Hornsea Project Three
Offshore Wind Farm

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Funding Statement Annex 2 – Ørsted Annual Report
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Hornsea 3
Offshore Wind Farm

Ørsted

Compulsory Acquisition

Funding Statement Annex 2 – Ørsted Annual Report

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This report is also downloadable from the Hornsea Project Three offshore wind farm website at:
www.hornseaproject3.co.uk

Ørsted

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Front cover picture: Kite surfer near a UK offshore wind farm © Orsted Hornsea Project Three (UK) Ltd., 2018

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Ørsted

Annual report 2017

The Ørsted Way
Let's create a world that runs entirely on green energy

Climate change is one of the biggest challenges for life on Earth. Today, the world mainly runs on fossil fuels. We need to transform the way we power the world; from black to green energy.

At Ørsted, our vision is a world that runs entirely on green energy. We want to revolutionise the way we power people by developing green, independent and economically viable energy systems. By doing so, we create value for the societies that we are a part of and for all our stakeholders.

The way we work is based on five guiding **principles:**

Integrity
We are open and trustworthy and uphold high ethical standards

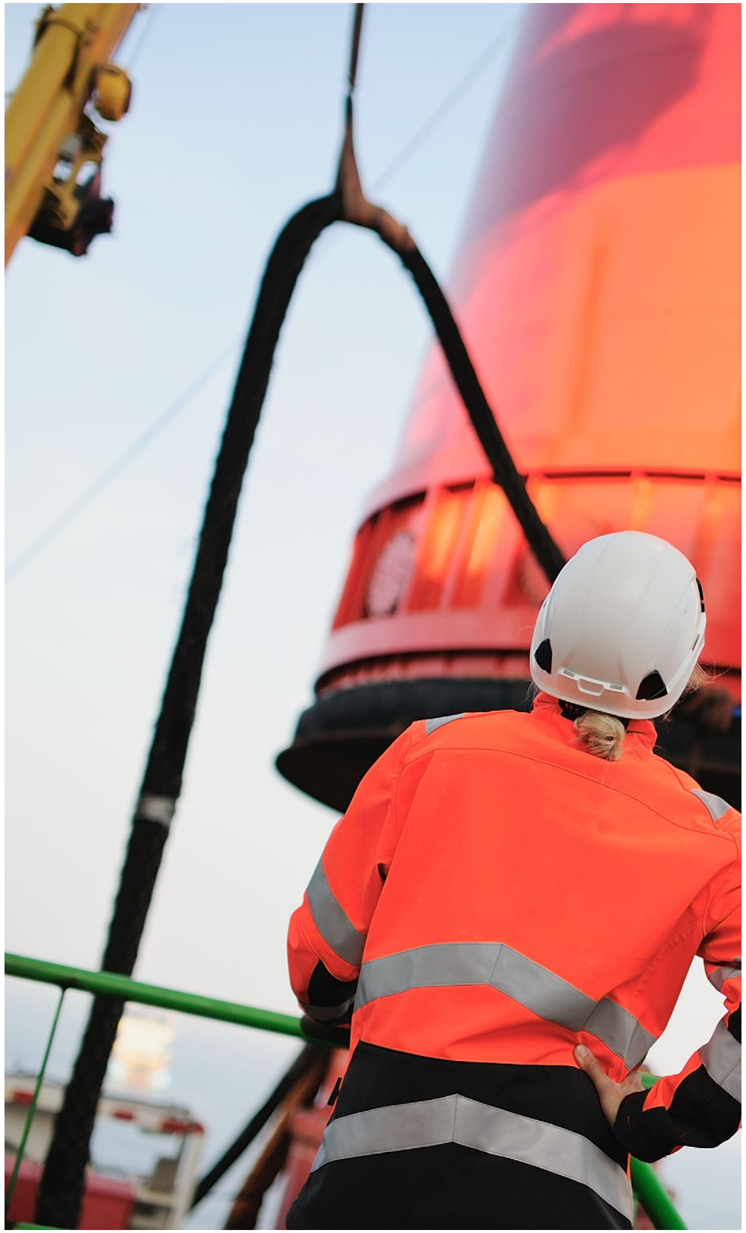
Passion
We are passionate about what we do and proud of what we achieve

Team
We value diversity and collaborate in a non-hierarchical, respectful and trusting way

Results
We set the bar high, take ownership and get the right things done

Safety
We never compromise on health and safety standards

Integrity is our root. Passion is our energy. Team is our strength. Results give us freedom. The safe way or no way.



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Overview

Headquarter in Denmark

5,638
employees

Revenue in 2017
DKK 59.5bn

Chairman's statement

The transformation of the energy supply to green energy is one of the biggest challenges facing the world. Today, more than 80% of the world's energy supply comes from the burning of fossil fuels, which leads to serious climate change and impacts people's living conditions all over the planet. If we are to slow down this development, we need to supply the world with energy in a sustainable manner.

"With the decisions we made in 2017, we completed our strategic transformation from black to green energy. None of the other major energy companies in Europe have come this far in their transformation processes.

Over a period of 11 years, Ørsted has been transformed from a Danish utility company based on coal, oil and gas to an international energy company based on green energy. In 2017, we decided to phase out our use of coal by 2023, and we divested our oil and gas business. We also guaranteed our Danish residential customers that the power they receive from us is generated by offshore wind farms.

