the same time, members of management and employees were invited to subscribe for shares in the company.

### Active ownership

Developing and maintaining good relations with all stakeholders is part of DONG Energy's policies as such relations are considered essential to the company's development.

The company has adopted various policies on communications, HR, good business conduct, safety, tax and responsibility towards our customers and society in general.

As a general rule, the decision-making process at the company's

annual general meeting and on the Board of Directors follows the standard rules set out in the Danish Companies Act; however, in a number of specified areas Goldman Sachs enjoys extended minority shareholder protection.

Thus, amendments to the Articles of Association are subject to consent by Goldman Sachs as are certain decisions made by the Board of Directors. These include significant deviations from the business plan presented in connection with the new investors' investment in DONG Energy, including the start-up of activities in new business areas or in countries in which the Group is not present today. Included are also decisions concerning major acquisitions, divestments and investments that are not part of the business plan, large investments in Exploration & Production, significant issuances of new capital and hybrid capital, etc as well as changes to the registered members of the Executive Board.

### Board of Directors

DONG Energy has a two-tier management structure, consisting of a Board of Directors and an Executive Board.

At the end of 2014, the Board of Directors had 11 members. Seven members are elected by the general meeting and four by

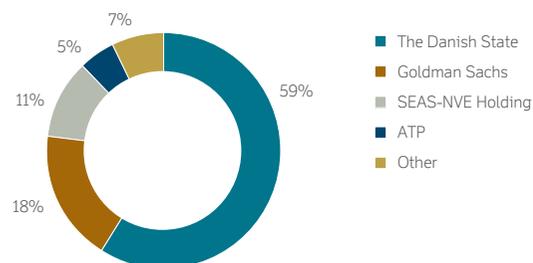
### Recommendations on corporate governance

The company complies with 43 of the 47 recommendations set out in the 'Recommendations on Corporate Governance' and explains its non-compliance with the remaining four recommendations as follows:

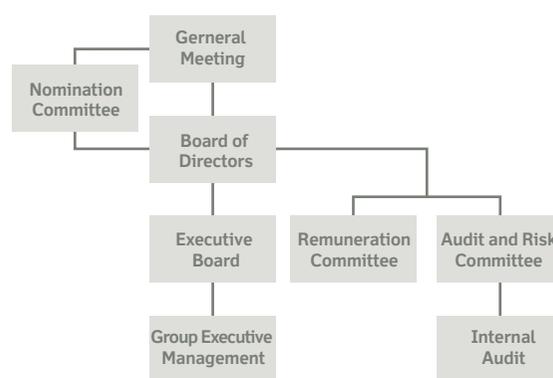
- Recommendation 1.3.1: The recommendation to set up contingency procedures in the event of takeover bids is not deemed to be relevant to DONG Energy as the company's shares are not listed on the stock exchange.
- Recommendation 3.1.4: DONG Energy does not comply with the recommendation to stipulate a retirement age for members of the Board of Directors in the articles of association. Age is one of several parameters included in the overall assessment of the members of the Board of Directors and new candidates.
- Recommendation 3.4.6: DONG Energy complies partially with the recommendation that a nomination committee be established. Most members of DONG Energy's nomination committee are appointed by the company's largest shareholders, and the committee is not involved in the appointment or assessment of the Executive Board. The committee is therefore composed differently and undertakes other tasks than the ones assumed in the recommendation.
- Recommendation 4.1.4: DONG Energy complies partially with the recommendation that any share-based incentive programmes be established as roll-over programmes and have a maturity of at least three years from the date of allocation. Based on discussions with the company's major shareholders, in 2014 DONG Energy established a share programme for the management which is based on a single subscription for shares and ongoing allocation in the period 2014-2017 of rights to free shares, which may be exercised in connection with an initial public offering or, at the latest, in 2019.

