



# DONG Energy

22 May 2006

## Group financial statements Q1 2006

- First-quarter revenue amounted to DKK 8,184 million versus DKK 5,105 million in 2005
- First-quarter EBIT amounted to DKK 2,831 million versus DKK 1,337 million
- Profit after tax was DKK 2,083 million versus DKK 769 million
- Operating cash flow amounted to DKK 2,281 million compared with DKK 1,222 million. Investing activities absorbed DKK 4,724 million compared with DKK 6,874 million. The principal investment was the acquisition of a further 17% Elsam shares at DKK 4.3 billion
- The EU Commission's clearance of the merger with Elsam, Energi E2, Nesa and Copenhagen Energy's and Frederiksberg Forsyning's electricity activities was received on 14 March
- At the Annual General Meeting on 19 April SEAS-NVE and a number of former Elsam shareholders became shareholders of DONG Energy
- On 1 May the purchase agreements with the City of Copenhagen and the Municipality of Frederiksberg were completed. DONG Energy now controls, directly or indirectly, all shares in Energi E2 and 64.7% of Elsam's share capital. Furthermore, DONG Energy's acquisition of the electricity activities of both the City of Copenhagen and the Municipality of Frederiksberg has been completed
- Full-year profit after tax for 2006 is expected to reach DKK 4.3 billion, including results from the acquired electricity companies of DKK 1.2 billion. The full-year profit forecast for the former DONG is adjusted upwards by DKK 0.9 billion, primarily reflecting higher oil prices. The profit forecast also includes interest expense on the purchase prices for the electricity companies and net integration costs totalling DKK 0.5 billion

## Group – Financial highlights

Financial highlights			
DKK m	Q1 2006	Q1 2005	Difference
<b>Revenue by business area:</b>	<b>8,184</b>	<b>5,105</b>	<b>3,079</b>
Exploration & Production	1,507	911	596
Natural gas, Trade & Supply	6,522	4,037	2,485
Natural gas, Distribution & Storage	286	283	3
Oil pipeline	112	103	9
Electricity & Renewable energy	59	69	(10)
Other (including eliminations)	(302)	(298)	(4)
<b>EBIT by business area:</b>	<b>2,831</b>	<b>1,337</b>	<b>1,494</b>
Exploration & Production	870	327	543
Natural gas, Trade & Supply	1,779	847	0
Natural gas, Distribution & Storage	172	128	44
Oil pipeline	24	22	2
Electricity & Renewable energy	1	0	1
Other (including eliminations)	(15)	13	(28)
Financial items, net	(130)	(139)	9
<b>Profit after tax</b>	<b>2,083</b>	<b>769</b>	<b>1,314</b>
EBITDA <sup>1</sup>	3,348	1,852	1,496
EBITDA margin (%)	41	36	5
EBIT margin (operating margin) (%)	35	26	9
Free cash flow to equity (with acquisitions) <sup>2</sup>	(2,443)	(5,652)	3,209
Free cash flow to equity (without acquisitions) <sup>3</sup>	1,868	770	1,098
Assets	48,510	38,343	10,167
Cash and cash equivalents <sup>4</sup>	4,636	1,802	2,834
Interest bearing debt <sup>5</sup>	6,928	10,630	(3,702)
Net interest-bearing debt	2,292	8,828	(6,536)
Equity	28,526	16,429	12,097
Capital employed <sup>6</sup>	31,241	26,204	5,037
Financial gearing <sup>7</sup>	0.08	0.54	(0.46)
<p>Note 1 : Earnings before interest, tax, depreciation and amortisation</p> <p>Note 2 : Cash flows from operating activities and investing activities</p> <p>Note 3 : Cash flows from operating activities and investing activities, excluding cash flows from acquisitions/disposals of enterprises The purchase price for Ormen Lange is recognised as an acquisition</p> <p>Note 4 : Cash and cash equivalents comprise available cash + securities that are part of the ongoing cash management less bank overdrafts.</p> <p>Note 5 : Interest-bearing debt is exclusive of bank overdrafts</p> <p>Note 6 : Equity +/- losses/gains in respect of hedging instruments on equity + net interest-bearing debt</p> <p>Note 7 : Net interest-bearing debt divided by equity</p> <p>The announcement of Group financial statements is presented in accordance with the recognition and measurement provisions in International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for interim financial reports of listed and State-owned public limited companies.</p>			