With the decisions we made in 2017, we completed our strategic transformation from black to green energy. None of the other major energy companies in Europe have come this far in their transformation processes, and among this group, we are now the fastest-growing company. As a result, we are a completely different company today. That is why we decided to change our name to Ørsted, inspired by the world-renowned Danish scientist H.C. Ørsted.

Our vision is a world that runs entirely on green energy. We have strong competences within sustainable energy solutions in all parts of our business. We want to build on these strengths and help the world's transformation to green energy systems.

Our commitment to sustainability is fundamental. We therefore run our business in a way that supports the United Nations Sustainable Development Goals (SDGs). In our Sustainability Report, you can read more about how we contribute to these goals.

The heading for our strategy is 'Green growth'. In the coming years, growth will primarily be driven by our build-out of offshore wind, where we have the largest investment programme in the sector. We are also looking into new growth opportunities within green energy generation, intelligent customer solutions and solutions integrating generation and consumption.

In 2017, we continued our tireless work to improve safety for our employees and suppliers. We achieved a lost-time injury frequency of 1.6, the lowest level ever in the Group's history. On this basis, we are now switching to an even more fine-meshed measuring method comprising all accidents, whether they lead to absence or not.

Profit for the year from continuing operations amounted to DKK 13.3 billion, our best ever result. The Board of Directors recommends to the annual general meeting that dividend payments be increased from DKK 6 to DKK 9 per share, enabling us to retain an attractive level of dividend.

On behalf of the Board of Directors, I would like to thank the management and employees for having created one of the most successful energy companies in Europe, and one that is leading the way towards a world which runs entirely on green energy.

Thomas Thune Andersen
Chairman

CEO's review

Ørsted's vision of creating a world that runs entirely on green energy was supported by a strong performance in 2017.

- Strong growth in the Group's operating profit (EBITDA) of 18%
- Wind Power's EBITDA increased by 74% to DKK 20.6 billion, of which the farm-downs of 50% of Walney Extension and Borkum Riffgrund 2 accounted for almost half
- Good progress in the build-out of new offshore wind farms
- New offshore wind projects awarded in Germany and the UK
- Important milestones for our offshore wind projects in the USA and Taiwan
- Inauguration of the biomass conversion of Skærbæk Power Station and start-up of the Asnæs Power Station conversion
- Divestment of our oil and gas business
- Change of name to Ørsted.

Results

In 2017, we achieved a strong operating profit (EBITDA), which more than lived up to our expectations at the beginning of the year.

Underlying growth in 2017 was 56%. The good results were driven by yet another strong year in Wind Power where EBITDA was up 74% and ended at DKK 20.6 billion, fuelled by the farm-downs of 50% of the Walney Extension and Borkum Riffgrund 2 offshore wind farms. In addition, there was an increase of 45% in earnings from our offshore wind farms in operation where the portfolio is continuously expanded.

The reported EBITDA for 2017 amounted to DKK 22.5 billion, corresponding to a growth of 18%. Our return on capital employed (ROCE) increased to 25% in 2017 from 17% in 2016, when adjusting for lump-sum payments related to gas purchase contracts amounting to DKK 4.3 billion in 2016.

The net profit for the continuing part of the Group increased by DKK 1.1 billion to DKK 13.3 billion. In addition, the result from the divested upstream oil and gas business contributed with DKK 6.9 billion.

In 2017, the green share of our heat and power generation increased by 14%-points to 64% as a result of the conversion of our CHP plants to sustainable biomass and increased generation from offshore wind farms. Our target is to

"Our target is to increase the green share of power and heat generation to at least 95% in 2023.

increase the green share of power and heat generation to at least 95% in 2023.

Strategic development

Our vision is to create a world that runs entirely on green energy. We want to spearhead the green transformation. We do so by continuously investing in our competitiveness and core competences to create opportunities for long-term, profitable growth within renewable energy.

Our business activities consist of three areas: offshore wind, utility business, as well as a portfolio of new long-term growth options.

We have an ambitious plan for the build-out of offshore wind that will enable us to maintain and strengthen our global, market-leading position and continue to expand in both existing and new markets. We will also maintain our focus on reducing the costs of offshore wind and on further developing innovative technical solutions. Over the next many years, offshore wind will remain our primary driver of growth and investment priority and constitute most of our business. It is our strategic core and will remain our priority, should we face bottlenecks in our resource allocation. We expect that more than 85% of our gross investments will be within offshore wind, and yield an average return on capital employed of 13-15% in the years up to and including 2023.

In our utility business, we are in the process of completing our conversion from fossil fuels to sustainable biomass, ensuring that coal can be phased out completely by 2023. At the same time, we will continue our roll-out of smart meters, build a smart power distribution grid, while also focusing on improving customer experience through digitisation and innovation of our products. Our utility business complements our wind power business, enabling us to develop vertically integrated, green energy solutions. In addition, it provides access to and insight into the market and contributes stable, regulated earnings.

There is strong global support for accelerating the green transformation. In the past few years, we have created significant value through our investments in green energy, and we want to gradually expand our access to the significant, long-term growth opportunities, not just within offshore wind and bioenergy, but potentially also other green technologies. We want to build on Ørsted's vision, culture and competences to pursue further profitable growth.

As much as possible, our long-term growth must be a diversified journey combined with the ability to change our focus and direction in step with market developments. We cannot predict what the future will bring.

Our strategy is based on the vision of an integrated green energy system, where renewable energy technologies can be combined with each other and with energy storage solutions, more flexible and intelligent patterns of consumption and electrification of the transport sector, heating systems and industry. We believe that the ability to think integrated solutions across different technologies and parts of the energy system may in itself become a competitive advantage.

