DONG Naturgas A/S

ANNUAL REPORT 2005

(Reg. No. 27 21 05 38)

3rd financial year

Contents

Company information

Company	DONG Naturgas A/S Agern Allé 24-26 DK-2970 Hørsholm Denmark Telephone +45 4517 1022 Fax +45 4517 1044 e-mail dong@dong.dk Reg. No. 27 21 05 38
Shareholder	The entire share capital is held by DONG A/S
Supervisory Board	Anders Eldrup (Chairman) Carsten Krogsgaard Thomsen (Deputy Chairman) Hans Jørgen Rasmusen
Executive Board	Kurt Bligaard Pedersen
Auditors	KPMG C.Jespersen, Statsautoriseret Revisionsinteressentskab BDO ScanRevision, Statsautoriseret Revisionsaktieselskab
Annual General Meeting	19 April 2006
Other managerial posts	Managerial posts held by the members of the Executive and Supervisory Boards in other Danish public limited companies, with the exception of the company's own wholly-owned subsidiaries
Anders Eldrup	DONG A/S (CEO), Elsam A/S (member of the Supervisory Board), Energigruppen Jylland Udvikling A/S (member of the Supervisory Board) and managerial posts in the DONG Group's other companies
Carsten Krogsgaard Thomsen	Energigruppen Jylland A/S (Deputy Chairman), Barrow Offshore Wind Ltd. (member of the Supervisory Board), EnergiGruppen Jylland Varme A/S (member of the Supervisory Board), NNIT A/S (member of the Supervisory Board) and managerial posts in the DONG Group's other companies
Hans Jørgen Rasmusen	Dansk Gasteknisk Center A/S (member of the Supervisory Board), Soil Recovery A/S (member of the Supervisory Board), Barrow Offshore Wind Ltd. (Chairman), Amminex A/S (member of the Supervisory Board), EnergiGruppen Jylland A/S (member of the Supervisory Board) and managerial posts in the DONG Group's other companies
Kurt Bligaard Pedersen	BRFkredit A/S (member of the Supervisory Board) and managerial posts in the DONG Group's other companies

Financial highlights

DKK '000	2005	2004	2003
Income statement			
Revenue	13,753,257	9,957,770	9,946,960
Profit before interest, tax, depreciation and amortisation (EBITDA)	3,352,561	1,898,820	2,150,814
Operating profit (EBIT)	3,035,339	1,576,653	1,851,424
Financial income and expenses, net	(454,564)	54,583	(55,559)
Profit before tax	2,573,852	1,633,646	1,770,038
Profit for the year	1,899,465	1,136,953	1,237,078
Balance sheet			
Equity	6,755,121	6,505,173	6,856,966
Balance sheet total	14,479,333	10,976,760	9,754,295
Cash flows			
Operating activities	2,139,216	936,715	(460,653)
Investments in property, plant and equipment	(760,866)	(334,364)	(383,236)
Investing activities	(1,903,815)	(1,172,816)	(858,429)
Financing activities	888,781	(1,283,514)	(778,282)
Financial ratios			
EBITDA margin	24%	19%	22%
EBIT margin	22%	16%	19%
Net interest-bearing receivables	1,757,478	1,558,312	1,714,189
Number of employees at year end	227	207	184

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

Management's review

The company's objects are to contribute to a well-functioning and stable energy market in Denmark by engaging, directly or indirectly, in Denmark and internationally, on commercial terms, in procurement, treatment and transportation of and trading in natural gas and other relevant forms of energy and related products and services.

Financial performance

Revenue amounted to DKK 13,753 million, up from DKK 9,958 million in 2004 due primarily to higher gas selling prices, increased sales and the recognition of Intergas Levering B.V. and E-nord GmbH.
EBIT amounted to DKK 3,035 million compared with DKK 1,577 million in 2004, assisted mainly by higher gas selling prices, including a greater positive time lag effect than in 2004, but also by increased sales volumes.
Cash flow from operating activities was DKK 2,181 million, up from DKK 937 million in 2004, due mainly to a higher EBITDA. Net investments amounted to DKK 2,619 million versus DKK 1,173 million in 2004. Investments related principally to Ormen Lange and the acquisition of Intergas Levering B.V. and Energie Wasser Lübeck GmbH.

Change in accounting estimates and impairment losses on fixed assets
The depreciation period for natural gas pipelines and natural gas storage facilities has been changed, so that the expected useful lives of the assets correspond to the period up to expected removal in 2043. The depreciation method has been changed from straight-line depreciation over the useful lives to depreciation corresponding to the unit-of-production method, taking into account the expected earnings profile from the use of the natural gas assets. The effect of this change on profit for the year is to a lesser degree.
Based on the impairment tests performed, the carrying amount of IT software has been reduced by DKK 36 million, which is recognised in the income statement under production costs.

Activities in 2005

In 2005 the Danish gas market was characterised by increasing competition from both existing and new players in the market. The sharpened competition led to loss of market shares. In 2005 DONG Naturgas sold 2.5 billion m3 gas directly to end customers in Denmark, equivalent to a market share of approx. 61% versus approx. 66% in 2004.
In order to maintain its position as market leader in the Danish market, DONG, in dialogue with the customers, continuously developed new products meeting the demand for energy, service and price products.
In 2004 DONG Naturgas introduced sales of electricity to both industrial and residential customers. In 2005 DONG Naturgas strengthened its position as an electricity supplier, and now boasts a share of just under 2% of the Danish electricity market. On 1 January 2005 the free electricity market in Denmark was expanded to include decentralised electricity production. DONG Naturgas has therefore developed a CHP concept that ensures that CHP customers can optimise their electricity production and sell it in the market. Contracts were set up with several CHP stations in 2005.
Most major CO_2 emitters in Europe have been subject to a quota obligation under an EU directive since 1 January 2005. DONG Naturgas and many of DONG Naturgas' large natural gas customers are subject to the quota obligation. DONG Naturgas has therefore become actively engaged in trading in CO_2 quotas and, in 2005, concluded a large number of deals in Denmark and Sweden, comprising a total of just over 350,000 quotas.
The partnership with the Danish oil company OK with respect to sale of gas to OK's oil customers and sale of oil to DONG Naturgas' gas customers developed favourably in 2005. At the same time, sales of service plans to the residential and industrial markets increased, and additional agreements were signed with independent HVAC companies.
In autumn 2005 the Danish Competition Authority expressed concern about the gas sales agreement between DONG Naturgas and HNG Midt-Nord that runs until 2009. DONG Naturgas therefore decided to adjust the agreement. The Competition Council has indicated that the agreed adjustments mean that the objections no longer apply.

Internationalisation
In 2005 DONG Naturgas strengthened its position abroad. Exports thus accounted for more than 50% of gas and electricity sales. In order to continue growing its natural gas sales and increasing its competitiveness in the energy markets in Northern Europe, DONG Naturgas must continue the internationalisation of its trading activities. Increased

sales are not the only reason for the internationalisation. The growing level of activity outside Denmark also gives DONG Naturgas added flexibility in terms of sales.
In 2005 DONG Naturgas acquired the Dutch energy supply company Intergas Levering B.V. with around 150,000 gas customers, 30,000 electricity customers and annual revenue of approx. DKK 1.3 billion. With the acquisition DONG Naturgas achieved a significant element of its strategy to gain a larger market share in the Netherlands.
In the German market DONG Naturgas is pursuing a strategy of increased gas and electricity sales to regional supply companies. As part of this strategy DONG Naturgas continued developing the sales subsidiary E-nord and the partnership with Stadtwerke Lübeck GmbH in 2005.
The liberalisation of the Swedish gas market has been postponed several times, and the market rules have yet to be established. For example, all industrial customers were only able to switch supplier freely from autumn 2005. Despite this, DONG Naturgas succeeded in expanding its position in the Swedish market still further in 2005, supported by the Swedish sales office in Göteborg.

