



DONG A/S

1 December 2004

Group Financial Statement Q3 2004

Highlights

- Third-quarter 2004 consolidated net profit was DKK 94 million versus DKK 245 million in the third quarter 2003.
 - YTD (year-to-date) consolidated net profit was DKK 1,256 million versus DKK 1,684 million for the same period last year.
 - On 20 November, DONG signed an agreement under which it will acquire a 10.34 per cent interest in the Ormen Lange gas field. With this acquisition, DONG's reserves will be increased four-fold.
 - DONG has signed an agreement on acquisition of 25.1 per cent of the shares in Energie & Wasser Lübeck (EWL).
 - The expectations of full-year net profit of DKK 1.7 billion are reaffirmed.
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Financial highlights					
DONG Group					
DKKm	Q3 2004	Q3 2003	YTD 2004	YTD 2003	2003
Revenue by business area:	2,891	2,373	10,167	10,194	14,247
Exploration & Production	763	752	2,485	2,417	3,187
Trade & Supply	1,830	1,529	6,746	7,252	9,979
Distribution and Storage	167	169	622	617	874
Transmission (GastrA A/S)	0	190	0	676	920
Oil pipe	106	139	298	349	445
Electricity, heat and renewable energy	162	122	536	267	627
Other (including elimination)	(137)	(528)	(520)	(1,384)	(1,785)
EBITDA¹ by business area:	851	1,054	3,597	4,213	5,547
Exploration & Production	414	427	1,582	1,516	1,995
Trade & Supply	239	252	1,305	1,645	2,147
Distribution and Storage	97	170	429	495	615
Transmission (GastrA A/S)	0	103	0	394	524
Oil pipe	33	30	76	71	84
Electricity, heat and renewable energy	45	26	137	51	123
Other (including elimination)	23	46	68	41	59
Operating profit (EBIT)	362	543	2,151	2,687	3,168
Net profit	94	245	1,256	1,684	1,941
Cash flows from operating activities	1,315	495	2,495	3,102	4,468
Cash flows from investing activities	(1,645)	(748)	(2,003)	(1,818)	(2,925)
Total assets	28,171	30,927	28,171	30,927	33,010
Goodwill	46	172	46	172	130
Net interest-bearing debt	1,571	2,641	1,571	2,641	2,389
Equity	14,737	16,627	14,737	16,627	16,794
Invested capital	18,078	19,381	18,078	19,381	19,461
EBITDA margin	29%	44%	35%	41%	39%
EBIT margin	13%	23%	21%	26%	22%
Number of employees	1,050	1,107	1,050	1,107	1,156

Note 1: Earnings before interest, taxation, depreciation and amortisation .

Note 2: For definitions of ratios, see DONG's annual report 2003 or www.dong.dk

Note 3: The transmission network was spun off from DONG on 1 January 2004. Transmission (now GastrA A/S) is thus not included in 2004.

The DONG Group reported net profit of DKK 94 million for the third quarter 2004, compared with DKK 245 million for the third quarter 2003. Third-quarter profit for 2003 benefited from the recognition of a capital gain on DONG's DKK 90 million portfolio of NESA shares.

YTD consolidated net profit was DKK 1,256 million, compared with DKK 1,684 million in 2003. The total capital gain on DONG's portfolio of NESA shares for 2003 YTD was DKK 475 million.

The transmission activity (now Gastra A/S) was spun-off on 1 January 2004, contributing to a decrease in profit for 2004. Net profit for the transmission activity in 2003 YTD was DKK 44 million.

DONG's activities are highly sensitive to the price of oil, which rose during the period. The following two factors were the main reason why profit for 2004 YTD was only marginally up on the same period in 2003 (adjusted for NESA capital gain):

- 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 on selling prices relatively quickly, whereas purchase prices are adjusted with a time lag effect of up to 15 months. The rising oil prices in the first nine months of 2003 generated a gain exceeding the corresponding gain for 2004. The time lag effect will be negative if oil prices decline.
- A substantial part of DONG's oil and USD exchange rate exposure is hedged, as DONG's risk policy is based on active hedging of the market prices that impact on DONG's earnings. As part of its risk policy, DONG actively manages market risks for a period of up to five years ahead. Hedging activities did not impact the 2003 result as negatively as in 2004.

