

HNG Midt-Nord Salg A/S
HNG Midt-Nord Handel A/S

Annual Report 2010



HNG Midt-Nord Salg A/S

Vognmagervej 14
DK-8800 Viborg
Denmark

Gladsaxe Ringvej 11
2860 Søborg
Denmark

Phone: +45 8727 8727
+45 3954 7000
E-mail: naturgas@naturgas.dk

Bankers: Nordea

Financial year: Calendar year

CVR no.: 2691 8480
EAN no.: 579 000 116 324 2

Auditors:
PricewaterhouseCoopers
Statsautoriseret revisionsaktieselskab

HNG Midt-Nord Handel A/S

Vognmagervej 16
8600 Viborg
Denmark

Gladsaxe Ringvej 11
2860 Søborg
Denmark

Phone: +45 8727 8727
+45 3954 7000
E-mail: naturgas@naturgas.dk

Bankers: Nordea

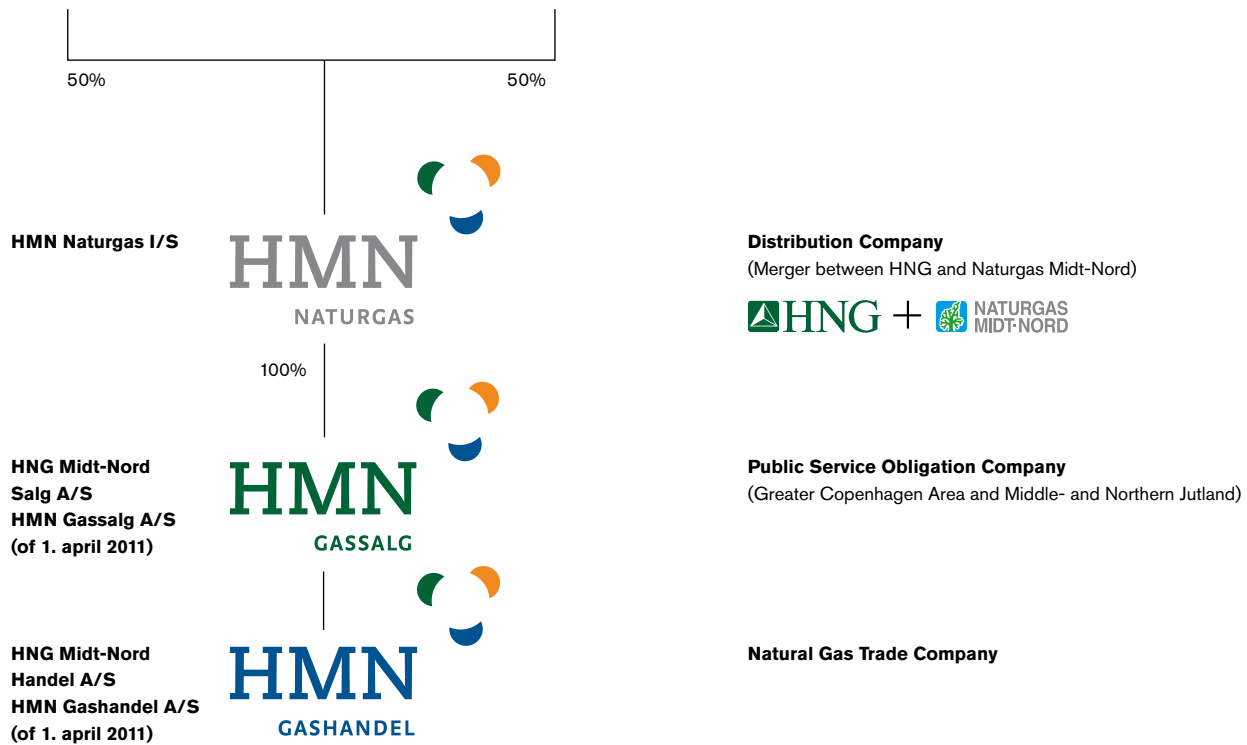
Financial year: Calendar year

CVR-no.: 2706 1885
EAN-no.: 579 000 116 326 6

Auditors:
PricewaterhouseCoopers
Statsautoriseret revisionsaktieselskab

32 municipalities
in the Greater Copenhagen Area

25 municipalities
in Middle- and Northern Jutland



Contents

Annual Report 2010

HNG Midt-Nord Salg A/S

07	Management's Review – HNG Midt-Nord Salg A/S
12	Financial review 2010
15	Statement by the Board of Directors and Executive Management
16	Independent Auditors' Report
19	Income Statement – HNG Midt-Nord Salg A/S
19	Statement of Comprehensive Income
20	Balance Sheet – HNG Midt-Nord Salg A/S
21	Statement of Changes in Equity – HNG Midt-Nord Salg A/S
22	Cash Flow Statement – HNG Midt-Nord Salg A/S Group
23	Notes
35	Key Figures and Financial Ratios – Group

HNG Midt-Nord Handel A/S

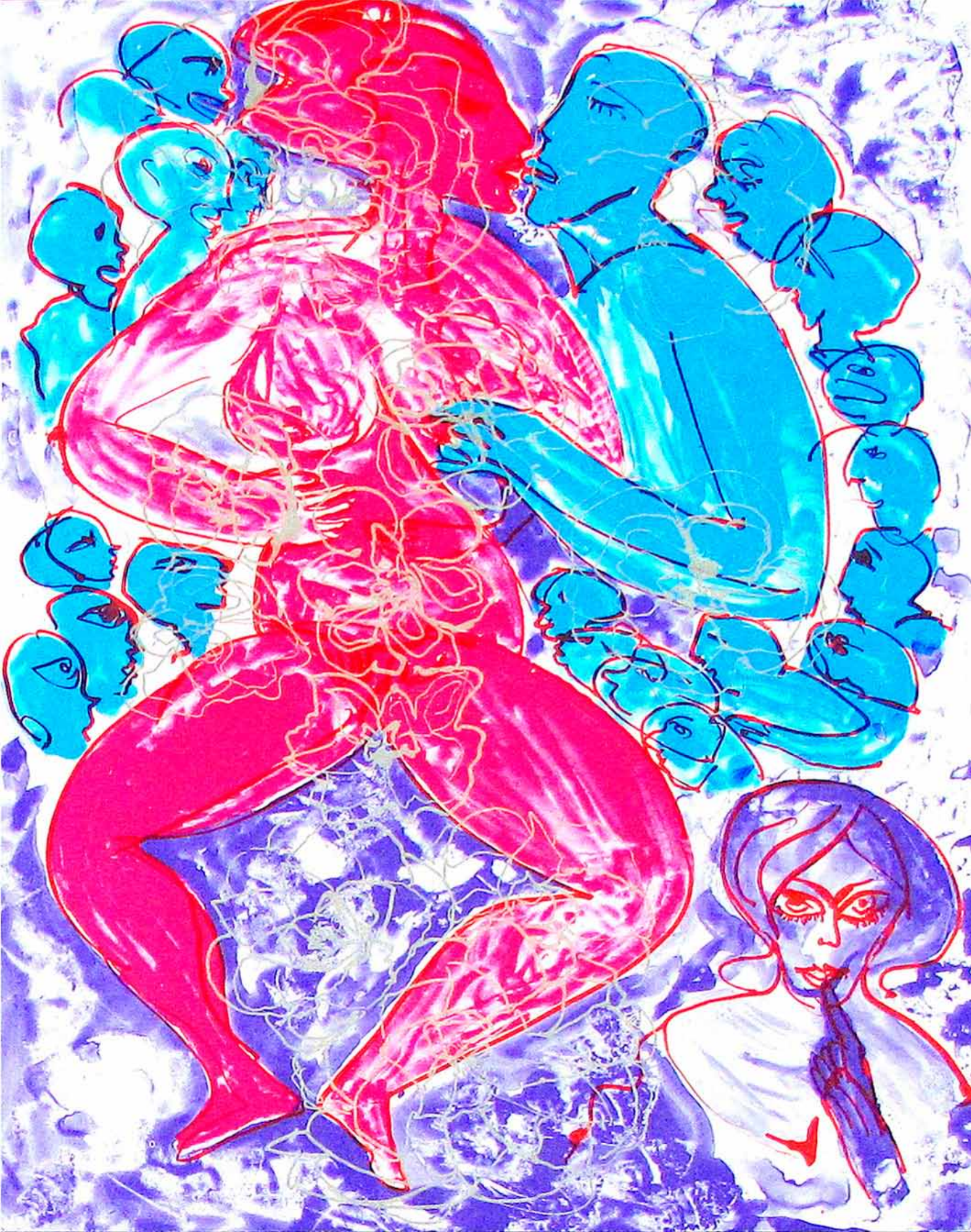
39	Management's Review – HNG Midt-Nord Handel A/S
41	Financial review 2010
43	Statement by the Board of Directors and Executive Management
44	Independent Auditors' Report
47	Income Statement – HNG Midt-Nord Handel A/S
47	Statement of Comprehensive Income
48	Balance Sheet – HNG Midt-Nord Handel A/S
49	Statement of Changes in Equity – HNG Midt-Nord Handel A/S
49	Cash Flow Statement – HNG Midt-Nord Handel A/S
50	Notes
59	Key Figures and Financial Ratios

Ursula Reuter Christiansen's pictures in this year's annual report were inspired by Verdi's opera "La Traviata", which Opera Hedeland will be performing in August 2011 at a large open-air amphitheatre. "La Traviata" is the event that HNG Midt-Nord Salg A/S will be inviting its customers to see this year.

The cover and six pictures are heliographies in eight colours.

Ursula Reuter Christiansen was born in Trier in Germany in 1943. She graduated from Düsseldorf Art Academy, where she was taught by professor Joseph Beuys. She moved to Denmark in 1969 and married composer and fluxus artist Henning Christiansen. She was a professor at Hamborg Art Academy from 1992-96 and professor at the Royal Danish Academy of Fine Arts from 1997-2007.

Together, Ursula Reuter Christiansen and Henning Christiansen represented Denmark at the Venice Biennale exhibition in 2002. She has been awarded a lifetime honorary scholarship by the Danish Arts Agency's and has received the Eckersberg medal.



Management's Review

HNG Midt-Nord Salg A/S

Supply licence

HNG Midt-Nord Salg A/S has, pursuant to the Danish Natural Gas Supply Act, been granted a licence by the Danish Ministry of Climate and Energy for supply on fixed terms to consumers not exercising their right to choose supplier. The licence from March 2003 was renewed until March 2013 when prolongation is expected.

The licence entails a supply obligation towards the consumers in areas zoned for natural gas supply and towards others who are or will be connected to the natural gas supply grid in the distribution areas of HMN Naturgas I/S.

The PSO (Public Service Obligation) company shall ensure that adequate supplies of natural gas are available on objective, transparent and non-discriminating terms. The consumers who have exercised their right to choose an alternative supplier are entitled to resume delivery from the PSO company within reasonable time-limits and on reasonable terms.

HNG Midt-Nord Salg is solely in charge of the activities which are subject to the licence and covered by regulation from the Danish Energy Regulatory Authority. The subsidiary HNG Midt-Nord Handel is selling natural gas to customers on individually negotiated terms, and the subsidiary's activities are not subject to any regulation from the Danish Energy Regulatory Authority.

Customer retention

As the "customers' own gas company" the responsibility of HNG Midt-Nord Salg is to ensure that the natural gas consumers will always have a good alternative to the other natural gas suppliers. The company believes that this is done best by constantly offering the consumers terms resulting in at least 90% of the customers choosing the company as their supplier of natural gas in the future as well.

We believe that natural gas is a low-focus area for our customers. They expect it to work and that they otherwise do not have to concern themselves with it. Thus, the company's focus is to:

- ensure a competitive price
- ensure that a product range relevant to the customers is developed
- ensure that the customers are satisfied with our services.

In our opinion, the new gas purchase agreements and the current activities on the gas market ensure that HNG Midt-Nord Salg, like in 2010, will be able to offer our customers natural gas on attractive terms in the coming years. In 2010, the terms of sale for the customers were, as previously, related to gas purchase contracts linked to oil prices, but the importance of the international gas exchanges is rapidly increasing, and gas prices are moving further away from oil prices. Like is the case for the pricing to large customers, the gas exchanges are in future expected to play an increasingly stronger role in the pricing to small consumers as well.

The natural gas consumers previously entered into agreements on natural gas relying on it being competitive with oil, and now natural gas has become significantly cheaper than oil. Overall, the customers are also relying on the natural gas we sell being competitive with what is being offered by alternative suppliers on the market.

Consumers seem primarily to demand services close to our core services, i.e. sale of gas. Since the needs of our customers vary, we are striving to develop further options in our services in order to meet the exact individual needs of the customers. For many years, the company has been able to offer fixed-price products to private customers as well, but this has been made difficult by changes to the consumer legislation which entail that consumers cannot be bound to the agreed terms for more than six months at the most.

HNG Midt-Nord Handel offers products deviating from the basic price products since the Danish Energy Regulatory Authority is expecting maximum transparency as regards the activities in the PSO company.

Gas purchase agreements

2010 was the fourth year in which the HNG Midt-Nord Salg group was a player on the international gas market and independently purchased natural gas to the group's customers. Until 2007, the company was obliged to purchase all the gas from DONG Energy. Subsequently, the company consolidated its position and has continually offered small customers natural gas on the most attractive terms. The company has retained customers and sales in the PSO company while at the same time participating actively and successfully – through the subsidiary HNG Midt-Nord Handel – in the more intensive competitive market for large customers and has increased its market share from approx. 200 million m³ at the start of the company to 700 million m³ a year.



Board of Directors:
Hans J. Okholm, Helge Friis, Karin Søjberg Holst (Chairman), Jens Jørgen Nygaard,
Ebbe Skovsgaard, Ib Bjerregaard (Vice-chairman), Ole Ømbøl.

With effect from 2007, the HNG Midt-Nord Salg group entered into new partner agreements with DONG Energy A/S and E.ON Ruhrgas. The agreement with E.ON Ruhrgas was renewed in 2008, and the agreement with DONG Energy was renewed in 2009 and again in 2010. The partner agreements are increasingly supplemented by minor agreements with many different suppliers. On a current basis, the natural gas is sold and purchased in the wholesale markets in Germany, the Netherlands and Denmark as well as on the Danish gas exchange, Nord Pool Gas, with a view to optimising the group's gas portfolio in relation to sales agreements concluded. These agreements have secured the necessary natural gas for the years ahead. Special focus is on securing the necessary gas supplies in the coming years where the connection to Germany has not been fully developed and the production in the Danish part of the North Sea is expected to decrease. 2010 has been characterised by interruptions in the import of gas which repeatedly during the year led to significantly higher prices at the Danish gas exchange than at the German gas exchanges.

