



**DONG A/S**

**1 March 2005**

## **Group financial statements Q4 2004**

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### **Highlights**

- Fourth-quarter 2004 net profit was DKK 627 million compared with DKK 257 million in the fourth quarter 2003.
- Full-year net profit was DKK 1,881 million compared with DKK 1,941 million in 2003.
- At the beginning of February 2005 DONG entered into agreements with a number of Elsam shareholders with a view to securing the continued basis for the combination of DONG and Elsam.
- In mid-February 2005 DONG entered into an agreement with the City of Copenhagen concerning acquisition of the City of Copenhagen's electricity activities and Copenhagen Energy's 34 per cent shareholding in Energi E2.
- In mid-February 2005 DONG entered into an agreement with SEAS-NVE concerning acquisition of SEAS-NVE's 24 per cent stake in Energi E2.
- In mid-February DONG entered into an agreement with Frederiksberg Municipality concerning acquisition of Frederiksberg Forsyning's electricity activities and the municipality's approx. 2 per cent stake in Energi E2. DONG also acquired about 4 per cent of the shares in Energi E2 from four other municipalities.
- The acquisition of the share in Ormen Lange was finally approved on 28 February 2005.

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<b>Financial highlights</b>				
<b>DONG Group</b>				
(DKKm)	Q4 2004	Q4 2003	2004	2003
<b>Revenue by business area:</b>	<b>4,323</b>	<b>4,053</b>	<b>14,292</b>	<b>14,266</b>
Exploration & production	706	770	3,192	3,187
Natural gas, trade & supply	3,276	2,727	10,022	9,988
Natural gas, distribution & storage	239	258	861	884
Natural gas, transmission (Gastra A/S) <sup>1</sup>	-	246	-	922
Oil pipeline	75	96	373	445
Electricity & renewable energy	195	360	533	627
Other (including elimination)	(168)	(404)	(689)	(1,787)
<b>EBITDA<sup>2</sup> by business area:</b>	<b>1,090</b>	<b>1,334</b>	<b>4,687</b>	<b>5,547</b>
Exploration & production	317	479	1,900	1,995
Natural gas, trade & supply	602	503	1,907	2,147
Natural gas, distribution & storage	167	120	596	614
Natural gas, transmission (Gastra A/S) <sup>1</sup>	-	131	-	525
Oil pipeline	19	13	95	84
Electricity & renewable energy	36	71	141	123
Other (including elimination)	(51)	17	48	59
Operating profit (EBIT)	275	481	2,421	3,168
Financial items	53	(108)	171	56
Net profit	627	257	1,881	1,941
EBITDA margin	25%	33%	33%	39%
EBIT margin	6%	12%	17%	22%
Cash flow from operating activities	1,044	1,340	3,539	4,442
Cash flow from investing activities	(2,597)	(1,107)	(4,600)	(2,925)
- hereof investments in property, plant and equipment	(604)	(1,448)	(1,857)	(2,698)
Free cash flow to equity (with acquisitions) <sup>3</sup>	(1,553)	233	(1,061)	1,517
Free cash flow to equity (without acquisitions) <sup>3</sup>	691	255	1,653	1,592
Total assets	31,380	33,230	31,380	33,230
Net interest-bearing debt	3,186	2,442	3,186	2,442
Equity	15,649	16,794	15,649	16,794
Invested capital <sup>4</sup>	19,774	19,519	19,774	19,519
Financial gearing <sup>5</sup>	0.19	0.14	0.19	0.14

Note 1: The transmission network was spun off from the DONG Group on 1 January 2004. Transmission (now Gastra A/S) is thus not included in 2004

Note 2: Earnings before interest, tax, depreciation and amortisation

Note 3: Cash flow from operating activities +/- cash flow from investing activities

Note 4: Equity incl. minority interests less losses/gains in respect of hedging instruments on equity + net interest-bearing debt

Note 5: Net interest-bearing debt divided by equity incl. minority interests

The financial ratios have been calculated in accordance with the Danish Society of Financial Analysts' "Recommendations & Financial Ratios 2005". Some changes in the classification of accounting items were made in 2003. These changes do not affect profit or equity.

## Group results

Fourth-quarter 2004 net profit was DKK 627 million versus DKK 257 million for the fourth quarter 2003. The quarter benefited from non-recurring income of DKK 553 million relating to gain on disposal of activities and revaluation of Elsam shareholding to fair value of DKK 441 in total, and reversal of previous DKK 112 million write-down. The fourth-quarter profit was depressed by lower production and higher depreciation and impairment losses in Exploration & Production.