The Group delivered revenue of DKK 2,891 million for the third quarter 2004, up from DKK 2,373 million for the corresponding period in 2003, reflecting increased natural gas prices and rising oil prices. At DKK 10,167 million, revenue YTD was on a par with 2003.

Cash flow from operations YTD fell from DKK 3,102 million in 2003 to DKK 2,495 million due to a lower EBITDA and an increase in net working capital as a consequence of the higher oil prices (increased funds tied up in receivables). The decline was only partially offset by lower income taxes and lower financial items.

Investing activities absorbed DKK 2,003 million YTD, compared with DKK 1,818 million in 2003. The acquisition of Elsam shares accounted for a substantial proportion of investments in 2004, while the divestment of Gastra contributed cash inflow of DKK 880 million.

Expectations for 2004

The expectations of full-year net profit of DKK 1.7 billion are reaffirmed.

➤ **Elsam: Acquisition of shares and merger talks**

Against the background of an approach by a seller consortium consisting of nineteen Elsam shareholders, EGJ Elnet, in which DONG is an indirect shareholder, signed an agreement in August on the purchase of shares in Elsam.

The existing shareholders' deadline for exercising their pre-emption right has expired. Following the other shareholders' acquisition of shares by exercise of their pre-emption right, DONG indirectly controls 24.09 per cent of the shares in Elsam.

As announced in a press release issued by DONG on 16 September, DONG and Elsam are discussing the possibility of a merger. The parties agree that a merger would result in considerable value creation for both companies' owners. The discussions are still in process.

➤ **Credit rating**

Standard & Poor's and Moody's Investors Service Inc. published their credit ratings of DONG in September. Moody's Investors Service Inc. assigned DONG A/S and DONG Naturgas A/S an 'A3/negative outlook', while Standard & Poor's assigned DONG A/S an 'A-/stable outlook'. Standard & Poor's has not rated DONG Naturgas A/S.

The ratings are based on DONG's existing corporate structure and take account of the expected investments for implementation of DONG's strategy. The ratings emphasize the stability of DONG's business and will also facilitate DONG's access to the international capital markets.

➤ Acquisition of stake in Ormen Lange

On 20 November DONG signed an agreement under which it will acquire BP's 10.34 per cent interest in the Ormen Lange field off the coast of Norway. The transaction also includes BP's 10.2 per cent interest in the Langeled pipeline. Langeled will be integrated into the Norwegian gas infrastructure, Gassled, resulting in DONG becoming a partner in Gassled.

The acquisition supports DONG's strategy of value creation through a presence in the entire value chain and offers significant synergies with the existing activities. With the Ormen Lange gas, DONG's reserves will be increased four-fold, and the E&P portfolio becomes gas-dominated instead of being oil-dominated. DONG's gas reserves will increase from approximately 15 per cent of the total reserves to approximately 75 per cent after the acquisition of the interest in Ormen Lange.

The acquisition price of USD 1.2 billion is based on the value of the recoverable reserves and the infrastructure, coupled with the value creation through synergies with DONG's gas trading activities. The price includes tax positions acquired from BP.

The transaction will be effective from 1 January 2005, subject to approval by the Norwegian authorities. Furthermore, the Norwegian State, through Petoro, has until 3 January 2005 to exercise its option to pre-empt the transaction.

➤ Acquisition of stake in Energie und Wasser Lübeck GmbH (EWL)

DONG has signed an agreement on a long-term strategic partnership with Stadtwerke Lübeck GmbH under which DONG will acquire 25.1 per cent of the shares in the subsidiary Energie und Wasser Lübeck GmbH (EWL). The acquisition is subject to approval by the relevant authorities.

The purchase price for the shares is EUR 60 million. As part of the transaction, DONG is offering EWL a number of strategic advantages, including an energy portfolio agreement, co-operation regarding renewable energy and the establishment of a jointly owned sales company, e.nord.

DONG has offered to buy an additional 24.8 per cent of the shares by the end of 2007.

