

# Ørsted Salg & Service A/S

## ANNUAL REPORT 2017

Kraftværksvej 53, 7000 Fredericia

Company registration number 27 21 05 38

15th financial year

The annual report is presented and adopted  
at the annual general meeting on 23 May 2018

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Ulrik Jarlov  
Chairman of the meeting

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## Company information

<b>Company</b>	Ørsted Salg & Service A/S Kraftværksvej 53 7000 Fredericia Denmark
	Telephone +45 9955 1111 Fax +45 9955 0002 Email orsted@orsted.dk Company registration number 27 21 05 38
<b>Shareholder</b>	The entire share capital is held by Ørsted A/S
<b>Board of Directors</b>	Marianne Wiinholt (Chairman) Hanne Blume (Deputy Chairman) Nicolai Frederik Schmidt Carøe
<b>Executive Board</b>	Morten Hultberg Buchgreitz
<b>Auditor</b>	PricewaterhouseCoopers, Statsautoriseret Revisionspartnerselskab
<b>Annual general meeting</b>	23 May 2018
<b>Other managerial posts</b>	Managerial posts held by the members of the Board of Directors and the Executive Board of Ørsted Salg & Service A/S in other Danish public limited companies, with the exception of managerial posts in the company's own wholly-owned subsidiaries.
<b>Marianne Wiinholt</b>	ØRSTED A/S (Senior Vice President), HEMEPL A/S (member of the Board of Directors), EM EL HOLDING A/S (Chairman of the Board of Directors), ENERGIGRUPPEN JYLLAND EL A/S (Chairman of the Board of Directors), ØRSTED SALES & DISTRIBUTION (Chairman of the Board of Directors), ØRSTED WIND POWER HOLDING A/S (Chairman of the Board of Directors), ØRSTED BIOENERGY & THERMAL POWER A/S (Chairman of the Board of Directors), ENERGIGRUPPEN JYLLAND EL HOLDING A/S (Chairman of the Board of Directors), ØRSTED EGJ A/S (Chairman of the Board of Directors), ØRSTED EL A/S (Chairman of the Board of Directors), ØRSTED SERVICES A/S (Chairman of the Board of Directors), ØRSTED WIND POWER A/S (Chairman of the Board of Directors), ØRSTED WIND POWER DENMARK A/S (Chairman of the Board of Directors), ØRSTED NR. 1 2014 A/S (Chairman of the Board of Directors), ØRSTED NR. 2 2014 A/S (Chairman of the Board of Directors), ØRSTED NR. 3 2014 A/S (Chairman of the Board of Directors), ØRSTED NR. 4 2014 A/S (Chairman of the Board of Directors)
<b>Hanne Blume</b>	EM EL HOLDING A/S (Deputy Chairman of the Board of Directors), ENERGIGRUPPEN JYLLAND EL HOLDING A/S (Deputy Chairman of the Board of Directors), ØRSTED SALES & DISTRIBUTION A/S (Deputy Chairman of the Board of Directors), ØRSTED WIND POWER HOLDING A/S (Deputy Chairman of the Board of Directors), ØRSTED BIOENERGY & THERMAL POWER A/S (Deputy Chairman of the Board of Directors), ENERGIGRUPPEN JYLLAND EL A/S (Deputy Chairman of the Board of Directors), ØRSTED EGJ A/S (Deputy Chairman of the Board of Directors), ØRSTED EL A/S (Deputy Chairman of the Board of Directors), ØRSTED SERVICES A/S (Deputy Chairman of the Board of Directors), ØRSTED WIND POWER A/S (Deputy Chairman of the Board of Directors), ØRSTED WIND POWER DENMARK A/S (Deputy Chairman of the Board of Directors), ØRSTED NR. 1 2008 A/S (member of the Board of Directors), DANISH OIL PIPE A/S (member of the Board of Directors), ØRSTED NR. 1 2014 A/S (Deputy Chairman of the Board of Directors), ØRSTED NR. 2 2014 A/S (Deputy Chairman of the Board of Directors), ØRSTED NR. 3 2014 A/S (Deputy Chairman of the Board of Directors), ØRSTED NR. 4 2014 A/S (Deputy Chairman of the Board of Directors)

**Nicolai Frederik Schmidt Carøe** ØRSTED BIOENERGY & Thermal Power A/S (member of the Board of Directors), ØRSTED EL A/S (Director), ØRSTED EGJ A/S (Director), EM EL HOLDING A/S (Director and member of the Board of Directors), ENERGIGRUPPEN JYLLAND EL HOLDING (Director and member of the Board of Directors), ENERGIGRUPPEN JYLLAND EL A/S (Director and member of the Board of Directors)

**Morten Hultberg Buchgreitz** ØRSTED SALES & DISTRIBUTION A/S (President), K/S MEIDERICH (member of the Board of Directors), K/S HABRO-LOWESTOFT (member of the Board of Directors), ØRSTED SERVICES A/S (President), ApS HABRO KOMPLEMENTAR-19 (member of the Board of Directors), A/S UNITED SHIPPING & TRADING COMPANY (member of the Board of Directors), BUNKER HOLDING A/S (member of the Board of Directors), UNITANKERS A/S (member of the Board of Directors), UNI-CHARTERING A/S (member of the Board of Directors)



## Performance highlights

DKK million	2017	2016	2015	2014	2013*
<b>BUSINESS PERFORMANCE:</b>					
<b>Statement of comprehensive income</b>					
Revenue	36,315	34,343	43,608	42,293	39,671
Profit (loss) before interest, tax, depreciation and amortisation (EBITDA)	549	3,437	3,262	(318)	(875)
Operating profit (loss) (EBIT)	486	3,414	2,947	(859)	(1,387)
Profit (loss) for the year	368	2,526	2,320	(877)	(941)
<b>Financial ratios</b>					
EBITDA margin	2%	10%	7%	(1%)	(2%)
EBIT margin (profit margin)	1%	10%	7%	(2%)	(3%)
<b>IFRS:</b>					
<b>Statement of comprehensive income</b>					
Revenue	36,414	32,082	44,436	42,216	38,746
Profit (loss) before interest, tax, depreciation and amortisation (EBITDA)	648	1,176	4,090	(1,341)	(1,637)
Operating profit (loss) (EBIT)	585	1,153	3,775	(1,882)	(2,149)
Net financial income and expenses	(17)	(196)	(231)	(97)	(211)
Profit (loss) before tax	568	957	3,543	(1,932)	(1,957)
Profit (loss) for the year	444	761	2,954	(1,649)	(1,507)
<b>Balance sheet</b>					
Equity	9,538	9,095	8,366	4,405	6,182
Balance sheet total	25,409	41,451	58,919	39,067	29,876
<b>Cash flows</b>					
Operating activities	(1,429)	2,238	2,319	(723)	256
Investments in property, plant and equipment	(14)	(9)	(19)	(18)	(2)
Other investing activities	1,986	(3,190)	(2,415)	(2,561)	(1,195)
Financing activities	(51)	64	269	(109)	2,693
<b>Financial ratios</b>					
EBITDA margin	2%	4%	9%	(3%)	(4%)
EBIT margin (profit margin)	2%	4%	8%	(4%)	(6%)
Net interest-bearing debt	(7,749)	(9,148)	(6,979)	(4,454)	(4,296)
Capital employed	1,788	(53)	1,991	704	4,286
Average number of employees	141	146	166	165	161

Financial ratios have been calculated in accordance with 'Recommendations & Financial Ratios 2015' published by the Danish Society of Financial Analysts. For definitions, see the accounting policies section.

\* Ørsted Salg & Service A/S (parent company), DONG El & Gas A/S, DONG Energy Kabler A/S, DONG Energy Service 1 and DONG Energy Service 2 were merged as of 1 January 2015. The pooling-of-interests method is applied for intragroup aggregation. Comparative figures have not been restated for the financial year 2013 due to insufficient financial information.

### Business performance vs. IFRS

Business performance represents the underlying financial performance of the Group in the reporting period as results are adjusted for temporary fluctuations in the market value of contracts (including hedging transactions) relating to other periods. Apart from this, there is no difference between business performance and IFRS results. Read more in note 29.

## Statement by the Executive Board and the Board of Directors

The Board of Directors and the Executive Board have today considered and approved the annual report of Ørsted Salg & Service A/S for the financial year 1 January - 31 December 2017.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act. The financial statements of the parent company, Ørsted Salg & Service A/S, have been prepared in accordance with the provisions of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements provide a fair presentation of the Group's and the parent company's assets, liabilities and financial position at 31 December 2017 and of the results of the Group's and the parent company's operations and the Group's cash flows for the financial year 1 January - 31 December 2017.

In our opinion, the management's review provides a fair presentation of the development in the Group's and the parent company's operations and financial circumstances, of the results for the year and of the overall financial position of the Group and the parent company as well as a description of the most significant risks and elements of uncertainty facing the Group and the parent company.

In our opinion, the consolidated ESG statements ('Additional information') represent a reasonable, fair and balanced representation of the Group's social responsibility and sustainability performance and are presented in accordance with the stated accounting policies.

We recommend that the annual report be adopted at the annual general meeting.

Skærbæk, 9 May 2018

### **Executive Board:**

Morten Hultberg Buchgreitz  
*President*

### **Board of Directors:**

Marianne Wiinholt  
*Chairman*

Hanne Blume  
*Deputy Chairman*

Nicolai Frederik Schmidt Carøe

## Independent Auditor's Report

To the shareholder of Ørsted Salg & Service A/S

### Opinion

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2017 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January to 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Ørsted Salg & Service A/S for the financial year 1 January - 31 December 2017, which comprise statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, for both the Group and the Parent Company ('financial statements').

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge ob-

tained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financials Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in Management's Review.

### Management's Responsibilities for the Financial Statements

Management is responsible for the preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to in-

fluence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained,

whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Copenhagen, 9 May 2018

PricewaterhouseCoopers  
Statsautoriseret Revisionspartnerselskab  
CVR no. 33 77 12 31

Rasmus Friis Jørgensen  
State Authorised Public Accountant  
mne28705

Allan Knudsen  
State Authorised Public Accountant  
mne29465

## Management's review

### Activities

Most of the activities of the Ørsted Salg & Service Group are concentrated in the Ørsted Group's Distribution & Customer Solutions (DCS) business unit.

DCS comprises four core activities: Sales B2C, Sales B2B, Markets (including LNG) and Distribution, bridging the gap between supply and demand in the green transformation.

### Energy optimisation

We manage and optimise Ørsted's energy portfolio as a whole, and hedge the Group's energy exposures as part of that. We sell the Group's power and gas as well as green certificates in the market and buy with a view to covering our customers' consumption. In this way, we make sure to continuously balance the supply of, and demand for, power and gas in our portfolio.

We offer external customers the same access to the market as we deliver for Ørsted's own power generation, green certificates, etc. In this way, we create synergies across the portfolio.

Besides production from the Group's assets, our energy portfolio consists of long-term gas sourcing contracts, including LNG, and gas storage facilities.

One of the ways in which we manage the Ørsted Group's market risks relating to energy prices is by engaging in financial transactions. In order to continuously participate in the market and gain insight into price formation, we also engage in active position taking.

### Energy trading

Trading on energy exchanges plays an important role in our optimisation of the energy portfolio. The reasons for the trading activities include balancing purchases and sales of gas and utilising short-term earnings potential – such as selling gas when the exchange market price is favourable. We also trade in energy to minimise and control the Ørsted Group's sensitivity to fluctuating energy prices.

We trade power and gas on the Northern European energy hubs and exchanges, primarily Nord Pool, EEX, NBP and TTF. We also engage in bilateral purchasing and selling of power, gas, oil, coal and carbon emissions allowances. We are involved in both physical and financial transactions and trades on both the spot and futures markets.

### Gas sourcing contracts

We purchase gas on behalf of the entire Ørsted Group.

With our diversified portfolio of suppliers and contracts, we maintain high security of supply for Ørsted and our customers, while we at the same time provide the robustness to cope with fluctuating market conditions.

The pooling of the Ørsted Group's gas with the rest of our gas portfolio enhances the value of the output from each field, partly through better utilisation of the infrastructure. At the same time, we have access to several markets, which means that the gas can be shipped to where demand is highest.

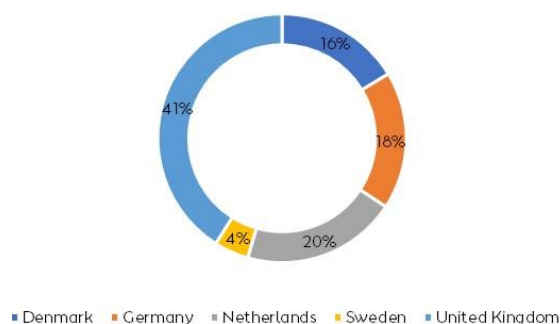
The gas sourcing contracts are flexible in terms of the volume of gas that we purchase at different times. This enables us to vary our purchases in response to customer demand. Some contracts are also flexible in terms of where in Europe we want the gas to be delivered to. Such diversification and flexibility allows us to enhance the value of our overall gas portfolio.

### Gas and power sales

We sell gas and power to customers in Denmark, Sweden, Germany, the Netherlands and the UK, and also sell related energy products to customers.

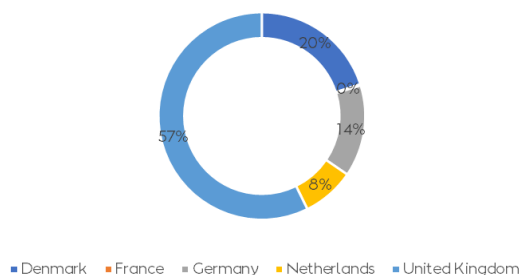
Gas sales totalled 136.2TWh in 2017, which represented a decrease of approx. 9% compared to 2016 (150.3TWh), mainly driven by lower gas sales in the Netherlands and in Germany.

GAS SALES 2017 (136,2TWh)



Power sales totalled 37.5TWh, which represented an increase of approx. 2% compared to 2016 (36.7TWh) due to higher power sales in Germany and the UK.

POWER SALES 2017 (37.5TWh)



Besides internal sales in Ørsted, we sell gas and power via sales subsidiaries in Germany and the Netherlands. We also sell gas and power on short-term and long-term contracts with business partners in Denmark and the rest of Europe.

Using a variety of sales channels ensures reliable gas sales, while also adding to the robustness of the business.

### Gas pipelines and storage facilities

We handle the commercial activities relating to parts of the Ørsted Group's gas infrastructure. We thus own a number of pipelines in the Danish sector of the North Sea and have leased capacity across large parts of the European pipeline system, securing access to most gas markets in Northern Europe. With such pipeline access, we can transport the gas to where demand is highest at any given time.

We also have access to a number of gas storage facilities in Denmark and Germany, where we have capacity on long-term or short-term leases. Besides higher security of supply, these storage facilities provide flexibility, for example by enabling us to use gas from storage facilities rather than purchasing it in the market at times when the price is high.

### Wind farms

We are responsible for selling electricity and Renewable Obligation Certificates (ROCs) from the Ørsted Group's wind farms in the UK and electricity from the Group's wind farms in Germany.

### Environment

As part of the Ørsted Group, we work for an increase in the use of renewable energy, while remaining dependent on traditional energy sources to ensure a stable distribution of power. Reference is made to the Ørsted Group's 2017 annual report, which includes the Group's statutory environmental statement.

### Risk management

The activities, financial position, results and future growth of the Ørsted Group are affected by a number of non-financial and financial commercial risks. Therefore, we regularly review our risk profile and the associated risk policies to ensure the appropriate balancing of risk exposure and activities at all times.

Formalised risk management is divided into management of general commercial risks, management of financial risks and management of insurable risks. Commercial risks are defined as events that may, with a certain probability, adversely impact the realisation of the Ørsted Group's financial results or strategy. The management of commercial risks is anchored in the individual segments in the Ørsted Group and consolidated at corporate level. Once annually, the Ørsted Group identifies and prioritises its risks in a risk matrix based on materiality and probability.

In addition to these risks, we are involved in litigation and arbitration proceedings, the outcome of which may impact our financial position. Reference is made to note 27. Contingent liabilities and other liabilities.

### Group management

The members of the Executive Board are:

*Morten Hultberg Buchgreitz*  
CEO since March 2013.

The members of the Board of Directors are:

*Marianne Wiinholt*  
Chairman of the Board of Directors.

*Hanne Blume*  
Deputy Chairman of the Board of Directors.

*Nicolai Frederik Schmidt Carøe*  
Member of the Board of Directors.

For further details regarding remuneration, see notes 5 and 6.

### Retention and development of skills

Our business is generally highly complex, requiring special skills. Coupled with the growing demand for talent, this increases the challenge of attracting and retaining employees.

Much emphasis is placed on making us an attractive workplace, and various initiatives have been put in motion for this purpose. These include management development, skills development, performance systems, talent development and collaboration with educational institutions.

## Liquidity and financing risks

Our liquidity and financing risks are managed centrally by Ørsted Group in accordance with the defined principles and delegated authorities laid down by the Board of Directors of Ørsted A/S, in such a way as to ensure that we have an adequate capital base and adequate cash resources at all times. One of the most important financial management tasks in the Ørsted Group is to secure sufficient and flexible financial resources in relation to the Ørsted Group's day-to-day operations and investment programme. For this purpose, internal management objectives have been established for the required level of financial resources, taking into account primarily factors such as the investment programme, cash flows from operating activities and the debt maturity profile.

It is the Ørsted Group's financing policy to concentrate loans in the parent company in order to optimise the loan portfolio on a consolidated basis.

