DONG ENERGY

Corporate bonds · Investment Grade Research · Utility · 1 November 2012

JYSKE MARKETS · JYSKE BANK

RECOMMENDATIONS:

BUY €5.5% 3005
BUY €7.75% 3010

Publisher:
Jyske Markets
Vestergade 8-16
DK - 8600 Silkeborg

Jens Houe Thomsen
+45 89 89 70 42
jht@jyskebank.dk

Translation:
Translation Services

Cost-cutting and sale of assets

Following a very weak third quarter, DONG initiates cost-cutting

The Q3 results from DONG were characterised by sustained losses on gas storage contracts and the delayed implementation of the offshore wind farm London Array. The continued weak gas market is the reason for the DKK 2.9bn provision for German gas storage contracts and the Dutch LNG terminal, which squeezed the results. On the basis of the results, DONG has lowered its own forecast for annual earnings. Now, EBITDA is estimated to be in the level of DKK 8.5-9bn against former expectations of more than DKK 12bn. Net interest-bearing debt rose to DKK 33.2bn from 27.3bn at the end of Q3 2011. For the year to date, EBITDA fell by 43% to DKK 6.7bn, which is the main reason why adjusted NIBD/EBITDA more than doubled to 4.0 from 1.9.

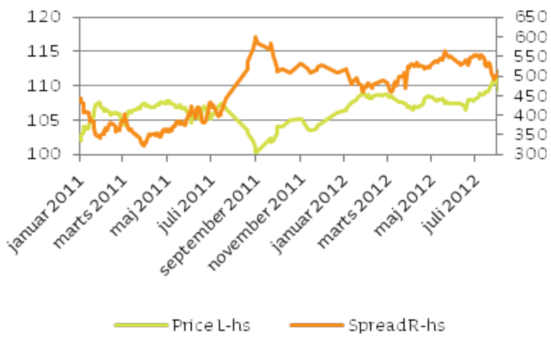
In connection with the release of the company's results, DONG launched a cost-cutting plan to reduce costs by DKK 1bn, which will lead to elimination of 500 to 600 jobs. A sale of assets aggregating DKK 10bn in the coming two years serves to support debt reduction. DONG's target to reach an EBITDA of DKK 15bn in 2015 will be less prominent ahead. Rather, the company will set targets for the return of each individual division (ROIC). This shift of focus from earnings to return provides DONG with an improved basis for prioritising its business areas when planning future growth.

Given our expectations that renegotiation of the gas agreements and the announced cost-cutting plan will strengthen DONG's credit metrics over the coming quarters, we maintain our BUY recommendations.

Investment case

- Large investment programme is expected to double EBITDA up to 2015 from the 2009 level.
- Increased focus on returns ahead, with targets for the individual divisions.
- Focus on stronger growth has increased net debt somewhat in recent years. This trend is expected to continue in the coming years, while net debt in the short term will stagnate due to sale of assets.
- Coupled with rising earnings we expect leverage to fall to a lower level again.

Price / spread chart



Issue	€5,5% 3005	€7,75% 3010
Recommendation	**BUY**	**BUY**
Risk	**Low**	**Medium**
Bid / Offer	104,5/106	113/114
Yield	3,7%/3,1%	5,8%/5,6%
Spread	359/301	454/441
Spread target	**250**	**450**
Price target	105	112
Expected 12-month return	**3,9%**	**5,2%**
Moody's	Baa3 (Stable)	Baa3 (Stable)
S&P	BBB- (Negative)	BB (Negative)
B-Code	0296770	5805489

Disclaimer:
Please see the last page

See the following pages for further information on the structure and the covenants.

