Ørsted Salg & Service Annual report 2018

Adopted at the

annual general meeting

1 April 2019

Ulrik Jarlov

Chairman of the meeting

Ørsted Salg & Service A/S, CVR No. 27210538

For the period 1/1 2018 to 31/12 2018

Ørsted Salg & Service A/S, Skærbæk

Kraftsværksvej 53, 7000 Fredericia

Contents

Overview

Company information

Company	Ørsted Salg & Service A/S Kraftværksvej 53 7000 Fredericia Denmark Telephone: +45 9955 1111 Email: orsted@orsted.dk Company registration number: 27 21 05 38
Shareholder	The entire share capital is held by Ørsted A/S
Board of Directors	Marianne Wiinholt (Chairman) Hanne Blume (Deputy Chairman) Nicolai Frederik Schmidt Carøe
Executive Board	Morten Hultberg Buchgreitz
Auditor	PricewaterhouseCoopers, Statsautoriseret Revisionspartnerselskab
Annual general meeting	1 April 2019
Other managerial posts	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.
Marianne Wiinholt	ØRSTED A/S (Chief Financial Officer), HEMPEL 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 A/S (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), Ørsted North America Holding A/S (Chairman of the Board of Directors), B2C El & Gas A/S (Chairman of the Board of Directors)
Hanne Blume	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), Ørsted North America Holding A/S (Deputy Chairman of the Board of Directors), DSB (Member 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 (President), ØRSTED EGJ A/S (President), EM EL HOLDING A/S (President and member of the Board of Directors), ENERGIGRUPPEN JYLLAND EL HOLDING (President and member of the Board of Directors), ENERGIGRUPPEN JYLLAND EL A/S (President and member of the Board of Directors), ENERGIGRUPPEN JYLLAND EL HOLDING A/S (President and member of the Board of Directors), , ØRSTED NR. 1 2014 A/S (Member of the Board of Directors), ØRSTED NR. 2 2014 A/S (Member of the Board of Directors), ØRSTED NR. 3 2014 A/S (Member of the Board of Directors), ØRSTED NR. 4 2014 A/S (Member of the Board of Directors), Ørsted Services A/S (President), Ørsted North America Holding A/S (President)
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), 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), UNI-TANKERS A/S (member of the Board of Directors), UNI-CHARTERING A/S (member of the Board of Directors), Ørsted Pipelines A/S (Chairman of the Board of Directors), Danish Offshore Gas Systems A/S (Chairman of the Board of Directors), B2C El & Gas A/S (Deputy Chairman of the Board of Directors)

Group Structure

Company name	Registered office	Currency	Share capital in million	Group ownership interest
Ørsted Salg & Service A/S	Fredericia, Denmark	DKK	1,110.0	100%
Orsted Markets GmbH	Hamburg, Germany	EUR	9.6	100%
Orsted Sales GmbH	Hamburg, Germany	EUR	1.0	100%
Orsted AB	Gothenburg, Sweden	SEK	5.0	100%
Danish Offshore Gas Systems A/S	Fredericia, Denmark	DKK	1.0	100%
Ørsted Pipelines A/S	Fredericia, Denmark	DKK	25.0	100%
Obviux A/S	Fredericia, Denmark	DKK	0.6	100%
Orsted Energy Solutions (UK) Limited	London, UK	GBP	0.1	100%
Orsted Salg & Service A/S (UK branch)	UK	GBP	-	100%
Valified ApS	Copenhagen, Denmark	DKK	0.1	31,25%

Performance highlights

DKKm	2018	2017	2016	2015	2014
Business performance:					
Statement of comprehensive income					
Revenue	43,924	36,315	34,343	43,608	42,293
Profit (loss) before interest, tax, depreciation and amortisation (EBITDA)	757	549	3,437	3,262	(318)
Operating profit (loss) (EBIT)	720	486	3,414	2,947	(859)
Profit (loss) for the year	459	368	2,526	2,320	(877)
Financial ratios					
EBITDA margin	2%	2%	10%	7%	(1%)
EBIT margin (profit margin)	2%	1%	10%	7%	(2%)
IFRS:					
Statement of comprehensive income					
Revenue	43,134	36,414	32,082	44,436	42,216
Profit (loss) before interest, tax, depreciation and amortisation (EBITDA)	(33)	648	1,176	4,090	(1,341)
Operating profit (loss) (EBIT)	(70)	585	1,153	3,775	(1,882)
Net financial income and expenses	(153)	(17)	(196)	(231)	(97)
Profit (loss) before tax	(223)	568	957	3,543	(1,932)
Profit (loss) for the year	(157)	444	761	2,954	(1,649)
Balance sheet					
Equity	9,380	9,538	9,095	8,366	4,405
Balance sheet total	28,394	25,409	41,451	58,919	39,067
Cash flows					
Operating activities	1,335	(1,429)	2,238	2,319	(723)
Investments in property, plant and equipment	(11)	(14)	(9)	(19)	(18)
Other investing activities	(730)	1,986	(3,190)	(2,415)	(2,561)
Financing activities	(51)	(51)	64	269	(109)
Financial ratios					
EBITDA margin	0%	2%	4%	9%	(3%)
EBIT margin (profit margin)	0%	2%	4%	8%	(4%)
Net interest-bearing debt	(8,969)	(7,749)	(9,148)	(6,979)	(4,454)
Capital employed	402	1,788	(53)	1,991	704
Average number of employees	149	141	146	166	165

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.

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 30 'Description of accounting policies'.

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 2018.

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 International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements provides a fair presentation of the Group's and the parent company's assets, liabilities and financial position at 31 December 2018 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 2018.

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.

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

Skærbæk, 20 March 2019

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 2018 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 2018 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 2018, 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 obtained 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 influence 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, 20 March 2019

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

Highlights 2018

- We signed a 15-year route-to-market agreement for the 860MW UK wind farm Triton Knoll.
- Significant growth in our green power portfolio due to increased activity with Ørsted owned wind farms.
- During 2018, we settled price reviews of our long-term gas-sourcing contracts, with a positive outcome.

Financial performance

Revenue was up 21% at DKK 43.9 billion in 2018, driven primarily by an average increase in gas and UK power prices of 32% and 26%, respectively, relative to 2017. This was only partly offset by a 1% decline in gas and a 6% decline in power volumes sold. EBITDA amounted to DKK 0.8 billion compared to DKK 0.5 billion in 2017.

EBITDA from Sales decreased compared to 2017 and amounted to DKK -0.1 billion. The decrease was primarily due to higher business development costs in the B2B energy solutions business and implementation of a new billing system in our residential customer (B2C) business.

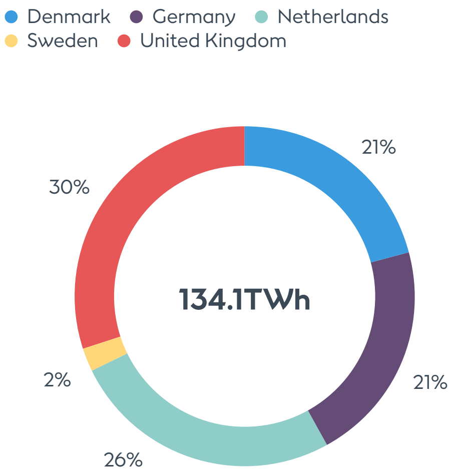
EBITDA from Markets decreased by DKK 0.2 billion and amounted to DKK 0.9 billion. The decrease was mainly due to a negative impact from changes in the value of our gas at storages due to a decline in gas prices in December 2018 (versus a positive effect in 2017).

EBITDA from LNG increased by DKK 0.5 billion to a marginal loss. The increase was mainly due to provisions in 2017 related to an onerous contract for the Gate terminal in Rotterdam and purchase contracts. Furthermore, 2018 was positively affected by increased gas prices and utilisation of location spreads between Asia and Europe, and optimisation of physical positions.

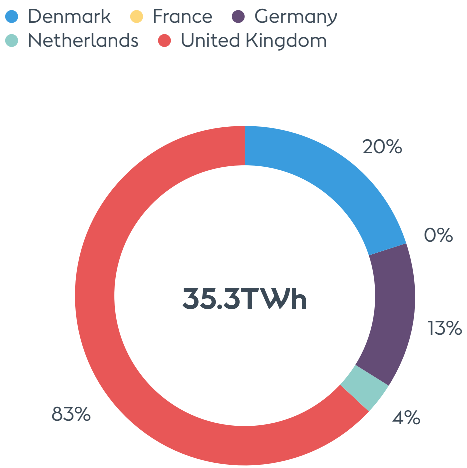
Cash flows from operating activities amounted to DKK 1.3 billion in 2018. The increase of DKK 2.7 billion was primarily due to settlement of intra-group hedges related to the negative effect in 2017 of the now divested oil and gas business, less funds tied up in clearing accounts toward trading partners, and less funds tied up in receivables due to lower gas sales at the end of 2018 compared to 2017.

This was partly offset by more funds tied up in ROC inventories due to higher offshore wind power generation.

Gas sales, % 2018



Power sales, % 2018



Introduction to Ørsted Salg & Service

Core activities for the Ørsted Salg & Service Groups comprises Sales B2C, Sales B2B and Markets (including LNG) which are a part of the Østed Group's Customer Solutions business unit.

Energy optimisation and trading Customer Solutions provides the Group with access to wholesale, corporate and traded markets.

- We create incremental value by providing route-to-market services for the Group and our partners by selling power, gas and green certificates to the market. In doing so, we own and operate portfolios of contracts within gas and power, which we optimise by leveraging our origination and trading capabilities and utilising the size of the portfolios.
- We generate access to wholesale and corporate customers to whom we seek to develop strong partnerships beyond conventional commodity supply, including offering corporate power purchase agreements (cPPAs), green waste solutions as well as energy efficiency and energy portfolio risk management services.
- We proactively manage the merchant risks arising from Ørsteds generation assets and contracts by trading commodities, and we mitigate risks and create value through time-to-market decisions, proxy hedging and netting.