> **"We want to gradually expand our access to the significant, long-term growth opportunities, not just within offshore wind and bioenergy, but potentially also other green technologies.**

Our portfolio of new long-term growth options includes, among other things, the Renescience technology. We expect our first full-scale plant to be commissioned in H1 2018. Furthermore, we are seeking to mature our 'Energy-as-a-Service' concept as a way of meeting our industrial customers' needs for innovative and green energy solutions. We have also established a new unit focusing on energy storage and solar PV projects, and we also look into onshore wind. It is early days for these initiatives, and we are still working to establish a scalable commercial model for them. Thus, they are not expected to contribute significantly to the Group's financial development in the short term, but we are exploring them as long-term growth options.

Currently, our above-mentioned growth initiatives are all organic, but we will also consider making focused acquisitions should strategically relevant opportunities arise with the potential to create value – both within offshore wind and within new green growth areas where we can build on existing competences. Geographically we focus on Northwestern Europe, North America and selected Asian markets.

When it comes to storage, solar PV and onshore wind we first and foremost see value creation where we can take over projects from developers who do not have the scale, capabilities, and balance sheet to extract the full value from their projects. We have essentially built our leadership position in offshore wind on the same business model. There are, of course, differences in technology and market dynamics across offshore wind, onshore wind, storage and solar PV. However, we also see many similarities where we can transfer this experience and learning from our existing business. Given the strength and growth of our offshore wind business, we are not under pressure to pursue new green avenues, but if attractive opportunities can be found within adjacent renewable technologies, a broader portfolio will further add to our strategic scale optionality, and long-term growth prospects.

In 2017, we changed our name to Ørsted – a name which better supports our position as a leading green energy company. The name is a tribute to the Danish scientist H.C. Ørsted, whose curiosity, dedication and skills, among other things, led to the discovery of electromagnetism, which today is a key component in the generation of power and thereby modern society. The name has generally been well received both internally in the company and among our external stakeholders. A few bearers of the Ørsted name have, however, chosen to file a subpoena with the Copenhagen Maritime and Commercial Court to prevent our use of the name. We are, of course, sorry about that as we have been keen to establish a friendly and respectful relationship with all bearers of the name. We still believe we are entitled to name our company after H.C. Ørsted.

Capital allocation

From 2019, we expect our business activities to generate sufficient cash flows to finance our planned portfolio investments.

Most of our capital will go towards supporting our existing ambitious growth plan for offshore wind, where our ambition is to reach an installed capacity of 11-12GW by the end of 2025. In addition, we will finalise the above-mentioned conversion of our CHP plants to sustainable biomass and install one million smart meters.

We maintain our strong commitment to our credit rating target (BBB+/Baa1) and the, at any time, announced expected dividend payments. Our capital structure allows us to increase dividends from DKK 6 to DKK 9 per share, totalling DKK 3.8 billion for 2017. This is a significant increase compared to our announcement at the time of the IPO and attributable to strong and growing cash flows from our offshore wind farms in operation. For the period up until 2020, we still expect a year-on-year high single-digit percentage increase in dividends relative to our new baseline.

Even with our current ambitious investment plans, clear commitment to our credit rating target and payment of increasing dividends, we expect to build additional financial capacity within a couple of years. This means that in the future, after the expected farm-down of Hornsea 1, we will only use farm-downs if we can continue to attain an attractive value creation or in order to spread our market and project risk.

We will invest any further excess financial capacity in value-adding growth to complement our existing investment plan, if we see relevant opportunities in the market.

After that, excess capital will be returned to our shareholders in the form of dividends and/or share buybacks.

Wind Power

In 2017, we reached several new milestones in our ambitious green strategy. Burbo Bank Extension in the UK and Gode Wind 1 and 2 in Germany were inaugurated in the early summer, contributing significantly to our continued growth in earnings from operating offshore wind farms. At the end of 2017, all turbines at Race Bank and at the first part of Walney Extension had been installed. Race Bank was fully commissioned in January 2018 and Walney Extension is expected to follow in H2 2018. In 2017, the build-out of our portfolio also included German Borkum Riffgrund 2, Dutch Borssele 1 and 2 and Hornsea 1 in the UK, which will be the world's largest offshore wind farm when commissioned.

We continued our partnership model in 2017, farming-down 50% of Walney Extension to the Danish pension funds PKA and PFA as well as 50% of Borkum Riffgrund 2 to Global Infrastructure Partners. The farm-downs testify to the continued considerable interest from investors in the green transformation and Ørsted's market-leading partnership model.

In April, we won the rights to build three offshore wind farms in the German part of the North Sea. Two of them were won with zero-subsidy bids. Commissioning of the projects is planned for 2024, provided that final investment decisions, as expected, are made in 2021.

In September, we were awarded a contract to construct Hornsea 2 in the UK. With a capacity of 1.4GW, it will overtake Hornsea 1 as the world's largest offshore wind farm when completed in 2022. The price of the contract for difference (CfD) was 50% lower than in the previous CfD round just two years ago. The decline illustrates the rapid cost reductions in the industry, which have made offshore wind power competitive relative to conventional power generation based on fossil fuels.

We are constantly observant to new opportunities for expanding our portfolio, creating more value and safeguarding our market position. This applies both in Europe, where the interest in offshore wind remains strong, and via business development in new markets, such as the USA and Taiwan. In the autumn, the UK and Dutch governments announced new ambitious targets for additional build-out of offshore wind in the 2020-2030 period.