DONG Energy has decided to publish the statutory corporate governance report on the company's website ([http://www.dongenergy.com/statutory\\_report\\_on\\_corporate\\_governance](http://www.dongenergy.com/statutory_report_on_corporate_governance)), see section 107b of the Danish Financial Statements Act. The statutory report shows the extent to which the company complies with each of the 47 recommendations

OWNERS AT 31 December 2014



MANAGEMENT BODIES AND COMMITTEES IN DONG ENERGY A/S



the employees. Moreover, in accordance with the company's Articles of Association, three observers have been appointed. The observers participate in the meetings of the Board of Directors and of the Board committees, but have no voting rights. Information about the members of the Board of Directors, including their present posts, other management positions, independence and special competencies, can be found on page 46-47.

The Board of Directors is responsible for the overall management of the company and is responsible for appointing a competent Executive Board. Furthermore, the Board sets the company's strategy and makes decisions concerning major investments and divestments, the capital base, key policies, control and audit matters, risk management and significant operational issues. The remit of the Board and its Chairman is set out in the Board's rules of procedure, which are reviewed and updated annually by the Board. DONG Energy attaches importance to the members of its Board having extensive knowledge and experience from management positions in major Danish and foreign companies covering a wide range of fields of activity, including fields directly related to the company's business areas. In 2014, the Board prepared a list of the competencies that should be represented on DONG Energy's Board. The list can be found at [www.dongenergy.com/corporate\\_governance](http://www.dongenergy.com/corporate_governance).

Every year, the Board carries out a structured self-evaluation, which is organised and managed by its Chairman. The evaluation focuses, among other things, on whether all the relevant competencies are represented on the Board, and on whether these competencies are being applied and developed in the Board's tasks. In addition, focus is on the working climate and the cooperation between the members of the Board and on the planning and performance of the duties of the Board.

The Board held eight meetings and one strategy seminar in 2014.

In 2014, the Board focused especially on the capital increase, safety, the progress of the Group's current investments, including in particular the Hejre project, as well as new capital investments, including the biomass conversion of Danish power stations, the Burbo Bank Extension offshore wind farm and the development of Glenlivet/Edradour.

### Nomination Committee

A Nomination Committee is appointed after the annual general meeting each year, consisting of six members: the Chairman and Deputy Chairman of the Board of Directors and four members appointed by each of the four largest registered shareholders.

The Nomination Committee reviews the composition of the Board of Directors and recommends suitable candidates to the shareholders at the annual general meeting.

The committee held three meetings in 2014. The rules of procedure of the Nomination Committee can be found at [dongenergy.com/corporate\\_governance](http://dongenergy.com/corporate_governance).

### Executive Board and Group Executive Management

CEO Henrik Poulsen and CFO Marianne Wiinholt are the registered members of the Executive Board of DONG Energy A/S. Information about the members of the Executive Board, including their previous employment and other executive functions, can be found on page 45.

The Board of Directors lays down detailed guidelines for the Executive Board, including the segregation of duties between the Board of Directors and the Executive Board and the latter's powers to enter into agreements on behalf of the company.

The Board of Directors carries out regular evaluations of the CEO's performance in connection with the follow-up on the company's development in relation to strategy and objectives. Once a year, the Chairman of the Board of Directors and the CEO evaluate the cooperation between the Board of Directors and the Executive Board, including their reporting and communications.

The Executive Board is responsible for the day-to-day management through the Group Executive Management, which, in addition to the members of the Executive Board, consists of the Executive Vice Presidents of the company's four business units.

### Remuneration Committee

The Board of Directors has established a Remuneration Committee, consisting of its Chairman and two members of the Board of Directors. The members are elected for a term of one year at a time. The CEO and the Vice President of HR participate in the committee's meetings.

The committee assists the Board of Directors in the performance of its duties in connection with the preparation and imple-

mentation of the company's remuneration policy. The committee must among others, assess and prepare recommendations on the Group Executive Management's salary reviews, bonuses for the current and the coming year, the application of retention schemes for key personnel, the use of one-off payments and the use and introduction of new compensatory elements for members of the Group's Leadership Forum (top 350).