➤ Political agreement on the privatization of DONG

On 7 October 2004 a political agreement on the privatization of DONG A/S was reached between the Government parties and the Social Democrats, the Danish People's Party, the Socialist People's Party and the Social Liberal Party. The agreement has the following content:

- The previous political agreements to the effect that the natural gas infrastructure - the natural gas network and the natural gas storage facilities – shall remain in public ownership shall be considered fulfilled as long as the Danish State retains a controlling interest in DONG A/S. In the event of the State wishing to dispose of its controlling interest, it must first buy back the natural gas network and the natural gas storage facilities from the company.
- The parties to the agreement are open to a sale of all the State's shares in DONG A/S. However, any surrender by the State of its controlling interest before 1 January 2015, whether by sale of shares, merger or some other means, is subject to a unanimous decision by the parties.

Exploration & Production

Financial Highlights				
Exploration & production				
(DKKm)	Q3 2004	Q3 2003	YTD 2004	YTD 2003
Oil & gas production (million boe)	4.0	4.5	13.7	13.9
Revenue	763	752	2,485	2,417
EBITDA	414	427	1,582	1,516
EBIT	149	219	794	818
Investments	274	235	769	921

Production

Production was 4.0 million boe (barrels of oil equivalent) in the third quarter versus 4.5 million boe in the third quarter 2003. The lower production in the third quarter reflected the fact that the production from the Tambar field in Norway was closed down on 23 August due to a minor leakage from the pipeline between the Tambar and Ula fields. Production is expected to be resumed in the first half of 2005. DONG's share of the production from Tambar in 2004 had been estimated at about 3 million barrels of oil, of which 2.2 million barrels of oil have been produced. DONG has a 45 per cent stake in the Tambar field.

Production in 2004 YTD was 13.7 million boe, marginally down on last year. Danish fields accounted for around 65 per cent of the production in 2004 YTD, while the remaining 35 per cent came from Norwegian fields.

Revenue

Third-quarter 2004 revenue amounted to DKK 763 million versus DKK 752 million in 2003.

YTD 2004 revenue reached DKK 2,485 million, up from DKK 2,417 million in 2003. Compared with 2003, revenue for 2004 was only marginally affected (favorably) by the higher oil prices, as a substantial part of the production had been financially hedged. The fact that the volumes sold in 2004 exceeded the volumes produced (sale of oil produced in 2003) had a beneficial impact on revenue.

EBIT

EBIT of DKK 149 million was achieved in the third quarter, compared with DKK 219 million in 2003.

For 2004 YTD, EBIT was DKK 794 million, compared with DKK 818 million in 2003. The fact that earnings did not rise despite the higher oil prices reflected hedging transactions and increased depreciation in 2004, as the Nini and Cecilie fields did not go on stream until September 2003.

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. To this should be added acquisitions on the Norwegian Continental Shelf and capitalized exploration costs.

DONG was awarded seven new exploration licenses in the West of Shetland area. DONG has the operatorship of one of the licenses, which is located immediately north-east of the Laggan gas find, in which DONG recently acquired a 20 per cent interest. Five of the licenses are situated close to the UK-Faeroese boundary, where DONG is already participating in several licenses on both sides of the boundary. The increased activity in the UK is entirely in line with the strategy to explore for and produce more gas.

Trade & Supply

Financial Highlights				
Trade & Supply				
(DKKm)	Q3 2004	Q3 2003	YTD 2004	YTD 2003
Sales (domestic)	568	612	2,612	2,904
Sales (exports)	982	567	2,623	2,183
Total sales (m3)	1,550	1,179	5,235	5,087
Revenue	1,830	1,529	6,746	7,252
EBITDA	239	252	1,305	1,645
EBIT	164	177	1,080	1,420
Investments	45	227	317	257

Sales

Third-quarter 2004 sales totaled 1,550 million m³ natural gas, up from 1,179 million m³ 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.

For 2004 YTD, natural gas sales amounted to 5,235 million m³, up 3 per cent on the same period last year.