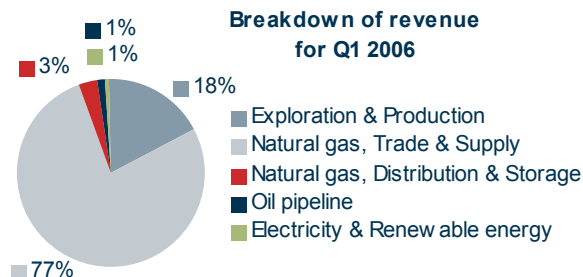
## Group results and outlook

The first-quarter results include 25% of Elsam's profit. The remaining part of the results from the acquired electricity companies Elsam (remaining part), Energi E2, Nesa and Copenhagen Energy's and Frederiksberg Forsyning's electricity activities will not feature until in the second quarter.

### Group results

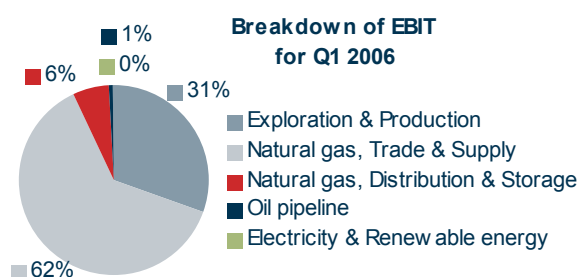
#### Revenue

Revenue amounted to DKK 8,184 million, up from DKK 5,105 million in 2005. The increase primarily reflected the higher oil prices and the fact that the natural gas volumes sold were 12% higher than in 2005 as a result of the cold winter and an increase in exports.



#### EBIT

First-quarter EBIT amounted to DKK 2,831 million compared with DKK 1,337 million in 2005. EBIT benefited from non-recurring income on disposal of activities, etc., of DKK 177 million. Corrected for non-recurring income, the increase was DKK 1,317 million.



The increase was driven primarily by the higher oil prices, which had a positive impact on the results of both 'Exploration & Production' and 'Natural gas, Trade & Supply'. EBIT also benefited from the fact that the oil price exposure in 2005 was hedged at prices below the spot prices, to a far greater extent than in 2006. In 'Natural gas, Trade & Supply', the so-called time lag effect boosted the impact from increasing oil prices. The time lag effect arises as a result of the price of oil and the USD exchange rate featuring with different time lags in DONG Energy's natural gas purchase and sales contracts. This means that oil price changes impact on selling prices relatively quickly, whereas purchase prices are adjusted with a delay of up to 15 months. The oil price increases yielded a substantial gain exceeding the corresponding gain for the first quarter of 2005. This so-called time lag effect will be negative in the event of a falling oil price.

#### Financial items

Financial items amounted to a net charge of DKK 130 million compared with a charge of DKK 139 million in 2005.

Financial items			
DKKm	Q1 2006	Q1 2005	Difference
Interest income (expense), net	(24)	(76)	52
Interest element of abandonment costs	(13)	(10)	(3)
Dividends on equity investments	0	0	0
Other	(93)	(53)	(39)
<b>Financial items, net</b>	<b>(130)</b>	<b>(139)</b>	<b>9</b>

Net interest expense fell due to lower average net interest-bearing debt during the period – net cash and cash equivalents of just under DKK 1 billion in the first quarter of 2006 versus debt of approx. DKK 6 billion in 2005. Net interest expense was incurred in the quarter despite the positive net interest-bearing debt, reflecting the interest spread between cash and cash equivalents and debt.