The committee held four meetings in 2014. The terms of reference of the Remuneration Committee can be found at [dongenergy.com/corporate\\_governance](http://dongenergy.com/corporate_governance).

### Remuneration

The members of the Board of Directors receive a fixed remuneration, while the remuneration for the Group Executive Management comprises both fixed and incentive-based elements. The incentive-based remuneration consists of an annual variable cash payment (bonus), which is linked to the financial year, and a share-based incentive programme.

#### Bonus

The annual bonus scheme cannot exceed 30% of the fixed annual salary. The bonus targets for the Group Executive Management relate to the company's financial and commercial performance as well as the company's strategic focus on safety. Bonus targets support DONG Energy's long-term strategic objectives.

Performance is measured with reference to the return on capital employed (ROCE), the results of operations (FFO) and the reduction in the lost-time injury frequency (LTIF). In addition, individual strategic performance targets are defined, such as the implementation of specific development and construction projects.

The table shows the combination of these various types of bonus targets for the CEO and the CFO

#### BONUS TARGETS FOR CEO IN 2014

	2014
Return on capital employed (ROCE)	25%
Funds from operation – FFO	25%
Investment projects – On-time / On-budget	30%
Lost time injury frequency (LTIF)	20%

**BONUS TARGETS FOR CFO IN 2014**

	2014
Return on capital employed (ROCE)	25%
Funds from operation – FFO	25%
Finance deliverables to the Board	20%
Procurement savings	15%
Rating	15%

**Share programme**

As mentioned above, the Board of Directors is not comprised by any share-based incentive programmes in DONG Energy A/S. As employees in the Group, the employee representatives on the Board of Directors are, however, comprised by the general employee share programme described below.

The Executive Board is covered by a share programme for managers in DONG Energy, which was established in 2014 (see below).

Information on the remuneration paid to members of the Board of Directors and the Group Executive Management can be found on page 68-69. Information on the shareholdings in DONG Energy A/S of the registered members of the Executive Board as at 31 December 2014 can be found on page 70.

**Share programme for management and employees**

Through the share programme established in 2014, around 250 senior executives were invited to subscribe for shares in DONG Energy A/S for an amount equivalent to 60-100% of their fixed annual salary, depending on management level. The senior executives paid the same price as the new investors mentioned earlier. Other employees were invited to subscribe for shares for an amount of up to DKK 40,000 subject to a discount of 25% relative to the price paid by the new investors and the senior executives.

Either in the event of an IPO or in 2019 at the latest, managers and employees who have subscribed for shares will be entitled to a number of free shares, depending on the individual manager's or employee's share purchase and DONG Energy's financial performance benchmarked against ten comparable European energy companies during the period from November 2013 to the end of the share programme. The number of free shares cannot exceed 125% of the number of shares subscribed for by the individual manager

or employee in 2014. This maximum will apply if DONG Energy is rated first or second among the 11 companies included in the above benchmarking. If DONG Energy is number 11 in the benchmarking, no free shares are granted.

If the IPO is not completed, managers and employees may sell their shares, including free shares, back to the company at the fair market value determined by an independent third party. The granting of free shares is subject to the employees still being employed at the time of the IPO or up until 2019. If the contract of employment is terminated by DONG Energy or due to the employee retiring or taking early retirement, the employee will, however, retain the right to free shares. Managers will earn this right gradually during the 2014-2017 period.

**Audit and Risk Committee**

The Board of Directors has appointed an Audit and Risk Committee. It consists of three members appointed by the Board of Directors for one year at a time.

In March 2014, Benny D. Loft took over as chairman of the Audit and Risk Committee from Jakob Brogaard, who stepped down from the Board of Directors. From March to August 2014, Benny D. Loft was acting Chairman of the Board of Directors. This meant that during this period DONG Energy did not comply with the recommendation that the Chairman should not at the same time perform the duties of chairman of the Audit and Risk Committee.

The members meet the requirements concerning independence, experience and expertise, also within the field of accounting, set out in the Danish recommendations on corporate governance so that the committee as a whole possesses the necessary skills.