Risk management

DONG Naturgas' risk policy is based on active hedging of the market prices that affect DONG Naturgas' earnings. As part of its risk policy DONG Naturgas actively manages market risks up to five years ahead by concluding financial hedging contracts with a view to reducing the risk of losses. DONG Naturgas uses financial hedging instruments solely with a view to reducing its financial exposure. With a view to underpinning the primary trading activities, DONG Naturgas takes active positions within selected energy risks, to some extent. The positions are actively monitored with fixed authority limits, daily reporting and risk follow-up.
The most important market risks are related to the USD exchange rate and the oil price. These risks are hedged using forwards, swaps and various option strategies. DONG Naturgas' operating profit may fluctuate considerably from year to year as a result of the development in the price of oil and USD, despite the oil price and USD exchange rate exposure having been largely hedged. The reason for this is the so-called time lag effect, where DONG Naturgas' purchase and selling prices for natural gas are adjusted at different time intervals, with the selling prices being adjusted on the basis of the previous month's market prices for USD and oil while the purchase prices are adjusted with a delay of up to 15 months. A change in the price of oil and/or USD exchange rate in January may thus affect DONG Naturgas' selling prices in February, but will not be felt on purchase prices till June of the following year. For that reason the effect of changes in the oil price and the USD exchange rate may be felt in different years for purchase contracts and sales contracts, respectively; however, the fluctuations will balance each other out over a number of years.

Oil price risk

Oil price risks relate primarily to differences between purchase and selling prices for natural gas. To this should be added new price products offered to the customers. DONG Naturgas' exposure is in oil, and hedging is mainly in the underlying oil types to reduce the risk of price fluctuations between the various types of oil. DONG primarily hedges the oil price risk by buying put options and by forward sale of oil. At the end of 2005 DONG Naturgas had hedged part of each of the coming four years' oil price risk by buying put options.

Currency risk

The main currency risk is still related to USD, although the exposure in NOK and GBP is growing. The USD exchange rate risk is mainly attributable to the oil price exposure, as oil is settled in USD. DONG Naturgas primarily hedges its currency exposure by using forwards and currency swaps and, to a lesser extent, options. At the end of 2005 DONG Naturgas had hedged part of each of the coming five years' currency risk.

Outlook for 2006

DONG Naturgas' financial performance depends to a great extent on the development in the price of oil and the USD exchange rate.
Compared with 2005, the outlook for 2006 is affected by a number of conflicting factors. On the downside is the fact that the oil price and the USD exchange rate are incorporated with different time lags in natural gas purchase and sales contracts. 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 three years' increasing oil prices have generated a considerable gain for DONG Naturgas that is not expected to be repeated in 2006.

Also on the downside is the fact that further loss of market share within natural gas sales in Denmark is expected in 2006. This is a natural consequence of the full market opening at the start of 2004. The loss of market share is expected to be offset by growing exports, primarily to Germany and the Netherlands; however, exports involve lower margins, partly due to increased transportation costs. Profit for 2006 will therefore be eroded by the loss of market share.
On the upside, a large proportion of the oil price exposure in 2006 is hedged by options and similar hedging instruments. Accordingly, compared with 2004 and 2005, when hedging was predominantly effected using swaps, DONG Naturgas will maintain an upside in the event of high oil prices.

Subsequent events

No events have occurred after the year end which will have a material effect on the company's financial standing.

Statement by the Executive and Supervisory Boards

The Executive and Supervisory Boards have today considered and approved the annual report for the financial year ended 31 December 2005.

The annual report has been prepared in accordance with the Danish Financial Statements Act and operative Danish Accounting Standards. We consider the accounting policies used to be appropriate. Accordingly, the annual report gives a true and fair view of the company's financial position at 31 December 2005 and of the results of the company's operations and cash flows for the financial year then ended.

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

Hørsholm, 28 February 2006

Executive Board:

Kurt Bligaard Pedersen
President

Supervisory Board:

Anders Eldrup
Chairman

Carsten Krogsgaard Thomsen
Deputy Chairman

Hans Jørgen Rasmusen

Auditors' report

To the shareholder of DONG Naturgas A/S

We have audited the annual report of DONG Naturgas A/S for the financial year ended 31 December 2005, prepared in accordance with the Danish Financial Statements Act and Danish Accounting Standards.

The annual report is the responsibility of the company's Executive and Supervisory Boards. Our responsibility is to express an opinion on the annual report based on our audit.

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

Our audit did not result in any qualification.

Opinion
In our opinion, the annual report gives a true and fair view of the company's financial position at 31 December 2005 and of the results of the company's operations and cash flows for the financial year ended 31 December 2005 in accordance with the Danish Financial Statements Act and Danish Accounting Standards.

Copenhagen, 28 February 2006

KPMG C. Jespersen
Statsautoriseret Revisionsinteressentskab

Flemming Brokhattingen
State Authorised
Public Accountant

Torben Bender
State Authorised
Public Accountant

BDO ScanRevision
Statsautoriseret Revisionsaktieselskab

Peter Have Jensen
State Authorised
Public Accountant

Peter Rasborg
State Authorised
Public Accountant

Accounting policies

BASIS OF PREPARATION

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

The financial statements have been prepared in accordance with the same accounting policies as last year.

Pursuant to the exemption provision in Section 112(1) of the Danish Financial Statements Act, the company does not prepare consolidated financial statements, as the company and its subsidiaries form part of the consolidated financial statements of DONG A/S, Agern Allé 24-26, DK-2970 Hørsholm, Denmark, Reg. No. 36213728, by full consolidation.

Change in accounting estimates

The depreciation period for natural gas pipelines and natural gas storage facilities has been changed, so that the expected useful lives of the assets correspond to the period up to expected removal in 2043. The depreciation method has been changed from straight-line depreciation over the useful lives to depreciation corresponding to the unit-of-production method, taking into account the expected earnings profile from the use of the natural gas assets. The effect of this change on profit for the year is immaterial.

Business combinations
Enterprises acquired or formed during the year are recognised in the parent company financial statements from the date of acquisition or formation. Enterprises disposed of during the year are recognised in the parent company income statement up to the date of disposal.

Comparative figures are not restated to reflect acquisitions or disposals.

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

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

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

Gains or losses on disposal of subsidiaries and associates are determined as the difference between the selling price and the carrying amount of net assets including goodwill at the date of disposal and estimated costs necessary to make the sale.

Foreign currency translation
On initial recognition, transactions in foreign currencies are translated into Danish kroner at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as Financial income and Financial expenses, respectively.

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

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

On recognition of foreign subsidiaries that are independent entities, the income statements are translated at the exchange rates at the transaction date and the balance sheet items are translated at the exchange rates at the balance sheet date. An average exchange rate for each month is used as the exchange rate at the transaction date to the extent that this does not give a significantly different view. Goodwill is translated at the exchange rate at the date of initial recognition. Foreign exchange differences arising on translation of the opening equity of these subsidiaries at the exchange rates at the balance sheet date and on translation of the income statements from the exchange rates at the transaction date to the exchange rates ruling at the balance sheet date are recognised directly in equity.

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

Derivative financial instruments are recognised and measured at fair value. Fair value is determined on the basis of market data and recognised valuation methods. Positive and negative fair values of derivative financial instruments are recognised as Other receivables and Other payables, respectively, and offsetting of positive and negative values is only effected if the enterprise is permitted to and intends to settle several financial instruments net in cash.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as hedges of the fair value of a recognised asset or liability are recognised in the income statement together with changes in the value of the hedged asset or liability to the extent of the hedged risk. Hedging of the value of future cash flows of contracts concluded is accounted for as hedging of the fair value of a recognised asset or liability, except in the case of foreign currency hedging.

Changes in the portion of the fair value of derivative financial instruments and foreign exchange adjustments of loans that is designated as and qualifies for recognition as a hedge of future cash flows and that provides an effective hedge against changes in the value of the hedged item are recognised directly in a hedging reserve under equity. In the case of options used as hedges, only the intrinsic value of the option is accounted for as a hedge. The adjustment relating to the individual hedging instrument is transferred from equity on realisation of the hedged item and recognised in the same item as the hedged item.