We plan to exit our residential

customer businesses with sale of power to approx 725,000 customers and gas to approx 102,000 customers.

Markets

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

Besides internal sales in Ørsted, we sell gas and power on short-term and long-term contracts with external business partners 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 own pipelines in the Danish sector of the North Sea and have leased capacity across 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 gas storage facilities in Denmark and Germany, where we have capacity on long-term or short-term. Besides higher security of supply, these storage facilities provide flexibility in our gas optimisation and trading.

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 2018 annual report, which includes the Group's statutory environmental statement.

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 -0.03 billion in 2018 against DKK 0.6 billion in 2017. Calculated in accordance with the business performance principle, EBITDA was DKK 0.8 billion in 2018 and DKK 0.6 billion in 2017. The difference between the two principles was thus DKK -0.8 billion in 2018 compared with DKK 0.1 billion in 2017 and can be specified as follows:

In the presentation of the results according to IFRS, Ørsted does not apply the provisions on hedge accounting of commodities and related currency exposures. The market value adjustments of these are continuously recognized 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 'Business performance".

Outlook 2019

We expect lower earnings from our gas portfolio activities in 2019.

Furthermore, earnings from LNG were impacted in 2018 by a positive resolution of an arbitration case related to a gas purchase contract. Earnings are thus expected to decrease in 2019.

For the Ørsted Salg & Service Group, a significant lower EBITDA is expected for 2019. EBITDA (business performance) is expected to total DKK 0.0-0.1 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.

Business performance vs. IFRS, DKKm	2018	2017
EBITDA – business performance	**757**	**549**
Market value adjustments for the year of financial and physical hedging contracts relating to a future period	**(635)**	**682**
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	(155)	(583)
EBITDA – IFRS	**(33)**	**648**

Strategy follow-up

Customer Solutions has assumed a more integrated role in Ørsted as front-end of the value chain, providing efficient route-to-market services. To develop market access to wholesale, corporate and traded markets, we increasingly focus on developing customer relationships to go beyond commodities and revolve around renewable power generation, waste to energy, and energy efficiency.

Customer Solutions' strategic focus is to:

- add further scale to our green power and gas and green certificates business mitigate merchant risk through trading and green energy corporate PPAs
- optimise our portfolio of legacy gassourcing contracts and LNG positions.

Add further scale to our green power and gas and green certificates business

During 2018, the power portfolio grew by 1.4GW to more than 4.5GW, as we added longterm route-to-market contracts for the newly commissioned Walney Extension and Borkum Riffgrund 2 offshore wind farms and extended contracts for existing offshore wind farms.

Furthermore, we entered into a contract to balance the British offshore wind farm Triton Knoll (860MW) for a 15-year period, starting from the planned commissioning in 2021. These additions add to the diversification and flexibility of our portfolio of power and green certificates. Orsted was granted approx 13% of all renewable obligation certificates (ROCs) presented to the UK's Office of Gas and Electricity Markets (Ofgem) for the April 2017-March 2018 ROC period. When selling power to UK corporate customers, we present the required number of ROCs to Ofgem. However, our offshore wind generation in the UK significantly outweighs our UK power sales, and once a year, we therefore auction out parts of our excess ROCs from the latest and the three upcoming ROC periods to UK utilities with ROC imbalances. This ROC regime will continue until 2037, when the 20-year ROC subsidies will expire for the last renewable assets that were entitled to ROCs.

Mitigate merchant risk through trading and green energy corporate PPAs

In 2018, we increased our focus on offering corporate power purchase agreements (cPPAs) with fixed power prices and long tenures to our wholesale and corporate customers. The aim of this is twofold. Our customers achieve certainty about their power price for a long period of time and add to their green profile.

For Orsted, these cPPAs reduce the exposure to merchant risk by limiting the power volumes that we will have to sell at prevailing market prices. Today, we have merchant power exposure from our UK wind farms under the ROC regime. Going forward, merchant risk mitigation will also be needed for existing wind farms as subsidies expire and for potential new wind farms without subsidies.

Within our market trading activities, we benefitted from proactive trading e.g. by reducing our exposure to the event risk from the UK Government's changes in the carbon price support scheme, and by successfully managing the price volatility during the cold spell in early spring. In 2018, our energy efficiency advisory services helped our Danish corporate customers achieve aggregated energy savings of approx 133GWh. Customer satisfaction among our corporate customers remained high at 75, although down from 77 in 2017 (on a scale from 1-100).

Optimise our portfolio of legacy gassourcing contracts and LNG positions

During 2018, we settled additional price reviews of our long-term gas-sourcing contracts, with an outcome that ensures profitability of our portfolio of conventional gas contracts.

However, we expect our LNG activities to continue to be loss-making going forward, although losses in 2018 were limited by our increased global trading activities.

Key focus areas within the businesses held for sale (Sales B2C)

Our residential customer business is pioneering the transition to time-of-day based power prices which have been offered where possible since late 2017. By the end of 2018, 94% of our customers with this option had transitioned.

Customer satisfaction among residential customers who had been in contact with us was 74 in 2018, down from 76 in 2017 (on a scale from 1-100). Contrary to this decrease, our loyalty increased to 72 from 71 and our net promotor score turned 0 (on a scale from -100 to +100), following negative scores ranging from -22 to -2 from 2013 to 2017.

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 realization 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 28 'Contingent 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 note 5 'Employee costs' and note 6 'Share-based payment'.

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 scopeof 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 27 'Financial risks and risk management' .

Corporate social responsibility (CSR)
We are part of the Ørsted Group, and reference is consequently made to the Ørsted Group's 2018 annual report, which includes the Group's statutory CSR report. Further details on CSR can be found at 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 2018 ESG performance report.

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

Financial statements

1 January - 31 December 2018

Consolidated statement of comprehensive income

1 January - 31 December

		2018			2017		
Note	DKKm	Business performance	Adjustments	IFRS	Business performance	Adjustments	IFRS
3	Revenue	43,924	(790)	43,134	36,315	99	36,414
4	Cost of sales	(42,006)	-	(42,006)	(34,735)	-	(34,735)
	Other external expenses	(962)	-	(962)	(877)	-	(877)
5,6	Employee costs	(157)	-	(157)	(158)	-	(158)
	Other operating income	1	-	1	59	-	59
	Other operating expenses	(43)	-	(43)	(55)	-	(55)
	Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA)	**757**	**(790)**	**(33)**	**549**	**99**	**648**
11,12	Depreciation, amortisation and impairment losses on intangible assets and property, plant and equipment	(37)	-	(37)	(63)	-	(63)
	Operating profit (loss) (EBIT)	**720**	**(790)**	**(70)**	**486**	**99**	**585**
	Gain (loss) on divestment of enterprises	(8)	-	(8)	12	-	12
8	Financial income	338	-	338	582	-	582
9	Financial expenses	(483)	-	(483)	(611)	-	(611)
	Profit (loss) before tax	**567**	**(790)**	**(223)**	**469**	**99**	**568**
10	Tax on profit (loss) for the year	(108)	174	66	(101)	(23)	(124)
	Profit (loss) for the year	**459**	**(616)**	**(157)**	**368**	**76**	**444**
	Other comprehensive income[1]:						
	Exchange rate adjustments	-	-	(2)	-	-	(1)
	Other comprehensive income	**-**	**-**	**(2)**	**-**	**-**	**(1)**
	Total comprehensive income	**-**	**-**	**(159)**	**-**	**-**	**443**
	Profit (loss) for the year is attributable to:						
	Shareholder in Ørsted Salg & Service A/S	459	(616)	(157)	368	76	444
	Profit (loss) for the year	**459**	**(616)**	**(157)**	**368**	**76**	**444**
	Comprehensive income for the year is attributable to:						
	Shareholder in Ørsted Salg & Service A/S	-	-	(159)	-	-	443
	Total comprehensive income	**-**	**-**	**(159)**	**-**	**-**	**443**

[1] All items in other comprehensive income may be recycled to the income statement

Business performance
The business performance principle is our alternative performance measure. According to IFRS, market value adjustments of energy contracts and related currency risks (including hedging) are recognised on an ongoing basis in the profit (loss) for the year, whereas under the business performance principle, they are deferred and recognised in the period in which the hedged exposure materialises. The difference between IFRS and business performance is specified in the 'Adjustments' column. Read more about the business performance principle in note 30 'Description of accounting priciples'.

Consolidated balance sheet

31 December

Note	Assets, DKKm	2018	2017
	Rights	15	19
	Completed development projects	80	94
	Development projects in progress	10	-
11	**Intangible assets**	**105**	**113**
	Land and buildings	2	2
	Production assets	391	318
	Property, plant and equipment under construction	11	-
12	**Property, plant and equipment**	**404**	**320**
14	Deferred tax	1,047	753
	Other non-current assets	**1,047**	**753**
	Non-current assets	**1,556**	**1,186**
15	Inventories	2,256	2,019
16	Derivatives	8,310	6,535
17	Trade receivables	3,472	4,915
	Receivables from group enterprises	10,381	9,541
17	Other receivables	844	795
18	Income tax	30	207
19	Securities	362	77
19	Cash	688	134
	Current assets	**26,343**	**24,223**
20	**Assets classified as held for sale**	**495**	**-**
	Assets	**28,394**	**25,409**

Note	Equity and liabilities, DKKm	2018	2017
	Share capital	1,110	1,110
	Translation reserve	-	1
	Retained earnings	8,270	8,427
21	**Equity**	**9,380**	**9,538**
22	Provisions	3,165	3,236
	Payables to group enterprises	-	314
	Deferred income	-	4
	Bank loans	-	1
23	Contract liabilities	4	-
	Non-current liabilities	**3,169**	**3,555**
22	Provisions	351	408
	Bank loans	4	-
16	Derivatives	8,506	6,449
23	Contract liabilities	203	-
	Trade payables	3,067	2,872
	Payables to group enterprises	2,503	1,514
24	Other payables	576	1,033
18	Income tax	191	40
	Current liabilities	**15,401**	**12,316**
	Liabilities	**18,570**	**15,871**
20	**Liabilities relating to assets classified as held for sale**	**444**	**-**
	Equity and liabilities	**28,394**	**25,409**

Contract liabilities
The adoption of IFRS 15 has changed our presentation, as we have introduced contract liabilities. As we have implemented IFRS 15 after the modified retrospective method, we have not restated comparative figures.