The HNG Midt-Nord Salg group believes that the gas purchases effected have enhanced the company's competitive strength and led to lower prices for the natural gas customers in Denmark. The group has produced robust earnings and implemented considerable consolidation in 2010. Significantly lower earnings are expected in the future, but the consolidation carried out has led to more room for manoeuvre for the company on the gas market and thus increased the possibility to enter into attractive gas contracts in a market which, after the financial crisis in 2009, is increasingly focusing on the creditworthiness of trading partners.

All new gas agreements include elements of take-or-pay terms which means that the company is obliged to pay for the agreed quantities irrespective of whether the company takes the gas or not. There is ongoing focus on preventing take-or-pay situations from arising, where natural gas has to be paid for although it cannot be resold to the customers. Such situations will primarily occur in case of mild weather or unforeseen market share losses. The take-or-pay risk in the intra-group gas purchase agreements is placed with HNG Midt-Nord Handel, since this company is in a better position to avert the consequences of take-or-pay situations compared with the licensed public service company HNG Midt-Nord Salg. No take-or-pay obligations crystallised in 2010.

The calendar year 2010 was cold resulting in markedly higher sales to customers throughout the group than estimated for a normal year. This led to higher earnings from the PSO activity in HNG Midt-Nord Salg due to

larger quantities and to a higher contribution margin per m³ as a result of for instance lower storage costs. HNG Midt-Nord Salg believes that the company has enhanced its position on the gas market for the coming years. The purchases are made in cooperation with the subsidiary HNG Midt-Nord Handel which is also responsible for the management of the purchase portfolio and the daily balancing in relation to suppliers, storages and Energinet.dk. HNG Midt-Nord Salg's gas purchase terms are directly linked to the terms of the contracts which the group has concluded with external suppliers. The risk attached to the management of transport and storages lies with HNG Midt-Nord Handel, while HNG Midt-Nord Salg gets a share of the profit if these costs are lower than the benchmark agreed on, which was the case in 2010.

Natural gas as green energy

Throughout the years, natural gas has been regarded as an environmentally-friendly fuel. However, natural gas is a fossil fuel like oil and coal, but is the least polluting of fossil fuels.

The report of the Danish Commission on Climate Change Policy does not leave much room for natural gas in the long term. We do not believe in that. Natural gas is significantly greener than the other fossil fuels and there is lots of it (the International Energy Agency, IEA, talks about enough for 250 years of consumption) and, besides, 70% of the gas is found within a distance of 2,000 km from Europe. Natural gas can be stored and is therefore ideal to fill in the gap when it is not blowing. Moreover, the natural gas grid can be used for an efficient utilisation of the production of biogas and, in the longer term, possibly hydrogen produced on the basis of surplus electricity from wind power.

An important aspect of our marketing has been to help our customers consume the smallest possible amount of energy. In the magazine *Magasinet Nyt* and through exhibitions and events for installation firms we have assisted our customers with advice on the choice of energy-efficient solutions – including advice on the fact that up-to-date natural gas boilers have the highest energy utilisation among all forms of energy.

An aim of HMN Naturgas is that the new energy-saving contributions, which are charged via the distribution tax, should benefit small consumers who make a special effort to cut down on their natural gas use. HNG Midt-Nord Salg has been in charge of the initiative towards small customers. The promotion of energy

savings and information about the possibility of receiving subsidies have been carried out by launching two special energy-saving campaigns and through the company's customer magazine. HNG Midt-Nord Salg has succeeded in more than fulfilling the targets set within the agreed budget limit. The initiative has been carried out in close cooperation with the HVAC trade.

Energy savings are on top of our green agenda. Energy not used will not pollute.

We believe that it is very important for the natural gas sector to assist in ensuring that the quite substantial biogas resources be produced and utilised rather than other forms of energy. This will produce less CO₂ and less methane emissions for the benefit of all of us.

As regards technological innovations, we believe that gas-fired heat pumps and micro-CHP plants producing heat and power in individual homes hold the most promise. HNG Midt-Nord Salg has been involved in two projects concerning the establishment of large gas heat pumps and has bought a number of pumps for the use in single-family houses. Efforts are being made to find appropriate locations in order to gain experience that can be used when advising natural gas customers. So far, it has turned out to be more time-consuming and protracted than expected to have a demonstration installation established. HNG Midt-Nord Salg has set aside DKK 2 million for these activities.

Activities of HNG Midt-Nord Salg

The principal aim for HNG Midt-Nord Salg in 2010 was to continue the activities regarding customer service, customer retention and sales to new customers.

2010 was the seventh year after the full opening of the market allowing all customers to choose their own supplier. Also in 2010, the competition focused on the market for the large and medium-sized customers. The extent of customer defection has been very limited and lower than estimated, no doubt due to the fact that the company has maintained the lowest customer prices throughout the year. In spring 2010, we saw some competition by way of a rate based on exchange prices which a competitor marketed outside his own supply area. We chose to introduce a similar rate, but owing to the market development the alternative rating was soon no longer attractive. Similarly, the calm in the market for small customers has led to substantial savings on the estimated marketing expenses. Sometimes competition assessment is based on the number of customers

changing supplier, but generally we find that it should be based on price in relation to customers.

Focus has still been on limiting the costs and, at the same time, on ensuring that the free choice of supplier will take place in as simple and smooth a manner as possible without causing any inconvenience for the customers choosing to remain with the company. The procedures established for Gas Market 2004 work efficiently in practice without interfering with the customers' free choice of supplier.

In 2009, the Danish Energy Regulatory Authority directed that the company's customer communication must no longer be distributed together with communication from the distribution companies although 98% of the customer groups are the same. This has entailed additional communication expenses, especially for postage. The company has chosen to keep on communicating directly with the customers through the customer newsletter *Naturgasmagasinet Nyt*.

In 2007, HNG Midt-Nord Salg changed its customer settlement system. The problems have successfully been kept within the company, except from customer service which is slower than usual. During 2009, we saw a marked improvement and in 2010 we were able to carry out a number of staff cuts with no adverse implications to the quality of the customer service.

Customers

At end-2010, HNG Midt-Nord Salg had 233,000 customers, 16,000 of whom were domestic customers who only use natural gas for cooking. The customers are distributed by about 176,500 in the previous HNG area and about 56,750 in the previous *Naturgas* Midt-Nord area. At end-2009, the total number of customers was approx. 232,000.

2010 saw a net influx of some 2,000 heat customers and a reduction in cooking customers of about 700. The net influx was affected by the distribution company's introduction of payment for service pipes in 2008 and many potential customers being required to change their oil tanks for environmental reasons. In 2010, only 2,650 new contracts were concluded and approx. 430 small customers have chosen another supplier than HNG Midt-Nord Salg. Some of the lost customers have become the customers of HNG Midt-Nord Handel. The loss of small customers to our competitors has been moderate and less than expected, but the competition on the market for medium-sized customers is still intensive.

HNG Midt-Nord Salg solely offers customers standard agreements adjusted according to published, regulated rates. The only financial product previously offered by HNG Midt-Nord Salg is fixed-price agreements. More advanced agreements and agreements with large customers are solely offered by HNG Midt-Nord Handel. As from 1 January 2010, it has not been possible to enter into fixed-price agreements with private customers since the new Danish Consumer Handling Act (forbrugerhåndteringsloven) prohibits that customers be bound for more than six months, and in the opinion of the company it was too risky to enter into consumer agreements which cannot be covered against risk.

New sales

HNG Midt-Nord Salg is not engaged in any sales activities for the distribution companies. To the extent that sales campaigns are carried out towards potential customers, this will be for the company's own account and risk. In 2010, HNG Midt-Nord Salg chose to continue its marketing activities as regards sale to new customers by way of a spring and autumn campaign towards oil heated and electrically heated homes along the existing system.

The slower growth in Denmark has a significant impact on the influx of new contracts. The steep rise in the number of customers in 2008, totalling 8,306 new single-family home contracts, declined to 2,210 contracts in 2009 and increased to 2,650 in 2010. New construction is very limited, but especially the new payment for service pipes in the distribution company poses a considerable barrier.

No doubt the customers' awareness of the possibilities of having natural gas is high. The customers still choose natural gas as their source of energy when they are in an acute replacement situation.

A total of 195 electrically heated customers chose to switch to natural gas in 2010 against 191 customers in 2009.

The cooperation with the installation trade has been expanded under the "GasFitter Concept", where the cooperation with natural gas active installation firms is intensified. The GasFitter cooperation comprises 125 installation firms in the previous HNG supply area and 93 firms in the previous Naturgas Midt-Nord area. The GasFitter Concept has been adjusted to a more mutually binding form similar to the previous one in Naturgas Midt-Nord.

Competitive situation

On 1 January 2004, the entire Danish gas market was liberalised which – after some sluggishness in the market – led to a further intensification of the competitive situation in Denmark, especially in relation to major customers.

Overall, around 249,000 customers were connected in HMN Naturgas' distribution area at the end of 2010. Some 233,000 customers are connected in HNG Midt-Nord Salg's distribution area. This means that around 16,000 customers have chosen to switch to another natural gas supplier, about 9,900 of whom to HNG Midt-Nord Salg's subsidiary HNG Midt-Nord Handel. Primarily the largest customers have chosen to "try their luck" with another supplier.

In Denmark, there are more than ten competitors on the market. We saw two new competitors on the market in 2010, but more have come at the beginning of 2011, among others companies affiliated to EnergiDanmark.

Overall, competition and HNG Midt-Nord Salg's new gas purchase agreements have led to lower prices for the small and medium-sized customers. A more natural relationship than before between prices for small and large customers is now likely to have been established.

Result 2010

The financial result in the HNG Midt-Nord Salg group in 2010 was a profit before tax of DKK 246.8 million, up from DKK 221.9 million in 2009. The profit in the group was significantly higher than expected at the beginning of the year and notably higher than to be anticipated in the future.

Revenue in the HNG Midt-Nord Salg group was DKK 4,023.6 million in 2010 (2009: DKK 3,000.1 million) and cost of sales was DKK 3,808.7 million (2009: DKK 2,726.4 million).

Revenue in the parent company HNG Midt-Nord Salg totalled DKK 1,332.8 million in 2010 (2009: DKK 960.9 million) and cost of sales was DKK 1,240.8 million (2009: DKK 853.7 million).

The gross profit from sale of gas in the HNG Midt-Nord Salg group was DKK 214.9 million in 2010 (2009: DKK 273.7 million).

The gross profit from sale of gas in the parent company HNG Midt-Nord Salg (the licensed company) was DKK 92.0 million in 2010 (2009: DKK 107.2 million).

Gas sale

In 2010, the weather was colder than usual. The year under review had approximately 13% more degree days than in a normal year as defined by HMN Naturgas. Total group sales were higher than budgeted. Sales in the HNG Midt-Nord Salg group have been positively affected by the colder weather and larger market share. The defection of customers in the PSO company HNG Midt-Nord Salg was lower than expected due to the company's competitive prices.

In 2010, total group sales were 1,248.4 million m³, broken down by 587.5 million m³ in the Greater Copenhagen area, 472.9 million m³ in the Central and North Jutland area and 188 million m³ in other distribution areas. In 2009, sales totalled 949 million m³.

In the parent company HNG Midt-Nord Salg, sales totalled 475.9 million m³, broken down by 358.2 million m³ in the Greater Copenhagen area and 117.8 million m³ in the Central and North Jutland area. In 2009, sales totalled 412 million m³.

Other operating income

Other operating income primarily comprises market value adjustment of financial hedging of purchase and sales contracts. In 2010, other income totalled DKK 116.7 million against DKK 13.2 million in 2009.

Recognition of the market value adjustment of financial agreements complies with the IFRS regulations. Purchase and sales contracts from 2010 and prior years account for DKK 42.5 million of the market value adjustment in 2010. The market value of financial hedging pertaining to purchase and sales contracts with delivery in 2011 and later accounts for DKK 54.0 million, and during the hedging period this amount will be offset by correspondingly lesser earnings on these purchase and sales contracts.

Operating expenses

HNG Midt-Nord Salg has no employees apart from the Executive Management. All employees are employed with the parent company HMN Naturgas. The company's operations are run by purchase of resources or services from HMN Naturgas on an arm's length basis for the benefit of both parties or by use of external partners. A number of service agreements have been established which specify quality, competence and payment for purchase of resources and services between the companies for the purpose of securing that the terms are fair for both parties.

Operating expenses in the HNG Midt-Nord Salg group are divided into service agreements and other operating expenses. In 2010, the operating expenses of the HNG Midt-Nord Salg group totalled DKK 84.9 million compared with DKK 76.3 million in 2009. The service agreements mainly concern purchase of resources by way of staff and specific services. There are 17 full-time employees, and part-time employees with the HNG Midt-Nord Salg group represent 39 full-time equivalents.

Interest

In the group, net interest income of DKK 0.3 million was realised in 2010. In 2009, net interest income totalled DKK 11.6 million. Interest income from the placing of cash funds offsets the group's expenses for guarantee commission in connection with purchase of natural gas and interest expenses on subordinated loan capital.

In 2010, the company's cash position was good.

Net profit for the year

The profit after tax for the year in the HNG Midt-Nord Salg group is DKK 181.8 million, DKK 146.1 million of which can be attributed to the subsidiary HNG Midt-Nord Handel, which is not subject to regulation by the Danish Energy Regulatory Authority. The realised profit after tax in the activity covered by the PSO licence is DKK 35.6 million.

According to the Danish Energy Regulatory Authority's guidelines on the regulation of PSO natural gas companies, the company is basically entitled to an operating profit for 2010 equivalent to an 8% return on the company's share capital less the contributed capital in HNG Midt-Nord Handel. The rate of return will be higher or lower if HNG Midt-Nord Salg's costs pertaining to operation and purchase of natural gas are higher or lower than the corresponding expenses in the PSO companies of Naturgas Fyn or DONG Energy. Due to a protracted dispute between the PSO company of Naturgas Fyn and the Danish Energy Regulatory Authority, the Danish Energy Regulatory Authority's approval of the return allowed for the years 2008, 2009 and 2010 is not yet available. Thus, the amount of total excess cover to be repaid to the customers in HNG Midt-Nord Salg's supply area is not yet known.