## Insurable risks

The Ørsted Group has an extensive facility and liability insurance programme, while the scope of consequential loss insurance is very limited. Also, separate insurance is taken out for certain large construction projects. The facilities insurance largely relates to the membership of the reinsurance company Oil Insurance Ltd. Through this, assets up to USD 300 million are insured, with an excess of USD 10 million per insurance event. With a view to achieving adequate cover for a number of large assets, this cover has been supplemented by a number of supplementary insurance policies through Lloyd's of London and others. As part of the optimisation of its insurance portfolio, the Ørsted Group has established a captive, Ørsted Insurance A/S, that is authorised to carry on insurance business and is subject to supervision by the Danish Financial Supervisory Authority. Ørsted Insurance A/S is primarily used to provide insurance cover for facilities and certain construction projects.

For further details of risk management, reference is made to note 25.

## Corporate social responsibility (CSR)

We are part of the Ørsted Group, and reference is consequently made to the Ørsted Group's 2017 annual report, which includes the Group's statutory CSR report.

Further details on CSR can be found at [www.orsted.com/en/sustainability](http://www.orsted.com/en/sustainability).

## Gender representation at management levels

Due to equal representation of men and women on the Board of Directors in accordance with the rules of the Danish Companies Act, no targets for the share of the underrepresented gender have been set.

We have prepared a policy to increase the underrepresented gender at other management levels, which applies to the entire Ørsted Group. Please refer to the Ørsted Group's 2017 ESG performance report.

## Financial results for 2017 according to business performance for Ørsted Salg & Service Group

### Financial performance

Revenue increased by 6% to DKK 36.3 billion in 2017. The increase was driven primarily by a 24% average increase in gas prices relative to 2016 and higher power sales in the UK.

EBITDA was DKK 0.5 billion compared with DKK 3.4 billion in 2016. The decrease was expected and was mainly ascribable to one-off payments from completed renegotiations of gas purchase contracts in 2016 as well as a provision of DKK 0.4 billion related to the onerous contract at the Gate terminal in Rotterdam.

The results for 2017 are considered satisfactory and overall in line with management's expectations. EBITDA (business performance) was expected to total DKK 0.9-1.2 billion for 2017.

### Volumes

Gas sales (including sales to own power stations) totalled 136.2TWh, down 9% compared to 2016. Power sales totalled 37.2TWh, up 2% compared to 2016 due to higher power sales in the UK.

## Unusual matters for the parent company

The financial lease agreement between Ørsted Pipelines A/S and Ørsted Salg & Service A/S has been terminated with effect from 1 January 2018. From 1 January 2018, the transport capacity has been transferred to third parties.

The termination has resulted in reversal of liabilities relating to assets held under finance lease in the parent company of DKK 397 million in 2017.

The consolidated financial statements are not affected by the termination.

## Business performance vs. IFRS

Ørsted uses business performance as an alternative to the results prepared in accordance with IFRS. Business performance represents the underlying financial performance of the Group in the reporting period as results are adjusted for temporary fluctuations in the market value of contracts (including hedging transactions) relating to other periods. The difference between the two principles will be eliminated as the contracts expire. Apart from this, there is no difference between business performance and the IFRS results.

EBITDA calculated in accordance with IFRS amounted to DKK 0.6 billion in 2017 against DKK 1.2 billion in 2016. Calculated in accordance with the business performance principle, EBITDA was DKK 0.5 billion in 2017 and DKK 3.4 billion in 2016. The difference between the two principles was thus DKK 0.1 billion in 2017 compared with DKK 2.2 billion in 2016 and can be specified as follows:

DKK million	2017	2016
<b>EBITDA – business performance</b>	<b>549</b>	<b>3,437</b>
Market value adjustments for the year of financial and physical hedging contracts relating to a future period	682	(1,000)
Reversal of deferred gain (loss) relating to hedging contracts from previous periods, where the hedged production or trade is recognised in business performance EBITDA in this period	(583)	(1,261)
<b>EBITDA – IFRS</b>	<b>648</b>	<b>1,176</b>

In the presentation of the results according to IFRS, Ørsted does not apply the provisions on hedge accounting of commodities and related currency ex-

posures. The market value adjustments of these are continuously recognised in the income statement, which means that the IFRS results for the individual years are not comparable. IFRS results do not reflect the commercial risk hedging, according to which the business units and the Group are managed and evaluated. In the management's review, comments are made on business performance only, unless otherwise specified. Reference is also made to note 2.

## Outlook 2018

In 2017, Markets achieved high earnings from our gas portfolio and trading activities. We expect lower earnings from these activities in 2018. The increasing gas prices during 2017 led to an increase in the accounting value of our gas inventories, especially towards the end of the year. All else being equal, this will lead to an offsetting negative effect in 2018 when we sell the gas.

Furthermore, earnings from LNG were negatively impacted by a provision regarding our capacity in the Gate terminal in Rotterdam in 2017. Earnings are thus expected to improve in 2018.

For the Ørsted Salg & Service Group, a significant lower EBITDA is expected for 2018. EBITDA (business performance) is expected to total DKK 0.4-0.8 billion in 2018.

## Events after the end of the financial year

No events have occurred after the end of the financial year which would have influenced on the evaluation of this annual report.



**Consolidated statement of comprehensive income**  
**1 January - 31 December**

DKK million	Note	2017 Business perfor- mance	Re- meas- urement	IFRS	2016 Business perfor- mance	Re- meas- urement	IFRS
Revenue	3	36,315	99	36,414	34,343	(2,261)	32,082
Cost of sales	4	(34,735)	-	(34,735)	(29,898)	-	(29,898)
Other external expenses		(877)	-	(877)	(859)	-	(859)
Employee costs	5,6	(158)	-	(158)	(149)	-	(149)
Other operating income		59	-	59	-	-	-
Other operating expenses		(55)	-	(55)	-	-	-
<b>Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA)</b>		<b>549</b>	<b>99</b>	<b>648</b>	<b>3,437</b>	<b>(2,261)</b>	<b>1,176</b>
Depreciation, amortisation and impairment losses on intangible assets and property, plant and equipment	11,12	(63)	-	(63)	(23)	-	(23)
<b>Operating profit (loss) (EBIT)</b>		<b>486</b>	<b>99</b>	<b>585</b>	<b>3,414</b>	<b>(2,261)</b>	<b>1,153</b>
Investments in subsidiaries	13	-	-	-	-	-	-
Gain (loss) on divestment of enterprises		12	-	12	-	-	-
Financial income	8	582	-	582	1,367	-	1,367
Financial expenses	9	(611)	-	(611)	(1,563)	-	(1,563)
<b>Profit (loss) before tax</b>		<b>469</b>	<b>99</b>	<b>568</b>	<b>3,218</b>	<b>(2,261)</b>	<b>957</b>
Tax on profit (loss) for the year	10	(101)	(23)	(124)	(692)	496	(196)
<b>Profit (loss) for the year</b>		<b>368</b>	<b>76</b>	<b>444</b>	<b>2,526</b>	<b>(1,765)</b>	<b>761</b>
Other comprehensive income <sup>1</sup> :							
Exchange rate adjustments				(1)			(14)
<b>Other comprehensive income</b>				<b>(1)</b>			<b>(14)</b>
<b>Total comprehensive income</b>				<b>443</b>			<b>747</b>
<b>Profit (loss) for the year is attributable to:</b>							
Shareholders in Ørsted Salg & Service A/S		368	76	444	2,526	(1,765)	761
<b>Profit (loss) for the year</b>		<b>368</b>	<b>76</b>	<b>444</b>	<b>2,526</b>	<b>(1,765)</b>	<b>761</b>
<b>Comprehensive income for the year is attributable to:</b>							
Shareholders in Ørsted Salg & Service A/S				443			747
<b>Total comprehensive income</b>				<b>443</b>			<b>747</b>

<sup>1</sup> All items in other comprehensive income may be recycled to the income statement

Consolidated balance sheet 31 December

DKK million	Note	2017	2016
<b>Assets</b>			
Rights		19	21
Completed development projects		94	112
<b>Intangible assets</b>	<b>11</b>	<b>113</b>	<b>133</b>
Land and buildings		2	2
Production assets		318	104
Property, plant and equipment under construction		-	2
<b>Property, plant and equipment</b>	<b>12</b>	<b>320</b>	<b>108</b>
Deferred tax assets	17	753	1,254
<b>Other non-current assets</b>		<b>753</b>	<b>1,254</b>
<b>Non-current assets</b>		<b>1,186</b>	<b>1,495</b>
Inventories	14	2,019	2,070
Receivables	15	21,786	37,346
Income tax receivable	21	207	340
Securities	23	77	79
Cash	23	134	121
<b>Current assets</b>		<b>24,223</b>	<b>39,956</b>
<b>Assets</b>		<b>25,409</b>	<b>41,451</b>

Consolidated balance sheet 31 December

DKK million	Note	2017	2016
<b>Equity and liabilities</b>			
Share capital		1,110	1,110
Translation reserve		1	2
Retained earnings		8,427	7,983
<b>Equity</b>	<b>16</b>	<b>9,538</b>	<b>9,095</b>
<b>Non-current liabilities</b>			
Provisions	18	3,236	2,448
Payables to group enterprises	19	314	299
Deferred income	20	4	-
Bank loans	19	1	-
<b>Non-current liabilities</b>		<b>3,555</b>	<b>2,747</b>
<b>Current liabilities</b>			
Provisions	18	408	397
Bank loans	19	-	479
Other payables	20	11,868	27,812
Income tax	21	40	921
<b>Current liabilities</b>		<b>12,316</b>	<b>29,609</b>
<b>Liabilities</b>		<b>15,871</b>	<b>32,356</b>
<b>Equity and liabilities</b>		<b>25,409</b>	<b>41,451</b>

**Consolidated statement of changes in equity  
1 January - 31 December**

DKK million	Share capital	Translation reserve	Retained earnings	Total
<b>Equity at 1 January 2017</b>	<b>1,110</b>	<b>2</b>	<b>7,983</b>	<b>9,095</b>
<b>Comprehensive income for the year:</b>				
Profit (loss) for the year	-	-	444	444
Other comprehensive income:				
Exchange rate adjustments, foreign companies	-	(1)	-	(1)
<b>Total comprehensive income</b>	<b>-</b>	<b>(1)</b>	<b>444</b>	<b>443</b>
<b>Transactions with owners:</b>				
Dividend paid	-	-	-	-
Share-based payment	-	-	-	-
Tax on share-based payment	-	-	-	-
<b>Total changes in equity in 2017</b>	<b>-</b>	<b>(1)</b>	<b>444</b>	<b>443</b>
<b>Equity at 31 December 2017</b>	<b>1,110</b>	<b>1</b>	<b>8,427</b>	<b>9,538</b>
<b>Equity at 1 January 2016</b>	<b>1,110</b>	<b>16</b>	<b>7,240</b>	<b>8,366</b>
<b>Comprehensive income for the year:</b>				
Profit (loss) for the year	-	-	761	761
Other comprehensive income:				
Exchange rate adjustments, foreign companies	-	(14)	-	(14)
<b>Total comprehensive income</b>	<b>-</b>	<b>(14)</b>	<b>761</b>	<b>747</b>
<b>Transactions with owners:</b>				
Dividend paid	-	-	(25)	(25)
Share-based payment	-	-	3	3
Tax on share-based payment	-	-	4	4
<b>Total changes in equity in 2016</b>	<b>-</b>	<b>-</b>	<b>(18)</b>	<b>(18)</b>
<b>Equity at 31 December 2016</b>	<b>1,110</b>	<b>2</b>	<b>7,983</b>	<b>9,095</b>

**Consolidated cash flow statement**  
**1 January - 31 December**

DKK million	Note	2017	2016
Cash flows from operations (operating activities)	22	(1,081)	2,980
Interest income and similar items		342	1,130
Interest expenses and similar items		(317)	(1,220)
Income tax paid		(373)	(652)
<b>Cash flows from operating activities</b>		<b>(1,429)</b>	<b>2,238</b>
Acquisition of intangible assets	11	(22)	(16)
Acquisition of property, plant and equipment	12	(14)	(9)
Sale of intangible assets and property, plant and equipment		57	3
Sale of enterprises		12	-
Purchase of securities		1	(79)
Financial transactions with group internal bank		1,938	(3,082)
Acquisition of subsidiaries		-	(16)
<b>Cash flows from investing activities</b>		<b>1,972</b>	<b>(3,199)</b>
Payables to group enterprises		(51)	89
Dividends paid to equity holders		-	(25)
<b>Cash flows from financing activities</b>		<b>(51)</b>	<b>64</b>
<b>The year's cash flow</b>		<b>492</b>	<b>(897)</b>
Cash and cash equivalents at 1 January		(358)	541
Net increase/(decrease) in cash		492	(897)
Exchange rate adjustments of cash and cash equivalents		-	(2)
<b>Cash and cash equivalents at 31 December</b>	23	<b>134</b>	<b>(358)</b>

## Parent company statement of comprehensive income

### 1 January - 31 December

DKK million	Note	2017 Business perform- ance	Adjust- ments	IFRS	2016 Business perform- ance	Adjust- ments	IFRS
Revenue	3	35,758	106	35,864	34,836	(2,270)	32,566
Cost of sales	4	(34,203)	-	(34,203)	(30,465)	-	(30,465)
Other external expenses		(809)	-	(809)	(791)	-	(791)
Employee costs	5,6	(135)	-	(135)	(126)	-	(126)
Other operating income		456	-	456	-	-	-
Other operating expenses		(55)	-	(55)	-	-	-
<b>Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA)</b>		<b>1,012</b>	<b>106</b>	<b>1,118</b>	<b>3,454</b>	<b>(2,270)</b>	<b>1,184</b>
Depreciation, amortisation and impairment losses on intangible assets and property, plant and equipment		(54)	-	(54)	(83)	-	(83)
<b>Operating profit (loss) (EBIT)</b>		<b>958</b>	<b>106</b>	<b>1,064</b>	<b>3,371</b>	<b>(2,270)</b>	<b>1,101</b>
Gain (loss) on divestment of enterprises		12	-	12	-	-	-
Financial income	8	559	-	559	1,424	-	1,424
Financial expenses	9	(614)	-	(614)	(1,589)	-	(1,589)
<b>Profit (loss) before tax</b>		<b>915</b>	<b>106</b>	<b>1,021</b>	<b>3,206</b>	<b>(2,270)</b>	<b>936</b>
Tax on profit (loss) for the year	10	(199)	(23)	(222)	(643)	499	(144)
<b>Profit (loss) for the year</b>		<b>716</b>	<b>83</b>	<b>799</b>	<b>2,563</b>	<b>(1,771)</b>	<b>792</b>
Other comprehensive income				-			-
<b>Total comprehensive income</b>				<b>799</b>			<b>792</b>
<b>Profit (loss) for the year is attributable to:</b>							
Shareholders in Ørsted Salg & Service A/S		716	83	799	2,563	(1,771)	792
<b>Profit (loss) for the year</b>		<b>716</b>	<b>83</b>	<b>799</b>	<b>2,563</b>	<b>(1,771)</b>	<b>792</b>
<b>Total comprehensive income for the year is attributable to:</b>							
Shareholders in Ørsted Salg & Service A/S				799			792
<b>Total comprehensive income</b>				<b>799</b>			<b>792</b>

Parent company balance sheet 31 December

DKK million	Note	2017	2016
<b>Assets</b>			
Rights		19	21
Completed development projects		72	92
<b>Intangible assets</b>	<b>11</b>	<b>91</b>	<b>113</b>
Land and buildings		2	2
Production assets		318	104
Property, plant and equipment under construction		-	2
<b>Property, plant and equipment</b>	<b>12</b>	<b>320</b>	<b>108</b>
Investments in subsidiaries	13	288	110
Deferred tax	17	721	1,337
Receivables	15	46	34
<b>Other non-current assets</b>		<b>1,055</b>	<b>1,481</b>
<b>Non-current assets</b>		<b>1,466</b>	<b>1,702</b>
Inventories	14	2,013	2,063
Receivables	15	20,903	36,347
Income tax	21	194	321
Securities	23	77	79
Cash	23	65	38
<b>Current assets</b>		<b>23,252</b>	<b>38,848</b>
<b>Assets</b>		<b>24,718</b>	<b>40,550</b>

Parent company balance sheet 31 December

DKK million	Note	2017	2016
<b>Equity and liabilities</b>			
Share capital		1,110	1,110
Development costs reserve		6	8
Retained earnings		8,398	7,597
<b>Equity</b>	<b>16</b>	<b>9,514</b>	<b>8,715</b>
<b>Non-current liabilities</b>			
Provisions	18	3,236	2,448
Payables to group enterprises	19	-	387
Deferred income	20	4	-
Bank loans	19	1	-
<b>Non-current liabilities</b>		<b>3,241</b>	<b>2,835</b>
<b>Current liabilities</b>			
Provisions	18	408	397
Bank loans	19	-	458
Other payables	20	11,532	27,247
Income tax	21	23	898
<b>Current liabilities</b>		<b>11,963</b>	<b>29,000</b>
<b>Liabilities</b>		<b>15,204</b>	<b>31,835</b>
<b>Equity and liabilities</b>		<b>24,718</b>	<b>40,550</b>



**Parent company statement of changes in equity  
1 January - 31 December**

DKK million	Share capital	Develop-ment costs reserve	Retained earnings	Total
<b>Equity at 1 January 2017</b>	<b>1,110</b>	<b>8</b>	<b>7,597</b>	<b>8,715</b>
<b>Comprehensive income for the year:</b>				
Profit (loss) for the year	-	(2)	801	799
<b>Total comprehensive income</b>	<b>-</b>	<b>(2)</b>	<b>801</b>	<b>799</b>
<b>Transactions with owners:</b>				
Dividend paid	-	-	-	-
Share-based payment	-	-	-	-
Tax on share-based payment	-	-	-	-
<b>Total changes in equity in 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Equity at 31 December 2017</b>	<b>1,110</b>	<b>6</b>	<b>8,398</b>	<b>9,514</b>
<b>Equity at 1 January 2016</b>	<b>1,110</b>	<b>-</b>	<b>6,832</b>	<b>7,942</b>
<b>Comprehensive income for the year:</b>				
Profit (loss) for the year	-	8	784	792
<b>Total comprehensive income</b>	<b>-</b>	<b>8</b>	<b>784</b>	<b>792</b>
<b>Transactions with owners:</b>				
Dividend paid	-	-	(24)	(24)
Share-based payment	-	-	2	2
Tax on share-based payment	-	-	3	3
<b>Total changes in equity in 2016</b>	<b>-</b>	<b>-</b>	<b>(19)</b>	<b>(19)</b>
<b>Equity at 31 December 2016</b>	<b>1,110</b>	<b>8</b>	<b>7,597</b>	<b>8,715</b>

**Parent company cash flow statement**  
**1 January - 31 December**

DKK million	Note	2017	2016
Cash flows from operations (operating activities)	22	(1,046)	3,573
Interest income and similar items		327	1,129
Interest expenses and similar items		(327)	(1,250)
Income tax paid		(352)	(629)
<b>Cash flows from operating activities</b>		<b>(1,398)</b>	<b>2,823</b>
Acquisition of intangible assets	11	(12)	(15)
Acquisition of property, plant and equipment	12	(14)	(9)
Sale of intangible assets and property, plant and equipment		53	(1)
Acquisition of enterprises		-	(16)
Sale of enterprises		12	-
Purchase of securities		1	(79)
Financial transactions with group internal bank		2,051	(3,228)
Investments in subsidiaries		(179)	-
Other investments		(29)	(36)
Dividend received		-	62
<b>Cash flows from investing activities</b>		<b>1,883</b>	<b>(3,322)</b>
Payables to group enterprises		-	31
Dividends paid to equity holders		-	(24)
<b>Cash flows from financing activities</b>		<b>-</b>	<b>7</b>
<b>The year's cash flow</b>		<b>485</b>	<b>(492)</b>
Cash and cash equivalents at 1 January		(420)	72
Net increase/(decrease) in cash		485	(492)
<b>Cash and cash equivalents at 31 December</b>	23	<b>65</b>	<b>(420)</b>

## Notes

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### Note 1. Basis of reporting

#### Accounting policies

Ørsted Salg & Service A/S is a public limited company based in Denmark.