DONG ENERGY

Corporate bonds • Investment Grade Research • Utility • 1 November 2012

JYSKE MARKETS JYSKE BANK

Overview

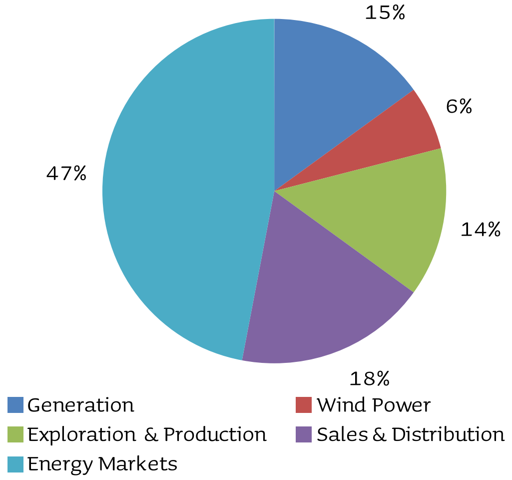
Company profile

DONG Energy A/S is an integrated energy group which procures, produces, distributes and trades energy and associated products in Northern Europe. The company is a market leader in the Danish energy market and DONG accounts for 54% and 35% of the Danish power and heat production, respectively. Growth is still expected to come from continued expansion in other Northern European energy markets.

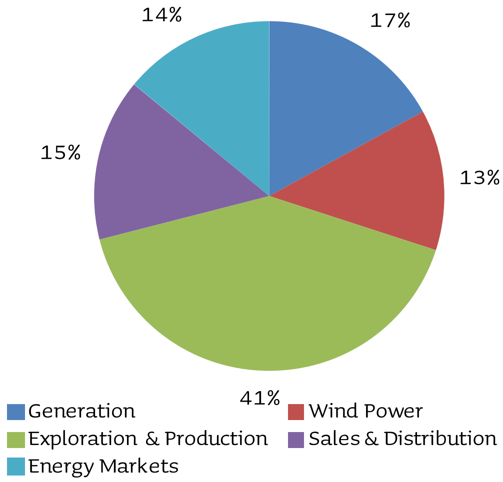
The Danish state is still a major shareholder (80%) and an IPO appears not to be on the programme until after 2015.

Dong Energy has clear ambitions to be a leader within clean and reliable energy. Today 85% of DONG Energy's heat and power is produced by fossil fuels. The target is to reduce the CO_2 emission to 15% of the current level over the next 30 years through a transformation of the production into renewable energy.

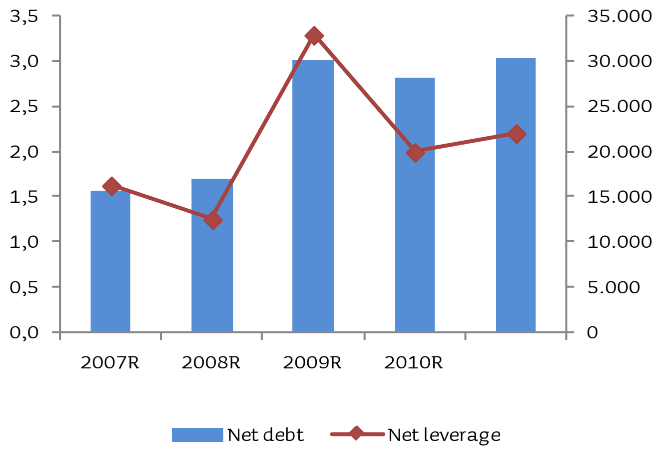
Revenue by segment



Earnings by segment (EBITDA)



Net debt and net leverage



Fundamental valuation

- S&P has an A- rating for Dong Energy with a stable outlook, while Moody's rating is Baa1.
- This rating reflects the company's strong position in Denmark and the substantial stake owned by the Danish state.
- The company aims to maintain its BBB+/Baa1 credit rating as a minimum.

Investment case

- Large investment programme is expected to double EBITDA up to 2015 from the 2009 level.
- Increased focus on returns ahead, with targets for the individual divisions.
- Focus on growth has increased net debt somewhat in recent years, and this trend is expected to continue in the years ahead, while net debt in the short term will stagnate due to sale of assets.
- Coupled with rising earnings we expect leverage to remain low.

Price triggers

Risk factors

• Upgrade of the credit rating by the international credit-rating agencies.
• Very cold and long winter with high energy consumption and resultant high power prices.
• New finds, for instance in the North Sea.
• New large orders within the wind area.
• Increased monetising of the company's knowledge within green energy.