The effects of change in accounting policy are identical for business performance profit (loss). Read more about the impact in note 1 'Implementation of new standards and interpretations'.

Consolidated statement of changes in equity

1 January - 31 December

	2018				2017			
DKKm	Share capital	Translation reserve	Retained earnings	Total	Share capital	Translation reserve	Retained earnings	Total
Equity at 1 January	1,110	1	8,427	9,538	1,110	2	7,983	9,095
Comprehensive income for the year:								
Profit (loss) for the year	-	-	(157)	(157)	-	-	444	444
Other comprehensive income:								
Exchange rate adjustments, foreign companies	-	(2)	-	(2)	-	(1)	-	(1)
Total comprehensive income	**-**	**(2)**	**(157)**	**(159)**	**-**	**(1)**	**444**	**443**
Transactions with owners:								
Share-based payment	-	-	1	1	-	-	-	-
Total changes in equity	**-**	**(2)**	**(156)**	**(158)**	**-**	**(1)**	**444**	**443**
Equity at 31 December	**1,110**	**(1)**	**8,271**	**9,380**	**1,110**	**1**	**8,427**	**9,538**

Consolidated cash flow statement

1 January - 31 December

Note	DKKm	2018	2017
25	Cash flows from operations (operating activities)	1,212	(1,081)
	Interest income and similar items	249	342
	Interest expenses and similar items	(227)	(317)
	Income tax paid	101	(373)
	Cash flows from operating activities	**1,335**	**(1,429)**
11	Acquisition of intangible assets	(33)	(22)
12	Acquisition of property, plant and equipment	(11)	(14)
	Sale of intangible assets and property, plant and equipment	(65)	57
	Sale of enterprises	(8)	12
	Purchase of securities	(284)	1
	Financial transactions with group internal bank	(329)	1,938
	Cash flows from investing activities	**(730)**	**1,972**
	Payables to group enterprises	(53)	(51)
	Proceeds from raising of loans	2	-
	Cash flows from financing activities	**(51)**	**(51)**
	The year's cash flow	**554**	**492**
	Cash and cash equivalents at 1 January	134	(358)
	Net increase/(decrease) in cash	554	492
19	**Cash and cash equivalents at 31 December**	**688**	**134**

Parent company statement of comprehensive income

1 January - 31 December

Note	DKKm	2018 Business performance	2018 Adjustments	2018 IFRS	2017 Business performance	2017 Adjustments	2017 IFRS
3	Revenue	43,843	(797)	43,046	35,758	106	35,864
4	Cost of sales	(41,978)	-	(41,978)	(34,203)	-	(34,203)
	Other external expenses	(870)	-	(870)	(809)	-	(809)
5,6	Employee costs	(133)	-	(133)	(135)	-	(135)
	Other operating income	-	-	-	456	-	456
	Other operating expenses	(21)	-	(21)	(55)	-	(55)
	Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA)	**841**	**(797)**	**44**	**1,012**	**106**	**1,118**
11,12	Depreciation, amortisation and impairment losses on intangible assets and property, plant and equipment	(22)	-	(22)	(54)	-	(54)
13	Impairment on investments in subsidiaries	(59)	-	(59)	-	-	-
	Operating profit (loss) (EBIT)	**760**	**-**	**(37)**	**958**	**106**	**1,064**
	Gain (loss) on divestment of enterprises	(8)	-	(8)	12	-	12
8	Financial income	300	-	300	559	-	559
9	Financial expenses	(440)	-	(440)	(614)	-	(614)
	Profit (loss) before tax	**612**	**(797)**	**(185)**	**915**	**106**	**1,021**
10	Tax on profit (loss) for the year	(124)	175	51	(199)	(23)	(222)
	Profit (loss) for the year	**488**	**(622)**	**(134)**	**716**	**83**	**799**
	Other comprehensive income	-	-	-	-	-	-
	Total comprehensive income	**-**	**-**	**(134)**	**-**	**-**	**799**
	Profit (loss) for the year is attributable to:						
	Shareholder in Ørsted Salg & Service A/S	488	(622)	(134)	716	83	799
	Profit (loss) for the year	**488**	**(622)**	**(134)**	**716**	**83**	**799**
	Total comprehensive income for the year is attributable to:						
	Shareholder in Ørsted Salg & Service A/S	-	-	(134)	-	-	799
	Total comprehensive income	**-**	**-**	**(134)**	**-**	**-**	**799**

Business performance
The business performance principle is our alternative performance measure. According to IFRS, market value adjustments of energy contracts and related currency risks (including hedging) are recognised on an ongoing basis in the profit (loss) for the year, whereas under the business performance principle, they are deferred and recognised in the period in which the hedged exposure materialises. The difference between IFRS and business performance is specified in the 'Adjustments' column. Read more about the business performance principle in note 30 'Description of accounting principles'.

Parent company balance sheet

31 December

Note	Assets, DKKm	2018	2017
	Rights	15	19
	Completed development projects	53	72
	Development projects in progress	9	-
11	**Intangible assets**	**77**	**91**
	Land and buildings	2	2
	Production assets	391	318
	Property, plant and equipment under construction	5	-
12	**Property, plant and equipment**	**398**	**320**
13	Investments in subsidiaries	303	288
14	Deferred tax	1,064	721
17	Other receivables	-	46
	Other non-current assets	**1,367**	**1,055**
	Non-current assets	**1,842**	**1,466**
15	Inventories	2,250	2,013
16	Derivatives	8,265	6,134
17	Trade receivables	3,113	4.413
	Receivables from group enterprises	10,226	9,570
17	Other receivables	842	786
18	Income tax	-	194
19	Securities	361	77
19	Cash	559	65
	Current assets	**25,616**	**23,252**
20	**Assets classified as held for sale**	**495**	**-**
	Assets	**27,953**	**24,718**

Note	Equity and liabilities, DKKm	2018	2017
	Share capital	1,110	1,110
	Development costs reserve	-	6
	Retained earnings	8,271	8,398
21	**Equity**	**9,381**	**9,514**
22	Provisions	3,165	3,236
	Deferred income	-	4
	Bank loans	-	1
23	Contract liabilities	4	-
	Non-current liabilities	**3,169**	**3,241**
22	Provisions	351	408
16	Derivatives	8,562	6,201
23	Contract liabilities	194	-
	Trade payables	3,025	2,847
	Payables to group enterprises	2,163	1,490
24	Other payables	474	994
18	Income tax	190	23
	Current liabilities	**14,959**	**11,963**
	Liabilities	**18,128**	**15,204**
20	**Liabilities relating to assets classified as held for sale**	**444**	**-**
	Equity and liabilities	**27,953**	**24,718**

Contract liabilities
The adoption of IFRS 15 has changed our presentation, as we have introduced contract liabilities. As we have implemented IFRS 15 after the modified retrospective method, we have not restated comparative figures.

The effects of change in accounting policy are identical for business performance profit (loss). Read more about the impact in note 1 'Implementation of new standards and interpretations'.

Parent company statement of changes in equity

1 January - 31 December

	2018				2017			
DKKm	Share capital	Development cost reserve	Retained earnings	Total	Share capital	Development cost reserve	Retained earnings	Total
Equity at 1 January	1,110	6	8,398	9,514	1,110	8	7,597	8,715
Comprehensive income for the year:								
Profit (loss) for the year	-	8	(142)	(134)	-	(2)	801	799
Total comprehensive income	**-**	**8**	**(142)**	**(134)**	**-**	**(2)**	**801**	**799**
Transactions with owners:								
Share-based payment	-	-	1	1	-	-	-	-
Total changes in equity	**-**	**8**	**(141)**	**(133)**	**-**	**-**	**-**	**-**
Equity at 31 December	**1,110**	**14**	**8,257**	**9,381**	**1,110**	**6**	**8,398**	**9,514**

Parent company cash flow statement

1 January - 31 December

Note	DKKm	2018	2017
25	Cash flows from operations (operating activities)	1,213	(1,046)
	Interest income and similar items	206	327
	Interest expenses and similar items	(180)	(327)
	Income tax paid	68	(352)
	Cash flows from operating activities	**1,307**	**(1,398)**
11	Acquisition of intangible assets	(14)	(12)
12	Acquisition of property, plant and equipment	(5)	(14)
	Sale of intangible assets and property, plant and equipment	(43)	53
	Sale of enterprises	(8)	12
	Purchase of securities	(284)	1
	Financial transactions with group internal bank	10	2,051
	Investments in subsidiaries	(73)	(179)
	Other investments	(396)	(29)
	Dividend received	-	-
	Cash flows from investing activities	**(813)**	**1,883**
	Payables to group enterprises	-	-
	Cash flows from financing activities	**-**	**-**
	The year's cash flow	**494**	**485**
	Cash and cash equivalents at 1 January	65	(420)
	Net increase/(decrease) in cash	494	485
19	**Cash and cash equivalents at 31 December**	**559**	**65**

Notes

Notes

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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 2018 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 30 'Description of 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 (Årsregnskabsloven).