In the USA, we bid at the first offshore wind auction in Massachusetts in December together with our partner Eversource Energy, participating with the Bay State Wind project. The preferred bidder or bidders are expected to be selected in April 2018 and will be invited to negotiate a fixed price contract with the three local power distribution companies.
In addition, we entered into a partnership agreement with Dominion Energy about a development project off the coast of Virginia for further build-out of offshore wind in Virginia.

Since offshore wind is an important component in Taiwan's future energy supply, it is a potentially attractive market for us. At the end of 2017, the Taiwanese EIA evaluation panel recommended approval of our environmental impact assessment of the four Greater Changhua projects with a total capacity of up to 2.4GW. Final approval is expected in Q1 2018. In addition, we have entered into cooperation with local Taiwanese companies on components for future projects. We expect the first of the potential projects in Taiwan to be commissioned in the early 2020's.

Bioenergy & Thermal Power

In accordance with our overall strategy, we continue to convert our Danish CHP plants to sustainable biomass. The phasing-out of coal is gaining momentum, and from 2023 we will no longer use coal to generate heat and power. In October 2017, we inaugurated Skærbæk Power Station's new unit which can now run up to 100% on sustainable biomass. We also entered into an agreement to convert Asnæs Power Station to sustainable biomass from 2019. Now, only Esbjerg Power Station remains to be converted for us to achieve our objective of coal-free operations.

Our first commercial Renescience plant in Northwich, UK, was constructed in 2017. Through enzymatic treatment, unsorted household waste is converted into biogas and recyclable materials. The work on testing and optimising the mechanical parts of the plant is still ongoing and has taken longer than expected. We expect to commission the plant in H1 2018. When fully operational, the plant is expected to be able to treat waste from approximately 110,000 British households.

Distribution & Customer Solutions

At the beginning of the year, and as part of our green transformation, we decided that our 733,000 residential power customers in Denmark should have their total power consumption covered by green power generated by our offshore wind farms at no additional cost for them. Since 1 January 2017, we have therefore supplied green power to all our residential customers. We buy certificates from our own Danish offshore wind farms corresponding to the power consumed by our residential customers.

By the end of 2020, smart meters must be installed for all our Danish power customers. After a successful pilot project in late 2016 and early 2017, we initiated the large-scale roll-out in June. By the end of 2017, a total of 183,000 new meters were in use. In cooperation with Danish meter producer Kamstrup, our power distribution company Radius is tasked with replacing more than one million smart meters on Zealand.

Employees

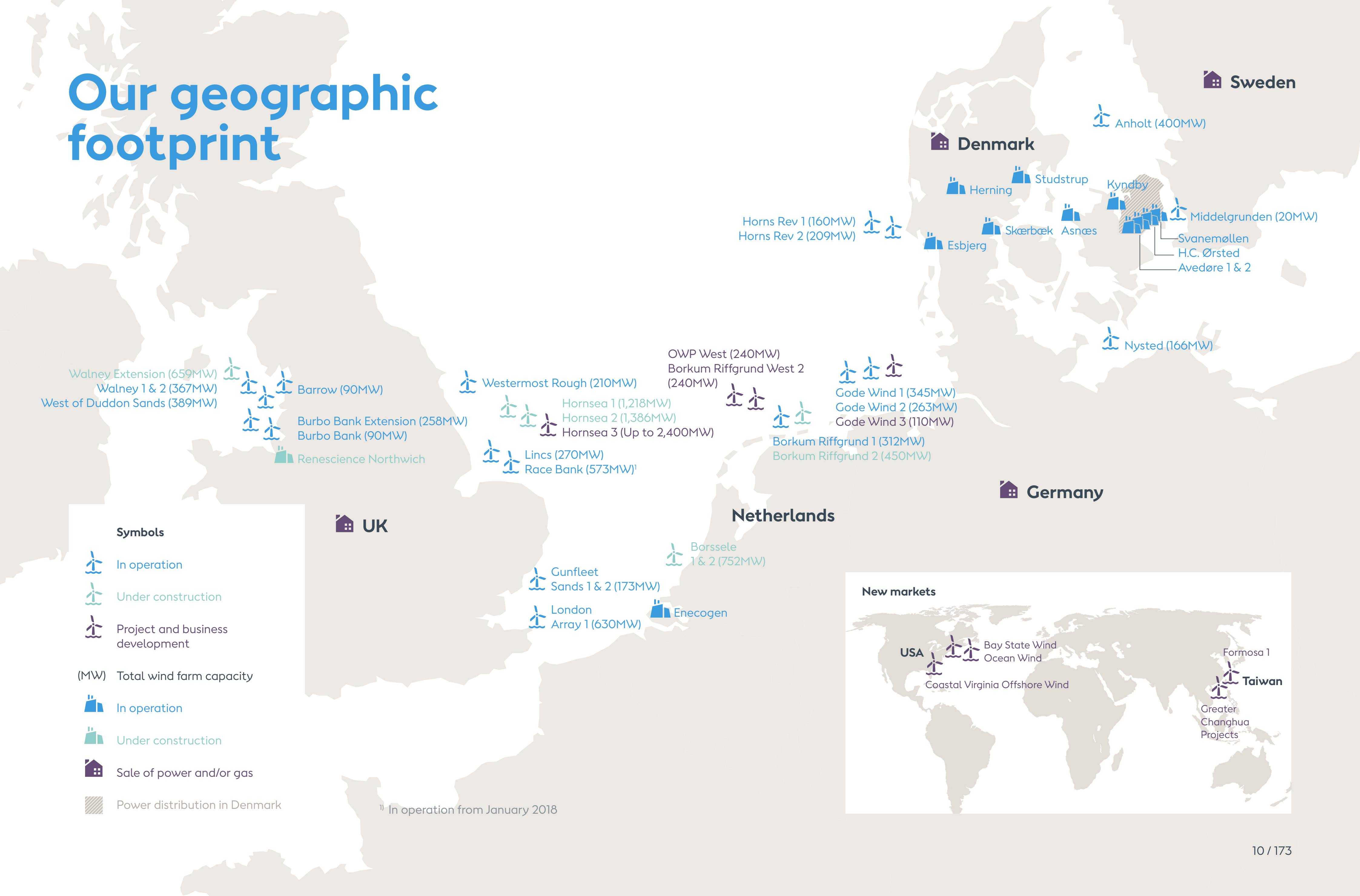
We have a very strong focus on safety and well-being. During the year, we maintained the positive development in the Group's lost-time injury frequency (LTIF) and saw no life-changing accidents. Moreover, the feedback from our employees in this year's employee survey was again positive. We believe that well-being, safety and positive results go hand in hand. Therefore, we are working continuously to maintain and increase employee satisfaction and safety.