The Danish Energy Regulatory Authority has made the adjustment for 2007, and HNG Midt-Nord Salg was allowed a total return of 17.3% – based on the capital of DKK 100 million tied up in HNG Midt-Nord Salg's PSO company – equal to DKK 17.3 million, owing to the company's low costs and low gas purchase prices. The company estimates that a total return of approx. DKK 35-40 million after tax will be allowed for 2008, 2009 and 2010.

Provided that this estimate proves correct, the outstanding account with the customers of the PSO company will total about DKK 64 million which has to be repaid to the customers by way of a price reduction within the next few years. This amount covered by the regulation is recorded in the Balance Sheet as "reserve for price adjustment" under equity.

Special risks

Operating risks

The HNG Midt-Nord Salg group's earnings in 2010 mainly derive from a trade margin (a minor amount per m³ sold) attributed to expected gas purchase prices, and a fixed rate per customer.

In a warm year the group's gross profit will decrease owing to reduced sales. To this should be added a lower contribution margin per m³ owing to the hedging of take-or-pay commitments.

This risk has been mitigated by purchasing some of the natural gas quantities on flexible terms supplemented by quantities that can immediately be resold on the international market. The flexibility is estimated to be adequate to cope with normal temperature fluctuations and ordinary market share losses.

The future income base from customers depends on the HNG Midt-Nord Salg group being a supplier of gas. To the extent that the customers choose other gas suppliers, the company's income base will be eroded. The company has allowed for possible market share losses in its plans for the future.

Competitive strength

The market price for natural gas varies widely with the development in oil prices. The gas quantities purchased have been hedged in relation to the development in oil prices, but there will always be a risk that in some periods natural gas can be purchased with a better relation to oil prices than the one obtained so that the company's gas portfolio will be uncompetitive.

This risk has to some extent been covered by the natural gas rate to the customers matching the terms of purchase.

Price products

The use of price products is a key competitive parameter when it comes to capturing customers. The financial risks are substantial due to the high volatility in gas and oil prices.

The aim is to systematically eliminate the group's risk by regularly hedging products sold together with HNG Midt-Nord Handel which enters into off-setting transactions with suppliers and financial institutions. Framework agreements have been concluded with suppliers and banks to hedge the products.

Derivative financial instruments

The group offers customers agreements determining the selling price of natural gas on the basis of different combinations of fuel and gas oil prices and the US dollar rate.

Similarly, the group enters into purchase agreements determining the purchase price of natural gas on the basis of different combinations of fuel and gas oil prices and the US dollar rate.

On entering into such agreements, the group accepts a price and foreign-exchange risk as the purchase and selling prices of the gas are fixed on a different basis. The group hedges these oil price and foreign-exchange risks by using derivative financial instruments, including swaps and, to a limited extent, call and put options so that the group's risk will be managed in connection with the purchase and sales agreements concluded.

On initial recognition, the derivative financial instruments are measured at cost, equal to the fair value of the fees paid or received. Subsequent to initial recognition, the derivative financial instruments are measured at the fair value as at the balance sheet date.

Ordering and nominations

It will have financial implications if the company's ordering and nominations of natural gas for the next 24 hours are outside the margins laid down in the rules governing the use of the transmission system. In recent years, the group has built up considerable knowledge in this area while at the same time automating the routines in the company's nomination system. The nominations have been hampered by the increasing impact of electricity prices on the customers' gas consumption.

Loss on bad debts

The HNG Midt-Nord Salg group's customers are primarily small customers and district heating plants, so the risk of loss on debtors is low.

The economic development has led to increased focus on debtors. There has been a significant increase in losses, and the number of debt collection letters and extension agreements on time for payment is rapidly rising.

To the extent that agreements are concluded with business enterprises and similar customers, ongoing focus will be placed on the creditworthiness of the customers.

Operating expenses

HNG Midt-Nord Salg has entered into service agreements with the parent company HMN Naturgas on for instance staff costs since all employees except from the Executive Management are still employed with HMN Naturgas, but are wholly or partly seconded to the HNG Midt-Nord Salg group. Selling and marketing expenses are directly covered by the HNG Midt-Nord Salg group.

Customer influx

HNG Midt-Nord Salg is seeing a limited influx of new customers.

Customer defection

In 2010, HNG Midt-Nord Salg did not experience any significant defection of customers. The total customer defection in the HNG Midt-Nord Salg group is 0.2% of customers.

Other matters

HNG Midt-Nord Salg is a company in the HMN Naturgas group, and the group's risk management and internal control form part of the Consolidated Annual Report. Similarly, the group's social responsibility appears from the Consolidated Annual Report.

Outlook

Most customers consider natural gas to be a low priority area. As long as the price of natural gas is competitive the customers do not feel induced to change supplier.

HNG Midt-Nord Salg expects that, based on the gas purchase agreements concluded, the PSO company will be able to maintain a dominant position on the market for small customers and, consequently, only experience limited customer defection.

In 2010, the subsidiary HNG Midt-Nord Handel proved to be an attractive partner for large and medium-sized enterprises. A major part of sales in 2011 has already been secured, but with lower earnings than in 2010.

Within the next few years, the group's results will be adversely affected by a price reduction in the PSO company since profits from the years 2008-2010 have to be repaid to the consumers. Besides, the results will be adversely affected by the market value adjustment of purchase and sales contracts with delivery in 2011 and later being recognised in 2010 in accordance with the IFRS regulations.

However, the company is still expected to be able to maintain its market share and at the same time report a satisfactory gross profit in the years ahead, and the group companies expect to be able to maintain their position as being most cost-effective as regards customer service while maintaining the service level to the customers.

Events occurring after the end of the financial year

No events have occurred after the end of the financial year of material importance to the evaluation of the Annual Report.

Statement by the Board of Directors and Executive Management

The Board of Directors and the Executive Management have today reviewed and approved the Annual Report of HNG Midt-Nord Salg A/S for the financial year ending on 31 December 2010.

The Annual Report has been drawn up in accordance with International Financial Reporting Standards as endorsed by the EU. Besides, the Annual Report has been drawn up in accordance with additional Danish disclosure requirements.

In our opinion, the Consolidated Financial Statements and the Financial Statements give a true and fair view of the group's and the company's assets, liabilities and financial position as at 31 December 2010 and of the results of the group's and the company's operations and cash flows for 2010.

In our opinion, the Management's Review contains a true and fair account of the development in the activities and financial circumstances of the group and the company, of results of operations for the year and the financial position of the group and the company.

The Annual Report is submitted to the general meeting for adoption.

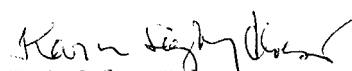
Viborg, 31 March 2011

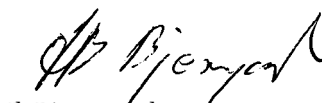
Executive Management


Ole Albæk Pedersen
Managing Director, CEO

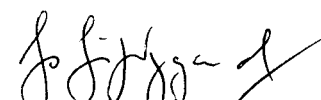

Henrik Iversen
Vice Director


Board of Directors


Karin Søjberg Holst
Chairman


Ib Bjerregaard
Vice-chairman


Helge Friis


Jens Jørgen Nygaard


Hans J. Okholm


Ebbe Skovsgaard


Ole Ørbøl

Independent Auditors' Report

To the shareholders of HNG Midt-Nord Salg A/S

We have audited the Consolidated Financial Statements, the Financial Statements and Management's Review of HNG Midt-Nord Salg A/S for the financial year ending on 31 December 2010. The Consolidated Financial Statements and the Financial Statements comprise Income Statement, Statement of Comprehensive Income, Assets, Liabilities, Statement of Changes in Equity, Cash Flow Statement and Notes for the group and for the company. The Consolidated Financial Statements and the Financial Statements are prepared in accordance with International Financial Reporting Standards as endorsed by the EU and in accordance with additional Danish disclosure requirements. The Management's Review is also prepared in accordance with Danish disclosure requirements.

Management's responsibility

Management is responsible for the preparation and fair presentation of Consolidated Financial Statements and Financial Statements in accordance with International Financial Reporting Standards as endorsed by the EU and in accordance with additional Danish disclosure requirements for listed companies. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Consolidated Financial Statements and Financial Statements that are free from material misstatement, whether due to fraud or error. The responsibility also includes selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Furthermore, Management is responsible for the preparation of a Management's Review that gives a true and fair account in accordance with Danish disclosure requirements.

Auditor's responsibility

Our responsibility is to express an opinion on the Consolidated Financial Statements, Financial Statements and Management's Review based on our audit. We conducted our audit in accordance with Danish Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the Consolidated Financial Statements, Financial Statements and Management's Review are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements, Financial Statements and Management's Review. The procedures

selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the Consolidated Financial Statements, Financial Statements and Management's Review, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the Consolidated Financial Statements and Financial Statements and to the preparation of a Management's Review that gives a true and fair account in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Consolidated Financial Statements, Financial Statements and Management's Review.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the Consolidated Financial Statements and Financial Statements give a true and fair view of the assets, liabilities and financial position as at 31 December 2010 of the group and the company and of the results of the group and company operations as well as cash flows for the financial year ending on 31 December 2010 in accordance with International Financial Reporting Standards as endorsed by the EU and in accordance with additional Danish disclosure requirements. Moreover, in our opinion, the Management's Review contains a true and fair account of the development in the activities and financial circumstances of the group and the company, of results of operations for the year and of the financial position of the group and the company, as well as a description of the key risks and uncertainties facing the group and the company in accordance with Danish disclosure requirements.

Hellerup, 31 March 2011

PricewaterhouseCoopers
Statsautoriseret revisionsaktieselskab



Per Timmermann
State Authorised Public Accountant



Rasmus Juul Pihl
State Authorised Public Accountant



Income Statement

HNG Midt-Nord Salg A/S

HNG Midt-Nord Salg A/S

			Note	DKK Million	
Parent company				Group	
2009	2010			2010	2009
960.9	1,332.8	Revenue		4,023.6	3,000.1
-853.7	-1,240.8	Cost of sales		-3,808.7	-2,726.4
107.2	92.0	Gross profit		214.9	273.7
3.0	11.6	Other operating income		116.7	13.2
-54.3	-54.3	Other operating expenses	2, 3	-84.9	-76.3
0.0	0.0	Depreciation	6	-0.3	-0.3
55.9	49.3	Operating profit		246.4	210.3
8.2	-1.3	Net financials	4	0.3	11.6
64.1	48.0	Profit before tax		246.8	221.9
-17.1	-12.4	Tax on the profit for the year	5	-65.0	-58.4
47.0	35.6	NET PROFIT FOR THE YEAR		181.8	163.5

Statement of Comprehensive Income

			DKK Million	
Parent company			Group	
2009	2010		2010	2009
47.0	35.6	Net profit for the year	181.8	163.5
47.0	35.6	TOTAL INCOME FOR THE YEAR	181.8	163.5

Balance Sheet

HNG Midt-Nord Salg A/S

HNG Midt-Nord Salg A/S

		Note	DKK Million		
Parent company			Group		
2009	2010		2010	2009	
ASSETS					
0.0	0.0	Other fixtures and fittings, tools and equipment	6	0.9	1.0
125.9	125.9	Investments in subsidiary	7	0.0	0.0
0.0	0.0	Other investments		5.9	5.6
125.9	125.9	Total investments		5.9	5.6
125.9	125.9	Fixed assets		6.8	6.6
0.0	0.0	Inventories		87.1	97.6
22.2	154.7	Trade receivables	8	591.9	252.7
0.0	37.8	Receivables from HNG Midt-Nord Handel A/S		0.0	0.0
8.6	8.7	Receivables from HMN Naturgas I/S		161.9	106.3
18.1	2.8	Joint taxation contribution receivable		0.0	0.0
51.5	59.8	Other receivables	9	245.9	144.9
0.0	0.7	Deferred tax asset		0.0	10.6
100.5	264.4	Total receivables		999.7	514.5
471.6	398.8	Cash		499.1	611.8
572.1	663.2	Total current assets		1,585.8	1,223.9
697.9	789.1	TOTAL ASSETS		1,592.6	1,230.6
LIABILITIES AND EQUITY					
50.0	50.0	Share capital		50.0	50.0
44.0	64.0	Reserve for price adjustment		64.0	44.0
292.3	308.0	Retained earnings		606.7	445.0
386.3	422.0	Equity		720.7	539.0
1.4	1.2	Trade payables		548.3	355.0
155.2	225.4	Payables to HNG Midt-Nord Handel A/S		0.0	0.0
125.0	125.0	Subordinated loan capital		125.0	125.0
6.1	6.9	Payables to HMN Naturgas I/S		6.8	6.9
0.0	0.0	Prepayments received from customers		0.0	14.0
0.0	0.0	Deferred tax liability		12.4	0.0
23.1	8.4	Other payables	10	171.9	189.9
0.8	0.2	Short-term portion of provisions		7.4	0.8
311.6	367.1	Total short-term liabilities		871.9	691.6
311.6	367.1	Total liabilities		871.9	691.6
697.9	789.1	LIABILITIES AND EQUITY		1,592.6	1,230.6
		Derivative financial instruments	11		
		Contingent liabilities	12		
		Related parties	13		
		Shareholders	14		
		Changes in working capital	15		
		Purchase obligations and guarantees issued	16		
		Gas contracts and price derivatives	17		
		Accounting policies	18		
		Accounting estimates and judgements	19		

Statement of Changes in Equity

HNG Midt-Nord Salg A/S

HNG Midt-Nord Salg A/S

DKK Million

Parent company	Share capital	Reserve for price adjustment	Retained earnings	Total equity
Equity at 1 January 2010	50.0	44.0	292.3	386.3
Net profit for the year	0.0	20.0	15.6	35.6
Equity at 31 December 2010	50.0	64.0	308.0	422.0
Equity at 1 January 2009	50.0	15.0	274.2	339.2
Net profit for the year	0.0	29.0	18.1	47.1
Equity at 31 December 2009	50.0	44.0	292.3	386.3
<hr/>				
Group				
Equity at 1 January 2010	50.0	44.0	445.0	539.0
Net profit for the year	0.0	20.0	161.8	181.8
Equity at 31 December 2010	50.0	64.0	606.7	720.7
Equity at 1 January 2009	50.0	15.0	310.6	375.6
Net profit for the year	0.0	29.0	134.5	163.5
Equity at 31 December 2009	50.0	44.0	445.0	539.0

The share capital consists of 50,000 shares of DKK 1,000 each. The shares have not been divided into classes. The estimated difference between the financial result of the year and HNG Midt-Nord Salg A/S' regulatory income limit is transferred via the distribution of profit to reserve for price adjustment under equity in order to show that this portion of equity is not really available to the owners.