Competition for the customers in the energy market has sharpened considerably in the wake of the market opening. DONG has lost and expects to continue losing market shares in the Danish market. The Large Customer market in Denmark will continue to account for most of the loss of market shares. Sales to the German and Dutch markets increased, with YTD sales more than making up for the loss of market shares in Denmark.

Revenue

For 2004 YTD, revenue was DKK 6,746 million versus DKK 7,252 million in 2003. The fall in revenue reflects the effect of the liberalization of the gas market, one of the technical consequences of which is that the regional distribution companies are collecting the distribution cost for customers in their distribution areas themselves, and loss of market shares in the Danish market; however, the effect of this is being partially offset by the increasing oil price and higher sales outside Denmark, which are also the main contributors to the increase in revenue from DKK 1,529 million in the third quarter 2003 to DKK 1,830 million in the third quarter 2004.

EBIT

Third-quarter 2004 EBIT was DKK 164 million, compared with DKK 177 million in the same period last year.

For 2004 YTD, EBIT was DKK 1,080 million, down from DKK 1,420 million in 2003. The fall in EBIT is 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 meant that, overall, the loss of market share led to a reduced EBIT. Secondly, the time lag effect did not have the same favorable impact on profit as in 2003, as already described.

Distribution and Storage

Financial Highlights				
Distribution and Storage				
(DKKm)	Q3 2004	Q3 2003	YTD 2004	YTD 2003
Transported volumes (millions m3)	163	144	734	746
Revenue	167	169	622	617
EBITDA	97	170	429	495
EBIT	5	79	152	222
Investments	29	17	78	64

Revenue

Third-quarter 2004 revenue totaled DKK 167 million versus DKK 169 million in 2003. For 2004 YTD, revenue was DKK 622 million, up from DKK 617 million in 2003.

For both the third quarter and YTD, revenue in 2004 was on a par with revenue in 2003. The tariff structure for the distribution activities was changed with effect from 1 October 2003, and the relationship between volumes transported and revenue therefore cannot be compared with 2003.

EBIT

EBIT for the third quarter 2004 was DKK 5 million, compared with DKK 79 million in 2003. For 2004 YTD, EBIT was DKK 97 million lower than in 2003. The decline in EBIT should be viewed in the context of the spin-off of the transmission network (Gastra) from the distribution and storage activities, resulting in a changed cost distribution in the Group. For the distribution and storage activities, this led to a cost reduction in 2003 that will not be repeated in 2004.

Oil pipe

Financial Highlights				
Oil pipe				
(DKKm)	Q3 2004	Q3 2003	YTD 2004	YTD 2003
Transported volumes (million barrels)	28.9	26.3	83.9	82.4
Revenue	106	139	298	349
EBITDA	33	30	76	71
EBIT	26	23	55	50
Investments	-	-	-	-

Revenue

Revenue for 2004 YTD was lower than revenue in 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. The lower revenue for 2004 YTD reflected the fact that revenue without a profit margin made up a smaller proportion of revenue than in 2003.

EBIT

EBIT was higher both for the quarter and YTD 2004 than in 2003. The improvement in earnings was due to the higher oil prices. DONG's revenue related to transported oil volumes in 2004 was higher than in 2003, leading to a higher profit.

Electricity, heat and renewable energy

Financial Highlights				
Electricity, heat and renewable energy				
(DKKm)	Q3 2004	Q3 2003	YTD 2004	YTD 2003
Electricity prod. (GWh)	45	19	151	35
Heat production (TJ)	77	81	279	210
Electricity distr. (MWh)	149	149	462	287
Revenue	162	122	536	267
EBITDA	45	26	137	51
EBIT	18	2	56	6
Investments	218	194	257	312

Production

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

The activities within heat production and electricity distribution related primarily to EnergiGruppen Jylland, in which DONG acquired a 65.6 per cent interest on 1 April 2003. A small portion of the heat production (about 25 per cent) was geothermal energy not related to EnergiGruppen Jylland.

Revenue

Third-quarter revenue was DKK 162 million versus DKK 122 million in the third quarter 2003.

For 2004 YTD, revenue was DKK 536 million, up from DKK 267 million in 2003. The increase in revenue related mainly to the increased production of wind energy and to the fact that EnergiGruppen Jylland was not part of the Group in the first quarter 2003.