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

INCOME STATEMENT

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

Revenue from services related to technical advice, etc., is recognised as the services are provided.

Revenue is measured net of other sales-related duties and VAT on behalf of third parties, and after deducting any trade discounts and rebates.

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

Production costs, etc.
Production costs comprise costs, including cost of sales, depreciation and amortisation and salaries, relating to the natural gas sold during the year and related services.

Sales and marketing
Sales and marketing comprise expenses for negotiation and conclusion of natural gas purchase and sales contracts and for marketing of DONG Naturgas and DONG Naturgas' products. This item includes direct expenses as well as allocated indirect expenses for sales and marketing.

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

Other operating income and expenses
Other operating income and expenses comprise items secondary in nature to the company's principal activities, including gains and losses on disposal of intangible assets and property, plant and equipment. Gains and losses on disposal of intangible assets and property, plant and equipment are determined as the selling price less costs to sell and the carrying amount at the date of disposal.

Income from investments in subsidiaries
The proportionate share of profit before tax of the individual subsidiaries is recognised in the parent company's income statement after full elimination of intragroup profits/losses and less goodwill amortisation. The share of the subsidiaries' taxes is recognised as tax on profit for the year.

Financial income and Financial expenses
Financial income and Financial expenses comprise interest income and expense, capital gains and losses and impairment losses relating to securities, payables and transactions denominated in foreign currencies as well as amortisation of financial assets and liabilities. Financial income and expenses also include realised and unrealised gains and losses on derivative financial instruments that do not qualify for hedge accounting or have been concluded in the course of the company's trading activities.

Tax on profit for the year
The company is subject to the Danish rules on compulsory joint taxation of the DONG Group's Danish companies. Subsidiaries are included in the joint taxation from the date they are included in the consolidation in the consolidated financial statements and up to the date on which they are no longer included in the consolidation.
The parent company DONG A/S is a management company as far as concerns the joint taxation and consequently settles all payments of income tax with the tax authorities.
The current Danish income tax is allocated among the jointly taxed companies in the form of settlement of joint taxation contributions in proportion to their taxable income. In this connection companies with tax losses receive joint taxation contributions from companies that have been able to utilise these losses to reduce their own taxable profits.

Tax for the year, which consists of the joint taxation contribution for the year and changes in deferred tax - including as a result of changes in tax rates - is recognised in the income statement to the extent that it relates to profit for the year, and directly in equity to the extent that it relates to entries directly to equity.

BALANCE SHEET

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

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

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

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

Intangible assets
Rights
Allotted and acquired CO_2 rights are measured initially at cost. To the extent that a grant is received in connection with an allocation, the cost constitutes the actual consideration paid for the rights, i.e. nil if the rights are allocated free of charge.

CO_2 rights are amortised in step with the actual emissions of CO_2. To the extent that the actual emissions exceed the allocated and acquired CO_2 rights, the fair value of the additional CO_2 rights that DONG is under obligation to settle is recognised as a liability. The depreciation basis for CO_2 rights is determined taking into account their residual value, which depends on whether they are held for continued use or for sale. The scrap value for CO_2 rights held for use is nil.

Other rights are measured at cost less accumulated amortisation and impairment losses.

Other rights are amortised on a straight-line basis over their expected economic lives, which are determined on the basis of management's experience of the specific business areas, and the assets to which the rights relate. Capitalised rights are estimated to have an economic life of 5-20 years.

IT projects
IT projects are measured at cost less accumulated amortisation and impairment losses.

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

IT projects are amortised on a straight-line basis over the estimated useful lives, which, as a rule, are estimated to be five years.

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

Property, plant and equipment
Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises purchase price and any costs directly attributable to the acquisition up to the date the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, subsuppliers and labour.

Cost is increased by estimated costs for dismantling and removal of the asset and reinstatement costs to the extent that they are recognised as a provision.

In the case of finance leases, cost is determined as the lower of fair value and the present value of future lease payments. The present value is determined using the interest rate implicit in the lease as the discount rate or an approximated value. Subsequent to initial recognition, assets held under finance leases are accounted for in the same way as the company's other fixed assets.

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

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

Depreciation periods for DONG Naturgas' assets:	
Buildings used for own purposes	20 years
Production assets:	
Offshore pipelines	20 years
Fixtures and fittings, tools and equipment	5 years
Assets in progress	Not depreciated[1)]

1) Depreciation does not commence until the assets are taken into use, at which time they are transferred to production assets.

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

Depreciation and impairment losses are recognised in the income statement as Production costs and Management and administration, respectively, to the extent that depreciation is not recognised in the cost of self-constructed assets. Gains and losses on disposal of property, plant and equipment are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as Other operating income or Other operating expenses.

Leases relating to fixed assets in terms of which the company assumes substantially all the risks and rewards of ownership (finance leases), are recognised initially in the balance sheet at the lower of fair value and the present value of future lease payments. The present value is determined using the interest rate implicit in the lease as the discount rate or an approximated value. Subsequent to initial recognition, assets held under finance leases are accounted for in the same way as the company's other fixed assets.
The capitalised residual lease commitment is recognised in the balance sheet as a liability, and the interest rate element of the lease payment is recognised in the income statement over the remaining term of the lease.

Financial fixed assets
Investments in subsidiaries and associates
Subsidiaries comprise companies in which DONG Naturgas A/S holds, directly or indirectly, more than 50% of the voting rights or which it controls in some other way. Enterprises over which the parent company exercises significant influence, but not control, are accounted for as associates. Significant influence is typically achieved by holding or having the ability to exercise, directly or indirectly, more than 20% but less than 50% of the voting rights, although this is based on a specific assessment of the possibility of exercising influence.

Investments in subsidiaries and associates are measured using the equity method.

Investments in subsidiaries and associates are measured in the balance sheet at the proportionate share of the enterprises' net assets determined in accordance with the parent company's accounting policies, plus goodwill, and after deducting or adding unrealised intragroup profits and losses.

On acquisition of subsidiaries and associates the purchase method is applied, see the description in the foregoing under Business combinations.

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

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

Inventories
Inventories consist of natural gas in storage facilities and in natural gas pipelines.

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

Cost is determined as a weighted average of the previous month's buying prices, including transportation costs.

The net realisable value of inventories is determined as the expected selling price less any costs of completion and costs incurred to execute the sale. The net realisable value is determined on the basis of marketability, obsolescence and development of expected selling price.

Receivables
Receivables are measured at amortised cost. Provision is made for estimated bad debts.

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

Prepayments
Prepayments comprise expenses incurred in respect of subsequent financial years.

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

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

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

Current tax and deferred tax
Under the joint taxation rules, the subsidiaries are liable to the tax authorities for their own income taxes as they pay their joint taxation contributions to the management company.

Joint taxation contributions payable and receivable are recognised in the balance sheet under payable and receivable joint taxation contributions, respectively.

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

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

Adjustment of deferred tax is made relating to eliminations of unrealised intragroup profits and losses.

Deferred tax is measured in accordance with the tax rules and tax rates in the respective countries that will apply under the legislation enacted at the balance sheet date when the deferred tax is expected to crystallise in the form of current tax.

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

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

Provisions for removal of production plant and reinstatement of drilling sites are measured at the present value of the expected future liability in respect of reinstatement and decommissioning as estimated at the balance sheet date. The amount provided is determined on the basis of existing requirements and estimated expenses, which are discounted to present value. A discount rate is used that reflects society's general interest rate level, adding the specific estimated risks related to the provision. These liabilities are recognised as they arise and are adjusted on a regular basis to reflect changes in requirements, price level, etc. The equivalent value of the provision is recognised under property, plant and equipment and depreciated together with the relevant assets. The increase in time of the present value is recognised in the income statement under Financial expenses.

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

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

Financial liabilities include the capitalised residual lease commitment on finance leases.