Cash Flow Statement

HNG Midt-Nord Salg A/S

HNG Midt-Nord Salg A/S

		Note	DKK million	
Parent company			Group	
2009	2010		2010	2009
		Cash flow from operating activities:		
64.1	48.0	Profit for the year before tax	246.8	221.9
		<i>Adjustments:</i>		
0.0	0.0	Depreciation and amortisation	0.3	0.3
0.0	0.0	Reversal of other operating income	-94.4	-10.2
3.5	-7.5	Corporation tax paid	-51.7	-39.9
		<i>Changes in working capital:</i>		
13.3	-163.2	Changes in receivables, inventories, etc.	-495.1	262.8
-2.7	49.9	Changes in trade payables, etc.	281.8	-288.3
78.2	-72.8	Total cash flow from operating activities	-112.3	146.6
		<i>Cash flow from investing activities:</i>		
0.0	0.0	Capital investments	-0.4	-0.6
0.0	0.0	Total cash flow from investing activities	-0.4	-0.6
78.2	-72.8	Total increase/decrease in cash and cash equivalents	-112.7	146.0
393.4	471.6	Cash and cash equivalents, beginning of year	611.8	465.8
471.6	398.8	Cash and cash equivalents, end of year	499.1	611.8
		<i>Cash and cash equivalents, end of year:</i>		
471.6	398.8	Cash	499.1	611.8
471.6	398.8	Cash and cash equivalents, end of year	499.1	611.8

15

Note 1. Segment reporting
DKK million

Management has defined the group's operating segments based on the reporting received by the group management and which forms the basis of its decisions. Group management manages activities based on a division of the sale of gas into 'regulated' and 'not regulated'.

Thus, the segments to be reported comprise:

Trade in gas - regulated, comprises the activities subject to the licence in connection with the sale of gas which are covered by the Danish Energy Regulatory Authority's regulation.

Trade in gas - not regulated, comprises the sale of natural gas on individually negotiated terms. Activities are not regulated by the Danish Energy Regulatory Authority.

Information regarding business segments is based on the group's return and risks according to the internal financial reporting. Intra-group trades and allocation between segments are carried on an arm's length basis.

Activities 2010	Trade in gas regulated	Trade in gas not regulated	Eliminations	Total group
Extra-group sales	1,332.8	2,690.8	0.0	4,023.6
Intra-group sales	0.0	1,246.6	-1,246.6	0.0
Revenue	1,332.8	3,937.4	-1,246.6	4,023.6
Operating profit	49.3	197.2	0.0	246.4
Net financials	-1.3	1.6	0.0	0.3
Extraordinary items	0.0	0.0	0.0	0.0
Income taxes	-12.4	-52.7	0.0	-65.0
Net profit for the year	35.6	146.1	0.0	181.8
Long-term assets	125.9	6.8	-125.9	6.8
Short-term assets	663.2	1,189.4	-266.8	1,585.8
Assets	789.1	1,196.2	-392.6	1,592.6
Equity	422.0	424.6	-125.9	720.7
Debt	367.1	771.5	-266.8	871.9
Liabilities	789.1	1,196.2	-392.6	1,592.6
<hr/>				
Activities 2009				
Extra-group sales	960.9	2,039.1	0.0	3,000.1
Intra-group sales	0.0	856.5	-856.5	0.0
Revenue	960.9	2,895.6	-856.5	3,000.1
Operating profit	55.9	154.4	0.0	210.3
Net financials	8.2	3.4	0.0	11.6
Income taxes	-17.1	-41.4	0.0	-58.5
Net profit for the year	47.0	116.4	0.0	163.4
Long-term assets	125.9	6.7	-125.9	6.7
Short-term assets	572.1	825.2	-173.3	1,223.9
Assets	697.9	831.9	-299.2	1,230.6
Equity	386.3	278.5	-125.9	539.0
Debt	311.6	553.3	-173.3	691.6
Liabilities	697.9	831.9	-299.2	1,230.6

Notes

HNG Midt-Nord Salg A/S

HNG Midt-Nord Salg A/S

Note 2. Fee for auditor appointed by the general meeting

DKK million

Parent Company			Group	
2009	2010		2010	2009
0.1	0.1	Auditor's fees	0.2	0.2
0.1	0.0	Auditor's fees, balance relating to previous year	0.1	0.2
0.2	0.1	Total fees in the financial year	0.3	0.4

Note 3. Staff costs

DKK million

Parent Company			Group	
2009	2010		2010	2009
		The company has only employed the Executive Management. The other employees have been recruited and employed by HMN Naturgas I/S and pay to both employees and the Executive Management is defrayed by HMN Naturgas I/S. In accordance with the service agreements, the company covers a share of the owners' staff costs, including wages and salaries, holiday pay and other staff-related costs.		
1.4	1.6	Remuneration for the Executive Management	3.1	2.7
0.2	0.2	Total remuneration for the Board of Directors	0.5	0.3

Note 4. Net financials

DKK million

Parent Company			Group	
2009	2010		2010	2009
		<i>Financial income:</i>		
9.0	2.7	Interest income on cash funds from operations	4.9	13.3
0.0	0.0	Net currency adjustment	0.0	0.1
0.0	1.6	Interest income from group enterprise	1.6	0.0
9.0	4.3		6.5	13.3
		<i>Financial expenses:</i>		
-0.2	-5.3	Guarantee commission and interest expenses conc. subordinated loan capital	-6.0	-0.2
0.0	0.0	Net currency adjustment	-0.1	0.0
-0.6	-0.3	Other financial expenses	-0.1	-1.5
-0.8	-5.6	Total financial expenses	-6.2	-1.7
8.2	-1.3	Net financials	0.3	11.6

Notes

HNG Midt-Nord Salg A/S

HNG Midt-Nord Salg A/S

Note 5. Tax on the profit for the year

DKK million

Parent company			Group	
2009	2010		2010	2009
-17.1	-11.8	Current tax for the year	-40.0	-54.8
0.0	-1.3	Deferred tax pertaining to prior years	-2.0	0.0
0.0	-0.7	Deferred tax for the year	-23.0	-3.6
-17.1	-12.4	Total tax for the year	-65.0	-58.4
<i>broken down as follows:</i>				
-17.1	-12.4	Tax on the profit for the year	-65.0	-58.4
0.0	0.0	Tax on changes in equity	0.0	0.0
-17.1	-12.4	Total tax for the year	-65.0	-58.4
<i>Tax on the profit for the year may be specified as follows:</i>				
25.0 %	25.0 %	Corporation tax rate	25.0 %	25.0 %
<i>Tax effect of:</i>				
0.0 %	0.0 %	Loss from prior years	0.0 %	0.0 %
-15.0 %	0.0 %	Amortisation of goodwill for tax purposes	0.0 %	-4.8 %
1.2 %	0.6 %	Other tax adjustments	0.2 %	6.1 %
11.2 %	25.6 %	Effective tax rate	0.2 %	26.3 %
<i>The tax asset is broken down as follows:</i>				
0.0	0.7	Intangible assets	0.0	10.6
0.0	0.0	Other timing differences	0.0	0.0
0.0	0.7	Total tax asset	0.0	10.6
<i>The tax liability is broken down as follows:</i>				
0.0	0.0	Other payables	12.4	0.0
0.0	0.0	Other timing differences	0.0	0.0
0.0	0.0	Total tax liability	12.4	0.0

The company is jointly taxed with its subsidiary, but is solely liable for the portion of the tax that is attributable to the company's income.

Notes

HNG Midt-Nord Salg A/S

HNG Midt-Nord Salg A/S

Note 6. Fixed assets

DKK million

	Property, plant and equipment	Investments	Total fixed assets
Cost at 1 January 2010	1.3	5.6	6.9
Additions	0.1	2.7	2.8
Disposals	0.0	-2.4	-2.4
Cost at 31 December 2010	1.4	5.9	7.3
Depreciation at 1 January 2010	0.3	0.0	0.3
Depreciation of the year	0.3	0.0	0.3
Depreciation at 31 December 2010	0.5	0.0	0.5
Net revaluations at 1 January 2010	0.0	0.0	0.0
Revaluations during the year	0.0	0.0	0.0
Net revaluations at 31 December 2010	0.0	0.0	0.0
Carrying amount at 31 December 2010	0.9	5.9	6.8
Cost at 1 January 2009	0.7	6.9	7.6
Additions	0.6	4.8	5.4
Disposals	0.0	-6.1	-6.1
Cost at 31 December 2009	1.3	5.6	6.9
Depreciation at 1 January 2009	0.0	0.0	0.0
Depreciation of the year	0.3	0.0	0.3
Depreciation at 31 December 2009	0.3	0.0	0.3
Net revaluations at 1 January 2009	0.0	0.0	0.0
Revaluations during the year	0.0	0.0	0.0
Net revaluations at 31 December 2009	0.0	0.0	0.0
Carrying amount at 31 December 2009	1.0	5.6	6.6

Note 7. Investments in subsidiary

DKK million

	2010	2009
Cost at 1 January 2010	55.0	55.0
Additions during the year	0.0	0.0
Disposals during the year	0.0	0.0
Cost at 31 December 2010	55.0	55.0
Revaluations at 1 January 2010	70.9	70.9
Revaluations carried back of disposals during the year	0.0	0.0
Valuation during the year	0.0	0.0
Revaluations at 31 December 2010	70.9	70.9
Carrying amount at 31 December 2010	125.9	125.9

Notes

HNG Midt-Nord Salg A/S

HNG Midt-Nord Salg A/S

Note 8. Provisions for bad debts

DKK million

Parent company			Group	
2009	2010		2010	2009
2.2	5.0	Provisions for bad debts at 1 January	7.8	2.3
2.8	0.7	Additions	1.9	5.5
0.0	0.0	Disposals	0.0	0.0
5.0	5.7	Provisions for bad debts at 31 December	9.7	7.8

All trade receivables fall due within one year.

Note 9. Other receivables

DKK million

Parent company			Group	
2009	2010		2010	2009
51.5	58.3	VAT and duties receivable	58.3	51.5
0.0	0.0	Market value of derivatives to hedge purchase and sales contracts	175.1	93.4
0.0	1.4	Other receivables	12.5	0.0
51.5	59.8	Total other receivables	245.9	144.9

Note 10. Other payables

DKK million

Parent company			Group	
2009	2010		2010	2009
0.0	0.0	Market value of derivatives to hedge purchase and sales contracts	121.1	135.9
23.1	8.4	Tax payable	8.4	23.1
0.0	-21.9	VAT and duties payable	14.0	29.8
0.0	21.9	Other items	28.4	1.1
23.1	8.4	Total other payables	171.9	189.9

Note 11. Derivative financial instruments

See the Management's Review, section about special risks, derivative financial instruments.

Note 12. Contingent liabilities

The parent company has an obligation towards HNG Midt-Nord Handel A/S to invest further subordinated loan capital of DKK 25 million.

Note 13. Related parties

The company has related parties with controlling influence.
 HMN Naturgas I/S and the company's management have significant influence.
 In 2010, HNG Midt-Nord Salg A/S requested various administrative services from HMN Naturgas I/S totalling DKK 28.9 million (2009: DKK 30.8 million).
 Remuneration for the Board of Directors, etc. has been stated in note 2.
 All transactions with related parties have been made at arm's length.

Note 14. Shareholders

The company is owned by the following shareholder: HMN Naturgas I/S, Gladsaxe, 100 %

Note 15. Changes in working capital

DKK million

Group		2010	2009
	Changes in receivables and inventories	-495.1	262.8
	Changes in trade payables, etc.	281.8	-288.3
	Total changes in working capital	-213.3	-25.5