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 adoption of 'IFRS 15 – Revenue from Contracts with Customers'
- the adoption of IFRIC 22 'Foreign Currency Transactions and Advance Consideration'
- the adoption of IFRIC 23 'Uncertainty over Income Tax Treatments' (early adoption).

The accounting policies applied to the consolidated financial statements as a whole are described in note 30 'Description of accounting policies'.

Key accounting estimates and judgements
The use of reasonable estimates and judgements is an essential part of the preparation of the consolidated financial statements.

Given the uncertainties inherent in our business activities, we make a number of estimates regarding valuation and judgements. The estimates and judgements are based on assumptions concerning future developments which affect our application of accounting policies and reported amounts of our assets, liabilities, sales, costs, cash flows and related disclosures. 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 and a number of other relevant factors, ie. the expected effects of Brexit.

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

In addition, we make judgements when we apply the accounting policies.

Reference is made to the specific notes for further information on the key accounting estimates and judgements as well as the assumptions applied.

Note		Key accounting estimates and judgements	Estimate/ judgement	Extent of accounting estimates and judgements
22	Provisions and contingent assets and liabilities	Assumptions for decommissioning obligations	Estimate	●●○○
		Estimate of onerous contracts	Estimate	●●○○
		Estimate of litigation outcomes	Estimate	●●○○

Extent of accounting estimates and judgements relates to objectivity and business practice.

●○○○ Very objective/market-conforming
●●○○ Objective/partially conforming
●●●○ Partially subjective/partially distinctive
●●●● Subjective/distinctive for Ørsted

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, see Group Structure page 5.
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. Intragroup income and expenses, shareholdings, balances and dividends as well as realised and unrealised gains and losses arising from intragroup transactions are eliminated at 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 noncontrolling 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 impact of new IFRS standards and interpretations. We implement new IFRS standards and interpretations from their mandatory effective dates at the latest.

Effective from 1 January 2018, we have implemented the following new or changed standards (IAS and IFRS) and interpretations:

- IFRS 15 'Revenue from Contracts with Customers' including amendments and clarifications. See separate section below.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (early adoption).

The adoption of the new and changed standards has not impacted the recognition in consolidated financial statements for 2018.

The implementation of the terminology in IFRS 15 had a minor effect on the presentation of other payables in the balance sheet. Other payables related to prepayments and deferred revenue as such are now presented as contract liabilities.

New standards and interpretations

IASB has issued a number of new or amended standards and interpretations which have not yet entered into force, and which have consequently not been incorporated into the consolidated financial statements for 2018. We have assessed how IFRS 16 'Leases' will be implemented and the consequences thereof. IFRS 16 is deemed to be the most relevant of the new or amended standards and interpretations for Orsted Salg & Services in 2019.

IFRS 16 – Leases

Expected effect

We have completed our analysis of the impact of implementing IFRS 16 in Orsted Salg & Service Group. The conclusion is that the implementation will have limited effect on our balance sheet and income statement. When applying IFRS 16, our lease obligations amount to a net present value of DKK 335 million on 1 January 2019. Our operating lease obligations on 31 December 2018, amounting to DKK 344 million, are not discounted and therefore, this obligation is slightly higher.

IFRS 16 requires that service elements which are incorporated into leases, and which do not entitle us to use an underlying asset, are dealt with separately and treated as current operating expenses. This requirement does not have an effect on our lease obligations as our current accounting policy is to separate the service elements in the leases from the leasing elements.

Commencement

IFRS 16 will be implemented on 1 January 2019.

Transitional provision

The standard will be implemented with retrospective effect, and the comparative figures will not be restated. The requirements of the standard therefore only apply to ongoing and/or leases commencing on 1 January 2019.

For all leases, we will measure the lease asset at the same amount as the lease debt, adjusted by the amount of prepayments and accrued lease payments on 1 January 2019. We apply the practical expedient regarding reassessment of whether a contract is, or contains, a lease on 1 January 2019. This means that we do not reassess whether a contract is, or contains, a lease when applying IFRS 16.

We do also make use of the possibility to apply a single rate to a portfolio of leases with reasonable similar charateristics. In accordance with this, we apply incremental borrowing rates per class of underlying asset (nature) in similar economic environments (currency) and remaining lease term.

One of our leases is onerous and we have chosen to apply the practical expedient to rely on this assessment as an alternative to performing an impairment review. At transition, we will adjust the lease asset by the amount of the provision.

2. Business performance

Expected impact on business performance EBITDA from energy and currency hedges

Market value adjustments deferred for recognition in the business performance results in a subsequent period are specified in the table below. At 31 December 2018, a loss of DKK 1,555 million had been deferred (2017: loss of DKK 489 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 747 million in 2019.

The 'Adjustments' column in the income statement

The difference between business performance and IFRS is shown in the 'Adjustments' column. The adjustments are also shown in the table on the right.

Difference between IFRS and business performance for the year

The difference between IFRS and business performance is specified in the table on the right. Market value adjustments in respect of future periods totalled a loss of DKK 635 million (2017: gain of DKK 682 million) and primarily related to the hedging of power and oil. These gains (losses) are postponed to be recognised in a future period but are recognised in IFRS EBITDA in the current period.

Reversal of deferred gain (loss) recognised according to business performance in 2018 totalled a gain of DKK 155 million (2017: gain of DKK 583 million) and primarily relates to gain (loss) on the hedging of oil. These gains (losses) are recognised in business performance EBITDA in the current year but have already been recognised in IFRS EBITDA in a previous period.

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

	2018	2017
EBITDA – business performance	**757**	**549**
Business performance adjustments	(790)	99
EBITDA – IFRS	**(33)**	**648**
Total business performance adjustments for the year comprise:		
Market value adjustments for the year of financial and physical hedging contracts relating to a future period	(635)	682
Reversal of deferred gains (losses) relating to hedging contracts from previous periods, where the hedged trade is recognised in business performance EBITDA in this period	(155)	(583)
Total adjustments	**(790)**	**99**

Expected impact on business performance EBITDA from energy and currency hedging, DKKm

	Deferred for subsequent recognition at 31 December 2018				Deferred for subsequent recognition at 31 December 2017			
	2019	2020	after 2020	Total	2018	2019	after 2019	Total
Oil	(103)	(69)	(36)	(208)	174	137	63	374
Gas	(360)	(157)	-	(517)	(277)	(269)	(97)	(643)
Power	(295)	(311)	(261)	(867)	(1)	(4)	(113)	(118)
Coal	-	-	-	-	(2)	-	-	(2)
Currency	11	5	21	37	(10)	(70)	(20)	(100)
Total	**(747)**	**(532)**	**(276)**	**(1,555)**	**(116)**	**(206)**	**(167)**	**(489)**

3. Revenue

DKKm	Group			Parent company		
	Business performance	Adjustments	IFRS	Business performance	Adjustments	IFRS
2018						
Sales of gas	22,454	129	22,583	22,341	119	22,460
Sales of power	19,812	(486)	19,326	20,139	(504)	19,635
Distribution and transmission	354	-	354	202	-	202
Trading activities, net	12	-	12	(115)	-	(115)
Other revenue	272	-	272	493	-	493
Total revenue from customers	**42,904**	**(357)**	**42,547**	**43,060**	**(385)**	**42,675**
Effect of economic hedging, net	1,020	(433)	587	783	(412)	371
Total revenue	**43,924**	**(790)**	**43,134**	**43,843**	**(797)**	**43,046**
Timing of revenue recognition from customers, IFRS						
At a point in time	-	-	28,111	-	-	28,544
Over time	-	-	14,436	-	-	14,131
Total revenue from customer, IFRS	**-**	**-**	**42,547**	**-**	**-**	**42,675**
2017						
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
Revenue	**36,315**	**99**	**36,414**	**35,758**	**106**	**35,864**

Of the total revenue of DKK 43,134 million (2017: DKK 36,414 million), DKK 42,216 million (2017: DKK 35,544 million) represents revenue from the sale of goods, while DKK 918 million (2017: DKK 870 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.

DKKm	Denmark	Germany	UK	Netherlands	Other EU	Consolidated total
2018	13,283	7,173	16,139	6,071	468	43,134
2017	14,594	6,037	10,938	4,362	483	36,414

We have implemented IFRS 15 after the modified retrospective method. Therefore, we have not restated comparative figures.

4. Cost of sales

DKKm	Group			Parent company		
	Business performance	Adjustments	IFRS	Business performance	Adjustments	IFRS
2018						
Gas	(21,023)	-	(21,023)	(20,981)	-	(20,981)
Power	(19,425)	-	(19,425)	(19,657)	-	(19,657)
Distribution and transmission costs	(1,024)	-	(1,024)	(1,163)	-	(1,163)
Other cost of sales	(534)	-	(534)	(177)	-	(177)
Cost of sales	**(42,006)**	**-**	**(42,006)**	**(41,978)**	**-**	**(41,978)**
2017						
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)
Cost of sales	**(34,735)**	**-**	**(34,735)**	**(34,203)**	**-**	**(34,203)**

5. Employee costs

	Group		Parent company	
DKKm	2018	2017	2018	2017
Wages, salaries and remuneration	(137)	(139)	(116)	(120)
Share-based payment	(1)	-	(1)	-
Pensions	(9)	(9)	(8)	(8)
Other social security costs	(4)	(4)	(1)	(1)
Other employee costs	(6)	(6)	(7)	(6)
Employee costs	**(157)**	**(158)**	**(133)**	**(135)**
Employee costs are recognised as follows:				
Employee costs	(157)	(158)	(133)	(135)
Employee costs	**(157)**	**(158)**	**(133)**	**(135)**
Number of full-time employees				
Average for the financial year	149	141	109	110

Remuneration for the Board of Directors and the Executive Board amounts to, DKKm	Parent company Board of Directors		Parent company Executive Board	
	2018	2017	2018	2017
Salary	-	-	(2.4)	(2.3)
Bonus	-	-	(0.8)	(0.9)
Share-based payments	-	-	(0.5)	(0.3)
Pension	-	-	(0.6)	(0.5)
Total	**-**	**-**	**(4.3)**	**(4.0)**

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 Executive 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.