Effective from 2018, we have introduced a new safety target – total recordable injury rate (TRIR). This measure is more extensive than LTIF, and includes, besides lost-time injuries, accidents which do not result in absence, but which make the employee unable to undertake normal work, or where medical treatment is required. It follows that there are more facets to TRIR compared to the previously used LTIF measure, and we believe that it reflects everyday life in Ørsted better and will help raise ambition levels for our safety efforts even further.

Our employees again deserve credit and acknowledgement for their dedicated performance all through 2017. Their strong competences, entrepreneurial spirit and passion for what Ørsted stands for and the work we do, are the very foundation of our company.

Henrik Poulsen
CEO and President

Our geographic footprint



1) In operation from January 2018

Our business model

How we create a world that runs entirely on green energy

Key resources

Financial capital
We finance our investments through cash flow from operations, debt and divestment of partnership interests

Energy assets
We invest in scalable, innovative green technologies and solutions

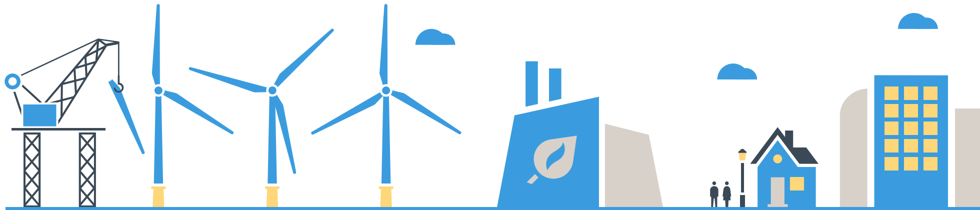
Natural resources
We rely on natural resources, such as biomass, as well as locations with attractive wind speeds and seabed conditions

Human resources
We rely on a highly skilled workforce to operate our business

Innovative culture
We continuously develop competitive energy solutions through innovation

Stakeholder engagement
We depend on constructive relations with our key stakeholders to ensure supportive framework conditions for our business

Core activities



	Develop and construct	Operate and maintain	Sell and optimise
Wind Power	Develop and build offshore wind farms. Five wind farms are under construction	Own 23 offshore wind farms of which we operate 19	Utilise our partnership model and crystalise value
Bioenergy & Thermal Power	Convert our CHP plants from coal or gas to sustainable biomass	Own and operate ten plants in Denmark and one plant in the Netherlands	Enter into long-term contracts with our heat customers and sell power to the market
Distribution & Customer Solutions	Modernise our power distribution grid in Denmark	Operate and maintain our grid infrastructure	Manage the Group's overall energy portfolio and provide gas, power and energy solutions for our customers

Value created

We create value for our shareholders in the form of competitive total returns

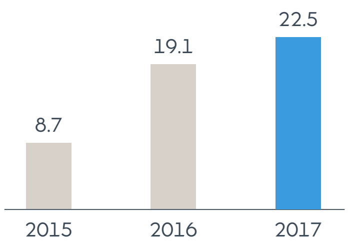
We address profound societal challenges by developing green, independent and economically viable energy systems that reduce greenhouse gas emissions

We fulfil our customers' energy needs through green, innovative and efficient energy solutions

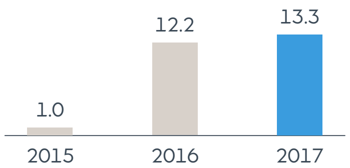
We are committed to a sustainable working life and keep a constant focus on being **a great and safe place to work** with motivated and satisfied employees

Strong progress in consolidated results

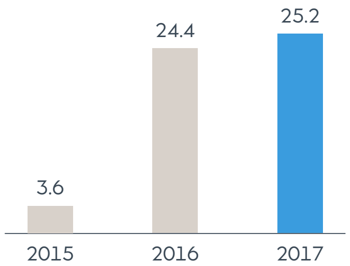
Operating profit (EBITDA), DKK billion
The increase was due partly to 45% growth in earnings from our offshore wind farms in operation, partly to higher partnership income from the farm-down of Walney Extension and Borkum Riffgrund 2. The increase was partially offset by the fact that 2016 was positively affected by compensation of DKK 4.3 billion from the renegotiation of gas purchase contracts.