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

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

Other payables
Other payables include negative fair values of derivative financial instruments, etc.

Deferred income
Deferred income comprises payments received, etc., in respect of income in subsequent years. Deferred income includes the value of unrecognised amounts in respect of natural gas delivered under contract, etc., which is recognised at realisable value.

The value of natural gas free of charge delivered under contract is spread proportionally over the remaining contract period with a view to accounting for purchased goods on an accruals basis.

CASH FLOW STATEMENT

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

The cash flow statement is presented according to the indirect method.

Cash flows from operating activities
Cash flows from operating activities are determined as profit after tax adjusted for non-cash operating items, changes in working capital, interest paid and income tax paid.

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

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

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

Cash and cash equivalents
Cash and cash equivalents comprise available cash that is part of the ongoing cash management. Cash and cash equivalents also comprise securities with a maturity of less than three months that are readily convertible to cash and are subject to an insignificant risk of changes in value.

SEGMENT INFORMATION

Information is provided on business segments (primary segments) and geographical markets (secondary segments). The segments reflect the company risks and internal reporting structure.

The segment information has been prepared in accordance with the company´s accounting policies.

FINANCIAL RATIOS

Financial ratios have been calculated in accordance with the Danish Society of Financial Analysts' “Recommendations & Financial Ratios 2005”.
The financial ratios under financial highlights have been calculated as follows:

EBITDA margin	$\frac{\text{Earnings before interest, tax, depreciation and amortisation (EBITDA)}}{\text{Revenue}}$

EBIT margin	$\frac{\text{Operating profit (EBIT)}}{\text{Revenue}}$
Net interest-bearing receivables	Interest-bearing receivables and cash less interest-bearing liabilities

Income statement for the year ended 31 December 2005

DKK '000	Note	2005	2004
Revenue	1	13,753,257	9,957,770
Cost of goods sold	2	(10,372,003)	(7,994,280)
Gross profit		3,381,254	1,963,490
Sales and marketing	2	(192,177)	(203,884)
Management and administration	2	(154,725)	(87,859)
Other operating income and expenses	3	987	(94)
Profit before amortisation and impairment losses on rights		3,035,339	1,671,653
Amortisation and impairment losses on rights	2	0	(95,000)
Operating profit (EBIT)		3,035,339	1,576,653
Share of profit before tax of subsidiaries	9	1,552	2,410
Share of profit before tax of associates	9	(8,475)	0
Financial income	4	137,301	174,865
Financial expenses	5	(591,865)	(120,282)
Profit before tax		2,572,852	1,633,646
Tax on profit for the year	6	(674,387))	(496,693)
Profit for the year		1,899,465	1,136,953

Proposal for distribution of profit

The Supervisory Board proposes that the profit for the year, DKK 1,899,465,000, be distributed as follows:

	2005	2004
Dividends	1,899,465	1,136,953
Reserve for net revaluation according to the equity method	4,309	13,684
Retained earnings	(4,309)	(13,684)
	1,899,465	1,136,953
Dividend per DKK 100 share	186	111

Balance sheet at 31 December 2005

DKK '000	Note	2005	2004
Assets			
Rights		1,511,322	467,213
Prepayments for rights		0	161,091
IT projects		22,261	0
IT projects in progress		0	0
Intangible assets	7	1,533,583	628,304
Land and buildings		2.136	2,579
Production assets		3,714,138	3,878,488
Fixtures and fittings, tools and equipment		98	881
Assets in progress		10,879	0
Property, plant and equipment	8	3,727,251	3,881,948
Investments in subsidiaries		477,548	53,384
Investments in associates		528,759	0
Other equity investments		67,951	74,352
Financial fixed assets	9	1,074,258	127,736
Fixed assets		6,335,092	4,637,988
Inventories	10	687,525	450,295
Trade receivables	11	2,449,673	1,472,044
Receivables from group enterprises	12	2,675,333	3,289,805
Joint taxation contribution receivable	19	0	0
Other receivables	13	1,974,575	1,054,739
Prepayments	14	357	6,402
Receivables		7,099,938	5,822,990
Cash and cash equivalents		356,778	65,487
Current assets		8,144,241	6,338,772
Total assets		14,479,333	10,976,760

Balance sheet at 31 December 2005

DKK '000	Note	2005	2004
Equity and liabilities			
Share capital		1,020,000	1,020,000
Share premium		0	0
Net revaluation according to the equity method		19,432	15,123
Retained earnings		3,816,224	4,333,097
Proposed dividends		1,899,465	1,136,953
Equity	15	6,755,121	6,505,173
Deferred tax	16	785,609	685,382
Other provisions	17	185,773	135,157
Provisions		971,382	820,539
Mortgage loans		344,677	370,480
Payables to group enterprises		696,504	0
Long-term liabilities other than provisions	18	1,041,181	370,480
Mortgage loans	18	23,704	44,184
Bank overdrafts	18	315,992	475,320
Trade payables		1,929,200	1,347,900
Payables to group enterprises	18	151,132	63,653
Joint taxation contribution payable	19	150,597	60,334
Other payables	20	2,891,413	985,776
Deferred income	21	249,611	303,401
Short-term liabilities other than provisions		5,711,649	3,280,568
Liabilities other than provisions		6,752,830	3,651,048
Total equity and liabilities		14,479,333	10,976,760

Notes without reference	27-28
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Group structure	31

Statement of changes in equity for the year ended 31 December 2005

DKK '000	Share capital	Share premium	Net revalua-tion according to the equity method	Retained earnings	Proposed dividends	Total
Equity at 1 January 2004	1,020,000	222,000	1,439	4,376,449	1,237,078	6,856,966
Dividends paid	0	0	0	0	(1,237,078)	(1,237,078)
Profit for the year	0	0	13,684	1,123,269	0	1,136,953
Transfer following merger with subsidiary	0	(190,000)	0	190,000	0	0
Foreign exchange adjustments, foreign companies	0	0	0	(62)	0	(62)
Value adjustments of hedging instruments during period	0	0	0	(359,437)	0	(359,437)
Tax on equity items	0	0	0	107,831	0	107,831
Transfer	0	(32,000)	0	32,000	0	0
Proposed dividends	0	0	0	(1,136,953)	1,136,953	0
Equity at 1 January 2005	1,020,000	0	15,123	4,333,097	1,136,953	6,505,173
Dividends paid	0	0	0	0	(1,136,953)	(1,136,953)
Profit for the year	0	0	4,309	1,895,156	0	1,899,465
Prior year adjustments	0	0	0	1,606	0	1,606
Foreign exchange adjustments, foreign companies	0	0	0	299	0	299
Value adjustments of hedging instruments during period	0	0	0	(714,541)	0	(714,541)
Tax on equity items	0	0	0	200,072	0	200,072
Transfer	0	0	0	0	0	0
Proposed dividends	0	0	0	(1,899,465)	1,899,465	0
Equity at 31 December 2005	1,020,000	0	19,432	3,816,224	1,899,465	6,755,121

Cash flow statement for the year ended 31 December 2005

DKK '000	Note	**2005**	**2004**
Cash flows from operations (operating activities)	22	2,571,112	1,000,355
Interest income and similar items		137,301	147,695
Interest expense and similar items		(261,626)	(83,120)
Income tax paid		(265,621)	(128,215)
Cash flows from operating activities		2,181,166	936,715
Acquisition of intangible assets		(976,663)	(161,091)
Acquisition of property, plant and equipment	23	(45,353)	(334,364)
Acquisition of subsidiaries	24	(391,977)	(11,021)
Acquisition of associates	25	(457,973)	0
Capital contributions to subsidiaries		(38,250)	0
Loans to subsidiaries		0	(591,988)
Acquisition of other equity investments and securities		6,401	(74,864)
Sale of other equity investments and securities		0	512
Cash flows from investing activities		(1,903,815)	(1,172,816)
Increase in loans from group enterprises		1,398,455	0
Increase in assets held under finance leases	23	0	0
Interest, finance leases		(41,950)	0
Decrease in other loans		(46,284)	(46,436)
Dividends paid to shareholders in the parent company		(1,136,953)	(1,237,078)
Cash flows from financing activities		173,268	(1,283,514)
Net increase (decrease) in cash and cash equivalents		450,619	(1,519,615)
Cash and cash equivalents at 1 January		(409,833)	1,104,326
Unrealised foreign exchange adjustments		0	5,456
Cash and cash equivalents at 31 December	26	40,786	(409,833)

Notes to the income statement

Note 1 Segment information

The company has a single segment, which comprises sale of natural gas.
All assets are physically located in Denmark.