The financial statements for the period 1 January - 31 December 2017 comprise the consolidated financial statements of Ørsted Salg & Service A/S and its subsidiaries (the Group) as well as the financial statements of the parent company Ørsted Salg & Service A/S. Reference is made to note 29 for the parent company's accounting policies.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act.

The financial statements are presented in million Danish kroner (DKK), unless otherwise stated.

#### Measurement basis

The consolidated financial statements have been prepared on the historical cost basis except for derivatives, financial instruments in trading portfolio and carbon emissions allowances in trading portfolio that are measured at market value.

The accounting policies have been applied consistently to the financial year and for the comparative figures except for the early adoption of 'IFRS 9 – Financial Instruments'.

The accounting policies applied to the consolidated financial statements as a whole are described in note 29.

#### Key accounting estimates and judgements

When preparing the consolidated financial statements, we make a number of accounting estimates and judgements based on assumptions concerning future developments which affect our assets and liabilities as well as our income and costs. Actual amounts may differ from the amounts estimated and judgements made as more detailed information becomes available.

We regularly reassess these estimates and judgements, based among other things on historical experience, the current situation in the financial markets, the expected effects of Brexit and a number of other relevant factors.

Accounting estimates, judgements and assumptions which may entail a risk of material adjustments in subsequent years are described in the following.

#### Provisions (note 18)

In the course of the Group's operations, a number of commercial contracts have been entered into with fixed terms of contract that may result in the contracts becoming onerous depending on market developments etc., and the obligations incurred by the Ørsted Salg & Service Group as a result of these contracts may also be subject to uncertainty. The judgements concerning these complex contracts and their future effects are subject to significant uncertainties.

#### Consolidated financial statements

The consolidated financial statements include the parent company Ørsted Salg & Service A/S and subsidiaries controlled by Ørsted Salg & Service A/S.

The consolidated financial statements have been prepared as a consolidation of the parent company's and the individual subsidiaries' financial statements prepared in accordance with the Group's accounting policies. Intra-group income and expenses, shareholdings, balances and dividends as well as realised and unrealised gains and losses arising from intra-group transactions are eliminated on consolidation.

If we hold or have the ability to exercise, directly or indirectly, 20%-50% of the voting rights and do not exercise control, such enterprises are accounted for as associates. However, we carry out a specific assessment of our ability to exercise influence, including our ability to influence financial and operational decisions and thus our return.

### Foreign currency translation

For each reporting enterprise in the Group, items are determined in the currency of the primary economic environment in which the individual reporting enterprise operates (functional currency). Transactions in currencies other than the functional currency of each enterprise are accounted for as transactions in foreign currencies and translated on initial recognition at the exchange rate at the transaction date. Exchange differences arising between the exchange rate at the transaction date and at the date of payment are recognised in profit (loss) for the year as financial income or expenses.

Receivables, payables and other monetary items in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rate at the balance sheet date and the date at which the receivable or payable arose is recognised in profit (loss) for the year as financial income or expenses.

For foreign subsidiaries, the statements of comprehensive income are translated at monthly average exchange rates in so far as these do not deviate materially from the actual exchange rates at the transaction dates. Balance sheet items are translated at the exchange rates at the balance sheet date. All exchange differences are recognised in profit (loss) for the year, except for exchange differences arising on:

- translation of the opening equity of these entities at the exchange rates at the balance sheet date
- translation of the statements of comprehensive income of these enterprises from the exchange rates at the transaction date to the exchange rates at the balance sheet date
- translation of balances accounted for as part of the total net investment

- translation of the portion of loans and derivative financial instruments that has been entered into to hedge the net investment in these enterprises and that provides an effective hedge against corresponding foreign exchange gains (losses) on the net investment in the enterprise.

The above types of exchange differences are recognised in other comprehensive income. Such exchange rate adjustments are allocated to the parent company's equity.

On full or partial disposal of the net investment, the accumulated exchange rate adjustments are recognised as follows:

- Disposal results in loss of control. The accumulated exchange rate adjustments, including any associated hedges, are recognised in the profit (loss) for the year if a foreign exchange gain (loss) is realised by the selling enterprise. Any foreign exchange gain (loss) is transferred to the item in which the gain (loss) is recognised. The part of the foreign currency translation reserve that relates to non-controlling interests is not transferred to profit (loss) for the year
- Disposal does not result in loss of control. A proportionate share of the foreign currency translation reserve is transferred from the parent company shareholders' share of equity to the minority shareholders' share of equity.

Repayment of balances that are considered part of the net investment does not constitute a partial disposal of the subsidiary.

### Implementation of new standards and interpretations

We regularly assess the effect of new IFRS accounting standards and interpretations and implement new accounting standards and interpretations from their mandatory effective dates at the latest.

On 1 January 2017, we early adopted a new accounting standard, IFRS 9 – Financial Instruments, to be able to use the new hedge accounting rules.

The most important changes resulting from IFRS 9 compared to IAS 39 are:

- Simplification of the requirements for hedge accounting. For instance, hedge accounting will be facilitated for proxy hedging strategies, which are often used to hedge risks in the energy markets.

- The number of categories of financial assets are reduced from four to three: amortised cost, fair value through income statement or fair value through other comprehensive income.
- A loss allowance for expected credit losses must be recognised at initial recognition of a receivables. Previously a loss allowance could only be recognised if there was objective evidence of impairment.

The adoption of IFRS 9 has not had any significant impact on recognition and measurement of financial instruments in our consolidated financial statements for 2017.

Comparative figures are not restated as the effect is immaterial.

Effective from 1 January 2017, we have implemented the following amendments to other accounting standards (IAS and IFRS) and interpretations:

- Amendment to IAS 7 – Statement of Cash Flows: The amendment entails additional disclosure requirements in respect of financing activities.
- Amendment to IAS 12 – Income Taxes: The amendment is a clarification of the accounting treatment of tax assets related to unrealised losses on debt instruments measured at fair value.
- Annual improvements to IFRS 2014-2016 concerning IFRS 12 – Disclosure of Interests in Other Entities: The amendment is a clarification of the disclosure requirements.

The implementation of other amended standards has not affected our consolidated financial statements for 2017.

### **New standards and interpretations**

IASB has issued a number of new or amended accounting standards and interpretations which have not yet entered into force, and which have consequently not been incorporated into the consolidated financial statements for 2017 (impact is expected).

We have assessed how 'IFRS 15 – Revenue from Contracts with Customers' and 'IFRS 16 – Leases' will be implemented and the consequences thereof. The two standards are deemed to be the most relevant for the Ørsted Group.

### **IFRS 15 – Revenue from Contracts with Customers:**

#### *Expected effect*

We have completed our review of contracts and the analysis of the cash flows. The analysis concluded that the implementation will not have any significant impact on the income statement, the balance sheet or the related key ratios in the consolidated financial statements.

#### *Commencement*

IFRS 15 will be implemented on 1 January 2018.

#### *Transitional provision*

We will implement the standard with retrospective effect as if its requirements have always been applied to our current contracts. We use the option under IFRS 15 of not restating comparative figures, and of reflecting the effect in equity. The requirements of the standard therefore only apply to agreements in progress at 1 January 2018 as well as subsequently concluded agreements.

### **IFRS 16 – Leases:**

#### *Expected effect*

We are still analysing the effect of IFRS 16 on the consolidated financial statements. The preliminary conclusion is that it will have a limited impact on both the balance sheet, the income statement and related credit key ratios except effects of classifications.

As a general rule, IFRS 16 requires that service elements which are incorporated into leases, and which do not entitle us to use an underlying asset, must be dealt with separately and treated as a current operating expense. This will not have an immediate impact as our total obligation stated in note 18 does not include payments relating to service elements. We intend to continue this practice so that service elements are not included in the lease obligation and the right-of-use asset in accordance with IFRS 16.

#### *Commencement*

IFRS 16 will be implemented on 1 January 2019.

#### *Transitional provision*

We expect to implement the standard based on the simplified transition method, where comparative figures will not be restated. We expect to calculate and recognise the cumulative effect for all ongoing leases at 1 January 2019. Furthermore, we expect to use the other available reliefs to the widest possible extent, including the exclusion of leases with a term to maturity of less than 12 months and low-value assets.

## Note 2. Business performance

### Accumulated difference between IFRS and business performance

Market value adjustments deferred for recognition in the business performance results in a subsequent period are specified in the table below. At 31 December 2017, a loss of DKK 489 million had been

deferred (2016: loss of DKK 862 million), which will affect business performance EBITDA in subsequent years. Of the total deferred loss, business performance EBITDA is expected to be affected by a loss of DKK 116 million in 2018.

### Expected date of transfer to EBITDA

DKK million	Deferred for subsequent recognition at 31 December 2017	2018	2019	after 2019	Deferred for subsequent recognition at 31 December 2016	2017	2018	after 2018
Oil	374	174	137	63	(706)	(646)	(52)	(8)
Gas	(643)	(277)	(269)	(97)	(660)	(160)	20	(520)
Power	(118)	(1)	(4)	(113)	(249)	93	(78)	(264)
Coal	(2)	(2)	-	-	-	-	-	-
Currency	(100)	(10)	(70)	(20)	753	499	167	87
<b>Total</b>	<b>(489)</b>	<b>(116)</b>	<b>(206)</b>	<b>(167)</b>	<b>(862)</b>	<b>(214)</b>	<b>57</b>	<b>(705)</b>

### Specification of the difference between EBITDA according to business performance and according to IFRS

DKK million	2017	2016
<b>EBITDA – business performance</b>	<b>549</b>	<b>3,437</b>
Business performance adjustments	99	(2,261)
<b>EBITDA – IFRS</b>	<b>648</b>	<b>1,176</b>
<b>Total business performance adjustments for the year comprise:</b>		
Market value adjustments for the year of financial and physical hedging contracts that relate to future periods	682	(1,000)
Reversal of deferred gain (loss) relating to hedging contracts from previous periods, where the hedged production or trade is recognised in business performance EBITDA for this period	(583)	(1,261)
<b>Total adjustments</b>	<b>99</b>	<b>(2,261)</b>

### The 'Adjustments' column in the income statement

The difference between business performance and IFRS is shown in the 'Adjustments' column as follows: Adjustments are shown in the table above.

### Difference between IFRS and business performance for the year

The difference between IFRS and business performance is specified in the table above. Market value adjustments in respect of future periods totalled a

gain of DKK 682 million (2016: loss of DKK 1,000 million) and primarily related to the hedging of gas, power and oil.

Reversal of deferred gain (loss) recognised according to business performance in 2017 totalled a loss of DKK 583 million (2016: loss of DKK 1,261 million) and primarily relates to gain (loss) on the hedging of gas and, in part, power. These gains (losses) are recognised in business performance EBITDA in 2017 and in IFRS EBITDA in a previous period.

## Notes to the income statement

### Note 3. Revenue

DKK million	Group Business perform- ance	Adjust- ments	IFRS	Parent company Business perform- ance	Adjust- ments	IFRS
<b>2017</b>						
Sales of gas	18,666	171	18,837	18,248	192	18,440
Sales of power	17,125	(226)	16,899	16,747	(232)	16,515
Distribution and transmission	364	-	364	294	-	294
Trading activities, net	302	-	302	563	-	563
Effect of economic hedging, net	(284)	154	(130)	(242)	146	(96)
Other revenue	142	-	142	148	-	148
<b>Revenue</b>	<b>36,315</b>	<b>99</b>	<b>36,414</b>	<b>35,758</b>	<b>106</b>	<b>35,864</b>
<b>2016</b>						
Sales of gas	17,223	(1,971)	15,252	17,147	(1,960)	15,187
Sales of power	15,916	(612)	15,304	16,306	(621)	15,685
Distribution and transmission	559	-	559	474	-	474
Trading activities, net	325	-	325	346	-	346
Effect of economic hedging, net	80	322	402	93	311	404
Other revenue	240	-	240	470	-	470
<b>Revenue</b>	<b>34,343</b>	<b>(2,261)</b>	<b>32,082</b>	<b>34,836</b>	<b>(2,270)</b>	<b>32,566</b>

Of the total revenue of DKK 36,414 million (2016: DKK 32,082 million), DKK 35,544 million (2016: DKK 31,283 million) represents revenue from the sale of goods, while DKK 870 million (2016: DKK 799 million) represents revenue from the sale of services.

#### Geographical distribution of revenue

Revenue is broken down, as far as possible, by the customer's geographical location based on supply point.

DKK million	Denmark	Germany	UK	Netherlands	Other EU	Consolidated total
2017	14,594	6,037	10,938	4,362	483	36,414
2016	8,147	5,847	12,229	5,248	611	32,082

### Note 4. Cost of sales

DKK million	Group Business perform- ance	Adjust- ments	IFRS	Parent company Business perform- ance	Adjust- ments	IFRS
<b>2017</b>						
Gas	(16,617)	-	(16,617)	(16,454)	-	(16,454)
Power	(16,430)	-	(16,430)	(16,187)	-	(16,187)
Distribution and transmission costs	(1,274)	-	(1,274)	(1,431)	-	(1,431)
Other cost of sales	(414)	-	(414)	(131)	-	(131)
<b>Cost of sales</b>	<b>(34,735)</b>	<b>-</b>	<b>(34,735)</b>	<b>(34,203)</b>	<b>-</b>	<b>(34,203)</b>

**Note 4. Cost of sales (continued)**

DKK million	Group Business performance			Parent company Business performance		
	performance	Adjustments	IFRS	performance	Adjustments	IFRS
<b>2016</b>						
Gas	(13,654)	-	(13,654)	(13,671)	-	(13,671)
Power	(15,205)	-	(15,205)	(15,605)	-	(15,605)
Distribution and transmission costs	(1,059)	-	(1,059)	(1,220)	-	(1,220)
Other cost of sales	20	-	20	31	-	31
<b>Cost of sales</b>	<b>(29,898)</b>	<b>-</b>	<b>(29,898)</b>	<b>(30,465)</b>	<b>-</b>	<b>(30,465)</b>

**Note 5. Employee costs**

DKK million	Group		Parent company	
	2017	2016	2017	2016
<b>Employee costs:</b>				
Wages, salaries and remuneration	(139)	(147)	(120)	(116)
Share-based payment	-	(3)	-	(2)
Pensions	(9)	(8)	(8)	(7)
Other social security costs	(4)	(5)	(1)	(1)
Other employee costs	(6)	14	(6)	-
<b>Employee costs</b>	<b>(158)</b>	<b>(149)</b>	<b>(135)</b>	<b>(126)</b>
<b>Employee costs are recognised as follows:</b>				
Employee costs	(158)	(149)	(135)	(126)
<b>Employee costs</b>	<b>(158)</b>	<b>(149)</b>	<b>(135)</b>	<b>(126)</b>
Number of full-time employees				
Average for the financial year	141	146	110	109

**Remuneration for the Board of Directors and the Executive Board amounts to:**

DKK million	2017				
	Salary	Bonus	Share-based payments	Pension	Total
Parent company Board of Directors	-	-	-	-	-
Parent company Executive Board	(1.7)	(0.3)	(0.2)	(0.3)	(2.5)
2016					
DKK million	Salary	Bonus	Share-based payments	Pension	Total
Parent company Board of Directors	-	-	-	-	-
Parent company Executive Board	(1.5)	(0.3)	(0.6)	(0.4)	(2.8)

The total remuneration stated in the note only includes remuneration attributable to Ørsted Salg & Service A/S. The Executive Board is made up of one person. A bonus plan has been established for the Executive Board. The contract of service of the Ex-

ecutive Board includes a termination package under which the Executive Board will be entitled to the equivalent of 24 months' salary if their contract of service is terminated by the company.