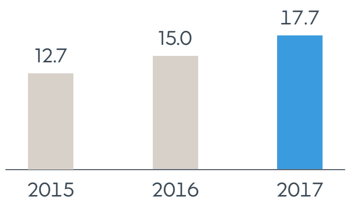
Net profit (continuing operations), DKK billion
The increase was mainly due to higher EBITDA, partially offset by a gain on the divestment of the gas distribution network in 2016.



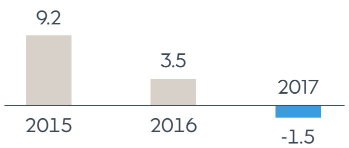
Return on capital employed (ROCE), %
ROCE increased by 1%-point due to the higher EBITDA, which was partly offset by higher funds tied up in capital employed as a consequence of our continued high investment level. ROCE totalled 17% in 2016 adjusted for compensation from renegotiations.



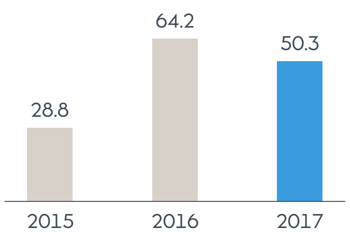
Gross investments, DKK billion
Investments were particularly substantial in 2017 due to construction on several offshore wind farms including Walney Extension, Race Bank, Borkum Riffgrund 2 and Hornsea 1.



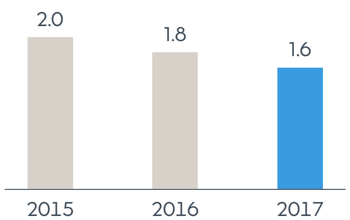
Interest-bearing net debt, DKK billion
Net debt decreased by DKK 5.0 billion, due to the proceeds from the divestment of the Oil & Gas business and from its operation until the divestment. The continuing operation also achieved a positive free cash flow despite the high investments.



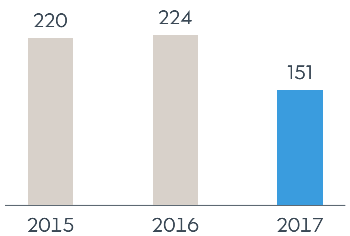
Credit metric (FFO/adjusted net debt[1]), %
The decline in FFO/adjusted net debt was primarily due to lower FFO, as gains from the farm-downs of the offshore wind farms are not included in the calculation. Gains from the farm-downs were DKK 8 billion higher than in 2016, which on the other hand was positively affected by compensation from the renegotiations. However, debt was lower compared to 2016.



Safety, LTIF
Our continued focus on safety resulted in a historically low lost-time injury frequency in 2017. Effective from 2018, we have introduced a new safety target – total recordable injury rate (TRIR).



Carbon emissions, gCO_2e/kWh
Carbon emissions were reduced following the biomass conversion of CHP plants as well as 42% higher generation from offshore wind farms.



[1] Interest-bearing net debt including 50% of hybrid capital, cash and securities not available for use (with the exception of repo transactions), present value of lease obligations, and decommissioning obligation less deferred tax.

Outlook 2018

New EBITDA guidance method

We have, in 2018, decided to change our guidance method. In the future, our guidance will only include the effect from existing offshore wind partnership agreements. Previously, our outlook included the effect from partnership agreements which we expected to conclude during the year. That made our outlook particularly sensitive to the timing of farm-downs in Wind Power as well as the distribution of income between the years. Earnings from the new partnerships concerning Borkum Riffgrund 2 and Walney Extension amounted to DKK 9.8 billion in 2017.

EBITDA

EBITDA (business performance) excluding new partnership agreements is expected to be DKK 12-13 billion in 2018. The outlook is based on the expected development in the business units (compared to 2017), as described below.

Wind Power (without new partnerships) – higher

— Earnings from offshore wind farms in operation are expected to increase as a result of the full commissioning of Race Bank in January 2018 and Walney Extension in H2 2018, as well as higher earnings from Burbo Bank Extension, which was completed in May 2017

— Earnings from existing partnership agreements are expected to decline relative to 2017, when earnings were positively affected particularly by Race Bank, but also by Burbo Bank Extension and Gode Wind 1 and 2. In 2018, earnings from existing partnerships will primarily come from Walney Extension and Borkum Riffgrund 2

— A more negative contribution than in 2017 is expected from other activities as a result of higher expensed project development costs.

Bioenergy & Thermal Power – higher

— Total EBITDA from our heat and power generation activities is expected to increase, primarily as a result of the completed bioconversion of Skærbæk Power Station. Earnings from ancillary services are expected to be in line with 2017.

Distribution & Customer Solutions – significantly lower

— Earnings from Distribution are expected to be in line with 2017

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

Outlook 2018, DKKbn

Outlook 2018, DKKbn	2018 Guidance	2017 Realised
EBITDA (without new partnerships)*	12-13	12.7
Wind Power (without new partnerships)*	Higher	10.8
Bioenergy & Thermal Power	Higher	0.2
Distribution & Customer Solutions	Significantly lower	2.1
Gross investments	16-18	17.7

* EBITDA excluding new partnership agreements signed later than 1 January 2018 (respectively 2017).

Our EBITDA guidance for the Group is the prevailing guidance, whereas the directional earnings development per business unit serves as a means to support this. Higher/lower indicates the direction of the business unit's earnings relative to the results for 2017.