Full-year consolidated net profit was DKK 1,881 million, compared with DKK 1,941 million in 2003. The net profit of DKK 1,881 million included non-recurring income of DKK 674 million, realised mainly in the fourth quarter. Non-recurring income contributed DKK 215 million to the 2003 result. The transmission activities (now Gastra A/S) were spun off on 1 January 2004 and is thus not included in the 2004 result. In 2003 the transmission activities generated net profit of DKK 61 million. Corrected for non-recurring income and the profit from the gas transmission activities, profit for 2004 was approx. DKK 450 million lower than 2003. The decline in profit coincided with the oil price expressed in Danish kroner being approx. 21 per cent higher, on average, than in 2003. This reflected four factors, in particular:

- The oil price and the USD exchange rate are incorporated in DONG's natural gas purchase and sales contracts with different time lags. Oil price changes consequently impact selling prices relatively quickly, whereas purchase prices are adjusted with a time lag effect of up to 15 months. In 2003 rising oil prices generated a gain exceeding the corresponding gain for 2004. The time lag effect will be negative in the event of a falling oil price.
- A substantial part of DONG's oil and USD exchange rate exposure is hedged, as DONG's risk policy is based on active hedging of the market prices that impact DONG's earnings. As part of its risk policy DONG actively manages market risks for a period of up to five years ahead. The adverse effect of these hedging activities impacted more on profit in 2004 than in 2003.
- The depreciation charge in Exploration & Production was significantly higher than in 2003 due to a larger proportion of production coming from depreciation-intensive fields. EBITDA thus fell only marginally compared with 2003.
- Competition for the customers in the energy market has sharpened considerably in wake of the market opening. DONG has lost and expects to continue losing market share in the Danish market. The loss of market share in Denmark was more than offset by growing exports, but at lower prices and involving higher transportation costs. Moreover, entry into new markets involves expenditure.

Full-year profit exceeded the DKK 1.7 billion profit forecast in connection with the consolidated financial statements for the third quarter, mainly because oil prices in the fourth quarter were higher than expected.

The Group delivered revenue of DKK 4,323 million in the fourth quarter 2004, up from DKK 4,053 million for the corresponding period in 2003, reflecting increased natural gas sales and rising oil prices.

At DKK 14,292 million, full-year revenue for 2004 was marginally ahead of 2003. This was due to lower sales as a consequence of the spin-off of the gas transmission activities, offset by the effects of higher oil prices and higher gas sales.

Cash flow from operations fell to DKK 3,539 million, from DKK 4,442 million in 2003, due to a lower EBITDA and an increase in net working capital as a result of the higher oil prices (more funds tied up in receivables). The decline was only partially offset by lower income taxes and lower financial items.

Cash flow from investing activities amounted to DKK 4,600 million versus DKK 2,925 million in 2003. The acquisition of Elsam shares accounts for a substantial part of investing activities in 2004, whereas the spin-off of Gastra contributed DKK 1,433 million to the cash flow. In return, extraordinary dividend of DKK 1,131 million was paid to the State in connection with the spin-off.

Equity fell from DKK 16,794 million at the end of 2003 to DKK 15,649 million at the end of 2004 due to the extraordinary dividend in connection with the DONG Transmission transaction and the adverse impact of value adjustments after tax of DKK 515 million in respect of hedging transactions. Value adjustments totalled minus DKK 233 million at the end of 2004 compared with DKK 282 million at the end of 2003.

### **Expectations for 2005**

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

The financial results depend, to a great extent, on the development in the oil price and the USD exchange rate. DONG has hedged a substantial part of its oil price and USD exchange rate exposure in 2005 via financial instruments, in accordance with its risk policy. That means that DONG will only benefit from the present high oil prices to a limited extent. On the other hand, the falling USD exchange rate will not impact in full on profit.

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

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

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

## Special factors

### ➤ **DONG visited by the Danish Competition Authority**

The Danish Competition Authority carried out an unannounced inspection at DONG on 5 October. The inspection was carried out at the request of the Swedish competition authorities.

After having reviewed the case, the Swedish authorities have dropped their accusation of anti-competitive practices, and the matter has now been closed.

## Subsequent events

### ➤ **Agreements with Elsam shareholders**

At the beginning of February 2005 DONG entered into agreements with a number of Elsam shareholders concerning the future options attaching to their shareholdings in Elsam at a market value of approx. DKK 10 billion. The agreements were made with a view to securing the continued basis for the combination of DONG and Elsam. Discussions concerning various aspects of the combination are still pending. For example, a combination is subject to approval by the competition authorities.

