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Misunderstandings and facts in the book 'Det bedste bud' by Anders-Peter Mathiasen etc.

The publishing house People's Press has just published the book 'Det bedste bud' by the Danish journalist Anders-Peter Mathiasen. The book, which looks at DONG Energy's capital injection in 2013-2014, is, however, extremely biased and full of errors and misunderstandings. The same goes for some of the subsequent media coverage.

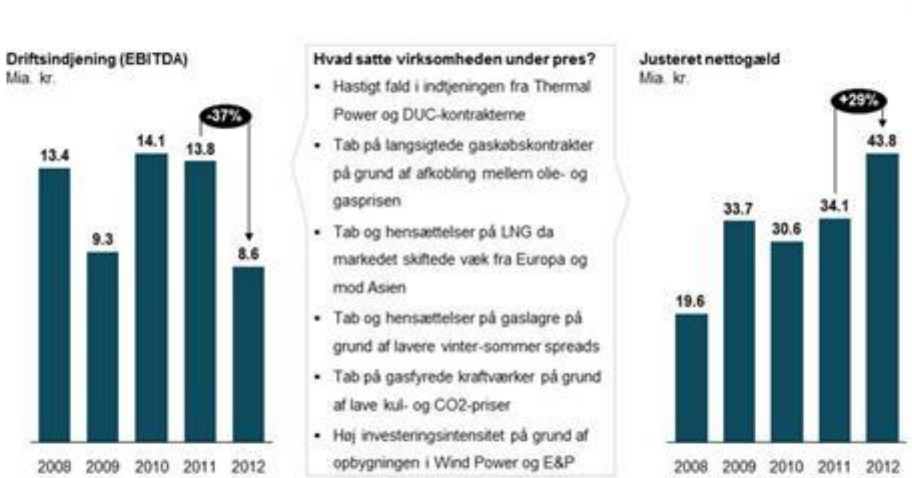
In this document, we address seven of the most basic misunderstandings about the capital injection which have been presented in the book and by the media. Moreover, the book contains many factual errors and misunderstandings, which it is in no way possible for us to correct. Thus, any failure by us to mention a particular issue does not mean that it is correctly presented in the book.

Misunderstanding no. 1: DONG Energy did not need the equity injection

In the book, the view is expressed that in effect DONG Energy had no need for the equity injection and that the DONG Energy management could simply have waited and bided their time (page 103). In the epilogue on page 178, the author states expressly that "The explanation that DONG had an acute capital requirement and was under life-threatening pressure does not hold".

This is incorrect and unfounded and a further sign of the author's lack of research and understanding of the situation in which DONG Energy found itself.

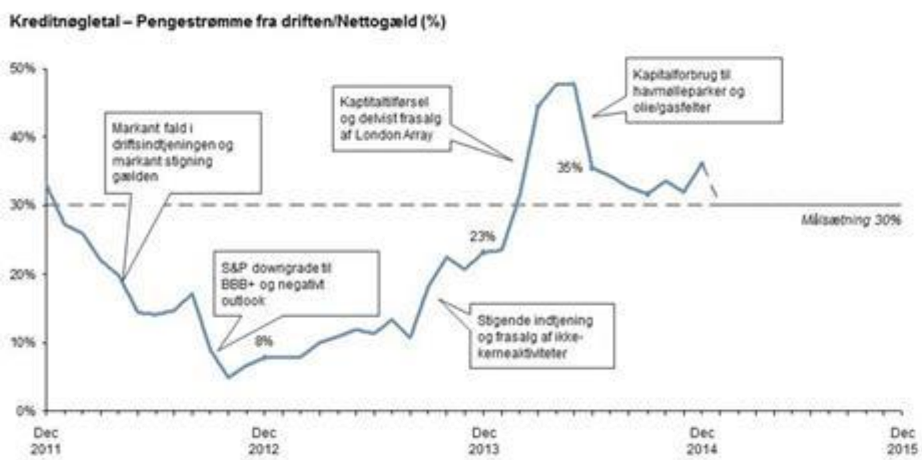
In 2012, the company sustained significant financial losses due to challenges in the gas market. From 2011 to 2012, DONG Energy's operating income dropped by 37%, from DKK 13.8 billion to DKK 8.6 billion. At the same time, the group's debt increased by 29%, from DKK 34.1 billion to DKK 43.8 billion, not least due to the large-scale investment programme within, in particular, Wind Power and E&P.