• Large investment programme, particularly within offshore wind energy has technological, operational and regulatory risks.
• A high share of production from mature fields in the North Sea.
• Investment programme may not deliver the expected return.
• Fluctuating energy prices and particularly the development in the spread between the oil and gas price.
• Diversification to other geographical markets than Denmark reduces the risk but also exposes the company to other regulatory regimes, although they are all EU countries.

Disclaimer & Disclosure

Jyske Bank is supervised by the Danish Financial Supervisory Authority.

The research report is based on information which Jyske Bank finds reliable, but Jyske Bank does not assun responsibility for the correctness of the material nor any liability for transactions made on the basis of the information or the estimates of the report. The estimates and recommendations of the research report ma changed without notice. The report is for the personal use of Jyske Bank's customers and may not be copie

This report is an investment research report.

Conflicts of interest
Jyske Bank has prepared procedures to prevent and preclude conflicts of interest thus ensuring that resear reports are being prepared in an objective manner. These procedures have been incorporated in the busine procedures covering the research activities of Jyske Markets, a business unit of Jyske Bank.

Jyske Bank's corporate-bond analysts may not hold positions in the instruments for which they prepare re: reports. If an analyst takes over for the responsible analyst in connection with illness, business travels, et analyst cannot trade in the relevant corporate bond on the day of publication of the research report and th following day. Jyske Bank may, however, hold positions, have interests in or business relations with the co that are analysed. The research report has not been presented to the company prior to its release. Analyst no payment from persons interested in individual research reports.

Read more about Jyske bank's policy on conflicts of interest at www.jyskebank.dk/terms.

Jyske Bank's corporate bond recommendations – current breakdown

Breakdown of recommendations, corporate bonds (number)

Source: Jyske Bank

Financial models

Jyske Bank models the expected development of the analysed company's income statement and balance sheet. A number of key figures for the company is calculated on the basis of these models, and the key figures are compared with those of comparable companies and the company's past performance. From this we infer the spread at which the bonds will trade for the period ahead. The recommendation and the price target are moreover adjusted for the expected news flow and the market sentiment based on knowledge of the industry and company-specific circumstances. Jyske Bank's recommendations take into account the expected development in the corporate-bond market, the various sectors and company-specific circumstances.

Risk

Investment in this corporate bond is associated with risk. The risk can be measured directly via the spread at which the bond trades relative to a 'risk free' investment with the same maturity. The spread reflects the probability of default, the recovery rate, and the liquidity of the corporate bond. Movements in the credit market, the sector and/or news flows, etc. regarding the company may affect the price of the bond. See the front page of the research report for our view of the risk associated with the corporate bond. The risk on the corporate bond is stated as Very Low, Low, Medium, High or Very High and is relative to the high-yield market for corporate bonds. The risk factors stated and/or calculations of sensitivities in the research report are not to be considered all-encompassing.

If the corporate bond is denominated in a currency other than the investor's base currency, the investor accepts an FX risk.

Update of the research report

The planned update of the report will be prepared immediately upon the release of the company's financial statements. In addition, there may be prepared research reports on special themes specifically for the company or research reports where the company is part of the special theme. These research reports are published on an ad-hoc basis.

See the front page for the initial date of publication of the report.

The prices stated are the latest prices quoted by Jyske Bank before the publication of the research report, unless otherwise stated.

Recommendation concepts

Our recommendations are based on market developments and an assessment of the expected return within the next twelve months. A BUY recommendation or a Strong BUY recommendation is based on expectations that investment in the bond will generate a return above that of the general corporate-bond market. On the other hand, a SELL recommendation implies that we expect investment in the bond to generate a return below that of the general corporate-bond market.

Since our recommendations are relative and risk-adjusted, it is possible to compare our recommendations across sectors and risk categories. In addition, the potential is stated in absolute terms via our return target.

The future and historical returns estimated in the research report are stated as returns before costs since returns after costs depend on a number of factors relating to individual customer relations, custodian charges, volume of trade as well as market-, currency- and product-specific factors. It is not certain that the bond will yield the stated expected future return/s. The stated expected future returns exclusively express our best assessment.