The Audit and Risk Committee assists the Board of Directors in overseeing the financial reporting process, financial and business-related risks, internal controls and compliance with statutory and other requirements from public authorities. Moreover, the committee decides the framework for the work of the company's external and internal auditors, evaluates the external auditors' independence and qualifications as well as monitoring the company's whistleblower scheme.

In 2014, the Board of Directors decided to expand the committee's areas of responsibility to also include the integrity of the company's corporate responsibility reporting; this is reflected in the committee's terms of reference.

In 2014, the Audit and Risk Committee devoted particular attention to the identification and management of IT risks, including critical infrastructure and to transparency, openness and integrity in relation to the company's tax payments in various countries (new tax policy).

Focus was also on compliance with the Board of Directors' investment mandates, assessment and management of guarantees in Wind Power partnership contracts and the statutory tendering of external auditing services.

The Audit and Risk Committee held five meetings in 2014. The committee's terms of reference can be found at [dongenergy.com/corporate\\_governance](http://dongenergy.com/corporate_governance).

**Internal Audit**

DONG Energy has an independent internal audit function (Internal Audit), which reports to the Audit and Risk Committee.

Internal Audit provides independent and objective auditing and consulting services that are designed to improve and streamline the company's processes and control environment, including IT. The primary focus is on financial and operational auditing and compliance auditing. In addition, since January 2014 Internal Audit has been responsible for receiving and handling whistleblower cases (see below).

To ensure that Internal Audit works independently of the Executive Board, the Audit and Risk Committee approves Internal Audit's functional description, audit plan and budget. The committee also prepares recommendations to the Board of Directors on the appointment and dismissal of the Chief Audit Executive.

Based on input from the Board of Directors, the Audit and Risk Committee, the Executive Board, the Group Executive Management and relevant senior executives, an annual audit plan is prepared. The plan is reviewed and approved by the Audit and Risk Committee. Internal Audit is responsible for planning, performing and reporting on the audit performed. The report contains observations and conclusions as well as suggestions for improvements to the internal controls within each of the audited areas. Furthermore, a report is prepared for the Board of Directors.

Internal Audit was established in April 2013; in June 2014 it was validated by the Institute of Internal Auditors (IIA). The validation is based on external quality control and confirms that Internal

# CORPORATE GOVERNANCE

## CONTINUED

Audit follows IIA's international standards for internal audit departments.

The validation ensures that the quality of the work performed by Internal Audit complies with the international requirements for a value-adding internal audit function.

### Whistleblower procedure

DONG Energy has a whistleblower procedure, which provides employees and other persons associated with the company with an opportunity to report serious offences, including instances of bribery, fraud and other criminal conduct. The procedure is based on a system devised by an international company specialising in such schemes to ensure the highest levels of security and confidentiality. The system comprises a separate website, a 24-hour telephone hotline, online forms in all relevant languages as well as a case handling system.

The whistleblower procedure in its current form was established in January 2014. The changes to the existing arrangement were made with a view to strengthening the scheme and were announced in a comprehensive information campaign, which included posters, leaflets and articles on the Group's intranet.

Responsibility for the whistleblower procedure rests with the chairman of the Audit and Risk Committee, but the daily tasks are delegated to Internal Audit, where a small group of employees is responsible for receiving and handling reports. Internal Audit also receives similar reporting via the management system. An in-depth investigation is made of all relevant reports, and steps are consistently taken in response to inappropriate or illegal business conduct.

Internal Audit reports regularly and at least quarterly to the Audit and Risk Committee on the reports submitted either via the whistleblower scheme or via the management system as well as on any initiated and closed investigations resulting from this.

In 2014, six cases were reported which have been either partially or fully substantiated and which have all had consequences for the employment of the persons involved.

The cases related to credit card abuse, kick-backs from suppliers, breaches of confidentiality, conflicts of interest and questionable supplier agreements. Most of the cases concerned conduct in con-

travention of the company's policies and guidelines, whereas only a few cases concerned unlawful conduct as such.