### ➤ **Acquisition of the City of Copenhagen's and Frederiksberg Municipality's electricity activities and Energi E2 shares**

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

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

Lastly, SEAS-NVE has sold its 24 per cent stake in Energi E2 to DONG. DONG has the option to pay the purchase price in the form of shares in DONG or in cash. The value of the shares is DKK 4.1 billion. The agreements mean that the shares in Energi E2 will be 100 per cent owned by DONG and Elsam.

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

## Exploration & Production

<b>Financial Highlights</b>				
Exploration & production				
	<b>Q4</b>	<b>Q4</b>		
(DKKm)	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Oil & gas production (million boe)	4.0	4.9	17.6	18.8
Revenue	706	770	3,192	3,187
EBITDA	317	479	1,900	1,995
EBIT	(378)	99	416	917
Investments	229	326	936	1,246

### Production

Fourth-quarter production was 4.0 million boe (barrels of oil equivalents) versus 4.9 million boe in the fourth quarter 2003. Full-year production was 17.6 million boe, down 1.2 million boe on 2003, reflecting the fact that the production from the Tambar field in Norway was shut down at the end of August due to a minor leakage from the pipeline between the Tambar and Ula fields. Production was resumed in mid-December.

Danish fields accounted for around 70 per cent of the production, while the remaining about 30 per cent came from Norwegian fields.

### Revenue

Fourth-quarter 2004 revenue was DKK 706 million compared with DKK 770 million in 2003.

Full-year revenue was DKK 3,192 million versus DKK 3,187 million in 2003. Produced and sold volumes differ, as part of the production is sold the following year. Sold volumes totalled 18.3 million boe in 2004 and 17.4 million boe in 2003. In 2004 the oil price in Danish kroner was approx. 21 per cent higher, on average, than in 2003, however, because most of the production had been hedged using financial hedging instruments, the average price per barrel of oil sold was lower in 2004 than in 2003.

### EBIT

Fourth-quarter EBIT was minus DKK 378 million compared with EBIT of DKK 99 million in 2003. The decline in EBIT was due to reduced production, higher depreciation as well as expensing of exploration wells.

Full-year EBIT was DKK 416 million, down from DKK 917 million in 2003, due mainly to higher depreciation and impairment losses. The higher depreciation charge was due to the fact that a larger proportion of the production comes from depreciation-intensive fields. In addition, production costs were marginally higher.

### Capital expenditure/exploration

Total capital expenditure on exploration and production related mainly to development activities in the Syd Arne, Siri and Nini/Cecilie fields in the North Sea, but also to acquisitions on the Norwegian Continental Shelf and to capitalised exploration costs.

At the end of November DONG signed an agreement concerning acquisition of BP's 10.34 per cent interest in the Ormen Lange field and a 10.2 per cent interest in the Langeled pipeline. The purchase price was USD 1.2 billion.

At the start of 2005 DONG was awarded shares in two licences on the Faroese Continental Shelf. The new licences were awarded to two consortia operated by ChevronTexaco and Statoil, respectively.

## Natural gas, Trade & Supply

<b>Financial Highlights</b>				
Natural gas, trade & supply				
(DKKm)	<b>Q4 2004</b>	<b>Q4 2003</b>	<b>2004</b>	<b>2003</b>
Natural gas sales (million m <sup>3</sup> )	2,272	1,964	7,506	7,051
Revenue	3,276	2,727	10,022	9,988
EBITDA	602	503	1,907	2,147
EBIT	493	428	1,573	1,848
Investments	129	601	446	858

### Sales

Fourth-quarter 2004 sales amounted to 2,272 million m<sup>3</sup> natural gas, up from 1,964 million m<sup>3</sup> in 2003. Sales benefited from the supplies to the Dutch market following the commissioning of the new natural gas pipeline from the Tyra field to the Nogat pipeline.

Full-year natural gas sales reached 7,506 million m<sup>3</sup>, up 6 per cent on 2003.

Export sales were up, especially due to increased sales to the German market, but also because of the increase in sales to the Netherlands, cf. above. Domestic sales declined due to the market opening, with competition for the customers in the energy market having sharpened considerably. DONG has lost and expects to continue losing market shares in the Danish market. The market share to end customers in Denmark amounted to about 66 per cent in 2004 compared with about 70 per cent in 2003.

### Revenue

The increase in revenue, from DKK 2,727 million in the fourth quarter 2003 to DKK 3,276 million in the fourth quarter 2004 reflects increasing exports to Germany and the Netherlands.

Full-year revenue was DKK 10,022 million versus DKK 9,988 million in 2003. The increase in revenue was due to higher oil prices and higher sales volumes. Revenue was partially reduced, however, as the regional distribution companies collect the distribution cost for customers in their distribution areas themselves from and including 2004.