## Note 6. Share-based payment

### Share programme

The Executive Board and a number of other members of management participate in our share programme which we established in 2016. Today, approximately 10 senior executives participate in the programme. As a condition for the granting of performance share units (PSUs), the participant must own a number of shares in Ørsted A/S corresponding to a portion of the individual participant's annual base salary.

If the participants fulfil the shareholding requirement at the time of granting, the participants will each year be granted a number of PSUs that represent a value equal to 15-20% of the annual base salary on the date of granting.

The granted PSUs have a vesting period of three years, after which each PSU entitles the holder to one share without consideration. The final number of PSUs for each participant will be determined on the basis of the total shareholder return delivered by Ørsted during the vesting period benchmarked against ten comparable European energy companies.

The rate will vary from 0% to 200% of the number defined as the target for the granted PSUs. The maximum value is 40% of the fixed annual salary for Group Executive Management.

The highest rate will be triggered if Ørsted's results, measured as the total return to shareholders, outperform those of the comparable companies. For each lower ranking, the number of PSUs granted will fall by 20 percentage points.

If, for example, Ørsted ranks second, the participants will be entitled to 180% of the target. If Ørsted ranks 11 in the comparison, no PSUs will be granted to the participants. The right to PSUs is conditional upon continued employment. Employees who leave us due to their own resignation or breach of their employment lose their right to PSUs.

## Note 7. Auditor's fees

DKK million	Group		Parent company	
	2017	2016	2017	2016
Statutory audit	(1)	(1)	(1)	(1)
Other assurance engagements	-	-	-	-
Tax and VAT advice	-	-	-	-
Non-audit services	-	-	-	-
<b>Total fees to PwC</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>

PwC is Ørsted's auditors appointed by the general meeting. PwC audits the consolidated financial statements of Ørsted and subsidiaries' financial statements in all the countries where we are represented. In addition, PwC provides consultancy services and performs other audit-related tasks.

Other assurance engagements include reviews of non-financial data and of regulatory financial statements.

Tax and VAT advice primarily includes advice in connection with the divestment of assets and companies and advice in connection with the preparation of tax returns and the calculation of the income subject to international joint taxation.

Non-audit services include other consultancy services from PwC, including advice in connection with the divestment of assets and companies, capital injections, etc.

## Note 8. Financial income

DKK million	Group		Parent company	
	2017	2016	2017	2016
Foreign exchange gains	553	1,366	530	1,362
Dividend received	-	-	-	62
Other financial income	29	1	29	-
<b>Financial income</b>	<b>582</b>	<b>1,367</b>	<b>530</b>	<b>1,424</b>

## Note 9. Financial expenses

DKK million	Group		Parent company	
	2017	2016	2017	2016
Interest expenses	(51)	(4)	(33)	(2)
Interest expenses from group enterprises	(16)	(34)	(45)	(64)
Interest element of provisions	(102)	(132)	(118)	(132)
Foreign exchange losses	(435)	(1,392)	(412)	(1,390)
Other financial expenses	(7)	(1)	(6)	(1)
<b>Financial expenses</b>	<b>(611)</b>	<b>(1,563)</b>	<b>(614)</b>	<b>(1,589)</b>
Revenue for the year includes exchange rate and fair value adjustments of:	(392)	(287)	(392)	(287)

**Note 10. Tax on profit (loss) for the year**

DKK million	Group 2017	2016	Parent company 2017	2016
<b>Tax for the year can be specified as follows:</b>				
Tax on profit (loss) for the year	(124)	(196)	(222)	(144)
Tax on amounts recognised in other comprehensive income	-	-	-	-
<b>Tax for the year</b>	<b>(124)</b>	<b>(196)</b>	<b>(222)</b>	<b>(144)</b>
<b>Tax on profit (loss) for the year can be broken down as follows:</b>				
Current tax	(115)	(2,381)	(98)	(2,358)
Deferred tax	(22)	1,583	(124)	1,587
Adjustments to current tax in respect of prior years	(689)	149	(689)	151
Adjustments to deferred tax in respect of prior years	702	453	689	476
<b>Tax on profit (loss) for the year</b>	<b>(124)</b>	<b>(196)</b>	<b>(222)</b>	<b>(144)</b>
<b>Tax on profit (loss) for the year can be explained as follows:</b>				
Calculated 22.0% tax on profit (loss) before tax	(125)	(170)	(225)	(153)
Adjustments of calculated tax in foreign subsidiaries	6	4	-	-
<b>Tax effect of:</b>				
Non-taxable income	3	-	4	(14)
Non-deductible expenses	(1)	(1)	(1)	(1)
Tax effect tax loss carryforward	(21)	(27)	-	-
Adjustments to tax in respect of prior years	14	(2)	-	24
<b>Tax on profit (loss) for the year</b>	<b>(124)</b>	<b>(196)</b>	<b>(222)</b>	<b>(144)</b>
<b>Effective tax rate</b>	<b>22%</b>	<b>20%</b>	<b>22%</b>	<b>15%</b>

Notes to the balance sheet

Note 11. Intangible assets

DKK million	Group				Total
	Goodwill	Rights	Completed development projects	Development projects in progress	
Cost at 1 January 2016	369	2,195	284	71	2,919
Additions	-	5	-	11	16
Additions on acquisition of enterprises	-	-	-	21	21
Disposals	-	(585)	-	-	(585)
Reclassified assets	-	-	103	(103)	-
<b>Cost at 31 December 2016</b>	<b>369</b>	<b>1,615</b>	<b>387</b>	<b>-</b>	<b>2,371</b>
Amortisation and impairment losses at 1 January 2016	(369)	(2,172)	(266)	-	(2,807)
Impairment losses	-	-	-	-	-
Amortisation	-	(7)	(9)	-	(16)
Disposals	-	585	-	-	585
<b>Amortisation and impairment losses at 31 December 2016</b>	<b>(369)</b>	<b>(1,594)</b>	<b>(275)</b>	<b>-</b>	<b>(2,238)</b>
<b>Carrying amount at 31 December 2016</b>	<b>0</b>	<b>21</b>	<b>112</b>	<b>-</b>	<b>133</b>
Cost at 1 January 2017	369	1,615	387	-	2,371
Additions	-	11	11	-	22
Additions on acquisition of enterprises	-	-	-	-	-
Disposals	-	-	-	-	-
Reclassified assets	-	-	-	-	-
<b>Cost at 31 December 2017</b>	<b>369</b>	<b>1,626</b>	<b>396</b>	<b>-</b>	<b>2,391</b>
Amortisation and impairment losses at 1 January 2017	(369)	(1,594)	(275)	-	(2,238)
Impairment losses	-	-	-	-	-
Amortisation	-	(3)	(29)	-	(32)
Disposals	-	(10)	-	-	(10)
<b>Amortisation and impairment losses at 31 December 2017</b>	<b>(369)</b>	<b>(1,607)</b>	<b>(302)</b>	<b>-</b>	<b>(2,278)</b>
<b>Carrying amount at 31 December 2017</b>	<b>-</b>	<b>19</b>	<b>94</b>	<b>-</b>	<b>113</b>
Amortised over	-	UOP*/ 5-20 years	3-5 years	-	-

\* Unit of production

**Note 11. Intangible assets (continued)**

DKK million	Parent company			Total
	Rights	Completed development projects	Development projects in progress	
Cost at 1 January 2016	2,170	284	71	2,525
Additions	5	-	10	15
Disposals	(585)	-	-	(585)
Reclassified assets	-	81	(81)	-
<b>Cost at 31 December 2016</b>	<b>1,590</b>	<b>365</b>	<b>-</b>	<b>1,955</b>
Amortisation and impairment losses at 1 January 2016	(2,147)	(266)	-	(2,413)
Amortisation and impairment losses	(7)	(7)	-	(14)
Disposals	585	-	-	585
<b>Amortisation and impairment losses at 31 December 2016</b>	<b>(1,569)</b>	<b>(273)</b>	<b>-</b>	<b>(1,842)</b>
<b>Carrying amount at 31 December 2016</b>	<b>21</b>	<b>92</b>	<b>-</b>	<b>113</b>
Cost at 1 January 2017	1,590	365	-	1,955
Additions	11	-	-	11
Disposals	-	-	-	-
Reclassified assets	-	-	-	-
<b>Cost at 31 December 2017</b>	<b>1,601</b>	<b>365</b>	<b>-</b>	<b>1,966</b>
Amortisation and impairment losses at 1 January 2017	(1,569)	(273)	-	(1,842)
Amortisation and impairment losses	(3)	(20)	-	(23)
Disposals	(10)	-	-	(10)
<b>Amortisation and impairment losses at 31 December 2017</b>	<b>(1,582)</b>	<b>(293)</b>	<b>-</b>	<b>(1,875)</b>
<b>Carrying amount at 31 December 2017</b>	<b>19</b>	<b>72</b>	<b>-</b>	<b>91</b>
Amortised over	UOP*/ 5-20 years	3-5 years	-	-

\* Unit of production

**Impairment testing**

Development projects in progress are tested for impairment annually. The carrying amounts of rights, carbon emissions allowances and completed development projects are assessed annually to determine whether there is any indication of impairment. If any such indication exists, an impairment test is carried out.

**Rights**

Rights consist predominantly of gas purchase rights, customer-related rights and a connection right relating to gas transportation. At 31 December 2017, the carrying amount of rights was calculated at

DKK 19 million (2016: DKK 21 million). There were no indications of impairment of rights in 2017.

**Completed development projects**

Completed development projects related to IT software. At 31 December 2017, the carrying amount of development projects was calculated at DKK 94 million (2016: DKK 112 million).

There were no indications of impairment of completed development projects in 2017. Consequently, completed development projects were not tested for impairment.

## Note 12. Property, plant and equipment

DKK million	Group				Total
	Land and buildings	Production assets	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	
Cost at 1 January 2016	11	8,437	25	17	8,490
Disposals	-	3	-	6	9
Retained	-	(14)	(1)	-	(15)
Reclassified assets	-	21	-	(21)	-
<b>Cost at 31 December 2016</b>	<b>11</b>	<b>8,447</b>	<b>24</b>	<b>2</b>	<b>8,484</b>
Depreciation and impairment losses at 1 January 2016	(9)	(8,352)	(23)	-	(8,384)
Depreciation and impairment losses	-	(5)	(2)	-	(7)
Disposals	-	14	1	-	15
<b>Depreciation and impairment losses at 31 December 2016</b>	<b>(9)</b>	<b>(8,343)</b>	<b>(24)</b>	<b>-</b>	<b>(8,376)</b>
<b>Carrying amount at 31 December 2016</b>	<b>2</b>	<b>104</b>	<b>-</b>	<b>2</b>	<b>108</b>
Cost at 1 January 2017	11	8,447	24	2	8,484
Additions	-	287	-	9	296
Disposals	-	(53)	-	-	(53)
Reclassified assets	-	11	-	(11)	-
<b>Cost at 31 December 2017</b>	<b>11</b>	<b>8,692</b>	<b>24</b>	<b>-</b>	<b>8,727</b>
Depreciation and impairment losses at 1 January 2017	(9)	(8,343)	(24)	-	(8,376)
Depreciation and impairment losses	-	(31)	-	-	(31)
Disposals	-	-	-	-	-
<b>Depreciation and impairment losses at 31 December 2017</b>	<b>(9)</b>	<b>(8,374)</b>	<b>(24)</b>	<b>-</b>	<b>(8,407)</b>
<b>Carrying amount at 31 December 2017</b>	<b>2</b>	<b>318</b>	<b>-</b>	<b>-</b>	<b>320</b>
Depreciated over	20 years	20-40 years	3-10 years	-	-

## Note 12. Property, plant and equipment (continued)

DKK million	Parent company				Total
	Land and buildings	Production assets	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	
Cost at 1 January 2016	11	8,433	5	17	8,466
Additions	-	3	-	6	9
Disposals	-	(14)	(1)	-	(15)
Reclassified assets	-	21	-	(21)	-
<b>Cost at 31 December 2016</b>	<b>11</b>	<b>8,443</b>	<b>4</b>	<b>2</b>	<b>8,460</b>
Depreciation and impairment losses at 1 January 2016	(9)	(8,348)	(5)	-	(8,362)
Depreciation and impairment losses	-	(5)	-	-	(5)
Disposals	-	14	1	-	15
<b>Depreciation and impairment losses at 31 December 2016</b>	<b>(9)</b>	<b>(8,339)</b>	<b>(4)</b>	<b>-</b>	<b>(8,352)</b>
<b>Carrying amount at 31 December 2016</b>	<b>2</b>	<b>104</b>	<b>-</b>	<b>2</b>	<b>108</b>
Cost at 1 January 2017	11	8,443	4	2	8,460
Additions	-	287	-	9	296
Disposals	-	(53)	-	-	(53)
Reclassified assets	-	11	-	(11)	-
<b>Cost at 31 December 2017</b>	<b>11</b>	<b>8,688</b>	<b>4</b>	<b>-</b>	<b>8,703</b>
Depreciation and impairment losses at 1 January 2017	(9)	(8,339)	(4)	-	(8,352)
Depreciation and impairment losses	-	(31)	-	-	(31)
Disposals	-	-	-	-	-
<b>Depreciation and impairment losses at 31 December 2017</b>	<b>(9)</b>	<b>(8,370)</b>	<b>(4)</b>	<b>-</b>	<b>(8,383)</b>
<b>Carrying amount at 31 December 2017</b>	<b>2</b>	<b>318</b>	<b>-</b>	<b>-</b>	<b>320</b>
Leased assets		0			
Depreciated over	20 years	20-40 years	3-10 years	-	-

**Finance leases**

Production assets in the parent company with a carrying amount of DKK 0 million at 31 December 2017 (2016: DKK 11 million) were financed under finance leases. The lease commitment at 31 December 2017 was DKK 0 million (2016: DKK 604 million).

## Note 12. Property, plant and equipment (continued)

### Impairment testing of property, plant and equipment

The carrying amounts of property, plant and equipment are assessed annually to determine whether there is any indication of impairment. If any such indication exists, an impairment test is carried out.

In an impairment test, the tested asset's recoverable amount is compared with its carrying amount.

The recoverable amount is based on the higher of the value in use and the fair value less estimated selling costs. The value in use is determined on the basis of expected future net cash flows.

Following the termination of the lease agreement between Ørsted Salg & Service A/S and Ørsted Pipelines A/S, there were indications of impairment of assets held under the finance lease of DKK 21 million.

There were no other indications of impairment of property, plant and equipment in 2017.

## Note 13. Investments in subsidiaries

Parent company

DKK million	Investments in subsidiaries	
	2017	2016
Cost at 1 January	684	668
Additions during the year	-	16
Disposals during the year	-	-
Capital contributions	178	-
<b>Cost at 31 December</b>	<b>863</b>	<b>684</b>
Value adjustments at 1 January	(574)	(511)
Impairment losses for the year	-	(63)
<b>Value adjustments at 31 December</b>	<b>(574)</b>	<b>(574)</b>
<b>Carrying amount at 31 December</b>	<b>288</b>	<b>110</b>

Capital contributions in 2017 are related to additional capital contribution in Orsted Markets GmbH and Orsted Sales GmbH.

We have tested investments in subsidiaries for impairment by comparing the expected future income

in the individual subsidiary with the carrying value of the individual subsidiary. Our test in 2017 did not indicate any impairment in subsidiaries.

In 2016, we impaired the carrying amount of the subsidiary Ørsted Sales GmbH of DKK 63 million.



## Note 14. Inventories

DKK million	Group		Parent company	
	2017	2016	2017	2016
Gas	1,526	1,286	1,520	1,279
Green certificates	441	704	441	704
Carbon emissions allowances	52	80	52	80
<b>Inventories at 31 December</b>	<b>2,019</b>	<b>2,070</b>	<b>2,013</b>	<b>2,063</b>

The carrying amount of inventories recognised at fair value was DKK 52 million (2016: DKK 80 million).

## Note 15. Receivables

DKK million	Group		Parent company	
	2017	2016	2017	2016
Other receivables	-	-	46	34
<b>Long-term receivables at 31 December</b>	<b>-</b>	<b>-</b>	<b>46</b>	<b>34</b>
Trade receivables	4,915	4,661	4,413	4,164
Receivables from related parties	9,541	11,272	9,570	11,484
Fair value of derivative financial instruments	6,535	20,732	6,134	20,025
Other receivables	795	681	786	674
<b>Short-term receivables at 31 December</b>	<b>21,786</b>	<b>37,346</b>	<b>20,903</b>	<b>36,347</b>
<b>Short-term and long-term receivables at 31 December</b>	<b>21,786</b>	<b>37,346</b>	<b>20,949</b>	<b>36,381</b>

Other long-term receivables comprise long-term loans to finance gas installations. Apart from the fair value of derivative financial instruments and deposits, short-term receivables fall due less than one year after the closing of the financial year. The term to maturity of derivative financial instruments appears from note 26. The carrying amount of re-

ceivables is estimated to correspond to the fair value.

Other receivables include margin account deposits, DKK 747 million in total (2016: DKK 381 million), which have been pledged as collateral for trading in financial instruments.

## Note 15. Receivables (continued)

Trade receivables by credit quality

DKK million	Group		Parent company	
	2017	2016	2017	2016
Denmark	1,512	2,054	1,456	2,040
Rest of the EU	3,270	2,713	2,824	2,230
Rest of the world	133	(106)	133	(106)
<b>Trade receivables at 31 December</b>	<b>4,915</b>	<b>4,661</b>	<b>4,413</b>	<b>4,164</b>

Ørsted Salg & Service A/S's main credit exposure in connection with sales relates to sales of gas. Besides credit exposure on gas customers in Denmark, the exposure primarily relates to international energy companies and banks. Ørsted Salg & Service A/S's internal control of its credit exposure is based on internal credit limits for each counterparty and structured and ongoing monitoring and reporting. Credit limits and any requirements concerning security are determined on the basis of the credit rating

of the counterparty, partly using input from external rating agencies such as Moody's, S&P's and Fitch. For all significant counterparties, framework and netting contracts setting out credit conditions are also entered into. The maximum credit risk related to receivables corresponds to the values recognised in the balance sheet. There are no special concentrations of credit risks. The receivables are not credit-insured.