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

Hornsea 1

We still expect a 50% farm-down of Hornsea 1, either in H2 2018 or in 2019. Should the divestment materialise in 2018, EBITDA including new partnerships is expected to be higher than the DKK 22.5 billion achieved in 2017. With a capacity of 1.2GW, this wind farm is around 85% larger than Walney Extension.

Gross investments

Gross investments for 2018 are expected to amount to DKK 16-18 billion. The outlook reflects a high level of activity in Wind Power (Walney Extension, Hornsea 1, Borkum Riffgrund 2, Borssele 1 and 2 and Hornsea 2), biomass conversion of Asnæs Power Station and installation of smart meters.

Work in progress

In addition to gross investments, significant funds are temporarily tied up in connection with the construction of offshore transmission assets for offshore wind farms in the UK and offshore wind farms for our partners. These funds are a part of our operating cash flow.

At the end of 2017, funds tied up in work in progress totalled DKK 7.5 billion. We expect to divest the Burbo Bank Extension offshore transmission asset during H1 2018, but we still expect to see an increase in funds tied up in work in progress in 2018 as a result of the construction of transmission assets at Hornsea 1 and 2. The construction of Borkum Riffgrund 2 and Walney Extension is expected to be more or less operating cash flow-neutral, as we will be receiving milestone payments from our partners during the construction phase.

Forward-looking statements

The annual report contains forward-looking statements, which include projections of financial performance and targets as well as our financial policies. These statements are not guarantees of future performance and involve certain risks. Many direct and indirect factors may affect future results and developments may therefore differ materially from what is forecast due to a variety of factors.

These factors include, but are not limited to, changes in temperature, wind conditions and precipitation levels, the development in inflation, currency, power, gas, coal, carbon, oil and interest rate markets, changes in legislation, regulation or standards, changes in the competitive environment in our markets, security of supply and cable break-downs or other disruptions. Reference is made to the 'Risk and risk management' chapter and to note 7.

Uncertainties, prices and hedges

Our offshore wind farms are largely subject to publicly regulated prices, implying a high degree of certainty about the income. This means that we know the price per generated MWh for most wind farms in Denmark and Germany as well as the CfD wind farms in the UK. For our British ROC wind farms, we also know the subsidy per generated MWh which we will receive in addition to the market price. In 2018, the ROCs are expected to account for 60% of the total income from these wind farms. In 2018, the total publicly regulated prices and subsidies are expected to account for 78% of the income from our offshore wind farms in operation.

The part of our generation from offshore wind farms and power stations, which is exposed to market prices, has to a large extent been hedged for 2018. The same applies to our currency risks. The market value of financial hedging instruments relating to our operations and divestment of assets deferred for recognition in business performance EBITDA in 2018 amounted to DKK -0.2 billion at the end of 2017. This effect is included in the outlook for 2018 (see note 1.1).

The most significant uncertainty surrounding the operating profit from existing activities in 2018 relates to the size of our power generation, which depends on the wind conditions, the ramp-up of new wind farms and potential break-downs, and to a less extent our earnings from existing partnership agreements, heat and market trading activities.

Financial targets and policies

Financial targets

Our target is an average return on capital employed (ROCE) of 12-14% for the Group in the 2018-2023 period (previously 2017-2023), with Wind Power as the main contributor with a targeted ROCE of 13-15% over the same period. We have maintained our target, even though we are now excluding 2017, where we achieved an ROCE of 25% for the Group and 28% for Wind Power.

In Bioenergy & Thermal Power, the focus is on realising positive free cash flows (FCF). Based on the biomass conversion of our CHP plants and the build-out of new bioenergy solutions, we expect to realise positive free cash flows for Bioenergy & Thermal Power from 2018.

This year, we are introducing a new directional target for the operating profit from our offshore wind farms in operation, as they will account for the largest share of our total earnings within a few years. Therefore, we expect an average annual increase in EBITDA from offshore wind farms in operation (including O&M agreements and power purchase contracts) of 13%-14% in the period from 2017 to 2023, from a starting point of DKK 8.5 billion in 2017. The portfolio includes the current decided offshore wind farms through Hornsea 2, and does not account for farm-downs after Hornsea 1, which we expect to farm down in H2 2018 or 2019.

Financial policies

The Board of Directors recommends to the annual general meeting that dividends of DKK 9 per share be paid for FY 2017, equating to an increase of 50% and a total of DKK 3.8 billion. This is a significantly higher increase than envisaged in our dividend policy, which was revised in connection with the IPO. The increase is driven by a strong and increasing cash flow from our offshore wind farms in operation. Our objective is still to increase dividends annually by a high single-digit rate compared to the dividends for the previous year up until 2020.

As described in the strategy section of this annual report, our dividend policy and other expected capital allocation are subject to our objective of maintaining a BBB+/Baa1 rating profile.

At the end of 2017, we adjusted our credit metrics to exclude the effect of gains on farm-downs of offshore wind farms. We have done this to align the metric to the credit rating agencies' method. Despite the alignment, our target is still a ratio of about 30%.

Financial targets	Target	Year
Return on capital employed (ROCE)		
Group	12%-14%	2018-2023
Wind Power	13%-15%	2018-2023
Distribution & Customer Solutions	9%-11%	2018-2023
Free cash flow (FCF)		
Bioenergy & Thermal Power	Positive	2018
Average yearly increase in EBITDA (CAGR)		
Offshore wind farms in operation	13%-14%	2017->2023

We have maintained our ROCE target, even though we are excluding 2017, where we achieved an ROCE of 25%.