### EBIT

Fourth-quarter 2004 EBIT amounted to DKK 493 million, up from DKK 428 million in the same period last year. The increase was due to higher sales.

Full-year EBIT totalled DKK 1,573 million compared with DKK 1,848 million in 2003. The decline in EBIT was due mainly to two factors. Firstly, the loss of market shares in Denmark was offset by higher sales to Germany and the Netherlands, but lower margins on these sales as a result of increased transportation costs and lower prices meant that, overall, the loss of market share led to a reduced EBIT. Secondly, as already described, the time lag effect did not have the same favourable effect on profit as in 2003.



## Natural gas, Distribution & Storage

<b>Financial Highlights</b>				
Natural gas, distribution & storage				
(DKKkm)	<b>Q4 2004</b>	<b>Q4 2003</b>	<b>2004</b>	<b>2003</b>
Transported volumes (millions m <sup>3</sup> )	297	338	1,031	1,084
Revenue	239	258	861	884
EBITDA	167	120	596	614
EBIT	66	26	218	248
Investments	130	37	208	101

### Revenue

Fourth-quarter 2004 revenue was DKK 239 million versus DKK 258 million in 2003. Full-year revenue amounted to DKK 861 million compared with DKK 884 million in 2003.

Fourth-quarter and full-year revenue figures were marginally down on 2003 due to lower volumes transported and the changed tariff structure for the distribution activities compared with 2003.

### EBIT

Fourth-quarter 2004 EBIT was DKK 66 million versus DKK 26 million in 2003, whereas third-quarter 2004 EBIT was significantly down on 2003. This effect was due to the spin-off of the transmission network (Gastra) from the distribution and storage activities on 1.1.2004, leading to a changed cost distribution in the Group between the quarters. This factor did not have any effect on full-year profit.

Full-year EBIT was DKK 30 million down on 2003 due to lower volumes transported.

## Oil pipeline

<b>Financial Highlights</b>				
Oil pipeline				
(DKKkm)	<b>Q4 2004</b>	<b>Q4 2003</b>	<b>2004</b>	<b>2003</b>
Transported volumes (million barrels)	29	28	113	109
Revenue	75	96	373	445
EBITDA	19	13	95	84
EBIT	156	(154)	211	(104)
Investments	-	-	-	-

### Revenue

2004 full-year revenue was lower than 2003. Revenue is made up partly of the profit margin fixed by the Folketing (Danish Parliament) on the value of the transported oil volumes, and partly of re-invoiced costs without a profit margin. In 2004 revenue without a profit margin was lower than in 2003.

### EBIT

Full-year EBIT was DKK 211 million compared with minus DKK 104 million in 2003. The improved EBIT was mainly due to the fact that a write-down was made in the 2003 financial statements as a result of recognition of a provision for abandonment costs that was reversed in the fourth quarter 2004. The reversal was due to the fact that an external valuation of the amount of the obligation was obtained in 2004 that was substantially lower than the earlier internal valuation. In addition, EBIT benefited from the higher oil price.



## Electricity & Renewable energy

<b>Financial Highlights</b>				
Electricity and renewable energy				
(DKKm)	<b>Q4 2004</b>	<b>Q4 2003</b>	<b>2004</b>	<b>2003</b>
Electr. production (GWh)	65	52	215	88
Heat production (TJ)	29	31	82	82
Electr. distribution (GWh)	167	166	629	453
Revenue	195	360	533	627
EBITDA	36	71	141	123
EBIT	(22)	26	29	32
Investments	63	161	320	473

### Production

DONG's electricity production in 2004 was significantly higher than in 2003 as a result of increased production capacity from wind turbines.

From 2004, heat production does not include EGJ Varme, but only geothermal production.

The activities within electricity distribution related primarily to EnergiGruppen Jylland, in which DONG acquired a 65.6 per cent interest on 1 April 2003.

### Revenue

Fourth-quarter revenue was DKK 195 million versus DKK 360 million in 2003.

Full-year revenue was DKK 533 million compared with DKK 627 million in 2003. The decline was due to the fact that, from the beginning 2004, EGJ Varme and EGJ Forbrænding are no longer included in the consolidation, but stated at fair value. Corrected for this, revenue increased, mainly due to the increased production of wind energy.

### EBIT

Fourth-quarter 2004 EBIT was minus DKK 22 million versus DKK 26 million in the fourth quarter 2003.