Trade receivables that are past due, but not individually impaired

DKK million	Group		Parent company	
	2017	2016	2017	2016
<b>Days past due:</b>				
Up to 30 days	57	417	22	405
30-90 days	63	62	42	31
More than 90 days	88	64	79	32
Trade receivables, write-downs	(32)	(29)	(32)	(29)
<b>Receivables past due at 31 December</b>	<b>176</b>	<b>514</b>	<b>111</b>	<b>439</b>

Write-downs on trade receivables are assessed on the basis of due date and historical experience. For receivables with a general credit risk, a write-down of 0-1% is carried out on initial recognition.

The Group's trade receivables at 31 December 2017 include receivables that have been written down by DKK 32 million following general assessment (2016: DKK 29 million).

## Note 16. Share capital

Development in share capital DKK million	Group & Parent company				
	2017	2016	2015	2014	2013
Share capital at 1 January	1,110	1,110	1,100	1,100	1,020
Capital increase	-	-	-	-	80
<b>Share capital at 31 December</b>	<b>1,110</b>	<b>1,110</b>	<b>1,110</b>	<b>1,100</b>	<b>1,100</b>

### Composition of share capital:

Number of shares		Nominal value		Total
1,000,000	of	DKK 1,000	=	DKK 1,000,000,000
100,000	of	DKK 1,000	=	DKK 100,000,000
10,000	of	DKK 1,000	=	DKK 10,000,000
				DKK 1,110,000,000

### Ownership

The company's annual report forms part of the consolidated financial statements of Ørsted A/S, Fredericia, which owns the entire share capital.

All shares rank equally. There are no restrictions on voting rights.

### Dividend

The Board of Directors recommends that dividend of DKK 0 million be paid for the financial year 2017 (2016: DKK 0 million).

### Capital management

Ørsted Salg & Service A/S's liquidity and financing risks are managed centrally by Ørsted in accordance with principles and delegated authorities laid

down by the Board of Directors of Ørsted A/S, in such a way as to ensure that Ørsted Salg & Service A/S has an adequate capital base and adequate cash resources at all times. One of the most important financial management tasks in the Ørsted Group is to secure sufficient and flexible financial resources in relation to the day-to-day operations and the Ørsted Group's investment programme. For this purpose, internal management objectives have been set for the required level of financial resources, taking into account primarily factors such as the investment programme, cash flows from operating activities and the debt maturity profile.

It is the Ørsted Group's financing policy to concentrate loans in the parent company in order to optimise the loan portfolio on a consolidated basis.

**Note 17. Deferred tax**

DKK million	Group		Parent company	
	2017	2016	2017	2016
Deferred tax at 1 January	(1,254)	777	(1,337)	727
Change in tax rate	-	-	-	-
Deferred tax from new company enters	-	5	-	-
Deferred tax for the year recognised in profit (loss)	22	(1,583)	124	(1,587)
Adjustments in respect of prior years	479	(453)	492	(476)
<b>Deferred tax at 31 December</b>	<b>(753)</b>	<b>(1,254)</b>	<b>(721)</b>	<b>(1,337)</b>
<b>Deferred tax is recognised in the balance sheet as follows:</b>				
Deferred tax (assets)	(753)	(1,254)	(721)	(1,337)
Deferred tax (liabilities)	-	-	-	-
<b>Deferred tax at 31 December, net</b>	<b>(753)</b>	<b>(1,254)</b>	<b>(721)</b>	<b>(1,337)</b>
<b>Deferred tax concerns:</b>				
Non-current assets	(24)	(3)	16	(72)
Current assets	-	-	-	-
Non-current liabilities	(544)	(597)	(544)	(597)
Current liabilities	(185)	(654)	(193)	(668)
<b>Deferred tax at 31 December</b>	<b>(753)</b>	<b>(1,254)</b>	<b>(721)</b>	<b>(1,337)</b>

Deferred tax assets are expected to be utilised for offsetting against the settlement of deferred tax liabilities in companies comprised by the joint taxation in the Ørsted Group.

Unrecognised deferred tax assets relate to losses in foreign companies as well as impairment losses in

foreign companies, where we deem that such tax assets cannot be utilised in the foreseeable future. Unrecognised tax assets can be carried forward indefinitely. The amount of unrecognised tax losses was DKK 54 million in 2017 (2016: DKK 59 million).

**Change in temporary differences during the year:**

Group

DKK million	Balance sheet at 1 January	Change in tax rate	Recognised in profit (loss) for the year	Other changes	Balance sheet at 31 December
<b>2017</b>					
Non-current assets	(3)	-	(9)	(12)	(24)
Current assets	-	-	-	-	-
Non-current liabilities	(597)	-	53	-	(544)
Current liabilities	(654)	-	(22)	491	(185)
<b>Total</b>	<b>(1,254)</b>	<b>-</b>	<b>22</b>	<b>479</b>	<b>(753)</b>

**Note 17. Deferred tax (continued)**

Group

DKK million	Balance sheet at 1 January	Change in tax rate	Recognised in profit (loss) for the year	Other changes	Balance sheet at 31 December
<b>2016</b>					
Non-current assets	14	-	(21)	4	(3)
Current assets	(3)	-	3	-	-
Non-current liabilities	(668)	-	71	-	(597)
Current liabilities	1,434	-	(2,112)	24	(654)
<b>Total</b>	<b>777</b>	<b>-</b>	<b>(2,059)</b>	<b>28</b>	<b>(1,254)</b>

**Change in temporary differences during the year**

Parent company

DKK million	Balance sheet at 1 January	Change in tax rate	Recognised in profit (loss) for the year	Other changes	Balance sheet at 31 December
<b>2017</b>					
Non-current assets	(72)	-	88	-	16
Current assets	-	-	-	-	-
Non-current liabilities	(597)	-	53	-	(544)
Current liabilities	(668)	-	(17)	492	(193)
<b>Total</b>	<b>(1,337)</b>	<b>-</b>	<b>124</b>	<b>492</b>	<b>(721)</b>

Parent company

DKK million	Balance sheet at 1 January	Change in tax rate	Recognised in profit (loss) for the year	Other changes	Balance sheet at 31 December
<b>2016</b>					
Non-current assets	(56)	-	(16)	-	(72)
Current assets	(3)	-	3	-	-
Non-current liabilities	(668)	-	71	-	(597)
Current liabilities	1,454	-	(2,122)	-	(668)
<b>Total</b>	<b>727</b>	<b>-</b>	<b>(2,064)</b>	<b>-</b>	<b>(1,337)</b>

## Note 18. Provisions

DKK million	Group							
	2017				2016			
	De-commissioning obligations	Onerous contracts	Other liabilities	Total	De-commissioning obligations	Onerous contracts	Other liabilities	Total
Provisions at 1 January	191	2,556	98	2,845	183	2,893	84	3,160
Provisions used during the year	-	(436)	-	(436)	-	(461)	-	(461)
Provisions reversed during the year	-	-	-	-	-	-	-	-
Provisions made during the year	271	465	381	1,117	-	-	14	14
Interest element of obligations	9	109	-	118	8	124	-	132
<b>Provisions at 31 December</b>	<b>471</b>	<b>2,694</b>	<b>479</b>	<b>3,644</b>	<b>191</b>	<b>2,556</b>	<b>98</b>	<b>2,845</b>
Provisions for non-current liabilities	471	2,368	397	3,236	191	2,230	27	2,448
Provisions for current liabilities	-	326	82	408	-	326	71	397
<b>Provisions at 31 December</b>	<b>471</b>	<b>2,694</b>	<b>479</b>	<b>3,644</b>	<b>191</b>	<b>2,556</b>	<b>98</b>	<b>2,845</b>

DKK million	Parent company							
	2017				2016			
	De-commissioning obligations	Onerous contracts	Other liabilities	Total	De-commissioning obligations	Onerous contracts	Other liabilities	Total
Provisions at 1 January	191	2,556	98	2,845	183	2,893	84	3,160
Provisions used during the year	-	(436)	-	(436)	-	(461)	-	(461)
Provisions reversed during the year	-	-	-	-	-	-	-	-
Provisions made during the year	271	465	381	1,117	-	-	14	14
Interest element of obligations	9	109	-	118	8	124	-	132
<b>Provisions at 31 December</b>	<b>471</b>	<b>2,694</b>	<b>479</b>	<b>3,644</b>	<b>191</b>	<b>2,556</b>	<b>98</b>	<b>2,845</b>
Provisions for non-current liabilities	471	2,368	397	3,236	191	2,230	27	2,448
Provisions for current liabilities	-	326	82	408	-	326	71	397
<b>Provisions at 31 December</b>	<b>471</b>	<b>2,694</b>	<b>479</b>	<b>3,644</b>	<b>191</b>	<b>2,556</b>	<b>98</b>	<b>2,845</b>

Onerous contracts comprise contracts for LNG terminal capacity in the Netherlands, DKK 1,329 million (2016: DKK 1,034 million), contracts for leasing of gas storage capacity in Germany, DKK 1,075 million (2016: DKK 1,179 million) and contract regarding the Stenlille Gas Storage Facility, DKK 290 million (2016: DKK 344 million).

Other provisions include decommissioning obligations relate to expected future costs for restoration

and decommissioning of the Group's production assets.

The estimated obligations have been discounted to present value. A discount rate of 3.5% has been used, which is the same as the discount rate used by the Group at 31 December 2017. The equivalent value of these obligations is recognised in production assets (property, plant and equipment) and depreciated together with the production asset.

## Note 18. Provisions (continued)

### Maturities

Maturities for other provisions at 31 December are expected to be as follows:

DKK million	Group 2017	2016	Parent company 2017	2016
0-1 year	408	397	408	397
1-5 years	1,419	1,086	1,419	1,086
5-10 years	921	844	921	844
10-20 years	425	403	425	403
20-30 years	471	-	471	-
30-40 years	-	115	-	115
> 40 years	-	-	-	-
<b>Provisions at 31 December</b>	<b>3,644</b>	<b>2,845</b>	<b>3,644</b>	<b>2,845</b>

## Note 19. Short-term and long-term loans

The Group's and the parent company's short-term and long-term loans can be specified as follows:

DKK million	Group 2017	2016	Parent company 2017	2016
Group enterprises	314	299	-	387
<b>Long-term loans at 31 December</b>	<b>314</b>	<b>299</b>	<b>-</b>	<b>387</b>
Other bank loans	-	479	-	458
<b>Short-term loans at 31 December</b>	<b>-</b>	<b>479</b>	<b>-</b>	<b>458</b>
<b>Short-term and long-term loans at 31 December</b>	<b>314</b>	<b>778</b>	<b>-</b>	<b>845</b>
Fair value	314	778	-	845
Nominal value	314	778	-	845

Expected maturities for short-term and long-term loans:

DKK million	Group 2017	2016	Parent company 2017	2016
0-1 year	314	479	-	458
1-2 years	-	-	-	42
2-3 years	-	-	-	45
3-4 years	-	-	-	49
4-5 years	-	299	-	53
> 5 years	-	-	-	198
<b>Short-term and long-term loans at 31 December</b>	<b>314</b>	<b>778</b>	<b>-</b>	<b>845</b>

The fair value has been determined as the present value of expected future instalments and interest payments. The Group's financing agreements are

not subject to any other unusual terms or conditions.

## Note 19. Short-term and long-term loans (continued)

### Finance leases

Liabilities relating to assets held under finance leases in the parent company are recognised as payables to group enterprises as follows:

DKK million	2017			2016		
	Minimum lease payments	Interest element	Present value	Minimum lease payments	Interest element	Present value
0-1 year	-	-	-	72	34	38
1-5 years	-	-	-	288	99	189
> 5 years	-	-	-	228	28	200
<b>Total</b>	-	-	-	<b>588</b>	<b>161</b>	<b>427</b>
Adjustment to abandonment interest	-	-	-	17	-	17
<b>Total</b>	-	-	-	<b>605</b>	<b>161</b>	<b>444</b>

The fair value has been estimated as the present value of future cash flows at a market rate for corresponding leases.

There is no contingent rent under the leases. A proportion of the leases is based on a floating interest rate. Further information on the leases is provided in note 12.

## Note 20. Other payables

DKK million	Group		Parent company	
	2017	2016	2017	2016
Other non-current liabilities	5	-	5	-
<b>Other non-current liabilities at 31 December</b>	<b>5</b>	<b>-</b>	<b>5</b>	<b>-</b>
Trade payables	2,872	2,347	2,847	2,312
Payables to group enterprises	1,514	1,994	1,490	1,975
Fair value of derivative financial instruments	6,449	21,148	6,201	20,665
VAT and other indirect taxes	184	249	168	234
Deferred income	547	785	539	785
Other payables	302	1,289	287	1,276
<b>Other current liabilities at 31 December</b>	<b>11,868</b>	<b>27,812</b>	<b>11,532</b>	<b>27,247</b>
<b>Current and non-current liabilities at 31 December</b>	<b>11,873</b>	<b>27,812</b>	<b>11,537</b>	<b>27,247</b>

Apart from the fair value of derivative financial instruments and deferred income, other payables fall due for payment less than one year after the end of

the financial year. The term to maturity of derivative financial instruments appears from note 26.



**Note 21. Income tax receivable and payable**

DKK million	Group		Parent company	
	2017	2016	2017	2016
Income tax receivable at 1 January	340	1,065	321	1,043
Exchange rate adjustments	(1)	(1)	-	-
Change in tax rate	-	-	-	-
Addition on assets as part of business combination	-	4	-	-
Adjustments to current tax in respect of prior years	(689)	154	(689)	154
Payments in respect of prior years	356	(1,214)	368	(1,197)
Current tax for the year	(79)	(1,464)	(75)	(1,461)
Tax for the year from other comprehensive income (change in equity for the year)	-	4	-	3
Payments in respect of the year	280	1,792	269	1,779
<b>Income tax receivable at 31 December</b>	<b>207</b>	<b>340</b>	<b>194</b>	<b>321</b>
Income tax payable at 1 January	921	68	898	45
Change in tax rate	-	-	-	-
Adjustments due to merger	-	-	-	-
Additions on assets as part of business combination	-	4	-	-
Adjustments to current tax in respect of prior years	(1,181)	5	(1,182)	3
Payments in respect of prior years	264	(73)	284	(48)
Current tax for the year	36	917	23	898
<b>Income tax payable at 31 December</b>	<b>40</b>	<b>921</b>	<b>23</b>	<b>898</b>

## Notes to cash flow statement

### Note 22. Cash flows from operations (operating activities)

DKK million	Group 2017	2016	Parent company 2017	2016
Operating profit (loss) EBIT	585	1,153	1,064	1,101
Amortisation, depreciation, impairment losses and write-downs	63	23	54	83
<b>Operating profit (loss) before depreciation and amortisation (EBITDA)</b>	<b>648</b>	<b>1,176</b>	<b>1,118</b>	<b>1,184</b>
Other items <sup>1)</sup>	(636)	4,488	(1,104)	4,612
<b>Cash flows from operations (operating activities) before changes in working capital</b>	<b>12</b>	<b>5,664</b>	<b>14</b>	<b>5,796</b>
Change in inventories	51	148	50	151
Change in trade receivables	37	(477)	103	(647)
Change in other receivables	(118)	(485)	(112)	(485)
Change in trade payables	112	(1,331)	87	(765)
Change in other payables etc.	(1,175)	(539)	(1,189)	(477)
<b>Change in working capital</b>	<b>(1,093)</b>	<b>(2,684)</b>	<b>(1,060)</b>	<b>(2,223)</b>
<b>Cash flows from operations (operating activities)</b>	<b>(1,081)</b>	<b>2,980</b>	<b>(1,046)</b>	<b>3,573</b>

<sup>1)</sup> Other items primarily comprise changes in other provisions and changes in value adjustments of derivative financial instruments.

### Note 23. Cash and cash equivalents and securities

DKK million	Group 2017	2016	Parent company 2017	2016
<b>Cash and cash equivalents at 31 December include:</b>				
Cash, available	134	121	65	38
Bank overdrafts	-	(479)	-	(458)
<b>Cash and cash equivalents at 31 December</b>	<b>134</b>	<b>(358)</b>	<b>65</b>	<b>(420)</b>

## Note 23. Cash and cash equivalents and securities (continued)

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

DKK million	Group		Parent company	
	2017	2016	2017	2016
Cash, available	134	121	65	38
Cash, not available for use	-	-	-	-
<b>Cash at 31 December</b>	<b>134</b>	<b>121</b>	<b>65</b>	<b>38</b>

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

DKK million	Group		Parent company	
	2017	2016	2017	2016
Securities, available	77	-	77	-
Securities, not available for use	-	79	-	79
<b>Securities at 31 December</b>	<b>77</b>	<b>79</b>	<b>77</b>	<b>79</b>

Other bank loans at 31 December can be broken down into the following balance sheet items:

DKK million	Group		Parent company	
	2017	2016	2017	2016
Bank overdrafts	-	479	-	458
<b>Bank loans at 31 December</b>	<b>-</b>	<b>479</b>	<b>-</b>	<b>458</b>

## Notes without reference

### Note 24. Operating leases

DKK million	Group		Parent company	
	2017	2016	2017	2016
0-1 year	145	146	145	145
1-5 year	397	398	397	397
> 5 years	101	101	101	101
<b>Total</b>	<b>643</b>	<b>645</b>	<b>643</b>	<b>643</b>
Operating lease payments recognised in the income statement amount to	154	156	150	150

Operating leases comprise leasing of gas storage facilities in Germany in the period 2018-2023.