Net debt was affected by the fact that DONG Energy issued hybrid capital of DKK 8.1 billion in mid-2005 that is recognised as equity. The interest expense is not charged against profits, but deducted from equity as dividend.

#### Income tax

Income tax expense was DKK 824 million compared with DKK 430 million in 2005. Corrected for non-recurring income, the tax rate was 30% versus 36% in 2005. The fall was due partly to the Danish corporate income tax rate, which was cut from 30% to 28%, and partly to a fall in the tax rate in 'Exploration & Production', with increased capital expenditure in Norway leading to increased tax deductions and thus a lower tax rate.

#### Profit after tax

YTD profit after tax was DKK 2,083 million versus DKK 769 million in 2005. Profit benefited from the non-recurring income totalling DKK 165 million referred to above (DKK 177 million before tax). The higher profit reflected increasing EBIT and the lower tax rate.

#### Cash flows

YTD cash inflow from operating activities was DKK 2,281 million, up from DKK 1,222 million in 2005, due to a higher EBITDA and a decrease in financial expenses paid, partly offset by increased funds tied up in working capital as a result of the higher selling prices. Investing activities absorbed DKK 4,724 million compared with DKK 6,874 million in 2005. The acquisition of additional Elsam shares and the investment in the Ormen Lange and Langeled projects accounted for most of the capital expenditure.

#### Equity

Equity stood at DKK 28,526 million at the end of the first quarter compared with DKK 26,278 million at the end of 2005. Equity increased by profit for the period and the change in the effect of value adjustments of hedging instruments.

#### Balance sheet

The balance sheet total increased from DKK 46,854 million to DKK 48,510 million, mainly as a result of the investment in additional Elsam shares. Net interest-bearing debt was DKK 2,292 million versus a positive DKK 208 million at the end of 2005. The remaining purchase prices in connection with the electricity acquisitions fall due in April and May.

### **Outlook for 2006**

The full-year profit forecast of DKK 3.0 billion in the announcement of full-year financial results on 2 March 2006 is raised to DKK 4.3 billion.

The DKK 1.3 billion upwards adjustment is due to the following:

- Profit in the former DONG is expected to be DKK 0.9 billion higher, mainly reflecting the higher oil prices. This expectation is based on an average oil price of USD 60/bbl for the rest of the year.
- The results from the electricity companies acquired (Elsam, Energi E2, Nesa and the City of Copenhagen's and the Municipality of Frederiksberg's electricity

#### **Forward-looking statements**

The quarterly financial statements contain forward-looking statements, which include projections of financial performance in 2006. These statements are not guarantees of future performance and involve certain risks and uncertainties. Therefore, actual future results and trends may differ materially from what is forecast in this report due to a variety of factors including, but not limited to, the development in the oil, coal, electricity, CO<sub>2</sub>, currency and interest rate markets; changes in legislation, regulation or standards; changes in the competitive situation in DONG Energy's markets and security of supply.

activities) are included from 1 May in the profit forecast. Overall, they feature with profit of DKK 1.2 billion, as opposed to the DKK 300 million forecast in the March announcement, equivalent to 25% of the profit anticipated for Elsam (ownership interest at date of announcement).

- Integration costs and synergies in connection with the merger and interest expense on the purchase price for the acquired companies are included at DKK 0.5 billion. The costs were not included in the March announcement.

## Special events

### ➤ Merger cleared by the European Commission

The European Commission cleared the merger of DONG, Energi E2, Elsam, Nesa, Frederiksberg Forsyning and Copenhagen Energy (electricity activities) on 14 March.

The European Commission initially voiced concerns about the merger of both electricity activities and gas activities. Following almost one year of thorough analysis of the Danish energy sector, during which the Commission asked approx. 1,000 questions and received 380 binders of documentation relating to the six companies, the Commission concluded that competition in the electricity market has been safeguarded by virtue of DONG's agreement with the Swedish energy group Vattenfall.