Note: LNG: Liquefied Natural Gas. Winter-summer spreads: The difference between gas prices in the winter and summer. The greater the difference, the more demand for gas storage capacity.

Declining earnings and increasing debt meant that DONG Energy's creditworthiness came under pressure. The creditworthiness is assessed by the international credit rating agencies based on the ratio of cash flows from operating activities to net debt. If the net debt/cash flow ratio is too high, it increases the risk of a company not being able to meet its obligations. The credit rating agencies therefore set targets for how much debt a company may have in relation to its cash flows from operating activities. DONG Energy needs a solid rating to obtain the necessary financing and trade in the international energy markets.

In the course of 2012, Dong Energy's credit metric came under significant pressure and fell far below the company's target and what is required by the credit rating agencies.



In October 2012, the credit rating agency S&P downgraded DONG Energy to BBB+ with a negative outlook, and in November 2012 DONG Energy was also given a negative outlook by Fitch. The 'negative outlook' meant that if the DONG Energy management did not take significant steps to correct the situation, the rating would be downgraded further. For a company like DONG Energy, having to finance very large investment programmes in a market characterised by considerable risks, it would be untenable and irresponsible of its management to risk a 'non-investment grade' rating. In such a scenario, DONG Energy would be the only large energy group in Europe without a solid investment grade rating.

That is why the group's credit rating had to be restored. In February 2013, DONG Energy's Group Executive Management therefore announced a five-point financial action plan:

a. Divestment of non-core activities in the sum of DKK 10 billion
b. Reduction of ownership interest in core activities
c. Cost savings of DKK 1.2 billion
d. Restructuring of the loss-making gas business
e. Equity injection of at least DKK 6-8 billion

The successful implementation of all these five initiatives was a prerequisite for restoring DONG Energy's credit rating. All our calculations showed that the financial action plan was dependent on the injection of new equity. Without new equity, DONG Energy would have to stall its investments to redress the balance between cash flows from operations and net debt. However, suddenly halting investments is a very difficult and risky exercise as the group had already undertaken significant capital commitments in the three to four-year term in respect of offshore wind projects in progress as well as oil and gas extraction projects.

The Danish newspaper Politiken has speculated whether DONG Energy did in fact have a genuine need for capital, seeing as DONG Energy received non-recurring income in the amount DKK 5.8 billion from the divestment of 25% of the London Array offshore wind farm in January 2014. Politiken has voiced the claim that this divestment meant that there was no longer any acute need for equity. Politiken is citing Alf Stenqvist, a director with the credit rating agency Standard & Poor's, in support of this claim.

Standard & Poor's has subsequently issued a press release, in which the agency points out that its comments have been misinterpreted in the article. In the press release, the agency makes it clear that the partial divestment of the London Array wind farm was not sufficient to stabilise the rating, but that the stabilisation of the rating that took place on 15 May 2014 was based on an improvement of DONG Energy's total operational and financial performance, including the renegotiation of gas contracts, cost reductions, divestments and the injection of equity.

Misunderstanding no. 2: DONG Energy could have borrowed the money from the Danish state, but wanted private equity

In December 2012, DONG Energy's Board of Directors contacted the Danish Ministry of Finance to secure support for the injection of new equity. DONG Energy did not mind whether the equity came from the state or from private investors.

The book claims that it was DONG Energy's CEO Henrik Poulsen who recommended to Danish Minister of Finance Bjarne Corydon that the injection take the form of private capital (page 106). This is not correct. Throughout the entire process, Henrik Poulsen has made it perfectly clear that, from the company's point of view, the source of the equity was not the deciding factor, but rather something which should be decided by the shareholders.

Against the background of the contact made by DONG Energy, the political parties in the Danish Parliament were engaged in a process and decided that the equity injection should come from private investors.