6. Share-based payment

Share programme

The Executive Board and a limited number of other members of senior management participate in our share programme established in 2016. Today, approximately 5 senior executives participate in the programme. As a condition for the award of performance share units (PSUs), the participant must own a number of shares in Ørsted A/S corresponding to a part of the individual participant's annual base salary. The ownership requirement is between 15%-75% of the fixed salary.

If the participants meet the shareholding requirement at the award date, the participants will each year be awarded a number of PSUs representing a value corresponding to 15%-20% of the annual base salary at the award date.

The awarded PSUs have a vesting period of approx. three years, after which each PSU entitles the holder to receive one share free of charge. The final number of PSUs for each participant will be determined based on Ørsted A/S's total shareholder return compared to 10 European peer energy companies.

The rate will vary from 0% to 200% of the number that is set as the target for the awarded PSUs. The maximum value is 30%-40% of the fixed annual salary at the time of granting. In addition to this also comes the change in fair value of the Ørsted share since grant.

The highest rate will be triggered if Ørsted A/S delivers the highest return of the peer companies. For each lower position the number of PSUs will decline by 20 percentage points.

For example, a second place entitles the participants to 180% of the target. If Ørsted A/S is number 11 in the comparison, the participants will receive no PSU's. The right to PSU's is subject to continued employment.

7. Auditor's fees

DKKm	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Statutory audit	(1)	(1)	(1)	(1)
Total fees to PwC	**(1)**	**(1)**	**(1)**	**(1)**

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.

8. Financial income

DKKm	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Foreign exchange gains	338	553	290	530
Other financial income	-	29	10	29
Financial income	**338**	**582**	**300**	**559**

9. Financial expenses

DKKm	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Interest expenses	(9)	(51)	(17)	(33)
Interest expenses to group enterprises	(12)	(16)	(9)	(45)
Interest element of provisions	(106)	(102)	(106)	(118)
Foreign exchange losses	(324)	(435)	(277)	(412)
Other financial expenses	(32)	(7)	(32)	(6)
Financial expenses	**(483)**	**(611)**	**(441)**	**(614)**
Revenue for the year includes exchange rate and fair value adjustments of:	167	(392)	167	(392)

10. Tax on profit (loss) for the year

	Group		Parent company	
DKKm	2018	2017	2018	2017
Tax for the year can be specified as follows:				
Tax on profit (loss) for the year	66	(124)	51	(222)
Tax for the year	**66**	**(124)**	**51**	**(222)**
Tax on profit (loss) for the year can be broken down as follows:				
Current tax	(264)	(115)	(280)	(98)
Deferred tax	288	(22)	301	(124)
Adjustments to current tax in respect of prior years	35	(689)	(12)	(689)
Adjustments to deferred tax in respect of prior years	7	702	42	689
Tax on profit (loss) for the year	**66**	**(124)**	**51**	**(222)**
Tax on profit (loss) for the year can be explained as follows:				
Calculated 22.0% tax on profit (loss) before tax	49	(125)	41	(225)
Adjustments of calculated tax in foreign subsidiaries	(2)	6	-	-
Tax effect of:				
Non-taxable income	-	3	-	4
Non-deductible expenses	(6)	(1)	(19)	(1)
Tax effect tax loss carryforward	(16)	(21)	-	-
Adjustments to tax in respect of prior years	41	14	29	-
Tax on profit (loss) for the year	**66**	**(124)**	**51**	**(222)**
Effective tax rate	**30%**	**22%**	**28%**	**22%**

11. Intangible assets

DKKm	Goodwill	Rights	Completed development projects	Development projects in progress	Total
	Group				
Cost at 1 January 2018	369	1,626	396	-	2,391
Additions	-	-	20	14	34
Reclassified assets	-	4	-	(4)	-
Cost at 31 December 2018	**369**	**1,630**	**416**	**10**	**2,425**
Amortisation and impairment losses at 1 January 2018	(369)	(1,607)	(302)	-	(2,278)
Amortisation	-	(8)	(34)	-	(42)
Amortisation and impairment losses at 31 December 2018	**(369)**	**(1,615)**	**(336)**	**-**	**(2,320)**
Carrying amount at 31 December 2018	**0**	**15**	**80**	**10**	**105**
Cost at 1 January 2017	369	1,615	387	-	2,371
Additions	-	11	11	-	22
Cost at 31 December 2017	**369**	**1,626**	**396**	**-**	**2,391**
Amortisation and impairment losses at 1 January 2017	(369)	(1,594)	(275)	-	(2,238)
Amortisation	-	(3)	(29)	-	(32)
Disposals	-	(10)	-	-	(10)
Amortisation and impairment losses at 31 December 2017	**(369)**	**(1,607)**	**(302)**	**-**	**(2,278)**
Carrying amount at 31 December 2017	**-**	**19**	**94**	**-**	**113**
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, customerrelated rights and a connection right relating to gas transportation. At 31 December 2018, the carrying amount of rights was calculated at DKK 15 million (2017: DKK 19 million). There were no indications of impairment of rights in 2018.

Completed development projects

Completed development projects related to IT software. At 31 December 2018, the carrying amount of development projects was calculated at DKK 80 million (2017: DKK 94 million).

11. Intangible assets (continued)

DKKm	Rights	Completed development projects	Development projects in progress	Total
	Parent company			
Cost at 1 January 2018	1,601	365	-	1,966
Additions	-	-	13	13
Reclassified assets	4	-	(4)	-
Cost at 31 December 2018	**1,605**	**365**	**9**	**1,979**
Amortisation and impairment losses at 1 January 2018	(1,582)	(293)	-	(1,875)
Amortisation and impairment losses	(8)	(19)	-	(27)
Amortisation and impairment losses at 31 December 2018	**(1,590)**	**(312)**	**-**	**(1,902)**
Carrying amount at 31 December 2018	**15**	**53**	**9**	**77**
Cost at 1 January 2017	1,590	365	-	1,955
Additions	11	-	-	11
Cost at 31 December 2017	**1,601**	**365**	**-**	**1,966**
Amortisation and impairment losses at 1 January 2017	(1,569)	(273)	-	(1,842)
Amortisation and impairment losses	(3)	(20)	-	(23)
Disposals	(10)	-	-	(10)
Amortisation and impairment losses at 31 December 2017	**(1,582)**	**(293)**	**-**	**(1,875)**
Carrying amount at 31 December 2017	**19**	**72**	**-**	**91**
Amortised over	UOP*/ 5-20 years	3-5 years	-	-

* Unit of production

12. Property, plant and equipment

DKKm	Group				
	Land and buildings	Production assets	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Total
Cost at 1 January 2018	11	8,692	24	-	8,727
Additions	-	92	-	11	103
Disposals	-	(734)	-	-	(734)
Cost at 31 December 2018	**11**	**8,050**	**24**	**11**	**8,096**
Depreciation and impairment losses at 1 January 2018	(9)	(8,374)	(24)	-	(8,407)
Depreciation and impairment losses	-	4	-	-	4
Disposals	-	711	-	-	711
Depreciation and impairment losses at 31 December 2018	**(9)**	**(7,659)**	**(24)**	**-**	**(7,692)**
Carrying amount at 31 December 2018	**2**	**391**	**0**	**11**	**404**
Cost at 1 January 2017	11	8,447	24	2	8,484
Additions	-	287	-	9	296
Disposals	-	(53)	-	-	(53)
Reclassified assets	-	11	-	(11)	-
Cost at 31 December 2017	**11**	**8,692**	**24**	**-**	**8,727**
Depreciation and impairment losses at 1 January 2017	(9)	(8,343)	(24)	-	(8,376)
Depreciation and impairment losses	-	(31)	-	-	(31)
Depreciation and impairment losses at 31 December 2017	**(9)**	**(8,374)**	**(24)**	**-**	**(8,407)**
Carrying amount at 31 December 2017	**2**	**318**	**-**	**-**	**320**
Depreciated over	20 years	20-40 years	3-10 years	-	-

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.

There were no other indications of impairment of property, plant and equipment in 2018.