- On 1 June 2005 DONG entered into an agreement on sale of power station and wind power activities to Vattenfall, equivalent to approx. 2,400 MW, including Nordjyllandsværket, Amagerværket and Fynsværket. In return, Vattenfall will transfer its 35% stake in Elsam and its 40% interest in Avedøre 2 to DONG Energy.

However, the Commission still had some concerns as far as the gas market is concerned. In order to address these concerns, DONG has offered the following commitments promoting competition, which have been accepted by the Commission:

- A gas release programme under which DONG Energy will auction 400 million m<sup>3</sup> gas annually over the next six years, equivalent to approx. 10% of Denmark's total annual consumption. This will ensure a liquid gas market in Denmark, regardless of whether Elsam and Energi E2 are removed from the market as potential wholesalers.
- Disposal of DONG Energy's gas storage facility in LI. Torup in Jutland, which accounts for just over half of DONG Energy's storage capacity. The gas storage facility must be sold at market price. DONG Energy will retain the gas storage facility in Stenlille. This is intended to ensure two independent storage suppliers in Denmark.

The commitments referred to above are not expected to have any material impact on the financial results for 2006. The commitments may have an adverse impact on the financial results for the subsequent years, depending on the outcome of the auctions.

## Subsequent events

### ➤ New shareholders

At the Annual General Meeting on 19 April SEAS-NVE and a number of former Elsam shareholders became shareholders of DONG Energy. Following the capital increase, the Danish state now holds 73% of the shares, while the remaining shares are held by the new shareholders. DONG Energy is thus well on the way towards privatisation.



➤ **The purchase agreements with the City of Copenhagen and Frederiksberg Municipality have been completed**

On 1 May 2006 DONG Energy completed the share purchase agreements with the City of Copenhagen on the acquisition of Copenhagen Energy's electricity activities and 34% stake in Energi E2.

The share purchase agreements relating to DONG Energy's acquisition of Frederiksberg Forsyning's electricity activities, including the latter's 2.26% shareholding in Energi E2, were also completed on 1 May 2006.

## DONG Energy's business areas

### Exploration & Production

<b>Financial highlights</b>			
<b>Exploration &amp; Production</b>			
DKKm	<b>Q1 2006</b>	<b>Q1 2005</b>	<b>Difference</b>
Oil & gas production (million boe)	4.0	4.7	(0.7)
Revenue	1,507	911	596
EBITDA	1,163	627	536
EBIT	870	327	543
Investments	465	5,366	(4,901)

#### Production/Sales

First-quarter production amounted to 4.0 million boe (barrels of oil equivalent), down from 4.7 million boe in 2005 due primarily to lower production from Syd Arne, Nini and Tambar caused by naturally diminishing production from mature fields.

The Danish fields accounted for 57% of first-quarter production and the Norwegian fields for 43%.

#### Revenue

First-quarter revenue amounted to DKK 1,507 million, up from DKK 911 million in 2005 due to considerably higher prices and a lower adverse impact from price hedging in 2006 than in 2005.

First-quarter revenue also benefited from the divestment of part of the Oselvar licence in the North Sea.

#### EBIT

First-quarter EBIT reached DKK 870 million compared with DKK 327 million in 2005.

The higher EBIT in 2006 primarily reflected the increase in revenue. EBIT was also affected by lower exploration costs and higher production costs related to production-enhancing activities aimed at countering the decline in production from mature fields.

#### Capital expenditure/exploration

Capital expenditure in the first quarter was down from DKK 5,366 million in the first quarter of 2005 to DKK 465 million due to the first quarter of 2005 being affected by the purchase price for the Ormen Lange and Langeled stakes, which amounted to DKK 5,119 million. The capital expenditure on development of the Ormen Lange field and the Langeled pipeline accounted for most of the capital expenditure in the first quarter of 2006. At the end of the first quarter the Ormen Lange project was 67% complete. The field is still scheduled to come on stream in the fourth quarter of 2007.

DONG Energy was awarded four licences in the 6th Danish licensing round, including the operatorship of two of these. The licences underpin the strategy for this area.