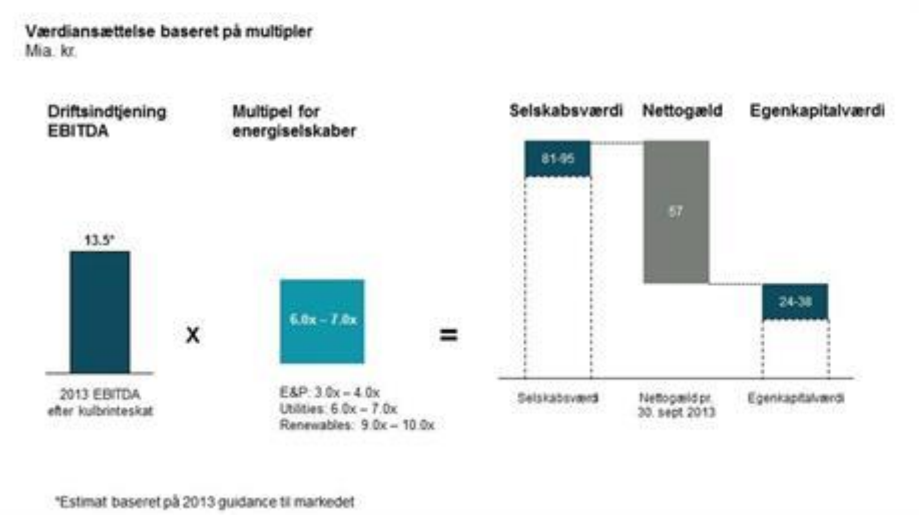
A loan from the Danish state, as suggested by some commentators, would not have resolved DONG Energy's financial problems. The point of the exercise was to reduce the company's debt, and you cannot reduce your debt by arranging more loans.

The book presents the view (pages 157-158) that DONG Energy had plenty of liquidity – so much in fact that it was able to lend money to other large energy companies – and that DONG Energy therefore did not actually have a problem. This shows a misguided understanding of the financial problems facing DONG Energy. The group never had a liquidity problem, ie a problem paying its bills. The problem was that DONG Energy's credit rating fell because the group had too much debt in relation to its cash flows from operating activities.

Misunderstanding no. 3: DONG Energy was valued too low

In the book, the author advocates the view that DONG Energy was valued too low in connection with the capital injection, even that it was sold at a bargain price (pages 152, 178). This is not correct. As has been pointed out several times by DONG Energy, the valuation of DONG Energy was completely in line with that of similar European energy companies.

The valuation of DONG Energy serving as a basis for the capital injection totalled approximately DKK 81-95 billion. This corresponds to 6-7 times the expected operating income in 2013 of DKK 13.5 billion, assessed at the time of the transaction. This valuation is based on earnings multiples corresponding to the valuation of other similar energy companies in Europe at the time. From this amount, one must deduct the considerable debt and other payables in the amount of approximately DKK 57 billion which DONG Energy had at the time of the capital injection. This equates to a valuation of DONG Energy's equity of DKK 24-38 billion, leading to a negotiated equity of DKK 31.5 billion



The book speculates that the value of the equity should be at least on a par with the level seen in connection with the attempted IPO in 2008, an estimated DKK 50-55 billion. However, since then the value of the European energy sector has fallen by 50% as a result of the financial crisis and the significant structural changes in the European energy market. It is therefore not surprising that DONG Energy's value has been reduced by approximately 40% during the same period.

The Danish newspaper Politiken has also speculated that, at the time of the capital injection, the value of DONG Energy was DKK 21 billion higher due to the awarding in 2014 of three large-scale offshore wind farm projects in the UK with state subsidies.

However, these three projects had already been factored into the valuation of DONG Energy on which the capital injection was based. The values at which the projects were factored in reflect the early stages of the projects since no subsidies had been guaranteed for the projects, and since the planning, let alone construction, had not been completed.

The granting of the subsidies was not confirmed until 23 April 2014, ie after the adoption of the capital injection by a broad majority of the parties in the Danish parliament in January 2014. Moreover, the subsidies were conditional upon the approval of the European Commission which came through on 23 April 2014. Therefore, DONG Energy and its investors had no certainty whatsoever as to the award of the three contracts at the time when the equity injection was negotiated in autumn 2013.