## Note 25. Financial risks and risk management

### Financial risks

Ørsted Salg & Service A/S is exposed to a number of different financial risks, including fluctuations in commodity prices, exchange rates and interest rates as well as credit risks. The management of these risks is an important focus area in the Group.

The risk management is aimed at identifying the various risk areas and determining a strategy for managing them. A special Risk Committee has been appointed that is responsible for monitoring the Ørsted Group's risk management and risk control relating to market and credit risks. A centralised corporate risk management function has also been set up in Ørsted A/S to support the Risk Committee.

Various strategies have been put in place to manage the risks and align the risk profile. The risk profile is managed through the conclusion of financial and physical contracts for commodities, interest and currencies over the next five years.

In connection with – and partly to support – these activities, the Group engages in limited energy trading for its own account, including in gas, power, coal, oil, oil products and carbon emissions allowances.

The operating profit may fluctuate considerably from year to year as a result of price developments.

### Oil and gas price risks

Oil and gas price risks relate primarily to oil and gas sourced in the Ørsted Group and differences in the indexation of purchase and selling prices.

Ørsted Salg & Service A/S's exposure is in crude oil, gas and various other oil types such as fuel oil and gas oil. These risks are hedged as the exposure is confirmed, for example based on production projections. The management of oil and gas price risks is based on tolerance levels for maximum and minimum effect on changes in cash flows over the next five years. These calculations are based on possible negative deviations from current prices in the forward market compared with a set downside scenario.

The oil price hedging is mainly in the underlying oil types to reduce the base risk in the oil market. Hedging is predominantly effected through purchased put options and swaps. The oil price risk from the indexation of gas purchase and selling prices is also hedged.

### Market trading

When the Ørsted Group's desired hedging level has been determined, the exposures are transferred to the market trading function, which is part of Ørsted

Salg & Service A/S, which is then responsible for executing the physical and financial transactions in the market. It is not always possible to hedge the transferred price risks in full. Ørsted Salg & Service A/S therefore has some remaining exposure resulting from these activities.

The market trading function also balances the physical volumes in the market and, to a lesser extent, engages in active taking of positions to ensure an ongoing market presence and thus gain more detailed market insight. Furthermore, Ørsted Salg & Service A/S has assumed the role of market maker in the Danish power market, which entails further market risks.

### Currency risks

Currency risks arise primarily from energy trading, which is typically priced in currencies other than DKK, from the purchase and sale of goods and services in foreign currencies, and other activities, for example in subsidiaries abroad. The main currency risk is related to GBP.

Currency exposure is hedged using forward exchange contracts, swaps and options as well as by raising of debt in various currencies.

Currency risk is measured taking into account the total cash flow for each currency weighted in relation to the currency's volatility. The currency risk is managed by defining a maximum level for the total currency exposure for all currencies each year in the coming five years. Ørsted Salg & Service A/S hedges currency risks using a 'ladder' model, hedging a large part in the coming four quarters, with hedging subsequently declining.

### Interest rate risks

Interest rate risks relate primarily to the loan portfolio, cash and financial hedging. These risks are managed in relation to the Ørsted Salg & Service Group's net financing requirement and capital structure.

Interest rate risk is measured on a net basis, and both debt and any placing of excess cash are included. Interest rate risk is adjusted through the interest terms attaching to the Group's loans.

### Credit risks

Credit risks arise primarily from trading in power and gas – both wholesale trading and financial and physical transactions – and financial transactions, including placing of surplus cash.

In the course of its normal operations, Ørsted Salg & Service A/S concludes contracts with customers

## Note 25. Financial risks and risk management (continued)

and suppliers on the physical delivery of energy products, and also hedging contracts with other energy companies, specialised trading houses and international banks. Physical contracts with a term of more than one year are normal, and gas purchase contracts can have terms of more than five years. All such contracts involve a risk of loss in the event of a counterparty failing to perform its obligations. Such risks are quantified and managed as credit risks and are a significant focus area in the Ørsted Salg & Service Group.

The credit risk is managed based on internal credit limits for counterparties and structured monitoring of the actual exposure. Credit limits are established on the basis of an assessment of the counterparty's credit rating. If the counterparty has an external credit rating, for example from Moody's or Standard & Poor's, this is an important factor in determining the counterparty's credit rating.

Credit risks are coordinated in relation to all business activities so that the Ørsted Salg & Service Group does not assume inappropriately large exposures to individual counterparties. With a view to reducing its credit exposure, the Group endeavours, as far as possible, to clear transactions via a clearing centre, such as Nord Pool, and uses formalised framework agreements such as ISDA and EFET agreements and master netting agreements. To this should be added the limited use of security such as bank guarantees.

As part of its risk management, the Group monitors its credit exposure in relation to all trading counterparties on a daily basis, and monthly and quarterly in the case of other counterparties. Losses due to default by counterparties have historically been relatively small.

### Market risks

The market risk associated with commodities primarily relates to portfolio management and trading activities. The Group is exposed to two types of energy risk: fluctuations in market prices and fluc-

tuations in volumes due to the fluctuating needs of the underlying business.

By virtue of its day-to-day activities, Ørsted Salg & Service A/S is exposed to fluctuations in the prices of gas, oil, power, coal and carbon emissions allowances and, to a lesser extent, other commodities. Ørsted Salg & Service A/S trades actively in these commodities in the relevant markets to hedge and optimise the Ørsted Group's supply requirements and secure the Group's supply chain. In this connection, Ørsted Salg & Service A/S uses derivative financial instruments to hedge its positions.

### Financing and capital resources

One of the main financial management responsibilities is to secure sufficient, flexible financial resources for the day-to-day operations and for the implementation of the Ørsted Salg & Service's strategy, taking into account the Ørsted Group's rating. To this end, internal management objectives have been established for the required level of financial resources, taking into account factors such as investment programme, operating cash flow and debt maturity profile.

### Sensitivity analysis

The sensitivity analysis below shows the effect of market value changes assuming a relative price change at 31 December 2017. The illustrated effect on profit (loss) comprises financial instruments that remained open at the balance sheet date and have an effect on profit in the financial year in question. Besides derivative financial instruments on commodities and currency, financial instruments in this context include receivables and payables in foreign currencies.

It should be noted that the illustrated sensitivities only comprise Ørsted Salg & Service A/S's financial instruments and therefore exclude the effect from contracts concluded under which physical delivery of the underlying assets is made, as these are not recognised as financial instruments in accordance with IFRS 9. The sensitivity thus only comprises the derivative financial instruments and not the physical contracts they hedge.

**Note 25. Financial risks and risk management (continued)**

DKK million Risks	Price change	Estimated effect on profit (loss) 31 December		Estimated effect on equity 31 December	
		2017	2016	2017	2016
Oil	+10%	143	399	-	-
	-10%	(143)	(399)	-	-
Gas	+10%	(712)	(762)	-	-
	-10%	707	762	-	-
Power	+10%	(126)	(28)	-	-
	-10%	139	28	-	-
Coal	+10%	(6)	(1)	-	-
	-10%	6	1	-	-
USD	+10%	330	188	-	-
	-10%	(330)	(188)	-	-
GBP	+10%	98	39	-	-
	-10%	(98)	(39)	-	-
SEK	+10%	19	(3)	-	-
	-10%	(19)	3	-	-
NOK	+10%	-	(1)	-	-
	-10%	-	1	-	-
EUR	+10%	(694)	(879)	-	-
	-10%	694	879	-	-

**Estimated effect on profit (loss)**

The illustrated effect on profit (loss) is the effect from financial instruments that remained open at the balance sheet date and have an effect on profit (loss) in the financial year in question. Besides derivative financial instruments on commodities and currency, financial instruments in this context include receivables and payables in foreign currencies. It should be noted that the shown sensitivities only comprise the Group's financial instruments and consequently are not representative of the Group's total risk profile in relation to commodity prices and exchange rates. Furthermore, the sensitivities only reflect the effect of changes at the balance sheet date, and not through an entire accounting period.

**Estimated effect on equity**

The illustrated effect on equity is the effect from financial instruments that remained open at the balance sheet date and affect equity at the balance sheet date, excluding instruments that affect the income statement. Here, financial instruments include derivative financial instruments on commodities and currency, which are accounted for as hedges of cash flows. The table above is shown for the Ørsted Salg & Service Group, which largely corresponds to the parent company Ørsted Salg & Service A/S.

**Note 26. Derivative financial instruments**

**Maturity analysis of financial liabilities:**

2017

DKK million	Carry- ing amount	Pay- ment obliga- tion	2018	2019	2020	2021	2022	After 2022
Bank overdrafts	-	-	-	-	-	-	-	-
Payables to group en- terprises	1,514	1,514	1,514	-	-	-	-	-
Trade payables	2,872	2,872	2,872	-	-	-	-	-
Fair value of derivative financial instruments	6,449	6,430	3,720	1,632	925	148	5	-
Other payables	1,033	1,033	1,033	-	-	-	-	-
<b>31 December</b>	<b>11,868</b>	<b>11,849</b>	<b>9,139</b>	<b>1,632</b>	<b>925</b>	<b>148</b>	<b>5</b>	<b>-</b>

2016

DKK million	Carry- ing amount	Pay- ment obliga- tion	2017	2018	2019	2020	2021	After 2021
Bank overdrafts	479	479	479	-	-	-	-	-
Payables to group en- terprises	299	307	2	2	2	2	299	-
Trade payables	2,347	2,347	2,347	-	-	-	-	-
Fair value of derivative financial instruments	21,148	21,011	12,725	6,013	1,463	679	131	-
Other payables	2,323	2,323	2,323	-	-	-	-	-
<b>31 December</b>	<b>26,596</b>	<b>26,467</b>	<b>17,876</b>	<b>6,015</b>	<b>1,465</b>	<b>681</b>	<b>430</b>	<b>-</b>

**Note 26. Derivative financial instruments (continued)**

**Financial instruments by category:**

DKK million	2017 Carrying amount	Fair value	2016 Carrying amount	Fair value
<b>Assets</b>				
Derivative financial instruments held for trading	6,535	6,535	20,732	20,732
Securities	77	77	79	79
<b>Financial assets measured at fair value through profit (loss) for the year</b>	<b>6,612</b>	<b>6,612</b>	<b>20,811</b>	<b>20,811</b>
Trade receivables	4,915	4,915	4,661	4,661
Other receivables and cash and cash equivalents	10,334	10,334	11,843	11,843
<b>Loans and receivables</b>	<b>15,249</b>	<b>15,249</b>	<b>16,504</b>	<b>16,504</b>
<b>Equity and liabilities</b>				
Derivative financial instruments held for trading	6,449	6,44	21,148	21,148
<b>Financial liabilities measured at fair value through profit (loss) for the year</b>	<b>6,449</b>	<b>6,449</b>	<b>21,148</b>	<b>21,148</b>
Bank loans	-	-	479	479
Other payables	4,548	4,548	5,526	5,526
<b>Financial liabilities measured at amortised cost</b>	<b>4,548</b>	<b>4,548</b>	<b>6,005</b>	<b>6,005</b>

**Categories of financial instruments**

Financial instruments are used for various purposes. The purpose determines the category, and whether the value adjustment of the instrument should be recognised in the profit (loss) for the year or as part of the hedging reserve in equity.

The fair value of financial instruments measured at amortised cost is identical to the carrying amount with the exception of bank loans where the market value was DKK 0 million (2016: DKK 479 million) and the nominal value was DKK 0 million (2016: 479 million).



**Note 26. Derivative financial instruments (continued)**

**Economic hedging of fair values:**

DKK million	2017				2016			
	Receivables	Payables	Hedging instruments	Net position	Receivables	Payables	Hedging instruments	Net position
EUR	7,779	(7,056)	-	723	6,606	(6,819)	-	(213)
USD	327	(170)	-	157	7,114	(8,589)	-	(1,475)
GBP	4,122	(4,478)	-	(356)	5,006	(6,273)	-	(1,267)
Other	72	(5)	-	67	136	(53)	-	83
<b>Total</b>	<b>12,300</b>	<b>(11,709)</b>	<b>-</b>	<b>591</b>	<b>18,862</b>	<b>(21,734)</b>	<b>-</b>	<b>(2,872)</b>

**Trading portfolio and economic hedging:**

DKK million	2017		2016	
	Nominal amount	Fair value	Nominal amount	Fair value
Oil swaps	3,307	13	4,832	(886)
Gas swaps	8,712	(473)	9,809	(185)
Gas options	1,226	-	67	-
Power swaps	1,951	663	494	285
Power options	805	88	-	-
Coal forwards	50	(43)	16	5
Carbon emissions allowances	11	(14)	2	(18)
Currency forwards	10,759	(148)	15,029	383
<b>Total</b>	<b>26,821</b>	<b>86</b>	<b>30,249</b>	<b>(416)</b>

**Note 26. Derivative financial instruments (continued)**

**Fair value hierarchy of financial instruments:**

DKK million	2017				2016			
	Quoted prices (Level 1)	Observable inputs (Level 2)	Non-observable inputs (Level 3)	Total	Quoted prices (Level 1)	Observable inputs (Level 2)	Non-observable inputs (Level 3)	Total
Derivative financial instruments on commodities	1,574	1,122	976	3,672	15,520	580	115	16,215
Derivative financial instruments on currency	-	2,863	-	2,863	-	4,517	-	4,517
<b>Total derivatives</b>	<b>1,574</b>	<b>3,985</b>	<b>976</b>	<b>6,535</b>	<b>15,520</b>	<b>5,097</b>	<b>115</b>	<b>20,732</b>
Securities	77	-	-	77	79	-	-	79
<b>Total assets measured at fair value</b>	<b>1,651</b>	<b>3,985</b>	<b>976</b>	<b>6,612</b>	<b>15,599</b>	<b>5,097</b>	<b>115</b>	<b>20,811</b>
Derivative financial instruments on commodities	(1,234)	(1,538)	(667)	(3,439)	14,379	2,551	84	17,014
Derivative financial instruments on currency	-	(3,010)	-	(3,010)	-	4,134	-	4,134
<b>Total liabilities measured at fair value</b>	<b>(1,234)</b>	<b>(4,548)</b>	<b>(667)</b>	<b>(6,449)</b>	<b>14,379</b>	<b>6,685</b>	<b>84</b>	<b>21,148</b>

All assets and liabilities measured at fair value are measured on a recurring basis.

Level 1 comprises derivative financial instruments that are traded in active markets.

Level 2 comprises derivative financial instruments, where valuation models with observable inputs are used to measure fair value, but with discounting to present value applying one of the discount rates set by the Group.

Level 3 comprises primarily long-term contracts on the purchase/sale of, in particular, power. The fair

values are based on assumptions concerning the long-term prices of, in particular, power volatilities as well as risk premiums in respect of liquidity and market risks and are determined by discounting expected cash flows.

The fair value of financial instruments based on non-observable inputs is significantly affected by the non-observable inputs used. As a result of the long-term and illiquid nature of the contracts, the fair value may change significantly in the event of a change in the Group's reasonable expectations relating to the non-observable inputs used.

**Note 26. Derivative financial instruments (continued)**

**Reconciliation of financial instruments based on non-observable inputs:**

Net derivative assets in level 3 can be specified as follows:

DKK million	2017	2016
<b>Fair value at 1 January</b>	<b>31</b>	<b>(342)</b>
Transferred to Level 2 due to market data having become available	136	10
Gains and losses recognised in profit (loss) for the year as revenue	(147)	284
Repayments	64	(13)
New trades	225	92
<b>Fair value at 31 December</b>	<b>309</b>	<b>31</b>
Net assets can be specified as follows:		
Assets	976	115
Liabilities	(667)	(84)

**Valuation principles and material assumptions**

In order to keep modifications of parameters, calculation models or the use of subjective estimates to a minimum, it is the Group's policy to determine fair values on the basis of external information that most accurately reflects the values of assets or liabilities.

Market values are determined by the Risk Management function, which reports to the CFO. The development in market values is monitored on a continuous basis and reported on to the Executive Board.

Valuation principles and relevant assumptions for material assets or liabilities at Level 3 can be summarised as follows.

Derivative financial instruments

DKK million	Assets	Liabilities	Valuation principle	Non-observable inputs	Range
Power swaps and futures	976	666	Cash flow model	Power prices	GBP 32.8 – 60.1 per MWh

**Note 26. Derivative financial instruments (continued)**

**Netting of financial assets and liabilities**

The netting agreements with the individual counterparties are often limited to offsetting within specific products. In addition, the settlement of liabilities and the realisation of assets often do not take place simultaneously.

We only offset positive and negative values if we are entitled to and intend to settle several financial instruments net.

Consequently, only some of the Group's netting agreements meet the provisions in IFRS on offsetting.

The table below shows financial assets and liabilities that are subject to netting agreements, and related security.

**Netting of financial assets**

Related amounts not netted in the balance sheet

31 December 2017 DKK million	Recognised financial assets, gross	Recognised financial liabilities, gross netted in the balance sheet	Financial assets presented in the balance sheet	Recognised liabilities with right of netting	Security received	Net amount
Derivative financial instruments	76,114	(70,672)	5,442	(540)	-	4,902
Trade receivables	33,270	(29,480)	3,790	-	-	3,790

Related amounts not netted in the balance sheet

31 December 2016 DKK million	Recognised financial assets, gross	Recognised financial liabilities, gross netted in the balance sheet	Financial assets presented in the balance sheet	Recognised liabilities with right of netting	Security received	Net amount
Derivative financial instruments	100,565	(94,996)	5,569	(597)	-	4,972
Trade receivables	30,349	(28,061)	2,288	-	-	2,288

## Note 26. Derivative financial instruments (continued)

### Netting of financial liabilities

31 December 2017 DKK million	Recognised financial liabilities, gross	Recognised financial assets, gross	Related amounts not netted in the balance sheet				Net amount
			Financial liabilities presented in the balance sheet	Recognised assets with right of netting	Security provided in the form of bonds		
Derivative financial instruments	76,496	(70,672)	5,824	(540)	-		5,207
Trade payables	32,030	(29,480)	2,550	-	-		2,550

31 December 2016 DKK million	Recognised financial liabilities, gross	Recognised financial assets, gross	Related amounts not netted in the balance sheet				Net amount
			Financial liabilities presented in the balance sheet	Recognised assets with right of netting	Security provided in the form of bonds		
Derivative financial instruments	100,517	(94,996)	5,521	(597)	(79)		4,845
Trade payables	30,330	(28,061)	2,269	-	-		2,269

## Note 27. Contingent liabilities and other liabilities

At year-end, the Group and the parent company had the following contingent and other liabilities:

### Indemnities

The Group and the parent company are taxed jointly with other companies in the Ørsted Group. The companies have unlimited and joint and several liability together with the other taxed companies for Danish income taxes and withholding taxes on dividends, interest and royalties within the jointly taxed companies.