## DONG Energy's business areas

### Natural gas, Trade & Supply

Financial highlights			
Natural gas, Trade & Supply			
DKKm	Q1 2006	Q1 2005	Difference
Natural gas sales (million m <sup>3</sup> )	2,897	2,583	314
Revenue	6,522	4,037	2,485
EBITDA	1,855	923	932
EBIT	1,779	847	932
Investments	16	1,423	(1,407)

#### Sales

First-quarter 2006 natural gas sales were 314 million m<sup>3</sup> up on 2005. Sales in the Danish market benefited from the cold weather, although DONG Energy continued to lose market shares, as expected, especially in the industrial market, where the competition for customers has sharpened considerably; however, the loss was more than offset by increased exports to the Dutch market, in particular, sold via the Dutch trading hub (TTF) and Intergas Levering.

#### Revenue

First-quarter 2006 revenue amounted to DKK 6,522 million, up from DKK 4,037 million in 2005 due primarily to higher gas selling prices, increased sales volumes and the recognition of Intergas Levering.

#### EBIT

First-quarter EBIT amounted to DKK 1,779 million compared with DKK 847 million in 2005. The increase primarily reflects the higher gas selling prices and increased sales volumes.

#### Capital expenditure

Capital expenditure in the first quarter of 2006 was DKK 1,407 million lower than in the corresponding period in 2005. Capital expenditure in 2005 related to the acquisition of the ownership interest in Ormen Lange and a 25.1% stake in the subsidiary Energie und Wasser Lübeck GmbH.



## DONG Energy's business areas

### Natural gas, Distribution & Storage

<b>Financial highlights</b>			
Natural gas, Distribution & Storage			
DKKm	Q1 2006	Q1 2005	Difference
Transported volumes (million m <sup>3</sup> )	377	369	8
Revenue	286	283	4
EBITDA	271	222	48
EBIT	172	128	45
Investments	19	24	(5)

#### Revenue

Revenue for the first quarter of 2006 was on a par with 2005.

#### EBIT

EBIT for the quarter was DKK 172 million, up from DKK 128 million in 2005, primarily reflecting the extraordinary sale of surplus cushion gas in March, which resulted in a DKK 43 million gain. The surplus gas was the result of the gas storage facility in LI. Torup being granted permission from the Danish Energy Regulatory Authority to lower the pressure in the cavern.

### Oil pipeline

<b>Financial highlights</b>			
Oil pipeline			
DKKm	Q1 2006	Q1 2005	Difference
Transported volumes (million barrels)	27	29	(2)
Revenue	112	103	9
EBITDA	38	33	5
EBIT	24	22	2
Investments	0	0	0

#### Revenue

First-quarter 2006 revenue was DKK 112 million, up from DKK 103 million in 2005 due to higher oil prices.

#### EBIT

First-quarter EBIT was up from DKK 22 million in 2005 to DKK 24 million due to the increase in oil prices.

## DONG Energy's business areas

### Electricity & Renewable energy

Financial highlights			
Electricity & Renewable energy			
DKKm	Q1 2006	Q1 2005	Difference
Revenue	59	69	(10)
EBITDA	14	12	2
EBIT	1	0	1
Investments	0	73	(73)

#### Revenue

Revenue for the first quarter was down from DKK 69 million in 2005 to DKK 59 million, primarily due to poorer wind conditions than in the first quarter of 2005.

#### EBIT

First-quarter EBIT was in line with 2005. EBIT was adversely affected by the adverse wind conditions, but benefited from a lower cost level for the activities in EnergiGruppen Jylland.

In April, DONG Energy (80%) and E.ON Sverige AB (20%) won the right to construct a 200 MW offshore wind farm at Rødsand off Nysted on Lolland. The new offshore wind farm will be able to supply the annual electricity consumption of around 200,000 households, equivalent to approx. 2% of the Danish electricity consumption.

## Statement by the Executive and Supervisory Boards

The Executive and Supervisory Boards have today considered and approved the announcement of the Group's financial statements for the period 1 January – 31 March 2006.