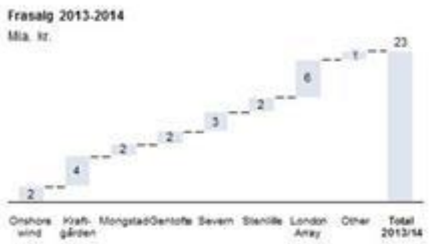
DONG Energy has calculated and informed Politiken that the increased certainty as a result of the award of the CfD contracts for the three projects increased the value of DONG Energy by DKK 2-3 billion all in all.

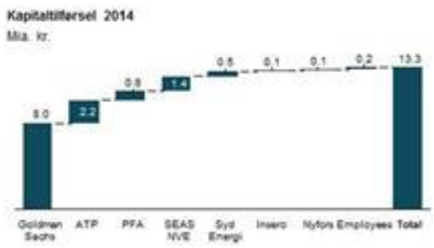
It is important to make clear that it is only towards the end of this decade that the three projects will begin to generate revenue for DONG Energy if the decision is made to invest in them. The capital injection was indeed a precondition for DONG Energy having an adequate financial basis to be able to invest in, for example, these projects.

The question has also been raised whether the bid from Goldman Sachs was, in fact, the best one. It has been mentioned in the media that a better bid had been received from PensionDanmark, which valued DONG Energy at DKK 46 billion. However, it is not correct that PensionDanmark's bid was better as it amounted to an offer of a loan with a required guaranteed minimum return, and not an offer to buy shares. Therefore, it is not correct that there was a better bid than what was offered by the Danish pension funds ATP and PFA and Goldman Sachs.

Misunderstanding no. 4: DONG Energy ended up with more capital than needed

According to the financial action plan, the aim was to divest non-core activities in the amount of DKK 10 billion and to raise capital by reducing ownership interests in selected core assets. The total divestments amounted to DKK 23 billion plus the capital injection of DKK 13.3 billion. Thus, DONG Energy's capital base was boosted by a total of DKK 36.3 billion during 2013 and 2014.





In the book, it is pointed out that the capital injection thus exceeded the capital requirement originally announced in February 2013 (pages 145-146). However, the author of the book takes no account of the fact that in the meantime the international credit rating agencies increased their requirements for the ratio of cash flows to net debt by 5-10 percentage points, to approximately 30%. The strengthened capital base was therefore just enough to meet the increased requirements.

Misunderstanding no. 5: DONG Energy's management designed an attractive incentive programme for itself

The book presents the misunderstanding that the DONG Energy management planned an attractive incentive programme for itself (page 151), and that it deliberately wanted to keep the value of DONG Energy as low as possible (page 110).

This is a completely unfounded and gross insinuation, which implies that the DONG Energy management should have acted contrary to the interests of its shareholders and the Board of Directors for their own personal gain. The capital injection in DONG Energy was based on a value which was completely in line with the value of other European energy companies, and the shares were traded at the price at which shares of this type are traded.

The book sets out to draw a picture of a management contravening the interests of the Danish state. This has no basis in reality. Throughout the process, from start to finish, the DONG management was literally on the same side of the table as the majority shareholder and the Board of Directors and naturally supported their interests loyally. Any other conduct would be unthinkable in such a process and is unlikely to have been tolerated by the majority shareholder or the Board of Directors.

The price was a matter between the Board of Directors and the existing shareholders on the one hand, and the new investors on the other. As the majority shareholder, the Danish state negotiated the price. The price negotiated was, see item 3, fully in line with the general market-based valuation of European energy companies.

The share programme was introduced at the request of the new investors as a way of retaining knowledge and skills in the company in the period leading up to the IPO. Receiving a capital injection from new investors in the amount of DKK 11 billion without having to introduce some form of incentive and retention programme would be highly unusual.

The incentive and retention programme is in no way more attractive than similar programmes in other major Danish companies. In fact, the DONG Energy management and staff are assuming a more direct financial risk than is typical of such schemes. The management will receive no shares or options, but must use their own money to invest in shares in DONG Energy. Any gain depends on DONG Energy increasing in value. In addition, a bonus element is paid if DONG Energy performs better than other European energy companies.

The share programme was designed in collaboration between DONG Energy and the Danish Ministry of Finance and then approved by the new investors. The programme gives both management and staff the opportunity to invest in DONG Energy. In total, 3,078 employees and 212 managers have chosen to buy shares at a value of DKK 251 million. All in all, shares in the amount of DKK 450 million were offered for sale. The share programme corresponds roughly to the programme designed in connection with the attempted IPO in 2008.