None of the cases reported were critical to the business, and the cases have had no bearing on the Group's financial results. DONG Energy takes cases of this type very seriously and is focused on preventing similar cases from arising.

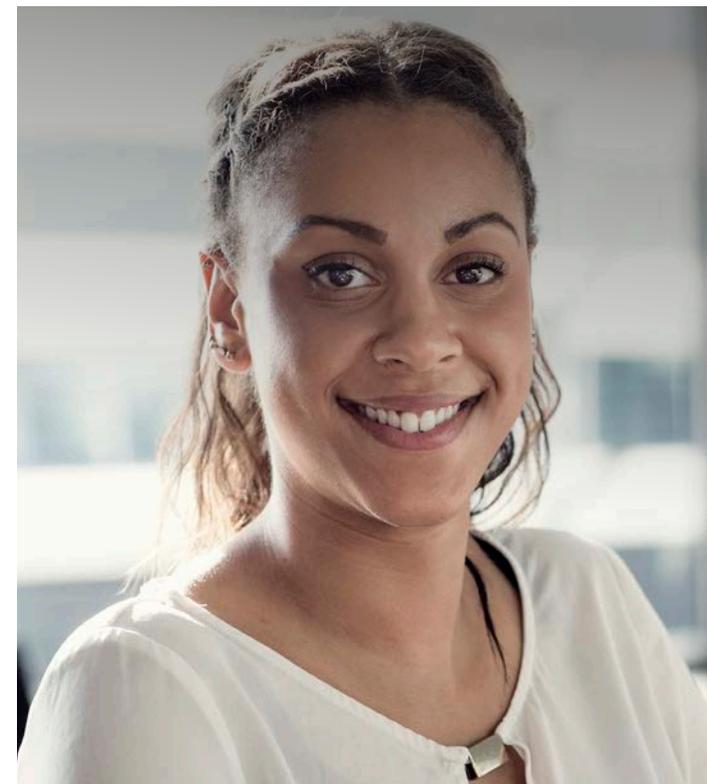
### Diversity

DONG Energy wishes to promote a working culture based on mutual trust and respect and to be a workplace which is able to attract the right skills, irrespective of gender, age, ethnic background, religion, etc. This is based on a fundamental belief that diversity enhances value creation. Diversity is therefore one of the fundamental principles for the way in which DONG Energy goes about its business.

The share of female managers in the Group has been increasing in recent years; however, it still does not reflect the proportion of women in the Group. For this reason, the company has further strengthened its focus on women in management. As the most important step taken, the policy for women in management has been updated to include several focus areas within the marketing of DONG Energy as a workplace, recruitment, talent development and reporting. Initiatives to increase the number of women in management do not change the fact that skills will always be the deciding factor when recruiting and promoting employees in DONG Energy.

As regards the Board of Directors, the target is that at least two of the members elected by the annual general meeting should be women, corresponding to 25%. At the moment, one of the members of the Board of Directors elected by the general meeting is a woman. The target is expected to be reached in 2015.

The target is for an average of at least 30% of the members of the Boards of Directors of DONG Energy's Danish subsidiaries to be women in 2014. At the end of 2014, the average representation was 31%. A new target has been set for an average of at least 33% of the members of the Boards of Directors of DONG Energy's Danish subsidiaries to be women in 2017.



### WOMEN IN MANAGEMENT

	31.12.13	31.12.14	2020 target
Managers, Top Management	14%	14%	>22%
Managers, Leadership Forum	17%	20%	>25%
Other managers	27%	24%	>32%

DONG Energy has set targets for female managers to be met in 2020 at the latest. The targets reflect a desire to be both ambitious and realistic, without forcing developments. In the course of 2014, Top Management had a 14% share of female managers, which is unchanged compared with 2013. At the same time, the share of female managers in Leadership Forum, the levels immediately below top management, increased to 20%. The share of other female leaders fell to 24%.