EBIT

Third-quarter 2004 EBIT was DKK 18 million, up from DKK 2 million in the third quarter 2003.

For 2004 YTD, EBIT was DKK 56 million, up from DKK 6 million in 2003. The improvement in earnings was due to the higher level of activity within wind energy.

Income statement & Balance sheet

DONG Group

DKKm	Q3 2004	Q3 2003	YTD 2004	YTD 2003	2003
Income statement					
Domestic sales	1,142	1,036	5,147	5,523	8,010
Export sales	1,749	1,337	5,020	4,671	6,237
Revenue	2,891	2,373	10,167	10,194	14,247
Export share (per cent)	60	56	49	46	44
Gross profit	505	739	2,564	3,130	3,811
Fixed costs	(115)	(168)	(329)	(359)	(539)
Profit before goodwill amortisation	390	571	2,235	2,771	3,280
Goodwill amortisation	(28)	(28)	(84)	(84)	(112)
Operating profit (EBIT)	362	543	2,151	2,687	3,168
Share of pre-tax profit (loss) in associated companies	(7)	2	(2)	16	24
Financial income and expenses, net	(79)	(15)	116	163	56
Profit (loss) before tax	276	530	2,265	2,866	3,248
Tax	(179)	(284)	(935)	(1,180)	(1,299)
Profit before tax	97	246	1,330	1,686	1,949
Minority interests' share of profit (loss)	(3)	(1)	(74)	(2)	(7)
Net profit	94	245	1,256	1,684	1,941
Balance sheet					
Goodwill	46	172	46	172	130
Other intangible assets	288	255	288	255	259
Property, plant and equipment	17,205	21,421	17,205	21,421	22,096
Investments	3,171	2,099	3,171	2,099	2,172
Current assets	7,461	6,980	7,461	6,980	8,353
Total assets	28,171	30,927	28,171	30,927	33,010
Share capital	2,144	2,144	2,144	2,144	2,144
Revaluation reserve	1,960	5,168	1,960	5,168	5,168
Undistributable reserves in regulated companies	663	663	663	663	663
Retained earnings	9,970	8,652	9,970	8,652	6,913
Proposed dividends	0	0	0	0	1,906
Equity	14,737	16,627	14,737	16,627	16,794
Minority interests	641	562	641	562	564
Long-term liabilities	6,960	8,467	6,960	8,467	9,224
Current liabilities other than provisions	5,833	5,271	5,833	5,271	6,428
Total equity and liabilities	28,171	30,927	28,171	30,927	33,010
Return on equity	3%	6%	11%	14%	12%
Equity ratio (excl. recognition of undistributable equity)	50%	52%	50%	52%	49%
Gearing (net interest-bearing debt/equity)	11%	16%	11%	16%	14%

DONG Group					
DKKm	Q3 2004	Q3 2003	YTD 2004	YTD 2003	2003
Statement of changes in equity					
Equity at start of period	15,334	16,324	16,794	14,655	14,655
Group share of profit for the period	94	245	1,256	1,684	1,933
Value adjustments of hedging instruments after tax	(697)	57	(1,419)	174	93
Addition of undistributable reserves in reg. companies on acquisition	0	8	0	663	663
Other adjustments	6	(7)	12	(109)	(110)
Dividends paid	0	0	(1,906)	(440)	(440)
Equity at end of period	14,737	16,627	14,737	16,627	16,794
Cash and cash equivalents					
Cash and cash equivalents at start of period	1,763	3,410	3,610	3,655	3,655
Cash flows from operating activities	1,315	495	2,495	3,102	4,468
Sale of subsidiaries	0	0	880	0	0
Cash flows from other investing activities	(1,645)	(748)	(2,883)	(1,818)	(2,925)
Dividends paid	0	0	(1,906)	(440)	(440)
Cash flows from other financing activities	119	(335)	(644)	(1,677)	(1,148)
Change in cash and cash equivalents	(211)	(588)	(2,058)	(833)	(45)
Cash and cash equivalents at end of period	1,552	2,822	1,552	2,822	3,610