Note 16. Purchase obligations and guarantees issued

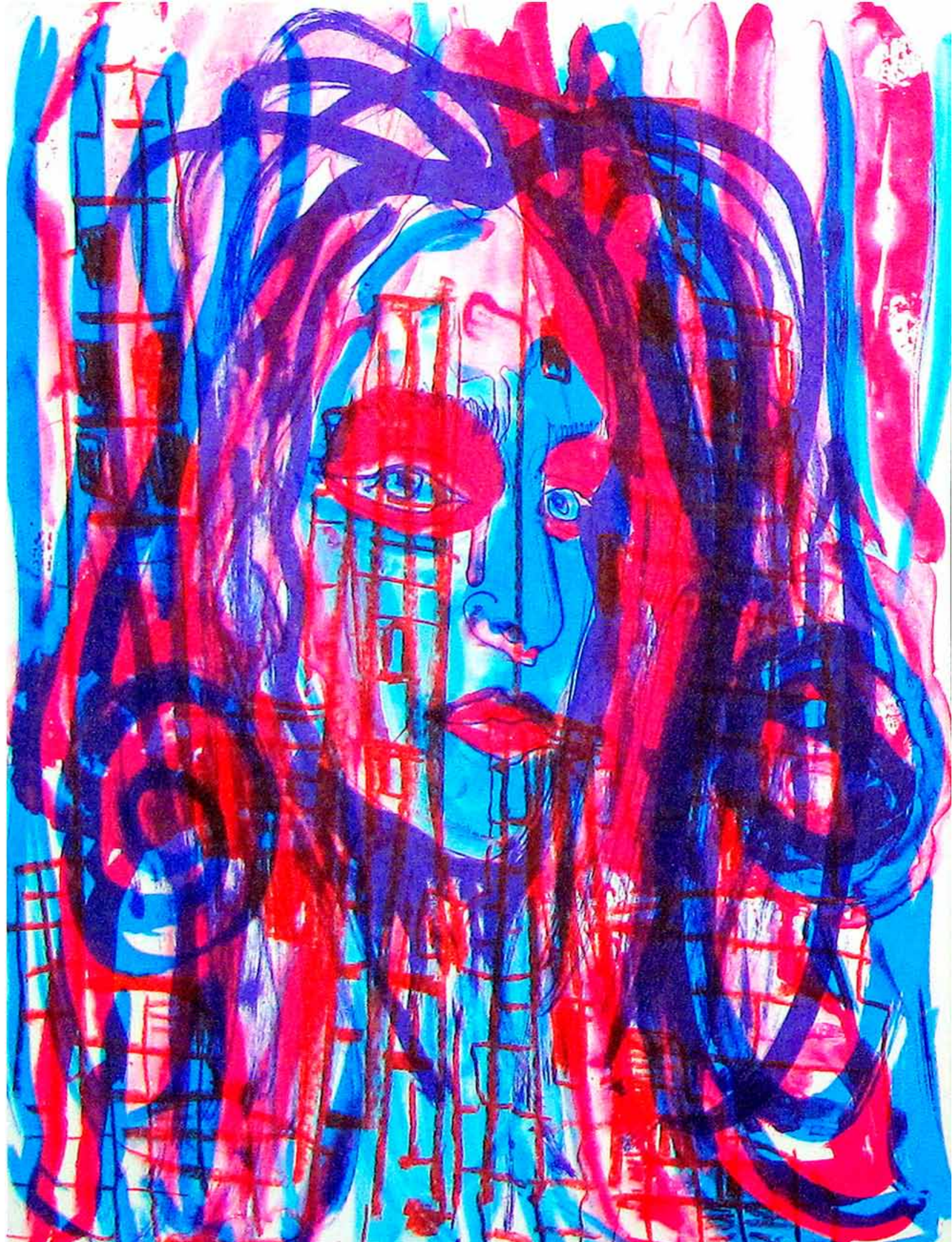
The company has entered into binding agreements for the purchase of natural gas of DKK 4,232 million (2009: DKK 1,333 million) on take-or-pay terms.
 The agreements will be in force for 4 years.
 The purchase obligations have been undertaken jointly with the subsidiary HNG Midt-Nord Handel A/S.
 On behalf of HNG Midt-Nord Salg A/S and the subsidiary HNG Midt-Nord Handel A/S, Nordea has jointly provided guarantees totalling DKK 303 million (2009: DKK 470 million).

Note 17. Gas contracts and price derivatives

Sensitivity analysis of the financial portfolio – in case of a change in oil price and the US dollar rate of 10% – shows as follows:

As mentioned in the Management's Review, section about Special risks, the company is exposed to gas price risks. The company hedges price and exchange-rate risks relating to binding agreements for future purchases and sale of gas with swaps and, to a limited extent, call and put options. The requirements concerning accounting hedging are not used. Price derivatives, which are based on oil prices, had a net fair value as at 31.12. 2010 of DKK 54 million (2009: negative DKK 42.5 million).

Risk	Price change	Estimated effect on result	
		2010	2009
Change in oil price and US dollar rate	10%	30.5	38.7
Change in oil price and US dollar rate	-10%	-30.5	-38.7



Note 18. Accounting policies

The Annual Report is presented in accordance with International Financial Reporting Standards as endorsed by the EU and additional Danish disclosure requirements concerning annual reports for reporting class C (large) cf. the Danish Executive Order on IFRS Adoption issued in pursuance of the Danish Financial Statements Act. The Annual Report also complies with IFRS issued by the International Accounting Standards Board (IASB). The Annual Report is presented in accordance with IFRS and comprises Consolidated Financial Statements for the company and its subsidiary as well as Financial Statements for the parent company.

Application of new and updated IFRS standards

HNG Midt-Nord Salg A/S has implemented all new or updated and amended international financial reporting standards (IFRSs) issued by IASB and IFRSs endorsed by the EU, which are effective for the financial year 2010.

The other standard amendments put into force by IASB for 2010 comprise IFRS 2 and 7, IAS 7, 12, 16, 21, 27, 28, 31, 38 and 39, interpretations IFRIC 17 and 18 as well as the annual improvements to applicable IFRSs and interpretations. The implementation of the above has only limited effect on recognition, measurement and cash flows.

New accounting standards not yet effective

At the time of the presentation of Annual Report 2010, IASB and IFRIC have published various new standards and interpretations which shall apply to financial years beginning after 31. December 2010. Therefore, these standards have not been applied in the preparation of this annual report.

IASB has issued the following new accounting standards and interpretations which might be of relevance to HNG Midt-Nord Salg A/S:

The annual improvements to applicable IFRSs which involve minor amendments to a number of standards effective for financial years beginning after 1 January 2010. The other standard amendments adopted by IASB in 2010 comprise: IAS 24 and interpretations IFRIC 14 and 19. According to our assessment these amendments have limited relevance to HNG Midt-Nord Salg A/S.

Moreover, IASB has issued IFRS 9 'Financial instruments' which shall apply from 1 January 2013 at the latest. This is part of IASB's project to replace IAS 39, and with the new standard the classification and measurement of financial instruments as well as hedging requirements will be significantly amended. IFRS 9 has not been endorsed by the EU. This draft will be analysed in detail since it is expected to be of relevance to HNG Midt-Nord Salg A/S.

The Annual Report is presented in DKK million.

Recognition and measurement

The Financial Statements are presented in accordance with the historical cost principle modified for measurement of certain financial instruments at fair value.

Income is recognised in the Income Statement as earned. Furthermore, all costs incurred in order to generate the earnings for the year, including depreciation, amortisation, impairment and provisions, are recognised in the Income Statement.

Assets are recognised in the Balance Sheet if it is probable that any future economic benefits will flow to the group, and the value of the asset can be measured reliably.

Liabilities are recognised in the Balance Sheet if it is probable that future economic benefits will flow out of the group, and the value of the liability can be measured reliably.

Assets and liabilities are recognised at cost on initial recognition. Subsequently, assets and liabilities are measured as described for each item below.

Translation of foreign currency

Transactions denominated in foreign currencies are translated into the functional currency (DKK) according to the exchange rates ruling at the transaction date. Exchange gains and losses pertaining to the settlement of these transactions and to the translation of monetary assets and liabilities into foreign currency at the exchange rates ruling at the balance sheet date are recognised in the Income Statement.

Exchange differences arising from the translation of non-monetary items such as financial assets classified as available for sale are recognised in the fair value reserve under other comprehensive income.

Consolidated Financial Statements

The Consolidated Financial Statements comprise HNG Midt-Nord Salg A/S (parent company) and HNG Midt-Nord Handel A/S (subsidiary).

The Consolidated Financial Statements are prepared by combining items of uniform nature. On consolidation, intra-group income and expenses, intra-group balances and dividends as well as gains and losses on transactions between the consolidated companies are eliminated. The financial statements used in the consolidation are prepared in accordance with the group's accounting policies.

Derivative financial instruments

The HNG Midt-Nord Salg group uses derivative financial instruments for the purpose of hedging price risks in connection with purchase and sale of gas.

On initial recognition, the derivative financial instruments are measured at the fair value of the remuneration paid or received. Subsequent to initial recognition, the derivative financial instruments are measured at the fair value as at the balance sheet date.

Changes in the fair value of derivative financial instruments, classified as and complying with the requirements for hedging of the fair value of a recognised asset or a recognised liability, are recorded in the Income Statement together with change in the fair value of the asset or liability related to the hedged risk.

Changes in the fair value of derivative financial instruments not complying with the requirements for accounting hedging are recognised in the Income Statement. Changes in the fair value of derivatives concluded for the purpose of hedging price risks related to gas are recognised in revenue.

Income Statement

Revenue

Revenue from sale of goods and services is recognised in the Income Statement provided that delivery and the passing of risk to buyer have taken place before the end of the year and provided that the income can be measured reliably and is expected to be received.

Revenue is recognised at the fair value of the agreed consideration exclusive of VAT and duties charged on behalf of a third party. All kinds of discounts granted are recognised in revenue.

Revenue is recognised as delivery of natural gas is effected. Income from customers paying on account has been calculated for the period after the latest annual statement of account.

Other operating income

Other operating income comprises items of a secondary nature in relation to the company's activities, including value adjustment of financial instruments.

Cost of sales

The costs of goods sold comprise the costs incurred to generate the revenue for the year.

Other external expenses

Other external expenses include expenses incidental to provision of administrative services requested in compliance with service agreements with the parent company, communication costs, advisory services, other administrative expenses, etc.

Net financials

Net financials include interest income and interest expenses, realised and unrealised exchange gains and losses as well as amortisation added/deducted pertaining to financial liabilities.

Income taxes

Tax for the year comprises the current tax charge for the year and any changes in the deferred tax charge.

Current tax payable and receivable is recognised in the Balance Sheet as tax computed on the taxable income for the year, adjusted for tax prepaid.

Deferred tax is recognised and measured according to 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. The computation of the tax value of the assets is based on the planned use of each asset.

Deferred tax is measured based on the tax rules and tax rates applicable under the legislation in force on the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax shall, owing to changes in tax rates, be recognised in the Income Statement.

Deferred tax assets, including the tax value of losses available for carry-over for tax purposes, are recognised at the value at which the asset is expected to be used, either through set-off against deferred tax liabilities or as net tax assets.

The parent company is jointly taxed with the subsidiary. The current Danish corporation tax is divided between the jointly taxed companies in proportion to their taxable incomes (full allocation with refund concerning tax losses).

Balance Sheet

Investments in subsidiary

Investments in the subsidiary are measured at cost in the parent company's Financial Statements. Cost is based on the carrying amount as at 1 January 2008, made up according to the previous accounting policies.

Investments

Investments are measured at the amortised cost of contracts for operating leases of natural gas equipment with customers.

Property, plant and equipment

Plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost of acquisitions incurred after 1 January 2005 includes the acquisition price and costs incidental to the acquisition until the time when the asset is ready to be put into operation.

Depreciation of assets is based on a useful life of five years for cars, equipment, machinery and other investments.

Impairment test

The carrying amount of property, plant and equipment is assessed annually to determine whether there is any indication of impairment. In such case, an impairment test will be made.

In an impairment test, the recoverable amount is compared with the carrying amount of the tested asset. An impairment loss is recognised when the carrying amount of an asset or a cash-generating unit (CGU), respectively, exceeds the recoverable amount of the asset or the CGU.

The recoverable amount for property, plant and equipment is the highest value of the assets' fair value less expected costs of disposal and the present value of future net cash flows.

Inventories

Natural gas inventories are measured at cost, made up according to weighted average prices, or the net realisable value if this is lower. The net realisable value for

inventories is computed as the expected selling price less costs to be defrayed to effect a sale.

Receivables

Receivables, including financial receivables from customers and other financial receivables, are measured at amortised cost less writedown for loss on bad debts. The writedown for loss on bad debts is based on an individual assessment of each receivable.

Price agreements with customers containing a price formula that differs from the list price are separated from the supply agreement and recognised as derivative financial instruments.

Other receivables and prepayments

Other receivables, including other financial receivables, are measured at amortised cost which is usually equal to the nominal value. Prepayments recognised under Assets include expenses incurred concerning subsequent reporting periods. Prepayments are measured at amortised cost, which usually corresponds to the nominal value.

Equity reserves

Provision for reduction of prices is the amount which has to be repaid to the consumers through future lower prices based on the Danish Energy Regulatory Authority's regulation of distribution activities and PSO activities.

Provisions

Provisions are recognised and measured as the best estimate of the costs necessary to settle the provisions at the balance sheet date. Provisions with an estimated due date more than one year from the balance sheet date will be measured at discounted present value. Change in the net present value will be included under net financials.

Deferred income

Deferred income recognised under Liabilities comprises income received to be recognised in the Income Statement of the subsequent financial year. Deferred income is measured at net realisable value which is usually equal to the nominal value.

Financial liabilities

Financial liabilities are recognised at amortised cost which is usually equal to the nominal value.

Cash Flow Statement

The company's Cash Flow Statement is presented according to the indirect method showing cash flows from operating, investing and financing activities and the company's cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities are made up as operating result adjusted for non-cash operating items and changes in working capital. Cash flows from investing activities include payments in connection with purchase and sale of enterprises and activities as well as purchase and sale of intangible assets, property, plant and equipment as well as investments.

Cash flows from financing activities include changes in the amount or composition of the subscribed capital and costs incidental hereto as well as the raising of loans, repayments on interest-bearing debt and distribution to the partners (group) or owners (subsidiaries).

Cash and cash equivalents include cash and short-term securities with negligible price exposure less short-term bank debt.

Segment reporting

Revenue is reported on business segments. Information regarding business segments is based on the group's return and risks according to the internal financial reporting.

Note 19. Accounting estimates and judgements

On recognition and measurement of items in the Financial Statements, it will in some cases be necessary to make estimates and assumptions on future events that affect the reported income and expenses in the financial period and the disclosure of contingent assets and liabilities as at the balance sheet date. Estimates and judgements are based on historical experience and other relevant factors which Management believes to be reasonable under the circumstances, but which inherently are uncertain and unpredictable. Thus, actual results could differ from those estimates.

The estimates and judgements and the underlying assumptions are regularly revised. Changes to the accounting estimates are recognised in the financial period in which the changes were made and in future financial periods if they are affected by the changes.

Estimates of material importance to the financial reporting are based on accruals for employee benefits, restoration obligations as well as valuation of derivative instruments not traded in an active market.

Valuation of derivative financial instruments not traded in an active market

The HNG Midt-Nord Salg group hedges commodity and currency risks.

These hedging transactions relate to future income from sale and costs in connection with purchase of natural gas. Besides, customer contracts include a price index which is treated as separate derivative financial instruments, see below.

The fair value of derivatives used to hedge commodity risks and derivatives incorporated in customer contracts is based on valuation models using prices derived from trades in markets that are less liquid than for instance interest markets. Thus, the valuation is subject to some uncertainty.

On 31 December 2010, the carrying amount of derivative financial instruments used to hedge commodity risks and derivatives incorporated in customer agreements totalled DKK 175.1 million under assets and DKK 121.1 million under liabilities. The corresponding amounts for 2009 were DKK 93.4 million under assets and DKK 135.9 million under liabilities.