# INTERNAL CONTROLS AND RISK MANAGEMENT IN RELATION TO FINANCIAL REPORTING

## **DONG Energy's internal controls are designed to ensure that material errors or irregularities in relation to the financial reporting are prevented or detected and corrected to ensure that the internal and external financial reporting gives a true and fair view**

In 2014, the company worked to improve the process for identifying and assessing the risks associated with the financial reporting as well as the documentation of the relationship between the identified risks and the Group's key controls. In addition, the company has been involved in documenting DONG Energy's use of the COSO framework, including the identification of the most important key controls in accordance with the COSO principles.

In 2015, work on updating the company's policies and guidelines for internal controls will be performed, concurrently with the determination of responsibilities for key controls in cross-organisational processes.

### **Control environment**

The Board of Directors and the Executive Board are ultimately responsible for the Group's risk management and internal controls in relation to its financial reporting, and approve DONG Energy's general policies. In this respect, important elements are ethics and integrity, as evidenced, among other things, in a policy on good business conduct.

The Audit and Risk Committee assists the Board of Directors in overseeing the financial reporting process and the most important risks involved in this. Furthermore, the Audit and Risk Committee oversees developments in the internal control and risk management systems as well as the business units' ongoing reporting on assessed risks and internal controls.

The Executive Board and the individual business units are responsible for the effectiveness of the internal control and risk management systems and for implementing controls aimed at mitigating the risks associated with the financial reporting.

This division of responsibilities results in an effective control environment in the Group.

### **Risk assessment**

Once a year, a risk assessment is carried out focusing on the accounting items and areas which are associated with a special risk of material errors in the financial reporting. As risks vary between

the different business units, an assessment is performed for each of these, and an assessment is then carried out to establish which risks are material to the Group's internal and external financial reporting.

Accounting items based on estimates or complex processes are deemed to entail a greater risk of error.

The items and areas which are believed to be associated with the greatest risk of material errors having an impact on the financial statements are included in the internal control reporting to the management. The most high-risk accounting items and areas are listed below:

#### **HIGH-RISK ACCOUNTING ITEMS AND AREAS**

1. Construction contracts
2. Impairment of assets
3. Deferred tax
4. Useful lives of production assets
5. Financial instruments
6. Administrative IT-systems
7. Decommissioning obligations
8. Provisions and contingent liabilities
9. Fraud
10. Revenue

The high-risk accounting items which are based on the most critical accounting estimates and assessments are described in the notes to the financial statements for the Group.

As part of the risk assessment, the risk of fraud and the steps taken to mitigate this risk are considered. In this context, any possibilities for the day-to-day management to override the controls and manipulate the financial statements are also assessed. The risk assessment is reviewed by the Audit and Risk Committee.

### **Control activities**

The controls in place are designed to prevent or detect and correct material errors in the financial statements, thereby reducing the risk

to an acceptable level. The controls are based on the risk assessment and include approvals, the segregation of functions, analyses, reconciliation, assessment and follow-up on targets and controls concerning IT applications and general IT controls. The controls are integrated into the Group's monthly financial reporting process.

The work to improve the documentation of the relationship between the identified risks associated with the financial reporting and the Group's key controls is supported by a new reporting tool.

### **Information and communications**

DONG Energy's information and communications systems are designed to meet the reporting requirements applying to listed companies. An accounting manual, reporting instructions and guidelines on internal controls have been prepared in order to ensure that the financial reporting is carried out on a uniform basis and is of a high quality. These documents are available on the Group's intranet.

### **Monitoring**

The business units' monthly financial reporting is analysed and monitored by their controllers and management. The business units' reporting and the overall consolidated financial statements are controlled at corporate level.

The business units report regularly on the performance and maturity of the Group's key controls. The persons responsible in the business units monitor the performance of the internal controls and each quarter submit a summary report on the internal controls to the Group. The reporting is supplemented by action plans for any identified weaknesses. Major initiatives, weaknesses and action plans are reported to the Audit and Risk Committee.