The announcement of the financial statements has been prepared in accordance with the recognition and measurement provisions in International Financial Reporting Standards (IFRS), cf. the section on basis of accounting (appendix), and additional Danish disclosure requirements for listed and State-owned public limited companies. We consider the accounting policies applied to be appropriate. Accordingly, the announcement gives a true and fair view of the Group's financial position at 31 March 2006 and of the results of the Group's operations and cash flows for the period 1 January – 31 March 2006.

Hørsholm, 22 May 2006

### Executive Board:

Anders Eldrup  
*CEO*

### Supervisory Board:

Fritz H. Schur  
*Chairman*

Lars Nørby Johansen  
*Deputy Chairman*

Asbjørn Larsen

Svend Sigaard

Lars Torpe Christoffersen

Jens Kampmann

Kresten Philipsen

Poul Arne Nielsen

Bent Stubkjær Pedersen  
*Employee-elected member*

Jesper Magtengaard  
*Employee-elected member*

Thorkild Meiner-Jensen  
*Employee-elected member*

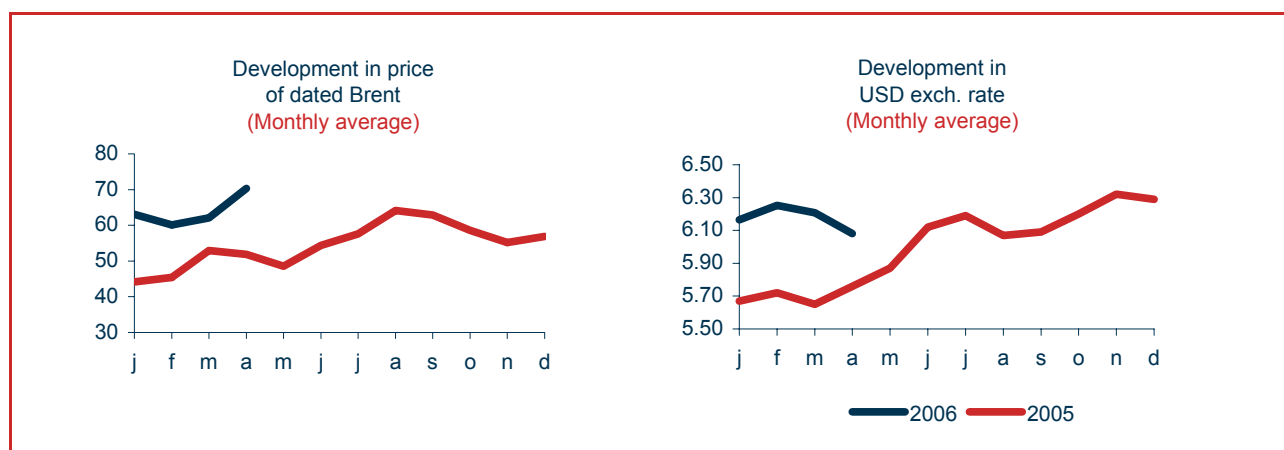
## Appendix 1 of 2

The Group in figures			
DKKm	Q1 2006	Q1 2005	Difference
<b>Income statement</b>			
Domestic sales	3,312	2,415	897
Export sales	4,872	2,690	2,182
<b>Revenue</b>	<b>8,184</b>	<b>5,105</b>	<b>3,079</b>
Export share (per cent)	60%	53%	-
<b>Gross profit</b>	<b>2,886</b>	<b>1,451</b>	<b>1,435</b>
Fixed costs	(55)	(114)	59
<b>Operating profit (EBIT)</b>	<b>2,831</b>	<b>1,337</b>	<b>1,494</b>
Share of post-tax profits (losses) of associates	206	1	205
Financial items, net	(130)	(139)	9
<b>Profit before tax</b>	<b>2,907</b>	<b>1,199</b>	<b>1,708</b>
Tax	(824)	(430)	(394)
<b>Profit after tax</b>	<b>2,083</b>	<b>769</b>	<b>1,314</b>
<b>Balance sheet</b>			
Intangible assets	2,068	1,805	263
Property, plant and equipment	22,539	21,535	1,004
Other fixed assets	11,324	6,387	4,937
<b>Total fixed assets</b>	<b>35,931</b>	<b>29,727</b>	<b>6,204</b>
Inventories	10	88	(78)
Receivables	7,832	6,533	1,299
Securities	88	172	(84)
Cash	4,616	1,823	2,793
Assets classified as held for sale	33	0	33
<b>Total current assets</b>	<b>12,579</b>	<b>8,616</b>	<b>3,963</b>
<b>Total assets</b>	<b>48,510</b>	<b>38,343</b>	<b>10,167</b>
Share capital	2,144	2,144	0
Retained earnings	18,118	13,581	4,537
Proposed dividends	35	0	35
Hybrid capital	8,187	0	8,187
Minority interests	42	704	(662)