12. Property, plant and equipment (continued)

	Parent company				
DKKm	Land and buildings	Production assets	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Total
Cost at 1 January 2018	11	8,688	4	-	8,703
Additions	-	92	-	5	97
Disposals	-	(734)	-	-	(734)
Cost at 31 December 2018	**11**	**8,046**	**4**	**5**	**8,066**
Depreciation and impairment losses at 1 January 2018	(9)	(8,370)	(4)	-	(8,383)
Depreciation and impairment losses	-	4	-	-	4
Disposals	-	711	0	-	711
Depreciation and impairment losses at 31 December 2018	**(9)**	**(7,655)**	**(4)**	**-**	**(7,668)**
Carrying amount at 31 December 2018	**2**	**391**	**-**	**5**	**398**
Cost at 1 January 2017	11	8,443	4	2	8,460
Additions	-	287	-	9	296
Disposals	-	(53)	-	-	(53)
Reclassified assets	-	11	-	(11)	-
Cost at 31 December 2017	**11**	**8,688**	**4**	**-**	**8,703**
Depreciation and impairment losses at 1 January 2017	(9)	(8,339)	(4)	-	(8,352)
Depreciation and impairment losses	-	(31)	-	-	(31)
Depreciation and impairment losses at 31 December 2017	**(9)**	**(8,370)**	**(4)**	**-**	**(8,383)**
Carrying amount at 31 December 2017	**2**	**318**	**-**	**-**	**320**
Leased assets		0			
Depreciated over	20 years	20-40 years	3-10 years	-	-

13. Investments in subsidiaries

	Parent company	
DKKm	2018	2017
Cost at 1 January	863	684
Additions during the year	63	-
Capital contributions	10	178
Cost at 31 December	**936**	**863**
Value adjustments at 1 January	(574)	(574)
Impairment losses for the year	(59)	-
Value adjustments at 31 December	**(633)**	**(574)**
Carrying amount at 31 December	**303**	**288**

Capital contributions in 2018 are related to additional capital contribution in Obviux A/S. Additions in 2018 relate to the acquisition of Ørsted Energy Solutions (UK) Limited.

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. Impairment losses for the year relate to Ørsted Pipelines A/S and Ørsted Sales GmbH.

Capital contribution 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.

14. Deferred tax

DKKm	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Deferred tax at 1 January	(753)	(1,254)	(721)	(1,337)
Deferred tax for the year recognised in profit (loss)	(288)	22	(301)	124
Adjustments in respect of prior years	(6)	479	(42)	492
Deferred tax at 31 December	**(1,047)**	**(753)**	**(1,064)**	**(721)**
Deferred tax is recognised in the balance sheet as follows:				
Deferred tax (assets)	(1,047)	(753)	(1,064)	(721)
Deferred tax at 31 December, net	**(1,047)**	**(753)**	**(1,064)**	**(721)**
Deferred tax concerns:				
Non-current assets	93	(24)	88	16
Non-current liabilities	(756)	(544)	(756)	(544)
Current liabilities	(384)	(185)	(396)	(193)
Deferred tax at 31 December	**(1,047)**	**(753)**	**(1,064)**	**(721)**

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 57 million in 2018 (2017: DKK 54 million).

Change in temporary differences during the year, DKKm	Group				Parent company			
	Balance sheet at 1 January	Recognised in profit (loss) for the year	Other changes	Balance sheet at 31 December	Balance sheet at 1 January	Recognised in profit (loss) for the year	Other changes	Balance sheet at 31 December
2018								
Non-current assets	(24)	18	99	93	16	9	63	88
Non-current liabilities	(544)	22	(234)	(756)	(544)	22	(234)	(756)
Current liabilities	(185)	(328)	129	(384)	(193)	(332)	129	(396)
Total	**(753)**	**(288)**	**(6)**	**(1,047)**	**(721)**	**(301)**	**(42)**	**(1,064)**
2017								
Non-current assets	(3)	(9)	(12)	(24)	(72)	88	-	16
Non-current liabilities	(597)	53	-	(544)	(597)	53	-	(544)
Current liabilities	(654)	(22)	491	(185)	(668)	(17)	492	(193)
Total	**(1,254)**	**22**	**479**	**(753)**	**(1,337)**	**124**	**492**	**(721)**

15. Inventories

	Group		Parent company	
DKKm	2018	2017	2018	2017
Gas	1,620	1,526	1,614	1,520
Green certificates	461	441	461	441
Carbon emissions allowances	172	52	172	52
Other inventories	3	-	3	-
Inventories at 31 December	**2,256**	**2,019**	**2,250**	**2,013**

The carrying amount of inventories recognised at fair value was DKK 172 million (2017: DKK 52 million).

16. Derivatives

Maturity analysis of financial liabilities 2018, DKKm	Carrying amount	Payment obligation	2019	2020	2021	2022	2023	After 2023
Bank overdrafts	-	-	-	-	-	-	-	-
Payables to group enterprises	2,503	2,503	2,503	-	-	-	-	-
Trade payables	3,067	3,067	3,067	-	-	-	-	-
Fair value of derivative financial instruments	8,506	8,550	6,004	2,045	407	75	19	-
Other payables	576	576	576	-	-	-	-	-
31 December	**14,652**	**14,696**	**12,150**	**2,045**	**407**	**75**	**19**	**-**

Maturity analysis of financial liabilities 2017, DKKm	Carrying amount	Payment obligation	2018	2019	2020	2021	2022	After 2022
Bank overdrafts	-	-	-	-	-	-	-	-
Payables to group enterprises	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	-	-	-	-	-
31 December	**11,868**	**11,849**	**9,139**	**1,632**	**925**	**148**	**5**	**-**

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 4 million (2017: DKK 0 million) and the nominal value was DKK 4 million (2017: 0 million).

	2018		2017	
Financial instruments by category, DKKm	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Derivative financial instruments held for trading	8,310	8,310	6,535	6,535
Securities	362	362	77	77
Financial assets measured at fair value through profit (loss) for the year	**8,672**	**8,672**	**6,612**	**6,612**
Trade receivables	3,472	3,472	4,915	4,915
Other receivables, cash and cash equivalents	11,908	11,908	10,468	10,468
Loans and receivables	**15,380**	**15,380**	**15,383**	**15,383**
Equity and liabilities				
Derivative financial instruments held for trading	8,506	8,506	6,449	6,449
Financial liabilities measured at fair value through profit (loss) for the year	**8,506**	**8,506**	**6,449**	**6,449**
Bank loans	4	4	-	-
Other payables	5,391	5,391	4,548	4,548
Financial liabilities measured at amortised cost	**5,395**	**5,395**	**4,548**	**4,548**

Economic hedging of fair values, DKKm	2018 Receivables	2018 Payables	2018 Hedging instruments	2018 Net position	2017 Receivables	2017 Payables	2017 Hedging instruments	2017 Net position
EUR	11,972	(12,866)	-	(894)	7,779	(7,056)	-	723
USD	191	(598)	-	(407)	327	(170)	-	157
GBP	6,628	(7,736)	-	(1,108)	4,122	(4,478)	-	(356)
Other	123	(23)	-	100	72	(5)	-	67
Total	**18,914**	**(21,223)**	**-**	**(2,309)**	**12,300**	**(11,709)**	**-**	**591**

Trading portfolio and economic hedging, DKKm	2018 Nominal amount	2018 Fair value	2017 Nominal amount	2017 Fair value
Oil swaps	2,626	-	3,307	13
Gas swaps	6,569	(114)	8,712	(473)
Gas options	266	-	1,226	-
Power swaps	2,115	(93)	1,951	663
Power options	244	73	805	88
Coal forwards	50	(7)	50	(43)
Carbon emissions allowances	55	(45)	11	(14)
Currency forwards	4,947	(10)	10,759	(148)
Total	**16,872**	**(196)**	**26,821**	**86**

Fair value hierarchy of financial instruments, DKKm	2018 Quoted prices	2018 Observable inputs	2018 Non-observable inputs	2018 Total	2017 Quoted prices	2017 Observable inputs	2017 Non-observable inputs	2017 Total
Commodity derivatives	16	5,513	918	6,447	1,574	1,122	976	3,672
Currency derivatives	-	1,863	-	1,863	-	2,863	-	2,863
Total derivatives	**16**	**7,376**	**918**	**8,310**	**1,574**	**3,985**	**976**	**6,535**
Securities	-	362	-	362	77	-	-	77
Total assets measured at fair value	**16**	**7,738**	**918**	**8,672**	**1,651**	**3,985**	**976**	**6,612**
Commodity derivatives	(30)	(6,288)	(315)	(6,633)	(1,234)	(1,538)	(667)	(3,439)
Currency derivatives	-	(1,873)	-	(1,873)	-	(3,010)	-	(3,010)
Total liabilities measured at fair value	**(30)**	**(8,161)**	**(315)**	**(8,506)**	**(1,234)**	**(4,548)**	**(667)**	**(6,449)**

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

Quoted prices comprises derivative financial instruments that are traded in active markets. It is customary to settle these trades on a daily basis.

Observable inputs comprises derivative financial instruments, where valuation models with observable inputs are used to measure fair value.

Non-observable inputs 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, volatilities as well as risk premiums in respect of liquidity and market risks.

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.

Derivatives valued on the basis of non-observable inputs, DKKm	2018	2017
Market value at 1 January	**309**	**31**
Transferred to Level 2 due to market data having become available	(114)	136
Gains and losses recognised in profit (loss) for the year as revenue	121	(147)
Transferred from observable inputs	36	-
Repayments	(37)	64
New trades	288	225
Market value at 31 December	**603**	**309**
Net assets can be specified as follows:		
Assets	918	976
Liabilities	(315)	(667)

Derivative financial instruments, DKKm	Assets	Liabilities	Valuation principle	Non-observable inputs	Range
Power swaps and futures	412	157	Discounted cash-flow	DK1 power prices 2019-2023	DKK 217-431 per MWh

Net derivative assets valued on the basis of non-observable inputs is specified in the table to the left.

Valuation principles and material assumptions

In order to minimise the use of subjective estimates or modifications of parameters and calculation models, it is our policy to determine fair values based on the external information that most accurately reflects the market values.

We use pricing services and benchmark services to increase the data quality. Market values are determined by the Group Treasury & Risk Management function, which reports to the Group CFO. The development in market values is monitored on a continuing basis and reported to the Group Executive Management.

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 to the right financial assets and liabilities that are subject to netting agreements, and related security.