#### **Documentation and structure**

DONG Energy uses a common reporting tool to document and report on financial risks and the performance of key controls. The reporting from the business units forms the basis for the management's monitoring of the Group's internal controls and risk management.



The Group Executive Management included six members at the end of 2014. From the left: Thomas Dalsgaard (Thermal Power), Morten Hultberg Buchgreitz (Customers & Markets), Henrik Poulsen (Chief Executive Officer and President), Marianne Wiinholt (CFO), David Cook (Exploration & Production) and Samuel Leupold (Wind Power).

### Henrik Poulsen

Registered with the Danish Business Authority as CEO  
Chief Executive Officer (CEO) and President since August 2012  
Education: MSc (Finance and Accounting), Aarhus School of Business 1994  
Born 1967  
Remuneration: DKK 10,950 thousand  
Read more in note 2.6

#### Career and posts

1994-1995 Novo Nordisk A/S, Controller  
1995-1996 Aarsø Nielsen & Partners, Senior Consultant  
1996-1999 McKinsey & Co., Senior Engagement Manager  
1999-2006 LEGO, VP, Business Development 1999-2000, SVP, Global Segment 8+ 2000-2002, SVP, Global Innovation and Marketing 2002-2003, Regional Managing Director, Europe and Asia 2004-2005, EVP, Markets and Products 2005-2006  
2006-2008 Capstone/KKR, Operating Executive  
2008-2012 TDC A/S, CEO and President  
2012- DONG Energy A/S, CEO and President

#### Other management positions

**Deputy Chairman:**  
Danfoss A/S

**Member:**  
ISS A/S and one wholly-owned subsidiary, Chairman of the Audit Committee Danmark-Amerika Fondet

**Member of the shareholders' Committee:**  
Danske Bank A/S

**Adviser:**  
EQT Partners

### Marianne Wiinholt

Registered with the Danish Business Authority as CFO  
Chief Financial Officer (CFO) since October 2013  
Education: MSc in Business Administration and Auditing, Copenhagen Business School 1990, State Authorised Public Accountant 1992  
Born 1965  
Remuneration: DKK 6,182 thousand  
Read more in note 2.6

#### Career and posts

1987-1997 Arthur Andersen, Accountant  
1997-2003 Borealis A/S, Head of Group Accounting, Controlling & Tax  
2004-2006 DONG A/S, VP, Group Finance  
2006- DONG Energy A/S, SVP, Group Finance 2006-2008, SVP, Group Finance and Head of Finance, Energy Markets 2008-2010, SVP, Head of Finance, Energy Markets 2010-2011, SVP, Head of Corporate Finance 2011-2013, SVP, CFO, Customers & Markets 2013, CFO 2013-