<b>Total equity</b>	<b>28,526</b>	<b>16,429</b>	<b>12,097</b>
Non-current liabilities	11,750	14,047	(2,297)
Current liabilities	8,234	7,867	367
<b>Total equity and liabilities</b>	<b>48,510</b>	<b>38,343</b>	<b>10,167</b>
Return on equity (%)	30	19	11
Equity ratio (%)	59	43	16

## Appendix 2 of 2

The Group in figures			
DKKm	Q1 2006	Q1 2005	Difference
<b>Statement of changes in equity</b>			
<b>Equity at start of period</b>	<b>26,278</b>	<b>16,343</b>	<b>9,935</b>
Profit after tax	2,083	769	1,314
Value adjustments of hedging instruments after tax	118	(710)	828
Other adjustments	14	20	(6)
Change in hybrid capital	32	0	32
Change in minority interests' share of equity	1	7	(6)
<b>Equity at end of period</b>	<b>28,526</b>	<b>16,429</b>	<b>12,097</b>
<b>Cash flows</b>			
<b>Cash flows before changes in working capital (FFO)</b>	<b>3,414</b>	<b>1,056</b>	<b>2,358</b>
Changes in working capital	(1,133)	166	(1,299)
<b>Cash flows from operating activities</b>	<b>2,281</b>	<b>1,222</b>	<b>1,059</b>
Investments	(4,811)	(7,911)	3,100
- hereof property, plant and equipment <sup>1</sup>	(474)	(5,247)	4,773
Proceeds from disposals	87	1,037	(950)
<b>Cash flows from investing activities</b>	<b>(4,724)</b>	<b>(6,874)</b>	<b>2,150</b>
<b>Free cash flow to equity</b>	<b>(2,443)</b>	<b>(5,652)</b>	<b>3,209</b>
Net change in loans	(278)	7,309	(7,587)
<b>Cash flows from financing activities</b>	<b>(278)</b>	<b>7,309</b>	<b>(7,587)</b>
Adjustments at start of year	1	0	1
<b>Net cash flow</b>	<b>(2,720)</b>	<b>1,657</b>	<b>(4,377)</b>
<b>Cash and cash equivalent at start of period</b>	<b>7,356</b>	<b>145</b>	<b>7,211</b>
<b>Cash and cash equivalent at end of period</b>	<b>4,636</b>	<b>1,802</b>	<b>2,834</b>

Note 1 : Including purchase price for Ormen Lange



*DONG Energy is one of the leading energy groups in the Nordic region. Our headquarters are in Denmark. Our business is based on procuring, producing, distributing, trading and selling energy and related products in Northern Europe. We employ approx 4,500 people and generate DKK 33 billion in revenue. It is planned to list DONG Energy's shares on the Copenhagen Stock Exchange within the coming years.*

#### Further information:

Louise Münter  
Media Relations  
Telephone: +45 4517 1545

Michael Steen-Knudsen  
Investor Relations  
Telephone: +45 4517 1556

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