Geographical breakdown of revenue by customer location

Activities

DKK '000	Denmark	Rest of EU	Rest of world	Total
Revenue 2005	8,623,508	5,129,749	0	13,753,257
Revenue 2004	6,254,478	3,703,292	0	9,957,770

Revenue includes market value adjustments of DKK 110 million (2004: DKK 12 million) in respect of physical contracts concerning trading in gas and electricity and in respect of financial contracts.

Note 2 Operating expenses

Operating expenses comprise Production costs, which comprise cost of sales, operation and maintenance of production assets and transportation and storage services; Sales and marketing; Management and administration; and Other operating expenses.

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

DKK '000	2005	2004
Staff costs		
Wages, salaries and remuneration	(108,385)	(96,178)
Pension contributions	(10,219)	(9,305)
Other social security costs	(516)	(572)
Other staff costs	(618)	(530)
Staff costs	(119,738)	(106,584)
Staff costs are recognised as follows:		
Production costs	(13,952)	(14,480)
Sales and marketing	(77,556)	(74,428)
Management and administration	(28,230)	(17,676)
Staff costs	(119,738)	(106,584)

Note 2 Operating expenses - continued

DKK '000	2005	2004
Including:		
Remuneration to the Executive Board	(2,279)	(1,907)
Remuneration to the Executive Board, bonus paid	(395)	0
Total	(2,674)	(1,907)

A bonus programme has been established for members of the Executive Board. The contracts of service of the members of the Executive Board include a termination package under which they will be entitled to twenty-four months' salary if their service contracts are terminated by the company.

DKK '000	2005	2004
Number of full-time employees:		
Average for the financial year	219	199
At 31 December	227	207

Depreciation, amortisation and impairment losses by function:		
Production costs (depreciation)	(257,678)	(227,167)
Production costs (impairment losses)	(35,794)	0
Rights (amortisation)	(23,750)	(95,000)
Depreciation, amortisation and impairment losses	(317,222)	(322,167)

Fees to auditors		
KPMG C. Jespersen		
Audit fees	(669)	(512)
Non-audit fees	(4,184)	(4,490)
	(4,853)	(5,002)
BDO Scanrevision		
Audit fees	(150)	0
Non-audit fees	0	0
	(150)	0
PricewaterhouseCoopers		
Audit fees	0	(110)
Non-audit fees	0	(12)
	0	(112)
Fees to auditors	(5,003)	(5,124)

Note 3 Other operating income and expenses

DKK '000	2005	2004
Gains on sale of fixed assets	49	0
Other operating income	996	0
Other operating income	1,045	0
Loss on sale of fixed assets	(58)	(94)
Other operating expenses	(58)	(94)
Total other operating income and expenses	987	(94)

Note 4 Financial income

DKK '000	2005	2004
Interest income	36,733	59,763
Intragroup interest income	45,935	55,463
Realised capital gains on securities	0	1,539
Fair value adjustments of financial instruments	10,547	27,116
Foreign exchange gains	44,086	30,984
Financial income	137,301	174,865

Note 5 Financial expenses

DKK '000	2005	2004
Interest expense	(29,444)	(36,885)
Intragroup interest expense	(30,636)	(9,975)
Interest element of abandonment costs	(4,818)	(5,510)
Index adjustment of mortgage loans	0	(2,334)
Realised capital losses on securities	(587)	(3,519)
Fair value adjustments of financial instruments	(463,388)	(29,256)
Foreign exchange losses	(62,992)	(32,803)
Financial expenses	(591,865)	(120,282)
Revenue for the year includes foreign exchange adjustments of:	248,799	189,261
The profit for the year includes foreign exchange adjustments of	229,893	187,442

Note 6 Tax on profit for the year

DKK '000	2005	2004
Tax for the year can be broken down as follows:		
Tax on profit for the year	(673,983)	(496,693)
Tax on changes in equity	200,072	107,831
Tax for the year	(473,911)	(388,862)
Tax on profit for the year can be broken down as follows:		
Current tax	(587,680)	(344,081)
Deferred tax	(148,712)	(149,190)
Tax in subsidiaries	(8,681)	(3,617)
Tax in associates	(9,523)	0
Adjustments of current tax for prior years	31,724	1,758
Adjustments of deferred tax relating to prior years due to change of current tax rate from 30% to 28%	45,692	0
Other adjustments of deferred tax for prior years	2,793	(1,563)
Tax on profit for the year	(674,387)	(496,693)
Tax on profit for the year can be explained as follows:		
Calculated 28% tax on profit before tax	28.0	30.0
Adjustment of calculated tax in foreign group enterprises in relation to 28%	0.0	0.0
Tax effect of:		
Non-taxable income	(0.1)	0.0
Non-deductible costs in general	0.6	0.4
Share of profit after tax of associates	0.1	0.0
Adjustments of prior year taxes	(2.9)	0.0
Effective tax rate	25.7	30.4

Notes to the balance sheet

Note 7 Intangible assets

DKK '000	Rights	Prepay-ments for rights	IT projects	IT projects in progress	Total
Cost at 1 January	950,000	161,091	0	0	1,111,091
Reclassifications at 1 January	0	0	0	0	0
Addition on acquisition of enterprise	0	0	0	0	0
Additions	39	906,729	36,503	33,391	976,662
Transfer from property, plant and equipment	1,067,820	(1,067,820)	33,391	(33,391)	0
Cost at 31 December	2,017,859	0	69,894	0	2,087,753
Amortisation and impairment losses at 1 January	(482,787)	0	0	0	(482,787)
Reclassifications at 1 January	0	0	0	0	0
Amortisation	(23,750)	0	(11,839)	0	(35,589)
Impairment losses	0	0	(35,794)	0	(35,794)
Amortisation and impairment losses at 31 December	(506,537)	0	(47,633)	0	(554,170)
Carrying amount at 31 December	1,511,322	0	22,261	0	1,533,583
Amortised over	5-20 years	Not amortised	5 years	Not amortised	

No amortisation of the gas purchase right with a cost of DKK 1,068 million commenced in 2005. Amortisation will commence when the underlying production plant is taken into use, which is scheduled for 2007.

An amount of DKK 1,895,000 was capitalised in 2005 in respect of work carried out by the company on its own account.

Impairment testing of IT projects and IT projects in progress
The carrying amount of IT projects and IT projects in progress at 31 December 2005 amounted to DKK 22 million and DKK 0 million, respectively.

A review of DONG's IT systems has been undertaken as part of the preparations for the expected merger in 2006. The review included an assessment of expected future efficiency improvements and savings based on the planned use of the individual systems.

At 31 December 2005 DONG carried out an impairment test of the carrying amount of IT projects and IT projects in progress.

Based on the impairment tests performed, it is estimated that the carrying amount exceeds the recoverable amount. Against this background, the carrying amount of IT projects has been reduced by DKK 36 million, which is recognised in the income statement under production costs.