The book incorrectly claims (page 112) that the value of the share programme will automatically and most certainly be doubled in connection with an IPO. This is wrong. The book's calculations of the employee share programme are also completely misguided.

The share programme is organised in such a way that both managers and employees invest in the company for their own money and at their own risk to have the opportunity of getting a share of any future value creation. The share programme contains a bonus element which will be triggered if DONG Energy performs better than other European energy companies in the coming years. Assuming that the share price increases by 60% towards 2018 and that DONG Energy's performance will be in the top five of 11 European energy companies, the gain over a four-year period for an employee who has invested DKK 30,000 will be DKK 43,000 after tax. If an employee resigns from his or her position prior to the IPO, which is expected to be completed by 2018, he or she will lose the right to a bonus.

Economics Professor Jesper Jespersen claims in the book that, in reality, the investment is risk-free as the risk of the Danish state letting the company go bankrupt is non-existing. Not going bankrupt does, however, not mean that the value of the share cannot fall below the purchase price or that the employees will be able to achieve a return on their investment corresponding to what they could have achieved by investing in the general stock market.

Misunderstanding no. 6: DONG Energy's new management does not wish to pursue the former management's large and ambitious plan for the expansion of offshore wind power

The book claims (for example on page 104) that DONG Energy's new management had no interest in pursuing the former management's large and ambitious plan for the expansion of offshore wind power or to continue cooperation with the pension funds.

This is incorrect and unfounded. Under the new management, DONG Energy has kept its focus on offshore wind power and has in recent years strengthened its position as a global leader in the area. DONG Energy makes annual investments in the region of DKK 10 billion in expanding offshore wind power, and up to 2020, 60% of DONG Energy's total investment will be targeted at offshore wind power. The continued high investment level is not least made possible by the equity injected by the new investors, which also include the Danish pension funds ATP and PFA. In addition, DONG Energy engages in extensive cooperation with various Danish pension funds concerning investments in specific offshore wind farm projects. Most recently, in 2014, DONG Energy concluded an agreement with four Danish pension funds (PKA, Industriens Pension, Lærernes Pension and Lægernes Pensionskasse) on a billion-kroner investment in the German offshore wind project Gode Wind 2.

In the wake of the book, accusations have also been made that the so-called 'Project Red' was never presented to the Board of Directors, and that apparently this was due to poor personal relations between CEO Anders Eldrup and Chairman of the Board of Directors Fritz Schur. Project Red concerned the demerger of the wind business as an independent company, in which most of the group's investments were to be made. However, it is wrong to say that Project Red was never considered by DONG Energy's Board of Directors. This was done at meetings held on 9 November 2011, 12 December 2011, 9 March 2012 and 31 January 2013.

It has also been mentioned that perhaps DONG Energy's creditworthiness would not have been quite so challenged if Project Red had been realised. This is also wrong. Project Red meant that the wind energy division would be demerged from the rest of DONG Energy, and that new equity was to be injected into this company. However, it was not only the wind division which needed new equity, but DONG Energy as a whole, and therefore Project Red was not an effective solution to the financial problems faced by DONG Energy in the second half of 2012.

Misunderstanding no. 7: The capital injection process was closed and secret

The book claims that the capital injection process was closed and secret (for example on page 114).

This is not correct. DONG Energy's financial action plan for restoring the company's credit rating was presented to the public in connection with the publication of the company's annual report on 27 February 2013, and referred to in several media. Subsequently, the company's consultants searched widely in Denmark and abroad for potential investors. To ensure that no potential investors were overlooked in this process, an advertisement was inserted in the Financial Times.

In October 2013, the Danish Ministry of Finance issued a press release outlining the main terms of the agreement which was expected to be concluded with the new investors.

In the initial part of the process with potential investors, the Danish state and the advisory banks did not want to allow interested investors to form consortia. This strategy is impugned by the author of the book. However, it is completely normal that the seller of a share does not want to allow consortia to be formed at an early stage within a limited circle of buyers. It goes without saying that this might have a detrimental effect on the competitive dynamics of the process.

The document which the Danish Parliament's Finance Committee adopted (document 37-2013/ 14) contains a detailed account of the contents of the agreement.