Financial ratios

The financial ratios have been computed as follows:

Gross margin	=	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Profit ratio	=	$\frac{\text{Operating profit} \times 100}{\text{Revenue}}$
Rate of return	=	$\frac{\text{Operating profit} \times 100}{\text{Balance sheet total}}$
Return on equity	=	$\frac{\text{Profit for the year} \times 100}{\text{Average equity}}$
Equity ratio	=	$\frac{\text{Equity} \times 100}{\text{Balance sheet total}}$

Key Figures and Financial Ratios – Group

HNG Midt-Nord Salg A/S

HNG Midt-Nord Salg A/S

Finances (DKK million)	2010	2009	2008	2007	2006
Revenue	4,023.6	3,000.1	3,127.1	2,121.2	2,322.2
Gross profit	214.9	273.7	146.5	117.5	71.1
Other operating income	116.7	13.2	87.8	2.0	1.8
External expenses	-84.9	-76.3	-58.6	-54.4	-32.7
Depreciation	-0.3	-0.3	0.0	0.0	0.0
Net financials	0.3	11.6	11.4	16.1	9.7
Net profit for the year	246.8	221.9	187.1	81.2	49.9
Trade receivables	591.9	252.7	285.3	317.7	45.4
Equity	720.7	539.0	375.3	316.7	235.6
Balance sheet total	1,592.6	1,230.6	1,702.2	1,115.1	957.3
Financial ratios (%)	2010	2009	2008	2007	2006
Gross margin	5.3	9.1	4.7	5.5	3.1
Profit ratio	6.1	7.0	5.6	3.1	1.7
Rate of return	15.5	17.1	10.3	5.8	4.2
Return on equity	28.9	35.8	21.9	29.4	8.2
Equity ratio	45.3	43.8	22.0	28.4	24.6
Statistics	2010	2009	2008	2007	2006
Sale (mio. m ³ natural gas)	1,248	949	996	776	694
Domestic customers (No.)	16,000	16,812	17,430	18,352	20,448
Customers (No.)	217,250	215,348	212,750	204,561	206,778



Management's Review

HNG Midt-Nord Handel A/S

Gas purchases

HNG Midt-Nord Handel A/S is responsible for all purchases, storage and transport of natural gas to cover the supply of natural gas to both HNG Midt-Nord Salg A/S' and HNG Midt-Nord Handel A/S' natural gas customers.

In 2010, HNG Midt-Nord Handel purchased around 1,248 million m³ of natural gas in Germany, the Netherlands and Denmark. About 476 million m³ have been resold to HNG Midt-Nord Salg and about 772 million m³ have been sold to own customers. HNG Midt-Nord Handel is handling the transport of the natural gas to the Danish border and in the Danish distribution system.

For the purpose of meeting the company's need for flexibility, HNG Midt-Nord Handel has utilised the flexibility options incorporated in the purchase contracts and acquired storage capacity with Energinet.dk Gaslager.

HNG Midt-Nord Handel enters into gas purchase agreements running from only one day to five years. Our strategy is to purchase long-term gas to our core market, including HNG Midt-Nord Salg, whereas we do not purchase natural gas to the more competitive market until we have won the customer.

During 2010, HNG Midt-Nord Handel has continued to negotiate a number of framework agreements (EFET agreements) with various suppliers so that it will be possible, on an ongoing basis, to trade gas quantities. At the end of 2010, agreements with 27 counterparties had been concluded.

HNG Midt-Nord Handel wants a liquid and transparent Danish gas exchange and has been active at the Danish gas exchange, Nord Pool Gas, since its launch in March 2008. The gas exchange had a difficult start with very few trades and players, but has seen a positive development especially during 2010. The liquidity at the exchange is now relatively high because HNG Midt-Nord Handel has served as a market maker since September 2009, i.e. has undertaken every day to quote both buy and sell prices, for a swap product between the German gas system and the Danish one.

During 2010, HNG Midt-Nord Handel effected 2,253 major and minor gas trades, 849 of which were made at Nord Pool Gas. In our opinion, the liquidity in the wholesale market markedly improved in 2010 in both Denmark and in our nearest markets. The liquidity in Denmark is still affected by periods in which the border is closed for import of gas from the neighbouring markets.

In 2010, we have seen a major decoupling between oil prices and natural gas prices. Owing to large quantities of gas worldwide, the increase in oil prices during 2010 has not affected gas prices to the same extent as before.

As in 2009 and 2008, the natural gas storage in Denmark was auctioned off in 2010. Energinet.dk held altogether three storage auctions, one auction of five-year storage contracts, one of short-term storage contracts and one of one-year storage contracts which represented the majority of the storage capacity.

The storage price was affected by the forward prices at the European gas exchanges where the price difference between winter and summer was limited. Consequently, we saw a decline in prices of one-year storage contracts of approximately 5% compared with 2009.

However, the prices of five-year storage contracts were markedly higher, i.e. 25% above the price of one-year storage contracts.

Supply security

HNG Midt-Nord Handel has special focus on the supply situation in Denmark for the next couple of years until the connection to the German gas system has been completed, which is expected to happen in 2013. The production in the North Sea is expected to decrease so that Denmark will need to import larger quantities of natural gas from abroad, primarily Germany.

For the period until 2013, we expect more and longer interruptions at the Danish-German border, leading to higher fluctuations in the spot prices in Denmark. HNG Midt-Nord Handel is aiming to hedge the price risk during this period.

Customers and the competitive situation

At end-2010, HNG Midt-Nord Handel had approx. 10,000 customers with an expected overall annual natural gas consumption of about 650 million m³.

HNG Midt-Nord Handel consolidated its market share in 2010. Thus, the company's volume of contracts at the end of 2010 is still around 650 million m³, or at the same level as at the end of 2009 and 2008. The number of customers has also been remained stable from 2009 to 2010.

The competitive situation has intensified considerably since the market was fully liberalised seven years ago. For the large customers, tenders and supplier changes have become an obvious choice. The customers' knowledge of the market and the suppliers' interest in the market have matured.

More and more customers demand better prices through various kinds of tenders. However, the market is fairly non-transparent as the conditions depend widely on the chosen customer-price index and contract binding by way of quantities as well as period and load patterns which make it difficult for many customers to see through the many offers on the market. The general picture is that offers in the competitive market are accompanied by stricter bindings and higher risks for the customers than what they have been used to.

Prices to customers index-linked to the prices at the Danish gas exchange, Nord Pool Gas, became particularly popular among both customers and new suppliers during 2010. Some customers attach importance to price transparency and to prices being subject to market regulation. Besides, new players in the market find it important to enter into agreements with customers with a minimum of risk.

Apart from Nord Pool Gas, we saw various exchange products on the market in 2010 such as price products index-linked to the German exchange, NCG, or to the Dutch exchange. The advantage of using foreign exchanges is that they are associated with a financial market which is important to both customers and suppliers.

HNG Midt-Nord Handel finds it important to be able to offer the customers as flexible and unproblematic contracts as possible. Many of our customers want low risk and as little trouble as possible, and HNG Midt-Nord Handel's offers for flexible contracts have been positively received by the customers.

As in the previous years, HNG Midt-Nord Handel also in 2010 developed a number of new products and services which have contributed to improving the company's competitive strength and making it easier for the customers to compare offers.

Risk

HNG Midt-Nord Handel hedges the purchase price on the same day as the purchase agreement is concluded so that it will match the variable selling price in the end customer market when the gas is expected to be used. Similarly, the agreed selling price is hedged each time it deviates from the usual form of indexation.

The rapid price changes in the oil and gas markets in 2008 tested whether our financial hedging was sufficiently resilient. In 2010, our hedging operations were also very efficient.

All HNG Midt-Nord Handel's purchase agreements include take-or-pay terms where the risk is regularly assessed. By utilising the flexibility incorporated in the gas purchase agreements, by purchasing capacity in natural gas storage, by selling volumes in the wholesale market or by trying to increase the sale to the end customer market, take-or-pay payment can be prevented. Owing to the harsh winter of 2010, HNG Midt-Nord Handel was not affected by take-or-pay in 2010.

Up until 2008, our customers' ability to pay was good and our losses on bad debts very few, but in 2008 there was some indication that the first problems were emerging. The impact was felt in 2010, where total loss on bad debts including provisions was DKK 1.2 million compared with the estimated DKK 2.5 million. We still expect substantial losses on bad debts in 2011, where losses have been estimated at DKK 4.0 million. The financial circumstances of the customers are assessed at the signing of contracts as regards the need for deposits, and overdue invoices of major customers are checked every month.

Result

In 2010, HNG Midt-Nord Handel reported a profit before tax of DKK 198.8 million, up from DKK 157.8 million in 2009. The result was better than expected at the beginning of the year.

The gross profit from sale of gas was DKK 122.9 million in 2010 compared with DKK 166.5 million in 2009.

Gas sale

HNG Midt-Nord Handel is responsible for the overall purchase of natural gas for both its own customers and for HNG Midt-Nord Salg's customers.

In 2010, total sales to HNG Midt-Nord Handel's own customers were 772 million m³ natural gas compared with 537 million m³ in 2009. The sale is broken down by 229 million m³ in HMN Naturgas' distribution area in the Greater Copenhagen area, by 355 million m³ in HMN Naturgas' distribution area in Central and North Jutland and 188 million m³ in other distribution areas.

The sale to HNG Midt-Nord Salg totalled 476 million m³ in 2010.

Other operating income

Other operating income primarily comprises market value adjustment of financial hedging of purchase and sales contracts. In 2010, other income totalled DKK 105.2 million against DKK 10.2 million in 2009.

Recognition of the market value adjustment of financial agreements complies with the IFRS regulations. Purchase and sales contracts from 2010 and prior years account for DKK 42.5 million of the market value adjustment in 2010. The market value of financial hedging pertaining to purchase and sales contracts with delivery in 2011 and later accounts for DKK 54.0 million, and during the hedging period this amount will be offset by correspondingly lesser earnings on these purchase and sales contracts.

Other operating expenses

HNG Midt-Nord Handel A/S has no employees apart from the Executive Management. All employees are employed with HMN Naturgas. The company's operations are run by purchase of resources or services from HMN Naturgas

or from external partners. A number of service agreements have been established which specify quality, competence and payment for purchase of resources and services from HMN Naturgas for the purpose of securing that the trading is done on market terms.

Operating expenses in HNG Midt-Nord Handel are divided into service agreements and other operating expenses. In 2010, HNG Midt-Nord Handel had net operating expenses of DKK 30.6 million compared with DKK 22 million in 2009.

The service agreements, which include all staff costs, account for 75% of total operating expenses.

Net financials

Interest income from available funds and other net financials totalled DKK 1.6 million in 2010 against DKK 3.4 million in 2009.

Income taxes

The estimated tax on the profit for the year is DKK 52.7 million. DKK 13.1 million of this amount is deferred tax owing to adjustment of financial hedging of purchase and sales contracts stated under other operating income

Special risks

Operating risks

In 2010, HNG Midt-Nord Handel's income derived from a small trade margin by way of a minor amount per m³ sold as well as the net effect of financial hedging of the company's contracts with customers and of the company's purchase of natural gas.

Transmission and storage

Up to 50% of HNG Midt-Nord Handel's transmission and storage costs are fixed payments. The company compensates for this by charging especially large customers a fixed and variable contribution for transmission and storage. However, the majority is charged as a minor amount per m³ natural gas sold.

Take-or-pay terms

A significant portion of the company's quantity contracts has been concluded on take-or-pay terms which means that HNG Midt-Nord Handel is obliged to pay for a specific quantity irrespective of whether the company takes the gas or not.

This risk has been mitigated by purchasing some of the gas quantities on flexible terms supplemented by quantities that can be resold on the international market. The flexibility is estimated to be adequate to cope with normal temperature fluctuations and expected market share losses.

Transport of natural gas

A substantial portion of the company's natural gas is bought internationally and must be transported to Denmark. This involves a risk of transport interruptions and, consequently, imbalance in the Danish gas grid in relation to Energinet.dk and in relation to the gas grid abroad which might entail losses due to compulsory sale and purchase.

Competitive strength

The market price for natural gas varies widely with the development in oil prices. The gas quantities purchased have been hedged in relation to the development in oil prices, but there will always be a risk that in some periods natural gas can be purchased with a better relation to oil prices than the one obtained, and that the company's gas portfolio loses competitiveness.

This risk has to some extent been covered by the terms of sale for the agreements concluded with customers matching the terms of purchase.

The significant gas surplus in Europe due to the crisis has resulted in the gas price being increasingly uncoupled from the oil price. Therefore, there is a growing risk that contracts with traditional oil price adjustments will lose competitiveness in the short run.

Price products

The use of price products is a key competitive parameter when it comes to capturing customers. The financial risks are substantial due to the high volatility in gas and oil prices.

The risk is systematically controlled by regularly hedging products sold with off-setting transactions with suppliers and financial institutions. Framework agreements have been concluded with suppliers and banks to hedge the products.

Derivative financial instruments

HNG Midt-Nord Handel offers customers agreements determining the selling price of natural gas on the basis of different combinations of fuel and gas oil prices and the US dollar rate.

Similarly, HNG Midt-Nord Handel enters into purchase

agreements determining the purchase price of natural gas on the basis of different combinations of fuel and gas oil prices and the US dollar rate.

On entering into such agreements HNG Midt-Nord Handel accepts a price and foreign-exchange risk as the purchase and selling prices of the gas are fixed on a different basis. HNG Midt-Nord Handel hedges these oil price and foreign-exchange risks by using derivative financial instruments, including swaps and, to a limited extent, call and put options so that HNG Midt-Nord Handel in fact will have no risk in connection with the purchase and sales agreements concluded.

Focus on credit

Trading in international gas markets and hedging of market-related risks with financial products increasingly require guarantees. The company may to a certain extent be prevented from entering into the best contracts on the best terms due to lack of credit approval from potential counterparties.

By strengthening the company's equity, establishing bank credit lines and, on an ongoing basis, entering into trade relations with accompanying credit approval and guarantees, the company will enhance its room for manoeuvre on the market and its possibility of hedging risks.

A number of deviations in the Danish insolvency legislation compared to European standards increases the company's credit requirements in relation to foreign counterparties.

Ordering and nominations

It will have financial implications if the company's ordering and nominations of natural gas for the next 24 hours are outside the margins laid down in the rules governing the use of the transmission system. In 2007-2010, the company has built up considerable knowledge on control in this area. However, the control has been complicated by an increasing portion of sales no longer being dependent on weather, but on electricity prices.