Full-year 2004 EBIT was DKK 29 million versus DKK 32 million in 2003. The lower EBIT was due to the fact that EGJ Varme and EGJ Forbrænding are not recognised in 2004.

## The Group in figures

(DKKm)	Q4 2004	Q4 2003	2004	2003
<b>Income statement</b>				
Domestic sales	2,201	2,487	7,150	8,029
Export sales	2,122	1,566	7,142	6,237
<b>Revenue</b>	<b>4,323</b>	<b>4,053</b>	<b>14,292</b>	<b>14,266</b>
Export share (per cent)	49%	39%	50%	44%
<b>Gross profit</b>	<b>539</b>	<b>658</b>	<b>3,072</b>	<b>3,788</b>
Fixed costs	(207)	(149)	(510)	(508)
<b>Profit before depreciation and amortisation of rights</b>	<b>332</b>	<b>509</b>	<b>2,562</b>	<b>3,280</b>
Depreciation and amortisation of rights, etc.	(57)	(28)	(141)	(112)
<b>Operating profit (EBIT)</b>	<b>275</b>	<b>481</b>	<b>2,421</b>	<b>3,168</b>
Share of pre-tax profits (losses) of associates	(12)	8	(14)	24
Profit on sale of subsidiaries	481	-	481	-
Financial income and expenses, net	53	(107)	171	56
<b>Profit before tax</b>	<b>797</b>	<b>382</b>	<b>3,059</b>	<b>3,248</b>
Tax	(34)	(119)	(968)	(1,300)
<b>Profit before minority interests</b>	<b>763</b>	<b>263</b>	<b>2,091</b>	<b>1,948</b>
Minority interests' share of profit	(136)	(6)	(210)	(7)
<b>Net profit</b>	<b>627</b>	<b>257</b>	<b>1,881</b>	<b>1,941</b>
<b>Balance sheet</b>				
Intangible fixed assets	749	389	749	389
Tangible fixed assets	15,821	22,120	15,821	22,120
Financial fixed assets	6,855	2,155	6,855	2,156
Current assets	7,955	8,566	7,955	8,565
<b>Total assets</b>	<b>31,380</b>	<b>33,230</b>	<b>31,380</b>	<b>33,230</b>
Share capital	2,144	2,144	2,144	2,144
Revaluation reserve	2,017	5,168	2,017	5,168
Undistributable reserves in regulated companies	-	663	-	663
Retained earnings	11,488	6,913	11,488	6,913
Proposed dividends	-	1,906	-	1,906
<b>Equity</b>	<b>15,649</b>	<b>16,794</b>	<b>15,649</b>	<b>16,794</b>
Minority interests	694	564	694	564
Long-term liabilities	6,882	9,224	6,882	9,224
Current liabilities other than provisions	8,155	6,648	8,155	6,648
<b>Total equity and liabilities</b>	<b>31,380</b>	<b>33,230</b>	<b>31,380</b>	<b>33,230</b>
Return on equity	16%	6%	12%	12%
Equity ratio (excl. recognition of undistr. equity)	50%	49%	50%	49%

## The Group in figures

(DKKm)	Q4 2004	Q4 2003	2004	2003
<b>Statement of changes in equity</b>				
<b>Equity at start of period</b>	<b>14,735</b>	<b>16,627</b>	<b>16,794</b>	<b>14,655</b>
Group share of profit for the period	627	249	1,881	1,941
Value adjustments of hedging instruments after tax	908	(81)	(515)	93
Addition/disposal of undistributable reserves in regulated companies	(663)	-	(663)	663
Other adjustments	42	(1)	58	(118)
Dividends paid	-	-	(1,906)	(440)
<b>Equity at end of period</b>	<b>15,649</b>	<b>16,794</b>	<b>15,649</b>	<b>16,794</b>
<b>Cash and cash equivalents</b>				
<b>Cash and cash equivalents at start of period</b>	<b>1,552</b>	<b>2,822</b>	<b>3,449</b>	<b>3,626</b>
Cash flow from operating activities	1,044	1,340	3,539	4,442
Sale of subsidiaries	3	-	883	-
Cash flow from other investing activities	(2,600)	(1,107)	(5,483)	(2,925)
Dividends paid	-	-	(1,906)	(440)
Cash flow from other financing activities	386	423	(258)	(1,254)
Adjustments at start of year	(240)	(29)	(79)	-
<b>Change in cash and cash equivalents</b>	<b>(1,407)</b>	<b>627</b>	<b>(3,304)</b>	<b>(177)</b>
<b>Cash and cash equivalents at end of period</b>	<b>145</b>	<b>3,449</b>	<b>145</b>	<b>3,449</b>