Note 8 Property, plant and equipment

DKK '000	Land and buildings	Production assets	Fixtures and fittings, tools and equipment	Assets in progress	Total
Cost at 1 January	11,008	8,364,332	3,514	0	8,378,854
Additions	0	794,372	0	12,293	806,665
Transfers	0	1,414	0	(1,414)	0
Disposals	0	(735,256)	(950)	0	(736,206)
Cost at 31 December	11,008	8,424,862	2,564	10,879	8,449,313
Depreciation at 1 January	(8,429)	(4,485,844)	(2,633)	0	(4,496,906)
Depreciation, disposals	0	20,318	365	0	20,683
Depreciation	(443)	(245,198)	(198)	0	(245,839)
Depreciation at 31 December	(8,872)	(4,710,724)	(2,466)	0	(4,722,062)
Carrying amount at 31 December	2,136	3,714,138	98	10,879	3,727,151
Depreciated over	20 years	10-20 years	3-5 years	Not depreciated	
With assets held under finance leases accounting for		705,931			
Value according to public land assessment	30,513				

An amount of DKK 1,182,000 was capitalised in 2005 in respect of work carried out by the company on its own account.

Property, plant and equipment with a carrying amount of DKK 705,931,000 at 31 December 2005 has been financed under finance leases. The lease commitment at 31 December 2005 amounted to DKK 1,280,570,000. As lessor, DONG Naturgas Pipelines holds the legal ownership in the pipeline, but substantially all rewards and risks, including maintenance obligations related to the pipeline, lie with DONG Naturgas as the lessee. The cost of finance leases is determined as the present value of the future lease payments. The present value is determined using the interest rate implicit in the lease as the discount rate. As the lessee DONG Naturgas is entitled to acquire the lessor's ownership interest in the pipeline at market price from DONG Naturgas Pipelines on expiry of the agreement.

The depreciation charge for the year, DKK 245,839,000 in total, is recognised in the income statement as Production costs, Sales and marketing, and Management and administration, respectively. Reference is made to note 2.

The carrying amounts of the natural gas network were reviewed at the end of 2005. External valuers were not used in connection with the valuation.

Note 9 Financial fixed assets

DKK '000	Investments in subsidiaries	Investments in associates	Other equity investments
Cost at 1 January	53,214	0	74,352
Additions	38,250	0	0
Additions by acquisition	391,979	545,916	0
Disposals	0	0	(6,401)
Cost at 31 December	483,443	545,915	67,951
Value adjustments at 1 January	170	0	0
Prior year adjustments	1,606	0	0
Share of profits for the year	6,851	13,226	0
Impairment losses on rights	0	0	0
Goodwill amortisation	(13,980)	(31,224)	0
Value adjustments, etc.	(542)	841	0
Value adjustments at 31 December	(5,895)	(17,157)	0
Carrying amount at 31 December	477,548	528,759	67,951
Proposed dividends	0	0	

Other equity investments have the following repayment profiles:

DKK '000 Repayment year	Amount
2006	11,129
2007	10,327
2008	9,461
2009	8,684
2010	7,037
2011 or later	21,313

Note 9 Financial fixes assets (continued)

Subsidiaries

	Registered office	Share capital (in million)		Ownership interest	Profit (loss) before tax 2005	Profit (loss) before tax 2004	Equity 2005	Equity 2004
DONG Faste Vilkår A/S	Birkerød, Denmark	DKK	10	100%	5,283	(7,698)	37,358	37,961
DONG Naturgas Pipelines A/S	Birkerød, Denmark	DKK	25	100%	26,186	0	43,822	0
DONG Germany GmbH	Dorsten, Germany	EUR	0.026	100%	420	143	729	358
DONG Sverige AB	Göteborg, Sweden	SEK	0.1	100%	(10,427)	20,957	8,055	15,118
DONG Netherlands BV	Amsterdam, the Netherlands	EUR	0.018	100%	65	(187)	208	(53)
E-nord GmbH	Lübeck, Germany	EUR	0.5	75%	(3,014)	0	12,148	0
Intergas Levering BV	Oosterhout, the Netherlands	EUR	0.018	100%	(2,981)	0	109,617	0
Profit before impairment loss on right and investments in subsidiaries					15,532	13,215	211,937	53,384
Impairment loss on right					0	(10,805)		
Goodwill amortisation					(13,980)	0		
Goodwill at 31 December							265,611	0
Profit before tax					1,552	2,410		
Tax on profit for the year					(8,681)	(3,617)		
Profit after tax of subsidiaries					(7,129)	(1,207)		
Investment in subsidiaries							477,548	53,384

DONG Naturgas A/S acquired the following companies in 2005, which have been accounted for in accordance with the purchase method:

- 100% of the shares in DONG Naturgas Pipelines A/S, accounting effect from 31 January 2005, total purchase price approx. DKK 0.5 million.
- 100% of the shares in Intergas Levering BV, accounting effect from 30 September 2005, total purchase price approx. DKK 391.3 million.
- 74.9% of the shares in E-nord GmbH, accounting effect from 1 March 2005, total purchase price approx. DKK 0.2 million.

Associates

	Registered office	Ownership interest	Share of profit before tax 2005	Share of profit before tax 2004	Investment 2005	Investment 2004
Energie und Wasser Lübeck GmbH	Lübeck, Germany	25.1 %	22,749	0	372,639	0
Total			22,749	0	372,639	0
Goodwill amortisation			(31,224)	0	0	0
Goodwill at 31 December			0	0	156,120	0
Total			(8,475)	0	528,759	0

DONG Naturgas A/S made the following acquisition in 2005, which has been accounted for in accordance with the purchase method:

- 25.1% of the shares in Energie und Wasser Lübeck GmbH, accounting effect from 1 March 2005, total purchase price approx. DKK 545.9 million.

Note 10 Inventories

DKK '000	**2005**	**2004**
Natural gas	687,525	450,295
Inventories at 31 December	687,525	450,295

Note 11 Trade receivables

DKK '000	**2005**	**2004**
Trade receivables at 31 December	2,449,673	1,472,044

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

Most receivables are denominated in DKK. The currency risk is therefore insignificant.

Note 12 Receivables from group enterprises

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

Most receivables are denominated in DKK. The currency risk is therefore insignificant.

Note 13 Other receivables

DKK '000	2005	2004
Fair value of derivative financial instruments	1,771,103	654,599
Interest receivable	6,529	3,822
Receivable Nogat operator	0	4,592
Receivables in respect of wholesale dealer	0	236,105
Other receivables	196,943	155,621
Other receivables at 31 December	1,974,575	1,054,739

Note 14 Prepayments

DKK '000	2005	2004
Prepaid expenses	125	6,402
Fair value of derivative financial instruments	232	0
Prepayments at 31 December	357	6,402

Note 15 Equity

DKK '000	2005	2004
Share capital		
At beginning and end of year	1,020,000	1,020,000

Composition of share capital:

Number of shares		Nominal value (DKK ,000)		Total (DKK '000)
1	at	1,000,000	=	1,000,000
20	at	1	=	20,000
				1,020,000

Note 15 Equity (continued)

Ownership
The company's financial statements form part of the consolidated financial statements of DONG A/S, Birkerød, which owns the whole of the share capital.

Foreign exchange adjustments concerning foreign subsidiaries

DKK '000	2005	2004
Accumulated foreign exchange adjustments at 1 January	(62)	0
Foreign exchange adjustments during the year	299	(62)
Accumulated foreign exchange adjustments at 31 December	237	(62)

Value adjustments of hedging instruments

DKK '000	2005	2004
Value adjustments of hedging instruments at 1 January	(73,724)	285,713
Value adjustments for the year, hedging instruments	(714,541)	(359,437)
Value adjustments of hedging instruments at 31 December	(788,265)	(73,724)

Tax on value adjustments of hedging instruments

DKK '000	2005	2004
Tax on value adjustments of hedging instruments at 1 January	22,117	(85,714)
Effect of reduction of Danish income tax rate from 30% to 28%	(1,474)	0
Tax on value adjustments of hedging instruments	200,072	107,831
Tax on value adjustments of hedging instruments at 31 December	220,715	22,117

Note 16 Deferred tax

DKK '000	2005	2004
Deferred tax at 1 January	685,382	534,629
Effect of reduction of Danish income tax rate from 30% to 28%	(45,692)	0
Other prior year adjustments	(2,793)	1,563
Deferred tax for the year	148,712	149,190
Deferred tax at 31 December	785,609	685,382
Deferred tax is recognised in the balance sheet as follows:		
Deferred tax (Asset)	0	0
Deferred tax (Liability)	785,609	685,382
Deferred tax relates to:		
Intangible assets	89,015	(103,718)
Property, plant and equipment	1,005,989	905,658
Provisions	(245,238)	(33,143)
Liabilities other than provisions	(64,157)	(83,415)
	785,609	685,382

Note 17 Other provisions

DKK '000	2005	2004
Provisions at 1 January	135,157	129,647
Provision for the year	0	0
Change in present values as a result of the lapse of time, etc.	50,616	5,510
Provisions at 31 December	185,773	135,157
The provisions are expected to be payable in:		
0-1 years	0	0
1-5 years	0	0
> 5 years	185,773	135,157
	185,773	135,157

Provisions comprise expected future costs for restoration and decommissioning of the company's production plant, etc. The provisions have been discounted to present value. The equivalent value of the provision is recognised under property, plant and equipment and depreciated together with the relevant assets.