Ørsted A/S is the management company. Reference is made to the Ørsted Group's 2017 annual report.

### Liability to pay compensation (absolute liability)

According to legislation, Ørsted Salg & Service is liable in tort for any damage caused by the companies' gas activities, even where there is no proof of negligence (absolute liability). The usual insurance has been taken out to cover any such claims.

### Litigation

The Group and the parent company are parties to a number of litigation proceedings and legal disputes that are not estimated to have any material effect on the Group's or the parent company's financial position, neither individually nor collectively.

## Note 28. Related-party transactions

Related parties with a controlling interest in the Group and the parent company are Ørsted A/S and the Danish State, represented by the Danish Ministry of Finance, which has a majority holding in the parent company Ørsted A/S.

Related parties with significant influence include the companies' Board of Directors, Executive Board and executive employees and members of their families. Related parties also comprise companies in which the persons referred to above have significant influence and group enterprises and associates in the Ørsted Group.

As part of its ordinary operations, Ørsted Salg & Service A/S sells its products to related parties on market terms.

The Group was involved in the following transactions with related parties in the financial year under review.

Ørsted Salg & Service A/S uses the exception set out in IAS 24.25 concerning entities in which the state is a related party, and transactions with state enterprises are therefore not disclosed.

Group DKK million	Ørsted A/S		Group enterprises		Associates		Joint ventures	
	2017	2016	2017	2016	2017	2016	2017	2016
Dividend received	-	-	-	-	-	-	-	-
Sale of goods and services	7	6	4,906	4,281	-	-	-	-
Purchase of goods and services	-	-	(9,529)	(13,426)	-	-	(276)	(143)
Interest, net	(38)	(33)	(4)	-	-	-	-	-
Receivables	9,141	20,684	4,562	5,861	-	-	-	-
Payables	(855)	(12,413)	(4,352)	(5,964)	-	-	(32)	-

Parent company DKK million	Ørsted A/S		Subsidiaries		Group enterprises		Associates	
	2017	2016	2017	2016	2017	2016	2017	2016
Dividend received	-	-	-	62	-	-	-	-
Sale of goods and services	7	6	2,998	3,140	4,906	4,281	-	-
Purchase of goods and services	-	-	(994)	(565)	(9,529)	(13,426)	-	-
Interest, net	(34)	(28)	(32)	27	(4)	-	-	-
Receivables	8,885	20,551	400	602	4,557	6,085	-	-
Payables	(797)	(12,289)	(411)	(440)	(4,344)	(6,130)	-	-

### Specific transactions

Under Section 99 of the Danish Gas Supply Act, Ørsted Salg & Service A/S has been granted a licence to engage in gas supply activities on firm terms on the conditions laid down in the Danish Gas Supply Act. Accordingly, the licence to engage in gas supply activities on firm terms has been granted for a period up to 2019.

On 1 March 2005, Ørsted Salg & Service A/S sold its share of the pipeline that connects the Tyra West platform in the Danish sector of the North Sea with the F3 platform in the Dutch sector, to Ørsted Pipelines. In connection with the transaction, a lease was signed between Ørsted Salg & Service A/S and Ørsted Pipelines under which Ørsted Salg & Service A/S leases the transportation capacity in the pipe-

line from 1 March 2005 to 1 March 2025. Reference is made to note 18.

The parent company has had transactions with group enterprises as part of its responsibility for the trading function for the Ørsted Group's companies in relation to commodity instruments etc. Furthermore, balances with group enterprises have been established as part of the normal financing of the Group's activities.

Remuneration of the Board of Directors and the Executive Board is disclosed in notes 5 and 6.

### Lincs/Anholt I/S

Ørsted Salg & Service A/S has purchased power from Lincs/Anholt I/S for DKK 276 million (2016: DKK 143 million).

## Note 29. Description of accounting policies

### Business performance principle

#### Description of business performance

In 2011, we introduced an alternative performance measure, business performance, as a supplement to the financial statements prepared in accordance with IFRS. The business performance result reflects our internal risk management and shows the result for the period under review. Under the business performance principle, the value of the hedging transaction is deferred and recognised for the period in which the hedged risk materialises. This is illustrated in the example overleaf.

Our reason for introducing the business performance principle was:

- that we could not achieve the same timing of recognition of our commercial exposure and hedging contracts in accordance with the IFRS rules, for example with respect to option premiums and certain commercial fixed-price contracts, and
- a high risk of hedging contracts not being consistent with the IFRS rules on hedge accounting, requiring us to recognise the hedging contracts at market value with value adjustment via the income statement, whereas our commercial exposure is accrued.

#### Business Performance – background

We hedge market risks for up to five years with the aim of stabilising our cash flows and creating certainty about our finances. With a view to ensuring transparency, it is desired that the financial impact of the hedging transactions is reflected in the financial reporting simultaneously with the hedged exposure (for example sales of power). We can normally achieve this by applying the IFRS rules on hedge accounting. However, for energy companies it is sometimes difficult to ensure simultaneity. This is due to the fact that hedging instruments are not always available which precisely match the exposure which must be hedged, or that no sufficiently liquid market is available. Consequently, some hedging takes place in alternative markets or subject to alternative time horizons. For example, power generation in Denmark is to some extent hedged by financial contracts for nearby trading areas such as EEX (Germany) and the Nord Pool areas (Scandinavia). These areas normally develop relatively uniformly over time compared to Denmark.

This hedging method means that only some of the financial hedging transactions comply with the IFRS rules on hedge accounting even though the financial risk has been reduced. In case of non-

compliance, the hedging transactions must be recognised in the income statement on a regular basis. This may give rise to considerable fluctuations in the income statement, as the effect of the hedging and for example the sale of power are not recognised in the same period.

As a result, we do not apply the IFRS rules on hedge accounting to transactions hedging energy prices and associated currency risks. Value adjustments of these hedges are therefore recognised in the income statement in accordance with IFRS.

#### Recognition

In the income statement, the business performance result is shown alongside the IFRS results. In the income statement, the difference between the two performance measures is shown in a separate column, Adjustments.

Two types of contracts are included in the business performance principle:

- hedging contracts concerning energy and related currencies
- commercial contracts concerning energy recognised at market value

When we use hedging instruments which do not fully correspond to the underlying risk, any difference between the hedging instruments and the underlying risk is recognised immediately in the income statement.

The accounting treatment under business performance is otherwise identical with the accounting treatment under IFRS. Our balance sheet, cash flows and equity are consequently not affected. The accounting treatment of our hedging contracts according to IFRS and business performance is summarised in the table below.

Hedging type	IFRS	Business performance
Hedging of energy and associated currency risks as well as fixed-price physical gas and power contracts	Fair value via income statement	Fair value adjustments are deferred and recognised in the period in which the exposure materialises
Hedging of currency risks associated with net investments in foreign entities	Fair value adjustments are recognised in other comprehensive income	Recognition the same as under IFRS
Trading portfolio	Fair value via income statement	Recognition the same as under IFRS

## Note 29. Description of accounting policies (continued)

Example of the business performance principle  
In 20x1, Ørsted entered into a hedging contract which expires in 20x5 with a positive market value of 80. The development in market value for the individual years is shown in column 2. Column 3 shows that the hedging contract is recognised in the business performance income statement in 20x5, at the same time as the hedged exposure. However, the development in market value is recognised on an ongoing basis in the IFRS income statement, see column 4. Upon the expiry of the contract in 20x5, the total effect on results over the period is the same under the IFRS and the business performance principles. Only the timing differs.

The business performance principle ensures simultaneity of recognition of the underlying exposure and the hedging contract.

Year	Development in market value	Recognised in the income statement as follows	
		Business performance	IFRS
20x1	50	0	50
20x2	20	0	20
20x3	(30)	0	(30)
20x4	(70)	0	(70)
20x5	110	80	110
Total market value	80	80	80

### Business combinations

Companies acquired or formed are recognised in the consolidated financial statements from the date of acquisition or formation. Divested companies are recognised in the consolidated income statement up to the date of divestment. Comparative figures are not adjusted to reflect acquisitions or divestments. However, discontinued operations are presented separately, see below.

On acquisition of companies whereby the parent company obtains control of the acquiree, the purchase method is applied. The acquiree's identifiable assets, liabilities and contingent liabilities are measured at fair value at the acquisition date. Identifiable intangible assets are recognised if they are separable or arise from a contractual right, and the fair value can be measured reliably. Deferred tax on revaluations is taken into account.

The acquisition date is the date on which Ørsted Salg & Service A/S effectively obtains control of the acquiree.

The excess of the cost of the acquiree over the fair value of the identifiable assets acquired and liabil-

ities and contingent liabilities assumed (goodwill) is recognised as goodwill under intangible assets. Goodwill is not amortised, but is tested annually for impairment. The first impairment test is carried out before the end of the year of acquisition. On acquisition, goodwill is allocated to the cash-generating units, which subsequently form the basis for the impairment test. Goodwill and fair value adjustments in connection with the acquisition of a foreign entity with a functional currency other than the presentation currency (DKK) of the Ørsted Salg & Service Group are accounted for as assets and liabilities belonging to the foreign entity and translated into the foreign entity's functional currency at the exchange rate applicable at the transaction date. Any excess of the fair value over the cost of acquisition (negative goodwill) is recognised in the income statement at the date of acquisition.

The cost of a company consists of the fair value of the consideration paid plus costs that can be directly attributed to the acquisition. If parts of the consideration are contingent on future events, these parts are recognised in the cost to the extent that the events are probable and the consideration can be measured reliably.

If there is any uncertainty, at the acquisition date, concerning the measurement of identifiable assets acquired and liabilities and contingent liabilities assumed, initial recognition is based on provisional fair values. If the fair value of identifiable assets, liabilities and contingent liabilities subsequently proves to differ from the fair value assumed at the acquisition date, goodwill may be adjusted for up to twelve months following their acquisition. The effect of any such adjustments is recognised in opening equity, and the comparative figures are restated accordingly. Subsequently, goodwill is only adjusted as a consequence of changes in estimated contingent purchase consideration, except in the case of material errors. However, subsequent realisation of the acquiree's deferred tax assets that were not recognised at the acquisition date leads to recognition of the tax benefit in the income statement and simultaneous write-down of the carrying amount of goodwill to the amount that would have been recognised if the deferred tax asset had been recognised as an identifiable asset at the acquisition date.

Gains or losses on divestment of subsidiaries and associates are determined as the difference between the selling price and the carrying amount of net assets, including goodwill, at the date of divestment and costs necessary to make the sale. Where a business combination involves successive acquisitions, each significant acquisition is treated



## Note 29. Description of accounting policies (continued)

separately with a view to determining the cost and fair value of the acquired identifiable assets, liabilities and contingent liabilities, including any goodwill. Gains or losses on divestment of subsidiaries and associates are recognised in the income statement in the item 'Gain on divestment of enterprises'.

The fair value of the identifiable assets, liabilities and contingent liabilities may be different at the date of each acquisition. Where a transaction results in the acquirer obtaining control of the acquiree, previously acquired shares of identifiable assets, liabilities and contingent liabilities relating to the already acquired investments are remeasured at fair value at the acquisition date. The remeasurement is accounted for as a revaluation, which is recognised via equity.

### Derivative financial instruments

Derivative financial instruments and loans are used to hedge currency and interest rate risks and risks related to the price of oil, gas, power, coal and carbon emissions allowances.

Derivative financial instruments are recognised from the trading date as receivables (positive fair values) and other payables (negative fair values), respectively, and are measured in the balance sheet at fair value. Transaction costs are added to the fair value on initial recognition, unless the financial asset or financial liability is measured at fair value with recognition of fair value adjustments in profit (loss) for the year. Positive and negative values are only offset if the company is entitled to and intends to settle several financial instruments net (in cash).

The fair value of derivative financial instruments is determined on the basis of current market data and assumptions, and recognised valuation methods.

Value adjustments of derivative financial instruments that act as economic hedges of the Group's primary activities, but do not satisfy the criteria for hedge accounting, are recognised as revenue. Likewise, value adjustments of financial contracts offered to customers with a view to price hedging are recognised as revenue. Value adjustments of financial contracts that are not used as economic hedges of the Group's principal activities or are part of the Group's trading portfolio are recognised as financial income and expenses.

Under IFRS, contracts that involve physical delivery may, in certain circumstances, be accounted for as derivative financial instruments. The classification is determined based on an evaluation of the purpose of the contract compared with the Group's other activities. Contracts entered into in the course of the Group's trading activities or as part of certain

hedging activities are classified and accounted for as derivative financial instruments, even though they are settled on physical delivery.

### Income statement

#### Revenue

Revenue comprises sales of gas and related services. Revenue is recognised in the income statement if delivery and transfer of risk to the buyer have taken place before the end of the financial year, and if the income can be measured reliably and is expected to be received. Revenue is measured at the market value of the agreed consideration excluding VAT and other indirect taxes collected on behalf of third parties. All forms of discounts granted are recognised as revenue.

The provision of services (consultancy services etc) is recognised as revenue as the work is performed to the effect that revenue corresponds to the selling price of the work performed during the year.

Physical and financial contracts relating to trading in gas, power, carbon emissions allowances, etc. that are concluded in the course of trading activities with a view to generating gains from short-term price fluctuations are market value-adjusted under revenue.

Value adjustments of financial instruments that have been entered into to hedge revenue, but which do not satisfy the criteria for hedge accounting, are recognised as revenue. Likewise, value adjustments of financial contracts offered to customers with a view to price hedging are recognised as revenue.

#### Cost of sales

Cost of sales for fuel and energy comprises the Group's purchases of fuel in the form of gas and power and transportation costs in connection with the above as well as costs related to carbon emissions allowances. Costs are recognised in profit for the year as incurred.

#### Other external expenses

Other external expenses comprise expenses for maintenance of production equipment, rent, external assistance, research and development and office supplies, etc.

#### Employee costs

Employee costs comprise wages, salaries, remuneration, pensions, social security costs and other employee-related costs.

## Note 29. Description of accounting policies (continued)

### Share programme

The share programme is classified as an equity-based programme as the programme is settled in shares. The market value of the PSUs and the estimated number of PSUs granted are measured at the time of granting and recognised: in the income statement under employee costs over the vesting period, and in the balance sheet under equity over the vesting period.

The valuation of the PSUs and the estimated number of PSUs granted is carried out as a probability simulation based on the expected performance of Ørsted's total shareholder return relative to ten comparable European energy companies. The expectations are factored into the market value and are not adjusted subsequently.

### Other operating income and other operating expenses

Other operating income and expenses comprise items secondary in nature to the Group's and the parent company's activities, including gains and losses on ongoing disposal and replacement of intangible assets and property, plant and equipment.

Other operating income and expenses are recognised as earned/incurred.

Gains and losses on disposal of intangible assets and property, plant and equipment are determined as the selling price less selling costs and the carrying amount at the date of disposal.

### Dividend from investments in subsidiaries in the parent company financial statements

Dividend from investments in subsidiaries is recognised in the income statement in the financial year in which it is declared.

### Financial income and financial expenses

Financial income and financial expenses comprise interest, capital gains and losses and impairment losses relating to securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities, including lease commitments under finance leases, as well as surcharges and refunds under the on-account tax scheme etc.

Financial income and financial expenses also include realised and unrealised gains and losses relating to derivative financial instruments that have not been entered into to hedge revenue or production costs. Interest is recognised in accordance with the accrual basis of accounting.

Borrowing costs relating to general borrowing or loans directly attributable to the acquisition, con-

struction or development of qualifying assets form part of the cost of such assets.

### Tax on profit (loss) for the year

The Ørsted Group is subject to the Danish rules on compulsory joint taxation and has also opted for international joint taxation with the Group's foreign subsidiaries. The Group's subsidiaries are included in the joint taxation from the date they are included in the consolidation in the consolidated financial statements and up to the date on which they are no longer included in the consolidation.

The parent company, Ørsted A/S, is the administration company in relation to the joint taxation and thus settles all payments of income tax with the tax authorities.

The current Danish income tax is allocated among the jointly taxed Danish subsidiaries in proportion to their taxable income. In this connection, Danish subsidiaries with tax losses receive a joint taxation contribution from the parent company corresponding to the tax value of the unutilised losses (full allocation), while companies that use tax losses in other Danish companies pay a joint taxation contribution to the parent company corresponding to the tax value of the utilised losses.

Being made up of the year's current income tax, the year's joint taxation contributions and changes in deferred tax, including – as a consequence of changed tax rates – tax for the year is recognised in the income statement with the part attributable to the profit (loss) for the year and directly in equity with the part attributable to entries directly in equity.

The Group is included in a Danish on-account tax scheme. Tax refunds/tax surcharges are allocated between the jointly taxed Danish companies in accordance with the allocation of the Danish income tax and recognised as financial income and financial expenses, respectively.

### Balance sheet

#### Goodwill

Goodwill is measured initially in the balance sheet at cost as described under business combinations. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised. The carrying amount of goodwill is allocated to the Group's cash-generating units at the acquisition date. The determination of cash-generating units follows the Group's organisational and internal reporting structure.