Loss on bad debts

In 2007-10, HNG Midt-Nord Handel increased its share of business enterprises in its customer portfolio, while previously the portfolio primarily consisted of district heating companies with very limited risk of loss on debtors. This entails an increased risk of loss on debtors.

Therefore, upon the conclusion of contracts the company has ongoing focus on the creditworthiness of the customers.

Other matters

HNG Midt-Nord Handel is a company in the HMN Naturgas group, and the group's risk management and internal control form part of the Consolidated Annual Report. Similarly, the group's social responsibility appears from the Consolidated Annual Report.

Outlook

Like in 2010, HNG Midt-Nord Handel will be in the purchase market for natural gas in order to maintain the company's competitive strength.

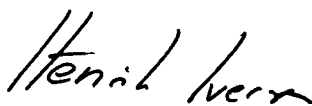
HNG Midt-Nord Handel will continue to offer competitive products on individual terms to major customers. Contracts concluded in 2010 have shown that there is a need for an enterprise which tailors creative products to the needs of the individual customer.

Events occurring after the end of the financial year

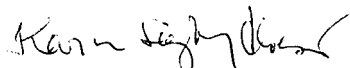
No events have occurred after the end of the financial year of material importance to the evaluation of the Annual Report.

Executive Management


Ole Albæk Pedersen
Managing Director, CEO



Henrik Iversen
Vice Director

Board of Directors


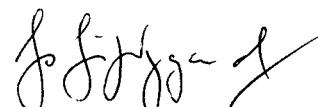
Karin Søjberg Holst
Chairman



Ib Bjerregaard
Vice-chairman



Helge Friis




Jens Jørgen Nygaard



Hans J. Okholm



Ebbe Skovsgaard



Ole Ornbøl

Statement by the Board of Directors and Executive Management

The Board of Directors and the Executive Management have today reviewed and approved the Annual Report of HNG Midt-Nord Handel A/S for the financial year ending on 31 December 2010.

The Annual Report has been drawn up in accordance with International Financial Reporting Standards as endorsed by the EU. Besides, the Annual Report has been drawn up in accordance with additional Danish disclosure requirements.

In our opinion, the Financial Statements give a true and fair view of the company's assets, liabilities and financial position as at 31 December 2010 and of the results of the company's operations and cash flows for 2010.

In our opinion, the Management's Review contains a true and fair account of the development in the activities and financial circumstances of the company, of results of operations for the year and the financial position of the company.

The Annual Report is submitted to the general meeting for adoption.

Viborg, 31 March 2011

Independent Auditors' Report

To the shareholders of HNG Midt-Nord Handel A/S

We have audited the Financial Statements and Management's Review of HNG Midt-Nord Handel A/S for the financial year ending on 31 December 2010. The Financial Statements comprise Income Statement, Statement of Comprehensive Income, Assets, Liabilities, Statement of Changes in Equity and Notes for the group and for the company. The Financial Statements are prepared in accordance with International Financial Reporting Standards as endorsed by the EU and with additional Danish disclosure requirements for listed companies. The Management's Review is also prepared in accordance with Danish disclosure requirements.

Management's responsibility

Management is responsible for the preparation and fair presentation of Financial Statements in accordance with International Financial Reporting Standards as endorsed by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error. The responsibility also includes selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Furthermore, Management is responsible for the preparation of a Management's Review that gives a true and fair account in accordance with Danish disclosure requirements.

Auditor's responsibility

Our responsibility is to express an opinion on the Financial Statements and Management's Review based on our audit. We conducted our audit in accordance with Danish Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the Financial Statements and Management's Review are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements and Management's Review. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the Financial Statements and Management's Review, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation

and fair presentation of the Financial Statements and to the preparation of a Management's Review that gives a true and fair account in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Financial Statements and Management's Review.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

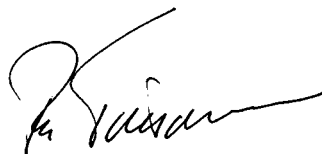
Opinion

In our opinion, the Financial Statements give a true and fair view of the company's assets, liabilities and financial position as at 31 December 2010 and of the results of the company operations for the financial year ending on 31 December 2010 in accordance with International Financial Reporting Standards as endorsed by the EU and additional Danish disclosure requirements for listed companies. Moreover, in our opinion, the Management's Review contains a true and fair account of the development in the activities and financial circumstances of the company, of results of operations for the year and of the financial position of the company, as well as a description of the key risks and uncertainties facing the company in accordance with Danish disclosure requirements for listed companies.

Hellerup, 31 March 2011

PricewaterhouseCoopers

Statsautoriseret revisionsaktieselskab



Per Timmermann
State Authorised Public Accountant



Rasmus Juul Pihl
State Authorised Public Accountant



Income Statement

HNG Midt-Nord Handel A/S

HNG Midt-Nord Handel A/S

	Note	DKK million	
		2010	2009
Revenue		3,937.4	2,895.6
Cost of sales		-3,814.6	-2,729.1
Gross profit		122.9	166.5
Other operating income		105.2	10.2
Other operating expenses	2.3	-30.6	-22.0
Depreciation	6	-0.3	-0.3
Operating profit		197.2	154.4
Net financials	4	1.6	3.4
Profit before tax		198.8	157.8
Tax on the profit for the year	5	-52.7	-41.3
Net profit for the year		146.1	116.5

Statement of Comprehensive Income

	DKK million	
	2010	2009
Net profit for the year	146.1	116.5
Total income for the year	146.1	116.5

Balance Sheet

HNG Midt-Nord Handel A/S

HNG Midt-Nord Handel A/S

	Note	DKK million	
		2010	2009
ASSETS			
Property, plant and equipment		0.9	1.0
Investments		5.9	5.6
Total fixed assets	6	6.8	6.6
Inventories			
		87.1	97.6
Trade receivables	7	437.2	230.4
Receivables from HNG Midt-Nord Salg A/S		225.4	155.2
Receivables from HMN Naturgas I/S		153.2	97.7
Other receivables	8	186.1	93.4
Deferred tax asset	5	0.0	10.6
Total receivables		1,002.0	587.3
Cash			
		100.3	140.2
Total current assets		1,189.4	825.1
TOTAL ASSETS		1,196.2	831.7
LIABILITIES AND EQUITY			
Share capital		10.0	10.0
Retained earnings		414.6	268.5
Equity		424.6	278.5
Trade payables		547.1	353.6
Joint taxation contribution payable		2.8	18.1
Payables to HNG Midt-Nord Salg A/S		37.7	0.7
Prepayments received from customers		0.0	14.0
Deferred tax liability		13.1	0.0
Other payables	9	163.5	166.8
Short-term portion of provisions		7.2	0.0
Total short-term liabilities		771.5	553.2
Total liabilities		771.5	553.2
LIABILITIES AND EQUITY		1,196.2	831.7
Related parties	10		
Shareholders	11		
Group structure	12		
Changes in working capital	13		
Purchase obligations and guarantees issued	14		
Gas contracts and price derivatives	15		
Accounting policies	16		
Accounting estimates and judgements	17		

Statement of Changes in Equity

HNG Midt-Nord Handel A/S

HNG Midt-Nord Handel A/S

DKK million

	Share capital	Retained earnings	Total equity
Equity at 1 January 2010	10.0	268.5	278.5
Net profit for the year	0.0	146.1	146.1
Equity at 31 December 2010	0.0	414.6	424.6
Equity at 1 January 2009	10.0	152.0	162.0
Net profit for the year	0.0	116.5	116.5
Equity at 31 December 2009	10.0	268.5	278.5

The share capital consists of 50,000 shares of DKK 1,000 each. The shares have not been divided into classes.

HNG Midt-Nord Salg A/S has a commitment to HNG Midt-Nord Handel A/S to contribute subordinated loan capital of DKK 25 million.

Cash Flow Statement

HNG Midt-Nord Handel A/S

DKK million	2010	2009
<i>Cash flow from operating activities:</i>		
Profit for the year before tax	198.8	157.8
<i>Adjustments:</i>		
Depreciation and amortisation	0.3	0.3
Reversal of other operating income	-94.4	-10.2
Corporation tax paid	-44.2	-43.4
<i>Changes in working capital:</i>		
Changes in receivables, inventories, etc.	-331.9	130.8
Changes in trade payables, etc.	231.9	-46.9
Total cash flow from operating activities	-39.5	188.4
<i>Cash flow from investing activities:</i>		
Capital investments	-0.4	-0.6
Total cash flow from investing activities	-0.4	-0.6
<i>Cash flow from financing activities:</i>		
Cash flow from loan with HNG Midt-Nord Salg A/S	0.0	-120.0
Total cash flow from financing activities	0.0	-120.0
Total increase/decrease in cash and cash equivalents	-39.9	67.8
Cash and cash equivalents, beginning of year	140.2	72.4
Cash and cash equivalents, end of year	100.3	140.2
<i>Cash and cash equivalents, end of year:</i>		
Cash	100.3	140.2
Cash and cash equivalents, end of year	100.3	140.2

Notes

HNG Midt-Nord Handel A/S

Note 1. Segment reporting

Only reporting for one operating segment is made which will be received by management and which forms the basis of its decisions.

The segment to be reported is:

Trade in gas - not regulated, comprises the sale of natural gas on individually negotiated terms. Activities are not regulated by the Danish Energy Regulatory Authority.

Information regarding the business segment is based on the company's return and risks according to the internal financial reporting.

Activities 2010 DKK million	Trade in gas not regulated	
	2010	2009
Extra-group sales	2,690.8	2,039.1
Intra-group sales	1,246.6	856.5
Revenue	3,937.4	2,895.6
Operating profit	197.2	154.4
Net financials	1.6	3.4
Extraordinary items	0.0	0.0
Income taxes	-52.7	-41.4
Net profit for the year	146.1	116.4
Long-term assets	6.8	6.7
Short-term assets	1,189.4	825.2
Assets	1,196.2	831.9
Equity	424.6	278.5
Debt	771.5	553.3
Liabilities	1,196.2	831.9

Note 2. Fee for auditor appointed by the general meeting (DKK million)

	2010	2009
Auditor's fees	0.2	0.2
Auditor's fees, balance relating to previous year	0.0	0.1
Total fees in the financial year	0.2	0.3

Note 3. Staff costs (DKK million)

The company has only employed the Executive Management. The other employees have been recruited and employed by HMN Naturgas I/S and pay to both employees and the Executive Management is defrayed by HMN Naturgas I/S. In accordance with the service agreements, the company covers a share of the owners' staff costs, including wages and salaries, holiday pay and other staff-related costs.

Remuneration for the Executive Management	1.5	1.3
Total remuneration for the Board of Directors	0.2	0.1

Note 4. Net financials (DKK million)

<i>Financial income:</i>		
Interest income on cash funds from operations	2.4	4.9
Net currency adjustment	0.0	0.1
...	2.4	5.0
<i>Financial expenses:</i>		
Guarantee commission and interest expenses conc. subordinated loan capital	-0.7	-0.8
Net currency adjustment	-0.1	0.0
Other financial expenses	0.0	-0.8
Total financial expenses	-0.8	-1.6
Net financials	1.6	3.4

Notes

HNG Midt-Nord Handel A/S

Note 5. Tax on the profit for the year (DKK million)	2010	2009
Current tax for the year	-28.2	-37.7
Deferred tax pertaining to prior years	-0.7	0.0
Deferred tax for the year	-23.8	-3.6
Total tax for the year	-52.7	-41.3
<i>broken down as follows:</i>		
Tax on the profit for the year	-52.7	-41.4
Tax on changes in equity	0.0	0.0
Total tax for the year	-52.7	-41.4
<i>Tax on the profit for the year can be specified as follows:</i>		
Corporation tax rate	25.0 %	25.0 %
Tax effect of:		
Amortisation of goodwill for tax purposes	0.0 %	-0.7 %
Other tax adjustments	0.2 %	0.4 %
Effective tax rate	25.2 %	24.7 %
<i>The tax asset is broken down as follows:</i>		
Intangible assets	0.0	10.6
Other timing differences	0.0	0.0
Total tax asset	0.0	10.6
<i>The tax liability is broken down as follows:</i>		
Other payables	13.1	0.0
Other timing differences	0.0	0.0
Total tax liability	13.1	0.0

All subsidiaries in the HMN group are jointly taxed. Each individual company is solely liable for the portion of the tax that is attributable to its own income.

Note 6. Fixed assets	DKK million		
	Property, plant and equipment	Investments	Total fixed assets
Cost at 1 January 2010	1.3	5.6	6.9
Additions	0.1	2.7	2.8
Disposals	0.0	-2.4	-2.4
Cost at 31 December 2010	1.4	5.9	7.3
Depreciation at 1 January 2010	0.3	0.0	0.3
Depreciation of the year	0.3	0.0	0.3
Depreciation at 31 December 2010	0.5	0.0	0.5
Carrying amount at 31 December 2010	0.9	5.9	6.8
Cost at 1 January 2009	0.7	6.9	7.6
Additions	0.6	0.0	0.6
Disposals	0.0	-1.3	-1.3
Cost at 31 December 2009	1.3	5.6	6.9
Depreciation at 1 January 2009	0.0	0.0	0.0
Depreciation of the year	0.3	0.0	0.3
Depreciation at 31 December 2009	0.3	0.0	0.3
Carrying amount at 31 December 2009	1.0	5.6	6.6

Notes

HNG Midt-Nord Handel A/S

Note 7. Provisions for bad debts (DKK million)	2010	2009
Provisions for bad debts at 1 January	2.8	0.1
Additions	1.2	2.7
Disposals	0.0	0.0
Provisions for bad debts at 31 December	4.0	2.8

All trade receivables fall due within one year.

Note 8. Other receivables (DKK million)	2010	2009
Market value of derivatives to hedge purchase and sales contracts	175.1	93.4
Other receivables	11.1	0.0
Total other receivables	186.1	93.4

Note 9. Other payables (DKK million)	2010	2009
Market value of derivatives to hedge purchase and sales contracts	121.1	135.9
VAT and duties payable	35.9	29.8
Other items	6.5	1.1
Total other payables	163.5	166.8

Note 10. Related parties

The company has related parties with controlling influence.

HMN Naturgas I/S and the company's management have significant influence.