Note 18 Short-term and long-term loans

The company's loans have been raised in DKK.

The loans have the following repayment profile:

DKK '000 Repayment year	Amount
2006	357,949
2007	19,555
2008	20,947
2009	22,439
2010	24,038
2011 or later	954,202

Mortgage loans totalling DKK 368 million are secured on plant with a carrying amount of DKK 278 million at year end.

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

Short-term and long-term loans include long-term liabilities other than provisions, relating to assets held under finance leases, which can be broken down as follows:

	2005		
DKK '000	Lease payment	Interest	Carrying amount
0-1 years	66,157	47,904	18,253
1-5 years	264,626	177,648	86,978
> 5 years	949,787	340,261	609,526
	1,280,570	565,813	714,757

Comparative figures for 2004 are not stated, as there has not previously been any liabilities relating to finance leases.

Production plant with a carrying amount of DKK 705,931,000 at 31 December 2005 has been financed under finance leases. The lease commitment at 31 December 2005 amounted to DKK 1,280,570,000.

Note 19 Joint taxation contributions receivable and payable

DKK '000	2005	2004
Joint taxation contribution receivable at 1 January	0	31,651
Addition by merger	0	11,376
Adjustments of current tax for prior years	0	1,758
Payments in respect of prior years	0	(44,785)
Joint taxation contribution receivable at 31 December	0	0
Joint taxation contribution payable at 1 January	60,334	0
Addition by merger	0	(2,916)
Adjustments of current tax for prior years	(31,724)	0
Payments in respect of prior years	(28,610)	0
Current tax for the year	587,680	344,081
Tax on equity	(200,072)	(107,831)
Payments for the year	(237,011)	(173,000)
Joint taxation contribution payable at 31 December	150,597	60,334

Note 20 Other payables

DKK '000	2005	2004
Fair value of derivative financial instruments	2,448,057	782,919
Interest payable	56	112
Taxes and duties	335,001	189,441
Holiday pay obligations	16,145	12,982
Other	92,154	322
Other payables at 31 December	2,891,413	985,776

Note 21 Deferred income

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

Deferred income can be broken down as follows:

DKK '000	2005	2004
Prepayments	64,295	75,975
Value of gas received free of charge	75,946	102,063
Other	109,370	125,363
Deferred income at 31 December	249,611	303,401

Notes to the cash flow statement

Note 22 Cash flows from operations (operating activities)

DKK '000	2005	2004
Operating profit (EBIT)	2,585,960	1,576,653
Profits of group enterprises	1	2,410
Depreciation, amortisation and impairment losses	317,223	332,972
Other corrections	(55,858)	41,069
Cash flows from operations (operating activities) before changes in working capital	2,847,326	1,953,104
Change in inventories	(237,230)	(238,332)
Change in trade receivables	(969,509)	(147,111)
Change in receivables	196,668	(546,073)
Change in trade payables, etc.	581,301	556,740
Change in other payables	152,556	(577,973)
Changes in working capital	(276,214)	(952,749)
Cash flows from operating activities (EBIT)	2,571,112	1,000,355

Note 23 Elimination of assets held under finance leases and liabilities under finance leases

DKK '000	2005	2004
Acquisition of property, plant and equipment, see note 8	806,665	334,364
Portion relating to adjustment of abandonment obligation	(45,799)	0
Portion relating to assets held under finance leases	(715,513)	0
Paid in respect of acquisition of property, plant and equipment	45,353	334,364
Proceeds on increase in finance lease debt	715,513	0
Portion relating to finance lease debt	(715,513)	0
Proceeds on increase in mortgage loans and finance lease debt	0	0

Note 24 Acquisition of subsidiaries

Acquisition of the subsidiaries DONG Naturgas Pipelines A/S, E-nord GmbH and Intergas Levering B.V.
The value of the acquired assets and liabilities is as follows (preliminary distribution):

DKK ‘000	2005	2004
Intangible assets	154,470	0
Property, plant and equipment	3,179	0
Investments	0	11,021
Receivables	208,109	0
Cash	698	0
Liabilities other than provisions	(254,070)	0
Acquired net assets	112,386	0
Goodwill	279,591	11,021
Acquisition cost	391,977	11,021
Portion recognised as purchase price payable	0	0
Cash purchase price	391,977	11,021

Note 25 Acquisition of associates

Acquisition of 25.1% of Energie und Wasser Lübeck GmbH
The value of the acquired assets and liabilities is as follows (preliminary distribution):

DKK ‘000	2005	2004
Intangible assets	149,732	0
Property, plant and equipment	549,525	0
Investments	6,381	0
Inventories	3,476	0
Receivables	60,419	0
Cash	78,222	0
Provisions	(154,932)	0
Liabilities other than provisions	(334,251)	0
Acquired net assets	358,572	0
Goodwill	187,344	0
Acquisition cost	545,916	0
Portion recognised as purchase price payable	(87,943)	0
Cash purchase price	457,973	0

Note 26 Cash and cash equivalents

DKK '000	2005	2004
Cash and cash equivalents at 31 December include:		
Cash	356,778	65,487
Bank overdrafts	(315,992)	(475,320)
Cash and cash equivalents at 31 December	40,786	(409,833)

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

DKK '000	2005	2004
Available cash	356,778	65,487
Cash not available for use	0	0
Cash at 31 December	356,778	65,487
Payables to credit institutions at 31 December can be broken down as follows:		
Bank overdrafts	(315,992)	(475,320)
Payables to credit institutions at 31 December	(315,992)	(475,320)

Notes without reference

Note 27 Currency risks, interest rate risks and oil and gas price risks

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

Currency risks

Recognised assets and liabilities (hedging of fair values)

DKK ‘000

Currency	Receiv-ables	Liabilities other than provi-sions	Hedged using forward exchange contracts and currency swaps	Net position
EUR	490,981	(394,663)	0	96,318
USD	256	0	0	256
GBP	55	(2,871)	0	(2,816)
SEK	46,619	(4,161)	0	42,458
NOK	2,494	0	0	2,494
CHF	1,866	0	0	1,866
	542,271	(401,695)	0	140,576

Note 27 Currency risks, interest rate risks and oil and gas price risks (continued)

Future transactions (hedging of cash flows)

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

DKK '000	Term	Contractual principal 2005	Contractual principal 2004	Fair value 2005	Fair value 2004	Of which recognised in equity 2005	Of which recognised in equity 2004
Forward exchange contracts	0-4 years	748,059	1,169,321	34,334	163,725	33,067	163,525
Currency swaps	0-5 years	600,822	656,112	97,695	221,341	25,008	139,343
Currency options	0 years	0	0	0	0	0	0
Derivative financial instruments, total		1,348,881	1,825,433	132,029	385,066	58,075	302,868
Loans in foreign currency	0 years	0	0	0	0	0	0
Financial instruments, total		1,348,881	1,825,433	132,029	385,066	58,075	302,868

Equity at 31 December 2005 also includes realised net gains on financial instruments, DKK 30,146,000 (31 December 2004: DKK 276,189,000) for later recognition in the income statement.