## Note 29. Description of accounting policies (continued)

### Carbon emissions allowances

Allocated and purchased carbon emissions allowances, including carbon credits, that are accounted for as rights, are measured at cost upon initial recognition. Carbon emissions allowances are not amortised, as their residual value equals their cost.

### Rights

Rights comprise gas purchase rights, acquired customer rights and IT software licences, etc., and are measured at cost less accumulated amortisation and impairment losses.

Gas purchase rights are amortised using the unit-of-production method, taking into account the expected earnings profile, so that the amortisation pattern reflects the expected earnings patterns. Other rights are amortised on a straight-line basis over their expected economic lives, which are determined on the basis of management's experience of the specific business units, and the assets to which the rights relate. Capitalised rights are estimated to have a life of 5-20 years.

### Development projects

Development projects comprise development of IT systems etc.

Development projects that are clearly defined and identifiable, and for which technical feasibility, adequate resources and a potential future market or an application in the company can be demonstrated, and which the company intends to manufacture, market or use, are recognised within intangible assets if the cost can be determined reliably and if there is reasonable certainty that the future earnings or the net selling price will cover production costs, selling costs, administrative expenses and development costs. Other development costs are recognised in the income statement as incurred.

Recognised development costs are measured at cost less accumulated depreciation and impairment losses. Cost comprises salaries, amortisation and other costs attributable to the company's development activities as well as borrowing costs relating to specific and general borrowing directly attributable to development projects.

On completion, development projects are amortised on a straight-line basis over their assessed future useful lives from the date the asset is available for use. The amortisation period is usually five years. The basis of amortisation is reduced by any impairment losses.

Amortisation and impairment losses relating to intangible assets are recognised in the statement of comprehensive income.

### Property, plant and equipment

Property, plant and equipment comprises land and buildings, production assets and other tools and equipment. Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date the asset is available for use. The cost of self-constructed assets comprises direct and indirect expenses for materials, components and sub-suppliers and wages. Finance costs that can be attributed to a preparation or production period are recognised in the income statement as finance costs. Specific and general borrowing costs attributable to a construction period are recognised in the cost of the asset constructed.

Cost is increased by the present value of the estimated costs for dismantling and removing the asset and restoring the site to the extent that they are recognised as a provision. The cost of an assembled asset can be divided into separate components that are each depreciated separately if the useful lives of the individual components differ.

In the case of assets held under finance leases, cost is determined as the lower of the fair value of the assets and the present value of future minimum lease payments. The present value is determined using the interest rate implicit in the lease as the discount rate or an approximated value.

Subsequent costs, for example in connection with replacement of parts of an item of property, plant and equipment, are recognised in the carrying amount of the asset in question when it is probable that future economic benefits will flow to the Group from the expenses incurred. Replaced parts are derecognised from the balance sheet, and their carrying amount is taken to the income statement. All other general repair and maintenance expenses are recognised in the income statement as incurred.

Development and construction costs relating to property, plant and equipment are recognised, until entry into service, in the balance sheet under property, plant and equipment under construction. Following entry into service, these assets are transferred to the relevant items in property, plant and equipment.

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

## Note 29. Description of accounting policies (continued)

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

Depreciation periods for property, plant and equipment:

Depreciation periods for PP&E	Years
Buildings used for own purposes <sup>1)</sup>	20
Production assets: Gas treatment plant <sup>2)</sup>	20-40
Marine pipelines <sup>2)</sup>	20-40
Fixtures and fittings, tools and equipment	3-10
Assets under construction <sup>3)</sup>	-

<sup>1)</sup> Land is not depreciated.

<sup>2)</sup> The depreciation profile takes account of the fact that the use of the assets changes substantially over the lives of the assets.

<sup>3)</sup> Depreciation does not commence until the date of entry into service, at which date the assets are transferred to production assets.

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

If the depreciation period or the residual value changes, the effect on depreciation is recognised prospectively as a change in accounting estimates.

Depreciation and impairment losses are recognised in the statement of comprehensive income to the extent that depreciation is not recognised in the cost of self-constructed assets.

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as 'Other operating income' or 'Other operating expenses'.

### Investments in subsidiaries in the parent company financial statements

Investments in subsidiaries are measured at cost. Cost is written down to the recoverable amount whenever it exceeds the recoverable amount.

### Other equity investments

Other equity investments are recognised initially in the balance sheet at fair value plus transaction costs and are subsequently measured at fair value. For listed securities, this corresponds to the market price at the balance sheet date. In the case of unlisted securities, an estimated fair value is used, if

this is considered reliable; alternatively, cost is used after deduction of any impairment losses.

### Long-term receivables

Long-term receivables include long-term loans to customers.

### Impairment of non-current assets

Goodwill and intangible assets with an indefinite useful life are tested for impairment annually, initially before the end of the year of acquisition. Development projects in progress are also tested annually for impairment.

The carrying amount of goodwill is tested for impairment, along with the carrying amounts of the other non-current assets of the cash-generating unit to which the goodwill has been allocated, and written down to the recoverable amount in the income statement if the carrying amount exceeds the recoverable amount. The recoverable amount is generally determined as the present value of the expected future net cash flows from the company or activity (cash-generating unit) to which the goodwill relates.

Deferred tax assets are reviewed annually and recognised only to the extent that it is probable that they will be utilised.

The carrying amounts of other non-current assets are tested annually to determine if any indication of impairment exists. If any such indication exists, the asset's recoverable amount is determined. The recoverable amount is the higher of an asset's fair value less expected disposal costs and its value in use. The value in use is determined as the present value of the expected future cash flows from the asset or cash-generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset or cash-generating unit exceeds the recoverable amount of the asset or the cash-generating unit. Impairment losses are recognised in the income statement under production costs and administrative expenses, respectively. Impairment losses relating to goodwill are recognised as a separate line item in the income statement.

Impairment losses relating to goodwill are not reversed. Impairment losses relating to other assets are reversed to the extent that the assumptions or estimates that led to the impairment have changed. Impairment losses are only reversed to the extent that the asset's new carrying amount does not exceed the value of the asset after depre-

## Note 29. Description of accounting policies (continued)

ciation or amortisation had no impairment losses been charged.

### **Inventories**

Inventories consist of gas in storage facilities and in gas pipelines, acquired carbon emissions allowances and green certificates.

In the case of gas, cost is determined as a weighted average of the previous month's buying prices, including transportation costs.

Allocated and purchased carbon emissions allowances that form part of the Group's trading activities with a view to generating gains from short-term price fluctuations are measured at fair value with value adjustments recognised in the income statement.

Other inventories are measured at the lower of cost using the first-in, first-out (FIFO) principle or net realisable value. The net realisable value of inventories is determined as the expected selling price less any costs of completion and costs incurred to execute the sale, and is determined taking into account marketability, obsolescence and development of expected selling price.

### **Receivables**

Receivables are measured at amortised cost. Write-down is carried out from initial recognition of our receivables in accordance with IFRS 9. The write-down is calculated as the difference between the carrying amount of the receivable and the net present value of expected future cash flows from the receivable. The discount rate used is the effective interest rate for the individual receivable or the individual portfolio.

We apply the simplified approach to the write-down of trade receivables, which permits calculating the write-down as the full loss during the entire term of the receivable.

### **Other receivables**

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

### **Prepayments**

Prepayments comprise expenses paid in respect of subsequent financial years and are measured at cost.

### **Equity**

#### *Translation reserve*

The translation reserve comprises exchange differences arising on translation of the financial statements of foreign entities with a currency other than

the Ørsted Salg & Service Group's presentation currency, exchange rate adjustments relating to assets and liabilities that form a part of the Group's net investment in such entities, and exchange rate adjustments relating to hedging actions that hedge the Group's net investment in such entities, less the related tax.

On realisation or partial realisation of the net investment, the exchange rate adjustments are recognised in the income statement.

### *Dividends*

Proposed dividends are recognised as a liability at the date of their adoption at the annual general meeting (declaration date). Up to the declaration date, proposed dividends are disclosed as a separate item in equity.

### **Income tax and deferred tax**

Current tax liabilities and current tax receivables are recognised in the balance sheet as tax calculated on the year's taxable income adjusted for tax on previous years' taxable income and tax paid on account.

Deferred tax is measured using the balance sheet liability method in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred tax on temporary differences in respect of goodwill not deductible for tax purposes, office properties and other items – apart from business combinations – is not recognised where temporary differences have arisen at the acquisition date without having any effect on profit (loss) or taxable income. When the tax base can be determined applying different taxation rules, deferred tax is measured on the basis of management's intended use of the asset or settlement of the liability, respectively.

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

Deferred tax assets and deferred tax liabilities are offset if the company has a legally enforceable right to set off current tax assets and current tax liabilities or intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Adjustment of deferred tax is made relating to eliminations made of unrealised intragroup profits and losses. Deferred tax is measured in accordance with the tax rules and tax rates in the re-

## Note 29. Description of accounting policies (continued)

spective countries that will apply under the legislation enacted at the balance sheet date when the deferred tax is expected to crystallise in the form of current tax.

Changes in deferred tax as a result of changes in tax rates are recognised in the income statement.

### Pensions

The Group has entered into pension agreements and similar agreements with most of the Group's employees. Contributions to insured (defined-contribution) pension plans are recognised in the income statement in the period to which they relate, and any contributions payable are recognised in the balance sheet as other payables.

### Provisions

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

Provisions for the removal of production facilities and reestablishment of drilling sites are measured at the present value of the future liability in respect of decommissioning and shutdown as estimated at the balance sheet date. The amount provided is determined on the basis of existing requirements and estimated expenses, which are discounted to present value. If specific risks are deemed to be attached to a provision, the estimated costs are recognised. A discount rate is used that reflects the general interest rate level in the market. These liabilities are recognised as they arise and are adjusted on a regular basis to reflect changes in requirements, price level, etc. The value of the provision is recognised in property, plant and equipment and depreciated together with the relevant assets. The increase in time of the present value is recognised in the income statement as financial expenses.

A provision for onerous contracts is made when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

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

### Financial liabilities

Financial liabilities comprise bank loans, trade and other payables to public authorities etc. Mortgage loans and other bank loans are recognised at inception at the proceeds received net of transaction costs incurred. In subsequent periods, the financial liabilities are measured at amortised cost using the effective interest rate method. Accordingly, the difference between the proceeds received and the nominal amount is recognised in the income statement as finance costs over the term of the loan.

Other bank loans include the capitalised residual lease commitment under finance leases, measured at amortised cost.

Trade payables, payable income tax and other payables are measured at net realisable value. Other payables include negative fair values of derivative financial instruments etc.

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

### Leases

Lease commitments are accounted for as commitments under finance leases and commitments under operating leases, respectively.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Other leases are classified as operating leases.

The accounting treatment of assets held under finance leases and the associated liability is described in the sections on property, plant and equipment and financial liabilities.

Lease payments under operating leases are recognised in the income statement over the term of the lease on a straight-line basis.

### Deferred income

Deferred income comprises payments received in respect of income in subsequent years, measured at cost. Deferred income includes the value of unrecognised amounts in respect of gas delivered under contract, which is recognised at realisable value. The value of gas free of charge delivered under contract is spread proportionally over the remaining contract period with a view to accounting for purchased goods on an accruals basis.

## Note 29. Description of accounting policies (continued)

### Statement of cash flows

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

The cash flow effect of acquisitions and divestments of enterprises is disclosed separately under cash flows from investing activities. Cash flows relating to acquired enterprises are recognised in the statement of cash flows from the date of acquisition, and cash flows relating to divested enterprises are recognised up to the date of divestment.

Cash flows from operating activities are determined using the indirect method as operating profit adjusted for non-cash operating items, changes in working capital, interest received and interest paid, dividends received and income tax paid.

Cash flows from investing activities comprise payments in connection with the acquisition and divestment of enterprises and activities; purchase and sale of intangible assets, property, plant and equipment and other non-current assets; and pur-

chase and sale of securities that are not recognised as cash and cash equivalents.

Finance leases are accounted for as non-cash transactions.

Cash flows from financing activities comprise changes in the size or composition of share capital and costs associated with such changes as well as the raising of loans, repayment of interest-bearing debt, purchases and sales of treasury shares and payment of dividends to owners.

Cash flows relating to assets held under finance leases are recognised as payment of interest and repayment of debt.

Cash and cash equivalents comprise cash as well as securities that form part of the ongoing cash management, are readily convertible to cash and are subject to an insignificant risk of changes in value.

Cash flows in currencies other than the functional currency are translated at the average exchange rates for the month in question, unless these differ significantly from the rates at the transaction date.

## Calculation of financial ratios

Unless otherwise stated, financial ratios have been calculated in accordance with 'Recommendations & Financial Ratios 2015' published by the Danish Society of Financial Analysts.

Financial ratios have been calculated as follows:

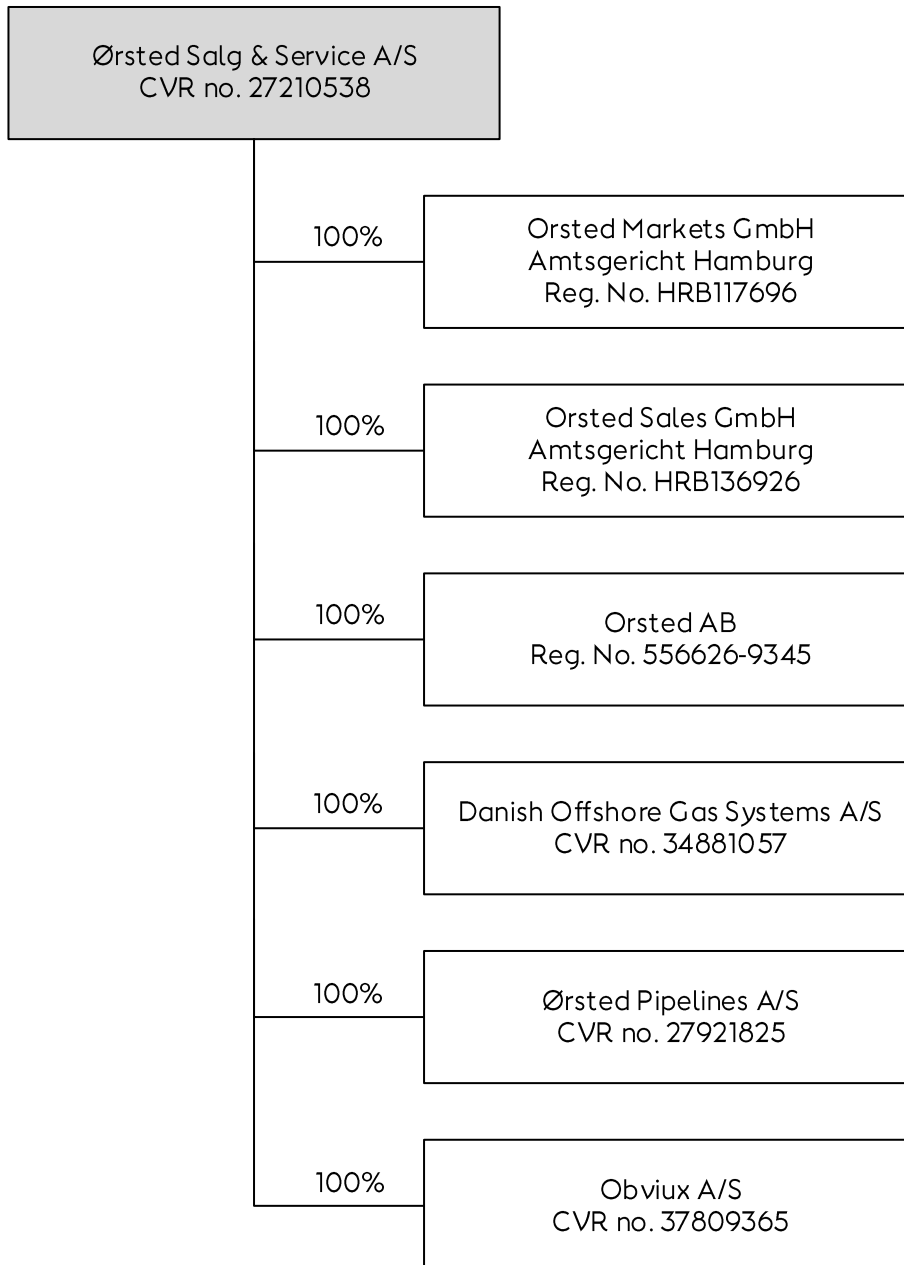
EBITDA margin	$\frac{\text{Earnings before interest, tax, depreciation and amortisation}}{\text{Revenue}}$
EBIT margin (profit margin)	$\frac{\text{Earnings before interest and tax}}{\text{Revenue}}$
Net interest-bearing debt	Interest-bearing liabilities - interest-bearing assets <sup>1)</sup>
Capital employed	Equity plus/minus gains/losses relating to hedging instruments on equity + net interest-bearing debt <sup>2)</sup>

1) Bank overdrafts that are included in the statement of cash flows as cash and cash equivalents are included as negative interest-bearing assets.

2) The definition deviates from 'Recommendations & Financial Ratios 2015' published by the Danish Society of Financial Analysts.



**Group Structure – 31 December 2017**



### Group Structure – 31 December 2017 (continued)

Company name	Registered office	Currency	Share capital in million	Group ownership interest
Ørsted Salg & Service A/S	Fredericia, Denmark	DKK	1,110	100%
Orsted Markets GmbH	Hamburg, Germany	EUR	9,6	100%
Orsted Sales GmbH	Hamburg, Germany	EUR	1	100%
Orsted Aktieföretag	Gothenburg, Sweden	SEK	5	100%
Danish Offshore Gas Systems A/S	Fredericia, Denmark	DKK	1	100%
Ørsted Pipelines A/S	Fredericia, Denmark	DKK	25	100%
Obviux A/S	Fredericia, Denmark	DKK	0,5	100%