In 2010, HNG Midt-Nord Handel A/S requested various administrative services from HMN Naturgas I/S totalling DKK 16.5 million (2009: DKK 15.9 million).

Remuneration for the Board of Directors, etc. has been stated in note 3.

All transactions with related parties have been made at arm's length.

Note 11. Shareholders

The company is owned by the following shareholder:

HNG Midt-Nord Salg A/S, Viborg, 100 %

Note 12. Koncernforhold

HNG Midt-Nord Handel A/S indgår i koncernregnskabet for HNG Midt-Nord Salg A/S og det fælles koncernregnskab for HMN Naturgas I/S.

Note 13. Changes in working capital (DKK million)	2010	2009
Changes in receivables and inventories	-331.9	130.8
Changes in trade payables, etc.	231.9	-46.9
Total changes in working capital	-100.0	83.9

Note 14. Purchase obligations and guarantees issued

The company has entered into binding agreements for the purchase of natural gas of DKK 4,232 million (2009: DKK 1,333 million) on take-or-pay terms.

The agreements will be in force for up to 4 year.

The purchase obligations have been undertaken jointly with or with guarantee from the parent company HNG Midt-Nord Salg A/S.

On behalf of HNG Midt-Nord Handel A/S and the parent company HNG Midt-Nord Salg A/S, Nordea has jointly provided guarantees totalling DKK 303 million (2009: DKK 470 million).



Note 15. Gas contracts and price derivatives

Sensitivity analysis of the financial portfolio – in case of a change in oil price and the US dollar rate of 10% – shows as follows:

As mentioned in the Management's Review, section about Special risks, the company is exposed to gas price risks. The company hedges price and exchange-rate risks relating to binding agreements for future purchases and sale of gas with swaps and, to a limited extent, call and put options. The requirements concerning accounting hedging are not used. Price derivatives, which are based on oil prices, had a net fair value as at 31.12. 2010 of DKK 54 million (2009: negative DKK 42.5 million).

Risk	Price change	Estimated effect on result	
		2010	2009
Change in oil price and US dollar rate	10 %	30.5	38.7
Change in oil price and US dollar rate	-10 %	-30.5	-38.7

Note 16. Accounting policies

The Annual Report is presented in accordance with International Financial Reporting Standards as endorsed by the EU and additional Danish disclosure requirements concerning annual reports for reporting class C (large), cf. the Danish Executive Order on IFRS Adoption issued in pursuance of the Danish Financial Statements Act. The Annual Report also complies with IFRS issued by the International Accounting Standards Board (IASB). The Annual Report is the first annual report presented according to IFRS.

Application of new and updated IFRS standards

HNG Midt-Nord Handel A/S has implemented all new or updated and amended international financial reporting standards (IFRSs) issued by IASB and IFRSs endorsed by the EU, which are effective for the financial year 2010

The other standard amendments put into force by IASB for 2010 comprise IFRS 2 and 7, IAS 7, 12, 16, 21, 27, 28, 31, 38 and 39, interpretations IFRIC 17 and 18 as well as the annual improvements to applicable IFRSs and interpretations. The implementation of the above has only limited effect on recognition, measurement and cash flows.

New accounting standards not yet effective

At the time of the presentation of Annual Report 2010, IASB and IFRIC have published various new standards and interpretations which shall apply to financial years beginning after 31. December 2010. Therefore, these standards have not been applied in the preparation of this annual report.

IASB has issued the following new accounting standards and interpretations which might be of relevance to HNG Midt-Nord Handel A/S:

The annual improvements to applicable IFRSs which involve minor amendments to a number of standards effective for financial years beginning after 1 January 2010. The other standard amendments adopted by IASB in 2010 comprise: IAS 24 and interpretations IFRIC 14 and 19. According to our assessment these amendments have limited relevance to HNG Midt-Nord Handel A/S.

Moreover, IASB has issued IFRS 9 'Financial instruments' which shall apply from 1 January 2013 at the latest. This is part of IASB's project to replace IAS 39, and with the new standard the classification and measurement of financial instruments as well as hedging requirements will be significantly amended. IFRS 9 has not been endorsed by the EU. This draft will be analysed in detail since it is expected to be of relevance to HNG Midt-Nord Handel A/S.

The Annual Report is presented in DKK million.

Recognition and measurement

The Financial Statements are presented in accordance with the historical cost principle modified for measurement of certain financial instruments at fair value.

Income is recognised in the Income Statement as earned. Furthermore, all costs incurred in order to generate the earnings for the year, including depreciation, amortisation, impairment and provisions, are recognised in the Income Statement.

Assets are recognised in the Balance Sheet if it is probable that future economic benefits will flow to the group, and the value of the asset can be measured reliably.

Liabilities are recognised in the Balance Sheet if it is probable that future economic benefits will flow out of the group, and the value of the liability can be measured reliably.

Assets and liabilities are recognised at cost on initial recognition. Subsequently, assets and liabilities are measured as described for each item below.

Translation of foreign currency

Transactions denominated in foreign currencies are translated into the functional currency (DKK) according to the exchange rates ruling at the transaction date. Exchange gains and losses pertaining to the settlement of these transactions and to the translation of monetary assets and liabilities into foreign currency at the exchange rates ruling at the balance sheet date are recognised in the Income Statement.

Exchange differences arising from the translation of non-monetary items such as financial assets classified as available for sale are recognised in the fair value reserve under other comprehensive income.

Derivative financial instruments

The HNG Midt-Nord Salg A/S group uses derivative financial instruments for the purpose of hedging price risks in connection with purchase and sale of gas.

On initial recognition, the derivative financial instruments are measured at the fair value of the remuneration paid or received. Subsequent to initial recognition, the derivative financial instruments are measured at the fair value as at the balance sheet date. Changes in the fair value of derivative financial instruments, classified as and complying with the requirements for hedging of the fair value of a recognised asset or a recognised liability, are recorded in the Income Statement together with change in the fair value of the asset or liability related to the hedged risk.

Changes in the fair value of derivative financial instruments not complying with the requirements for accounting hedging are recognised in the Income Statement. Changes in the fair value of derivatives concluded for the purpose of hedging price risks related to gas are recognised in other operating income.

Income Statement

Revenue

Revenue from sale of goods and services is recognised in the Income Statement provided that delivery and the passing of risk to the buyer have taken place before the end of the year and provided that the income can be measured reliably and is expected to be received.

Revenue is recognised at the fair value of the agreed consideration exclusive of VAT and duties charged on behalf of a third party. All kinds of discounts granted are recognised in revenue.

Revenue is recognised as delivery of natural gas is effected. Income from customers paying on account has been calculated for the period after the latest annual statement of account.

Other operating income

Other operating income comprises items of a secondary nature in relation to the company's activities, including value adjustment of financial instruments.

Cost of sales

The costs of goods sold comprise the costs incurred to generate the revenue for the year.

Other external expenses

Other external expenses include costs incidental to provision of administrative services requested in compliance with service agreements with the parent company, communication costs, advisory services, other administrative expenses, etc.

Net financials

Net financials include interest income and interest expenses, realised and unrealised exchange gains and losses as well as amortisation added/deducted pertaining to financial liabilities.

Income taxes

Tax for the year comprises the current tax charge for the year and any changes in the deferred tax charge.

Current tax payable and receivable is recognised in the Balance Sheet as tax computed on the taxable income for the year, adjusted for tax prepaid.

Deferred tax is recognised and measured according to 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. The computation of the tax value of the assets is based on the planned use of each asset.

Deferred tax is measured based on the tax rules and tax rates applicable under the legislation in force on the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax shall, owing to changes in tax rates, be recognised in the Income Statement.

Deferred tax assets, including the tax value of losses available for carry-over for tax purposes, are recognised at the value at which the asset is expected to be used, either through set-off against deferred tax liabilities or as net tax assets.

The parent company is jointly taxed with the subsidiary. The current Danish corporation tax is divided between the jointly taxed companies in proportion to their taxable incomes (full allocation with refund concerning tax losses).

Balance Sheet

Property, plant and equipment

Plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost of acquisitions incurred after 1 January 2005 includes the acquisition price and costs incidental to the acquisition until the time when the asset is ready to be put into operation.

Depreciation of assets is based on a useful life of five years for cars, equipment, machinery and other investments.

Impairment test

The carrying amount of property, plant and equipment is assessed annually to determine whether there is any indication of impairment. In such case, an impairment test will be made.

In an impairment test, the recoverable amount is compared with the carrying amount of the tested asset. An impairment loss is recognised when the carrying amount of an asset or a cash-generating unit (CGU), respectively, exceeds the recoverable amount of the asset or the CGU.

The recoverable amount for property, plant and equipment is the highest value of the assets' fair value less expected costs of disposal and the present value of future net cash flows.

Investments

Investments are measured at the amortised cost of contracts for operating leases of natural gas equipment with customers.

Inventories

Natural gas inventories are measured at cost, made up according to weighted average prices, or the net realisable value if this is lower. The net realisable value for inventories is computed as the expected selling price less costs to be defrayed to effect a sale.

Receivables

Receivables, including financial receivables from customers and other financial receivables, are measured at amortised cost less writedown for loss on bad debts. The writedown for loss on bad debts is based on an individual assessment of each receivable. Price agreements with customers containing a price formula that differs from the list price are separated from the supply agreement and recognised as derivative financial instruments.

Other receivables and prepayments

Other receivables, including other financial receivables, are measured at amortised cost which is usually equal to the nominal value. Prepayments recognised under Assets include expenses incurred concerning subsequent reporting periods. Prepayments are measured at amortised cost, which usually corresponds to the nominal value.

Provisions

Provisions are recognised and measured as the best estimate of the costs necessary to settle the provisions at the balance sheet date. Provisions with an estimated due date more than one year from the balance sheet date will be measured at discounted present value. Change in the net present value will be included under net financials.

Deferred income

Deferred income recognised under Liabilities comprises income received to be recognised in the Income Statement of the subsequent financial year. Deferred income is measured at net realisable value, which usually corresponds to the nominal value.

Financial liabilities

Financial liabilities are recognised at amortised cost which is usually equal to the nominal value.

Segment reporting

Revenue is reported on business segments. Information regarding business segments is based on the group's return and risks and according to the internal financial reporting.

Cash Flow Statement

The company's Cash Flow Statement is presented according to the indirect method showing cash flows from operating, investing and financing activities and the company's cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities are made up as operating result adjusted for non-cash operating items and changes in working capital. Cash flows from investing activities include payments in connection with purchase and sale of enterprises and activities as well as purchase and sale of intangible assets, property, plant and equipment as well as investments.

Cash flows from financing activities include changes in the amount or composition of the subscribed capital and costs incidental hereto as well as the raising of loans, repayments on interest-bearing debt and distribution to the partners (group) or owners (subsidiaries).

Cash and cash equivalents include cash and short-term securities with negligible price exposure less short-term bank debt.

Note 17. Accounting estimates and judgements

On recognition and measurement of items in the Financial Statements, it will in some cases be necessary to make estimates and assumptions on future events that affect the reported income and expenses in the financial period and the disclosure of contingent assets and liabilities as at the balance sheet date. Estimates and judgements are based on historical experience and other relevant factors which Management believes to be reasonable under the circumstances, but which inherently are uncertain and unpredictable. Thus, actual results could differ from those estimates.

The estimates and judgements and the underlying assumptions are regularly revised. Changes to the accounting estimates are recognised in the financial period in which the changes were made and in future financial periods if they are affected by the changes.

Estimates of material importance to the financial reporting are based on accruals for employee benefits, restoration obligations as well as valuation of derivative instruments not traded in an active market.

Valuation of derivative financial instruments not traded in an active market

HNG Midt-Nord Handel A/S hedges commodity and currency risks.

These hedging transactions relate to future income from sale and costs in connection with purchase of natural gas. Besides, customer contracts include a price index which is treated as separate derivative financial instruments, see below.

The fair value of derivatives used to hedge commodity risks and derivatives incorporated in customer contracts is based on valuation models using prices derived from trades in markets that are less liquid than for instance interest markets. Thus, the valuation is subject to some uncertainty.

On 31 December 2010, the carrying amount of derivative financial instruments used to hedge commodity risks and derivatives incorporated in customer agreements totalled DKK 175.1 million under assets and DKK 121.1 million under liabilities. The corresponding amounts for 2009 were DKK 93.4 million under assets and DKK 135.8 million under liabilities.

Financial ratios

The financial ratios have been computed as follows:

Gross margin	=	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Profit ratio	=	$\frac{\text{Operating profit} \times 100}{\text{Revenue}}$
Rate of return	=	$\frac{\text{Operating profit} \times 100}{\text{Balance sheet total}}$
Return on equity	=	$\frac{\text{Profit for the year} \times 100}{\text{Average equity}}$
Equity ratio	=	$\frac{\text{Equity} \times 100}{\text{Balance sheet total}}$

Key Figures and Financial Ratios

HNG Midt-Nord Handel A/S

Finances (DKK million)	2010	2009	2008	2007	2006
Revenue	3,937.4	2,895.6	3,122.0	2,107.2	2,268.2
Gross profit	122.9	166.5	112.6	84.8	15.2
Other operating income	105.2	10.2	87.0	0.0	1.8
External expenses	30.6	22.0	16.9	7.0	1.1
Depreciation	0.3	0.3	0.0	0.0	0.0
Net financials	1.6	3.4	2.7	4.5	0.2
Net profit for the year before tax	198.8	157.8	185.4	82.3	14.3
Trade receivables	437.2	230.4	256.4	245.9	40.6
Equity	424.6	278.5	162.0	125.9	43.4
Balance sheet total	1,196.2	831.7	1,379.0	726.1	446.1
Financial ratios (%)	2010	2009	2008	2007	2006
Gross margin	3.1	5.7	3.6	4.0	0.7
Profit ratio	5.0	5.3	5.9	3.7	0.6
Rate of return	16.5	18.6	13.2	10.7	3.2
Return on equity	41.6	52.9	31.7	97.2	39.4
Equity ratio	35.5	33.5	11.7	17.3	9.7
Statistics	2010	2009	2008	2007	2006
Sale own customers (mio. m ³ natural gas)	772	537	595	369	208

Published April 2011
By HMN Gassalg A/S
HMN Gashandel A/S

Gruppe Photo Anders Clausen
Graphic Design Rasmus Koch Studio
Print Tryk Centret

Print Technic Heliography, 8 colours