			Related amounts not netted in the balance sheet			
Netting of financial assets, DKKm	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
31 December 2018						
Derivative financial instruments	42,723	(37,825)	4,898	(689)	-	4,209
Trade receivables	23,173	(20,060)	3,113	-	-	3,113
31 December 2017						
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			
Netting of financial liabilities, DKKm	Recognised financial liabilities, gross	Recognised financial assets, gross	Financial liabilities presented in the balance sheet	Recognised assets with right of netting	Security provided in the form of bonds	Net amount
31 December 2018						
Derivative financial instruments	44,783	(37,825)	6,958	(689)	(362)	5,907
Trade payables	23,085	(20,060)	3,025	-	-	3,025
31 December 2017						
Derivative financial instruments	76,496	(70,672)	5,824	(540)	-	5,207
Trade payables	32,030	(29,480)	2,550	-	-	2,550

17. Receivables

Other receivables

Other receivables include margin account deposits, DKK 673 million in total (2017: DKK 747 million), which have been pledged as collateral for trading in financial instruments.

Trade receivables by credit quality

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

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 2018 include receivables that have been written down by DKK 28 million following general assessment (2017: DKK 32 million).

Trade receivables by credit quality, DKKm	Group		Parent company	
	2018	2017	2018	2017
Denmark	1,106	1,512	1,066	1,456
Rest of the EU	2,350	3,270	2,031	2,824
Rest of the world	16	133	16	133
Trade receivables at 31 December	**3,472**	**4,915**	**3,113**	**4,413**

Trade receivables that are past due, but not individually impaired, DKKm	Group		Parent company	
	2018	2017	2018	2017
Days past due:				
Up to 30 days	32	57	22	22
30-90 days	18	63	10	42
More than 90 days	166	88	168	79
Trade receivables, write-downs	(28)	(32)	(27)	(32)
Trade receivables past due at 31 December	**188**	**176**	**173**	**111**

18. Income tax receivable and payable

	Group		Parent company	
DKKm	2018	2017	2018	2017
Income tax receivable at 1 January	207	340	194	321
Exchange rate adjustments	-	(1)	-	-
Adjustments to current tax in respect of prior years	(12)	(689)	(13)	(689)
Payments in respect of prior years	(191)	356	(181)	368
Current tax for the year	15	(79)	-	(75)
Payments in respect of the year	11	280	-	269
Income tax receivable at 31 December	**30**	**207**	**-**	**194**
Income tax payable at 1 January	40	921	23	898
Adjustments to current tax in respect of prior years	(48)	(1,181)	-	(1,182)
Payments in respect of prior years	(79)	264	(113)	284
Current tax for the year	278	36	280	23
Income tax payable at 31 December	**191**	**40**	**190**	**23**

19. Cash, cash equivalents and securities

	Group		Parent company	
DKKm	2018	2017	2018	2017
Cash and cash equivalents at 31 December include:				
Cash, available	688	134	559	65
Bank overdrafts	-	-	-	-
Cash and cash equivalents at 31 December	**688**	**134**	**559**	**65**

	Group		Parent company	
DKKm	2018	2017	2018	2017
Cash at 31 December can be broken down into the following balance sheet items:				
Cash, available	688	134	559	65
Cash, not available for use	-	-	-	-
Cash at 31 December	**688**	**134**	**559**	**65**
Securities at 31 December can be broken down into the following balance sheet items:				
Securities, available	361	77	559	65
Securities, not available for use	-	-	-	-
Securities at 31 December	**361**	**77**	**559**	**65**
Other bank loans at 31 December can be broken down into the following balance sheet items:				
Bank overdrafts	-	-	-	-
Bank loans at 31 December	**-**	**-**	**-**	**-**

20. Assets classified as held for sale

At 31 December 2018, assets classified as held for sale comprised our residential customer business in Denmark.

We are currently investigating the different options for exiting our residential customer business.

At 31 December 2017, there were no assets classified as held for sale.

Assets classified as held for sale, DKKm	Group		Parent company	
	2018	2017	2018	2017
Trade receivables	495	-	495	-
Total assets classified as held for sale	**495**	**-**	**495**	**-**
Contract liabilities	444	-	444	-
Total liabilities relating to assets classified as held for sale	**444**	**-**	**444**	**-**
Net assets classified as held for sale	**51**	**-**	**51**	**-**

21. Equity

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 2018 (2017: 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.

	Group & Parent company	
Development in share capital, DKKm	2018	2017
Share capital at 1 January	1,110	1,110
Share capital at 31 December	**1,110**	**1,110**

Composition of share capital, Number of shares		Group & Parent company 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

22. Provisions

	Group							
	2018				2017			
DKKm	Decom-missioning obligations	Onerous contracts	Other liabilities	Total	Decom-missioning obligations	Onerous contracts	Other liabilities	Total
Provisions at 1 January	471	2,694	479	3,644	191	2,556	98	2,845
Provisions used during the year	-	(369)	(339)	(708)	-	(436)	-	(436)
Provisions reversed during the year	(46)	-	(148)	(194)	-	-	-	-
Provisions made during the year	92	-	576	668	271	465	381	1,117
Interest element of obligations	18	88	-	106	9	109	-	118
Provisions at 31 December	**535**	**2,413**	**568**	**3,516**	**471**	**2,694**	**479**	**3,644**
Provisions for non-current liabilities	535	2,142	488	3,165	471	2,368	397	3,236
Provisions for current liabilities	-	271	80	351	-	326	82	408
Provisions at 31 December	**535**	**2,413**	**568**	**3,516**	**471**	**2,694**	**479**	**3,644**

	Parent company							
	2018				2017			
DKKm	Decom-missioning obligations	Onerous contracts	Other liabilities	Total	Decom-missioning obligations	Onerous contracts	Other liabilities	Total
Provisions at 1 January	471	2,694	479	3,644	191	2,556	98	2,845
Provisions used during the year	-	(369)	(339)	(708)	-	(436)	-	(436)
Provisions reversed during the year	(46)	-	(148)	(194)	-	-	-	-
Provisions made during the year	92	-	576	668	271	465	381	1,117
Interest element of obligations	18	88	-	106	9	109	-	118
Provisions at 31 December	**535**	**2,413**	**568**	**3,516**	**471**	**2,694**	**479**	**3,644**
Provisions for non-current liabilities	535	2,142	488	3,165	471	2,368	397	3,236
Provisions for current liabilities	-	271	80	351	-	326	82	408
Provisions at 31 December	**535**	**2,413**	**568**	**3,516**	**471**	**2,694**	**479**	**3,644**

Onerous contracts comprise contracts for LNG terminal capacity in the Netherlands, DKK 1,235 million (2017: DKK 1,329 million), contracts for leasing of gas storage capacity in Germany, DKK 950 million (2017: DKK 1,075 million) and contract regarding the Stenlille Gas Storage Facility, DKK 228 million (2017: DKK 290 million).

Other provisions include decommissioning obligations related 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 2018. The equivalent value of these obligations is recognised in production assets (property, plant and equipment) and depreciated together with the production asset.

Key accounting estimates

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.

22. Provisions (continued)

Maturities

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

	Group		Parent company	
DKKm	2018	2017	2018	2017
0-1 year	351	408	351	408
1-5 years	1,450	1,419	1,450	1,419
5-10 years	854	921	854	921
10-20 years	326	425	326	425
20-30 years	535	471	535	471
Provisions at 31 December	**3,516**	**3,644**	**3,516**	**3,644**

23. Contract liabilities

Contract liabilities amounted to DKK 207 million compared to DKK 551 million as of 1 January 2018. The decrease was primarily related to a reclassification of grid connection charges and prepayments in our residential customer businesses to assets held for sale at the end of 2018. Reference is made to note 20 'Assets classified as held for sale'.

	Group		Parent company	
Contract balances, DKKm	2018	1 January 2018	2018	1 January 2018
Contract liabilities				
Non-current contract liabilities	4	4	4	4
Current contract liabilities	203	547	194	539
Total contract liabilities	**207**	**551**	**198**	**543**

As we have implemented IFRS 15 in accordance with the modified retrospective method, we have not restated comparative figures. Read more about the adoption of IFRS 15 and the effect on the changed presentation in note 1 'Implementation of new accounting standards and interpretations'.

24. Other payables

	Group		Parent company	
DKKm	2018	2017	2018	2017
VAT and other indirect taxes	197	184	179	168
Deferred income	84	547	84	539
Other payables	295	302	211	287
Other current liabilities at 31 December	**576**	**1,033**	**474**	**994**

25. Cash flows from operations (operating activities)

	Group		Parent company	
DKKm	2018	2017	2018	2017
Operating profit (loss) EBIT	(71)	585	(37)	1,064
Amortisation, depreciation, impairment losses and write-downs	37	63	81	54
Operating profit (loss) before depreciation and amortisation (EBITDA)	**(34)**	**648**	**44**	**1,118**
Other items [1]	642	(636)	965	(1,104)
Cash flows from operations (operating activities) before changes in working capital	**608**	**12**	**1,009**	**14**
Change in inventories	(236)	51	(237)	50
Change in trade receivables	(331)	37	(586)	103
Change in other receivables	(50)	(118)	(55)	(112)
Change in trade payables	922	112	850	87
Change in other payables etc.	299	(1,175)	232	(1,189)
Change in working capital	**604**	**(1,093)**	**204**	**(1,060)**
Cash flows from operations (operating activities)	**1,212**	**(1,081)**	**(1,213)**	**(1,046)**

[1] Other items primarily comprise changes in other provisions and changes in value adjustments of derivative financial instruments.

26. Operating leases

We will implement the new lease accounting rules in IFRS 16 'Leases' on 1 January 2019. See note 1 'Implementation of new or changed accounting standards and interpretations'.

	Group		Parent company	
Operating leases, DKKm	2018	2017	2018	2017
0-1 year	80	159	79	159
1-5 year	261	319	260	319
> 5 years	-	20	-	20
Total	**341**	**498**	**339**	**498**
Operating lease payments recognised in the income statement amount to	97	152	96	150

Operating leases comprise leasing of gas storage facilities in Germany in the period 2019-2023.