Interest rate risks

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

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

	Term				
Category	**0-1 years**	**1-5 years**	**> 5 years**	**Total**	**Effective interest rate (%)**
Other securities	11,129	35,509	21,313	67,951	7-14
Trade receivables	2,449,333	0	0	2,449,333	0
Other receivables	1,974,575	0	0	1,974,575	0
Receivables, group enterprises, interest-bearing	2,731,879	0	0	2,731,879	2-7
Payables, group enterprises, interest-bearing	(18,253)	(86,978)	(609,525)	(714,756)	2-7
Payables, group enterprises, non-interest-bearing	(189,426)	0	0	(189,426)	0

Mortgage loans and bank loans	(339,696)	0	(344,677)	(684,373)	3-5
Other short-term liabilities other than provisions	(4,820,614)	0	0	(4,820,614)	0
	1,798,927	(51,469)	(932,889)	814,569	

Note 27 Currency risks, interest rate risks and oil and gas price risks (continued)

Oil and gas price risks

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

DKK '000		Contractual principal		Fair value		Of which recognised in equity	
	Term	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Oil swaps	0-3 years	303,470	998,101	(499,967)	(525,729)	(557,392)	(525,729)
Oil options	0-4 years	5,345,828	1,330,073	203,816	15,540	28,712	0
Gas swaps	0-4 years	31,626,000	337,971	(280,793)	(19,023)	(7,260)	(19,023)
Electricity swaps	1-5 years	89,698	199,465	(94,607)	6,855	(94,356)	6,855
		37,364,996	2,865,610	(671,551)	(522,357)	(630,296)	(537,897)

Equity at 31 December 2005 also includes realised net gains on financial instruments for hedging of oil and gas price risks of minus DKK 147,012,000 (31 December 2004: minus DKK 114,884,000) for later recognition in the income statement.

Note 28 Credit risks

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

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

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

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

Note 29 Contingent liabilities and other liabilities

At the end of the financial year the company had the following contingent and other liabilities:

Guarantee obligations
DONG Naturgas is party to gas purchase agreements with Dansk Undergrunds Consortium (DUC), gas sales agreements and transportation agreements with Nova Naturgas AB (formerly Vattenfall Naturgas AB), and BEB, and the parent company DONG stands as guarantor for fulfilment of these agreements. DONG Naturgas also stands as guarantor vis-à-vis Energinet.dk concerning gas sales agreements and transportation agreements with Ruhrgas.

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

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

Other contingent liabilities
DONG Naturgas and the regional companies HNG and Midt-Nord have concluded an agreement under which DONG Naturgas will provide a financial guarantee securing HNG and Midt-Nord the necessary annual income from transportation activities to pay off their debt in 2014. From 1 January 2006 the guarantee is limited to a sum of DKK 255 million, which will be written down successively by DKK 15 million annually from 1 January 2006 to 1 January 2012. DONG Naturgas' maximum payment obligation will also be written down by the amounts paid in total by DONG Naturgas.

In connection with the unbundling of the former DONG Naturgas on 1 January 2003, the receiving companies, DONG Distribution, DONG Lager, DONG Naturgas and DONG Faste Vilkår, are liable for any obligations in the discontinuing company that existed at the time of publication of the unbundling plan, although only up to an amount equivalent to the added or remaining net value at the time of publication. As a consequence of the subsequent merger between DONG Ejendomme and DONG A/S, DONG A/S has taken over DONG Ejendomme's liability. Likewise, DONG Naturgas has subsequently taken over DONG Individuelle Vilkår's liability by merger.

The company is jointly and severally liable with the other companies in the joint taxation for payment of tax on the income subject to joint taxation.

Note 30 Related party transactions

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

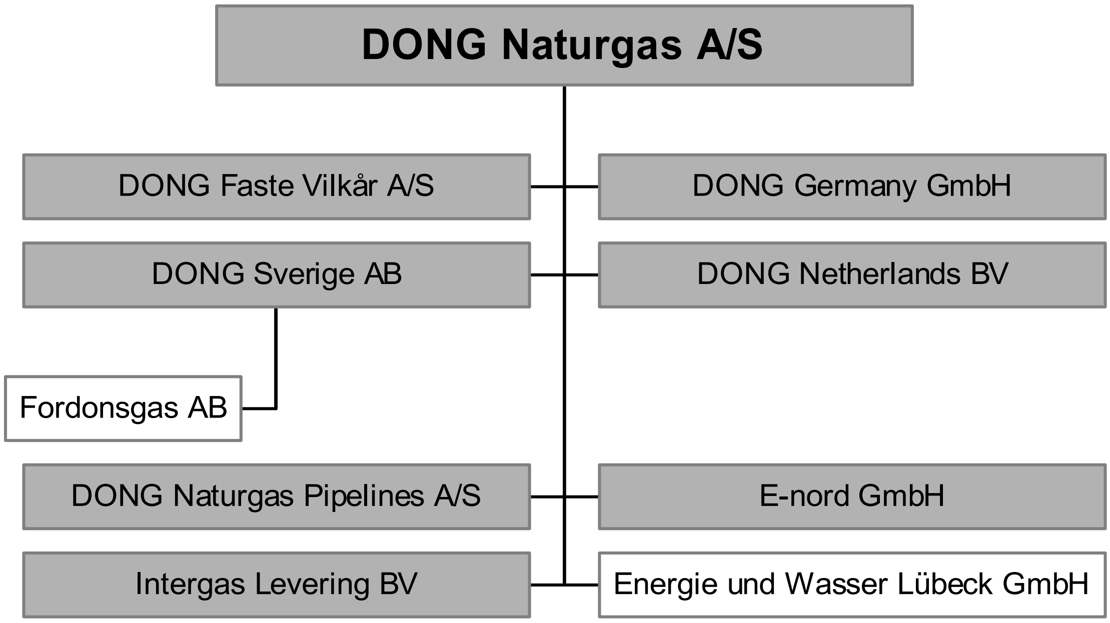
Related parties that exercise significant influence comprise the companies' Supervisory and Executive Boards, senior executives and close members of their families. Related parties also comprise companies over which the persons referred to above exercise significant influence.

The company was involved in the following business arrangements with related parties in the year under review:

On 1 March 2005 the company sold its share of the pipeline that connects the Tyra West platform in the Danish sector of the North Sea with the F3 platform in the Dutch sector to DONG Naturgas Pipelines A/S. In connection with the acquisition DONG Naturgas A/S and DONG Naturgas Pipelines A/S concluded a lease under which DONG Naturgas A/S leases the transportation capacity in the pipeline from 1 March 2005 until 1 March 2025.

Apart from intragroup transactions and normal management remuneration, there have been no other transactions with the Supervisory or Executive Boards, senior executives, the Danish State or any other related parties during the year under review. Remuneration to the Supervisory and Executive Boards is disclosed in note 2.

Note 31 Group structure



Name of company	Registered office	Cur-rency	Share capital (in million)	The Group's ownership interest
DONG Naturgas A/S	Birkerød, Denmark	DKK	1,020	100
DONG Faste Vilkår A/S	Birkerød, Denmark	DKK	10	100
DONG Sverige AB	Göteborg, Sweden	SEK	0.1	100
Fordonsgas AB	Göteborg, Sweden	SEK	6	50
DONG Netherlands BV	Amsterdam, the Netherlands	EUR	0.018	100
DONG Germany GmbH*	Dorsten, Germany	EUR	0.025	100
DONG Naturgas Pipelines A/S	Birkerød, Denmark	DKK	25	100
Intergas Levering BV	Oosterhout, the Netherlands	EUR	0.018	100
E-nord GmbH*	Lübeck, Germany	EUR	0.5	74.9
Energie und Wasser Lübeck GmbH*	Lübeck, Germany	EUR	40	25.1

* Subsidiaries that are not audited by the parent company's auditors.