#### Other management positions

**Member:**  
J. Lauritzen A/S, member of the Audit Committee

# BOARD OF DIRECTORS

Name	Joined / Re-elected	Term of office expires	Present posts	Special competencies	Other management positions
 <p>Thomas Thune Andersen (Chairman since 2014) Born 1955 Not independent<sup>1</sup></p>	2014	2015		<ul style="list-style-type: none"> <li>• Knowledge and experience within all DONG Energy's principal business areas</li> <li>• General management, safety management, risk management and stakeholder management</li> </ul>	<p>Chairman: Lloyds Register, DeepOcean Group. Deputy Chairman: VKR Holding A/S. Senior Independent Director: Petrofac Ltd.</p>
 <p>Jørn Peter Jensen (Deputy Chairman since 2014) Born 1964 Independent</p>	2010 / 2014	2015	<p>Carlsberg A/S and Carlsberg Breweries A/S, Deputy CEO and CFO</p>	<ul style="list-style-type: none"> <li>• General management, financial management, risk management, stakeholder management, human resources management and capital markets</li> </ul>	<p>Chairman, Deputy Chairman or Member: 16 wholly-owned subsidiaries of the Carlsberg Group in Denmark and abroad. Deputy Chairman or Member: Carlsberg Byen P/S and 6 wholly-owned subsidiaries. Chairman: Boliginteressentskabet Tuborg. Member: Danske Bank A/S. Member of the Committee on Corporate Governance.</p>
 <p>Hanne Sten Andersen (Employee representative) Born 1960 Not independent</p>	2007 / 2014	2018	<p>DONG Energy A/S, Lead HR Business Partner, Customers &amp; Markets</p>	<ul style="list-style-type: none"> <li>• General management and human resources management</li> </ul>	
 <p>Poul Dreyer (Employee representative) Born 1964 Not independent</p>	2014	2018	<p>DONG Energy A/S, Technician, Customers &amp; Markets</p>	<ul style="list-style-type: none"> <li>• Knowledge and experience within DONG Energy Customers &amp; Markets</li> </ul>	
 <p>Pia Gjellerup Born 1959 Independent</p>	2012 / 2014	2015	<p>Center for Public Innovation, Center Director</p>	<ul style="list-style-type: none"> <li>• General management, financial management, stakeholder management and human resources management</li> </ul>	<p>Chairman: Vanførefonden. Member: Gefion Gymnasium, Fondet Dansk-Norsk Samarbejde, Fonden Rådmandsgade 34.</p>

<sup>1</sup> Thomas Thune Andersen is considered independent of shareholder interests. Due to his directorship in Petrofac Limited, and the fact that Petrofac in the past year has had significant business relations with DONG Energy, he is not considered independent pursuant to the Recommendations on Corporate Governance prepared by the Danish Committee on Corporate Governance.

# BOARD OF DIRECTORS

## CONTINUED

Name	Joined / Re-elected	Term of office expires	Present posts	Special competencies	Other management positions
 <p>Benny Gøbel (Employee representative) Born 1967 Not independent</p>	2011 / 2014	2018	DONG Energy A/S, Engineer, Thermal Power	<ul style="list-style-type: none"> <li>▪ Knowledge and experience within DONG Energy Thermal Power</li> </ul>	
 <p>Martin Hintze Born 1970 Independent</p>	2014	2015	Goldman Sachs International, Managing Director	<ul style="list-style-type: none"> <li>▪ General management, financial management, risk management, stakeholder management and capital markets</li> </ul>	<p>Member of Board of Directors and Advisory Committee: CEONA Holding Ltd.</p> <p>Member of Board of Management: Xella International Holding S.à r.l.</p> <p>Member of Advisory Board: Flint HoldCo S.à r.l.</p>
 <p>Benny D. Loft Born 1965 Independent</p>	2012 / 2014	2015	Novozymes A/S, Executive Vice President and CFO	<ul style="list-style-type: none"> <li>▪ General management, financial management, risk management, stakeholder management, human resources management and capital markets</li> </ul>	<p>Member: 6 wholly-owned companies in the Novozymes Group.</p> <p>Member and Chairman of the Finance and Audit Committee: New Xellia Group A/S.</p> <p>Member: Den Blå Planet.</p>
 <p>Poul Arne Nielsen Born 1944 Independent</p>	2006 / 2014	2015		<ul style="list-style-type: none"> <li>▪ Knowledge and experience within DONG Energy Customers &amp; Markets</li> <li>▪ General management, financial management, risk management and human resources management</li> </ul>	<p>Chairman: SEAS-NVE Holding A/S, SEAS-NVE A.m.b.a., Sjællandske Medier A/S, Dansk Energi.</p>
 <p>Jens Nybo Stilling Sørensen (Employee representative) Born 1968 Not independent</p>	2007 / 2014	2018	DONG Energy A/S, Port Specialist, Thermal Power	<ul style="list-style-type: none"> <li>▪ Knowledge and experience within DONG Energy Thermal Power</li> <li>▪ General management, safety management and human resources management</li> </ul>	
 <p>Claus Wiinblad Born 1959 Independent</p>	2014	2015	ATP, Head of Danish Equities	<ul style="list-style-type: none"> <li>▪ Financial management and capital markets</li> </ul>	