27. Financial risks and risk management

Financial risks

Ørsted Salg & Service A/S is exposed to several different financial risks, including fluctuations in commodity prices, exchange rates, credit risks and interest rates. 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 because of price developments.

Commodity price risks

Our price risk in Customer Solutions arises from the purchase and sale of power and gas. The price risks associated with the purchase and sale of gas result from differences in the indexing of sales and purchase prices. Our largest gas purchase contracts include the option of renegotiating the contract price if it no longer reflects market conditions. We have completed most of these renegotiations in recent years; as a result, the contract prices have largely been indexed to pure gas prices and not to oil prices, as was previously the case. We are therefore less sensitive to differences in the oil and gas price development than before. Going forward, our oil price risk may rise again, as we conclude new LNG purchase agreements, which are typically oil-indexed.

The price risks associated with power purchases and sales are given by the difference between the purchase and sales prices. The price risk relates primarily to timing differences between purchases and sales and the related hedges and is therefore considered to be limited.

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. Market Trading is 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:
- purchase and sale of power and gas,
- energy trading, which is typically priced in currencies other than DKK, 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 transacting in power and gas – both wholesale and financial and physical transactions and financial transactions, including placing of surplus cash.

We concludes contracts with customers and suppliers on the physical delivery of energy products, and 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 based on 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 daily, and monthly and quarterly in the case of other counterparties. Losses due to default by counterparties have historically been small.

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, considering 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 in the tabel shows the effect of market value changes assuming a relative price change at 31 December 2018. 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.

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.

Sensitivity Analysis		Estimated effect on profit (loss) 31 December		Estimated effect on equity 31 December	
Risks, DKKm	Price change	2018	2017	2018	2017
Oil	+10%	9	143	-	-
	-10%	(9)	(143)	-	-
Gas	+10%	(499)	(712)	-	-
	-10%	499	707	-	-
Power	+10%	(198)	(126)	-	-
	-10%	198	139	-	-
Coal	+10%	(33)	(6)	-	-
	-10%	33	6	-	-
USD	+10%	230	330	-	-
	-10%	(230)	(330)	-	-
GBP	+10%	(114)	98	-	-
	-10%	114	(98)	-	-
SEK	+10%	(2)	19	-	-
	-10%	2	(19)	-	-
EUR	+10%	(571)	(694)	-	-
	-10%	571	694	-	-

28. 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 2018 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.

29. 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.

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 March 2020.

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 note 5 'Employee costs' and note 6 'Share-based payment'.

	Ørsted A/S		Group enterprises		Associates		Joint ventures	
Group, DKKm	2018	2017	2018	2017	2018	2017	2018	2017
Dividend received	-	-	-	-	-	-	-	-
Sale of goods and services	7	7	7,370	4,906	-	-	-	-
Purchase of goods and services	-	-	(7,735)	(9,529)	-	-	(177)	(276)
Interest, net	(43)	(38)	-	(4)	-	-	-	-
Receivables	9,072	9,141	6,426	4,562	-	-	-	-
Payables	(753)	(855)	(4,193)	(4,352)	-	-	(3)	(32)

	Ørsted A/S		Subsidiaries		Group enterprises		Associates	
Parent company, DKKm	2018	2017	2018	2017	2018	2017	2018	2017
Dividend received	-	-	-	-	-	-	-	-
Sale of goods and services	7	7	2,345	2,998	7,370	4,906	-	-
Purchase of goods and services	-	-	(651)	(994)	(7,735	(9,529)	-	-
Interest, net	(39)	(34)	-	(32)	-	(4)	-	-
Receivables	8,521	8,885	522	400	6,426	4,557	-	-
Payables	(753)	(797)	(635)	(411)	(4,193)	(4,344)	-	-

30. 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
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	Recognition the same as under IFRS

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.

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.

Example of the business performance principle

		Recognised in the income statement as follows	
Year	Development in market value	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**

Income statement

Revenue
Revenue is measured based on the consideration specified in a contract with a customer (transaction price) and excludes amounts collected on behalf of third parties, i.e. VAT. We recognise revenue when we transfer control over a product or service to a customer.

If a part of the transaction price is variable, i.e. bonus payments, incentive payments for unmissed deadlines, etc., the variable consideration is recognised in revenue when it is highly probable that the revenue will not be reversed in subsequent periods.

We adjust the transaction price for the time value of money if the payments exceed twelve months.

Sales agreements are divided into individually identifiable performance obligations. If a sales agreement includes several performance obligations, the sales agreement's transaction price is allocated to each performance obligation's stand-alone selling price.

In the comparative period, revenue was measured at the fair value of the consideration received or receivable. Revenue from the sale of goods was recognised when the significant risks and rewards of ownership had been transferred to the customer, recovery of the consideration was probable, the associated costs and possible return of goods could be estimated reliably, there was no continuing management involvement with the goods, and the amount of revenue could be measured reliably. Revenue from rendering of services was recognised in proportion to the stage of completion of the work performed at the reporting date.

Sale of gas
Timing of satisfaction of delivery obligations and significant estimates
Revenue is recognised when control of the gas is transferred to the buyer. Transfer of control occurs either when the gas is injected into the distribution system or physically delivered to the customer.

Significant terms of payment and associated estimates and assessments
Sales contracts for a fixed amount of gas at a variable price, or where we are exclusive suppliers to the customer at a variable price, are considered one performance obligation with multiple deliveries to be satisfied over time. For such contracts, we recognise revenue

in the amount up to which we have a right to invoice.

Some long-term gas sales contracts include clauses which give the right to renegotiate the fixed sales prices. Expectations for the outcomes of renegotiations are not included in revenue before we know the outcome of the individual renegotiations.

In most cases, the consideration for the gas is due when the gas is injected into the distribution system or delivered to the customer. The delivery of gas is invoiced on a monthly basis, and the payment is due within 10-30 days.

Sale of power

Types of goods and services

Revenue from sale of power includes the sale of power produced at own wind farms and power plants, the sale of power sourced from other producers, and the sale of ancillary services.

Timing of satisfaction of delivery obligations and significant estimates

Revenue is recognised when control of the goods is transferred to the buyer. Transfer of control occurs when the actual power is delivered to the customer, which for power generated by us occurs when it is produced.

Significant terms of payment and associated estimates and assessments

Revenue from ancillary services consist of fees for having power plants on standby in periods with a demand for power generation. Ancillary services are considered one performance obligation which is fulfilled over time when the power plants are on standby.

Sales contracts for a fixed amount of power at a variable price, or where we are exclusive suppliers to the customer at a variable price, are considered one performance obligation with multiple deliveries to be satisfied over time. For such contracts and for long-term agreements on selling power at a fixed price, we recognise revenue in the amount up to which we have a right to invoice.

In most cases, the consideration for the power is due when the actual power is delivered to the customer. The delivery of power is invoiced on a monthly basis, and the payment is due within 10-30 days.

Ancillary services are invoiced on a monthly basis, and consideration is payable when invoiced.

Distribution and transmission

Timing of satisfaction of delivery obligations and significant estimates

Revenue from the distribution and transmission of gas and power is recognised when the gas or power is delivered to the buyer, or when the capacity is made available.

Significant terms of payment and associated estimates and assessments

Revenue is calculated as the amount we are entitled to when the service is delivered to the customer and invoiced on a monthly basis, and consideration is payable when invoiced.

Other revenue

Types of goods and services

Other revenue primarily includes consultancy services.

Timing of satisfaction of delivery obligations and significant estimates

Revenue from providing services is recognised in the accounting period in which the services are rendered.

For fixed-priced contracts, revenue is recognised based on the actual service rendered at the end of the reporting period as a proportion of the total services to be rendered because the customer receives and uses the benefits simultaneously. This is determined based on the actual labour hours spent relative to the total labour hours expected.

Significant terms of payment and associated estimates and assessments

Fixed-price contracts are invoiced on a monthly basis, and consideration is payable when invoiced. Variable fee services are generally due after the services are rendered.

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.

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, construction 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. 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.

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 subsuppliers 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.

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 [1]	20
Production assets: Gas treatment plant [2]	20-40
Marine pipelines [2]	20-40
Fixtures and fittings, tools and equipment	3-10
Assets under construction [3]	-

1) Land is not depreciated.
2) The depreciation profile takes account of the fact that the use of the assets changes substantially over the lives of the assets.
3) 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.

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 depreciation 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

We keep our receivables until maturity, and they are therefore measured at amortised cost. Write-down is carried out from initial recognition of our receivables. 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.

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.

Provisions

Provisions are recognised when the following criteria are fulfilled:

- We have a legal or constructive obligation as a result of an earlier event.
- The settlement of the obligation is expected to result in an outflow of resources.
- The obligation can be measured reliably.

For onerous contracts, a provision is made when the expected income to be derived from a contract is lower than the unavoidable cost of meeting our obligations under the contract.

Provisions concerning carbon emissions are recognised when our actual emissions exceed our holding of carbon emissions allowances.

Decommissioning obligations are measured at the present value of the future liability in respect of decommissioning as expected at the balance sheet date. The present value of the provision is recognised as part of the cost of property, plant and equipment and depreciated together with the associated asset. The addition of interest on provisions is recognised in the income statement under financial expenses.

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.

Contract liabilities

We recognise a contract liability when the invoicing on account and expected losses exceed the transaction price of the goods or services transferred to our customer.

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 respective 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.

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.

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 purchase 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.

31. 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 [1]
Capital employed	Equity plus/minus gains/losses relating to hedging instruments on equity + net interest-bearing debt [2]

[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.

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