We are introducing a new directional target for our offshore wind farms in operation.

Financial policies	
Rating	Min. Baa1/BBB+/BBB+ (Moody's/S&P/Fitch)
Capital structure	~ 30% (FFO/adjusted net debt)

Our current rating is in accordance with the policy.

Group

Market situation

Transforming global energy systems to renewable energy
Global carbon concentrations are now at 145% of the pre-industrial level of the mid-1800s, and 2017 was the fourth year in a row with extraordinarily high temperatures. According to the World Meteorological Organization, changes in the atmosphere over the last 70 years have been more abrupt and severe than ever before.

The vast majority of the world's countries acknowledged the need to fight climate change by ratifying the Paris Agreement in 2016. Under the agreement, the countries commit to keeping the global temperature increase well below two degrees towards the year 2100. The G20 summit in Hamburg in July 2017 emphasised the significance of that goal, and the leaders of the G20 countries agreed that developing innovative energy systems is required for a sustainable future. Today, more than 75% of the world's power generation is based on fossil fuels and nuclear energy.

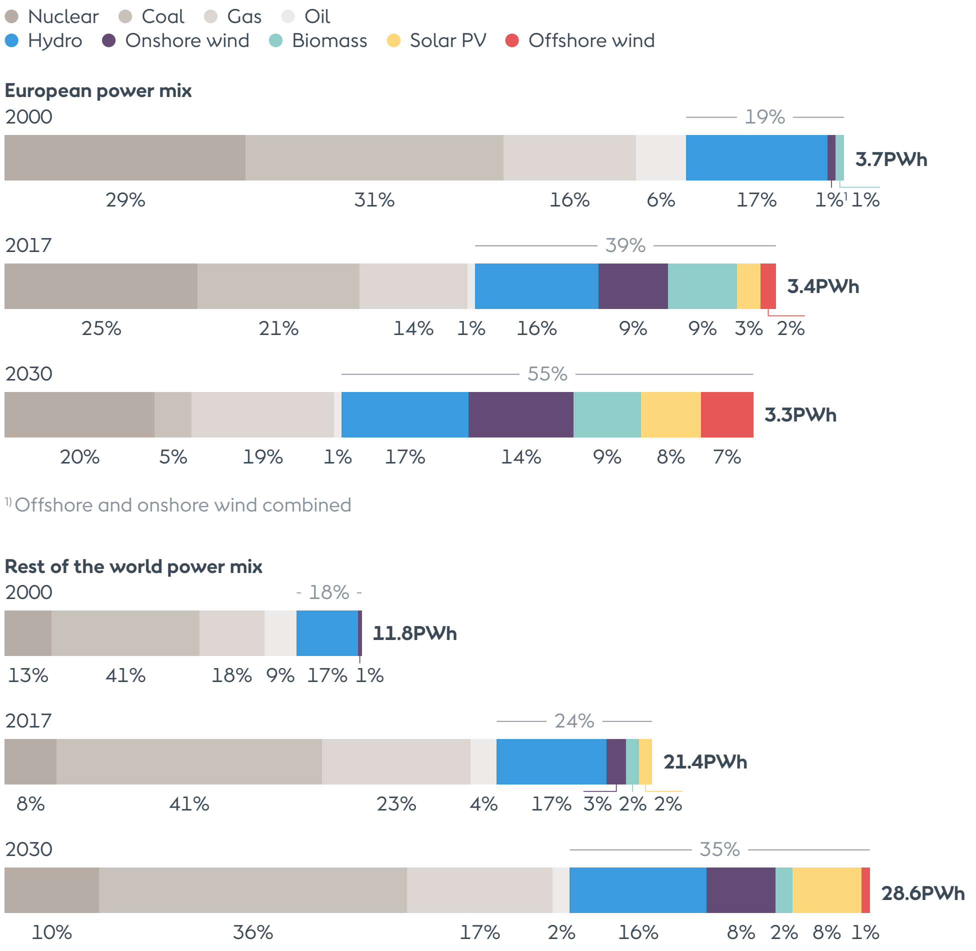
Public support to continuing the green transformation is crucial. To understand the public opinion on the green transition, Ørsted conducted the inaugural 'Green Energy Barometer' survey in 2017, interviewing more than 26,000 people across thirteen countries. 82% of the respondents believe it is important to create a world fully powered by renewable energy. The support comes from all age groups, educational backgrounds and political beliefs. 85% would like their country to phase out the use of coal.

Europe is leading the world's energy transformation, having 39% of its total power generation provided by renewable energy sources. In Europe, the share of renewables is expected to increase significantly, reaching 55% by 2030. Besides the wish to decarbonise energy generation, the key drivers behind the transition to green energy are the need to replace aging generation capacity and safeguard the security of energy supply as well as a wish to create local jobs.

Outside Europe, the share of power generation from renewables is considerably lower. In 2017, 24% of the power generation outside Europe was based on renewables, including hydro. Towards 2030, this share is expected to increase to 35%, driven by cost improvements in renewable energy technologies, and growing regulatory support for ambitious renewable deployment targets. By 2020, China aims to reach 210GW of accumulated wind power capacity, capable of generating 451TWh of power, and 110GW of accumulated solar capacity (PV and concentrated solar power), capable of generating 188TWh.

Our market situation
Ørsted operates in various parts of the energy value chain: offshore wind, bioenergy, energy storage and consumption of energy.

Share of power generation



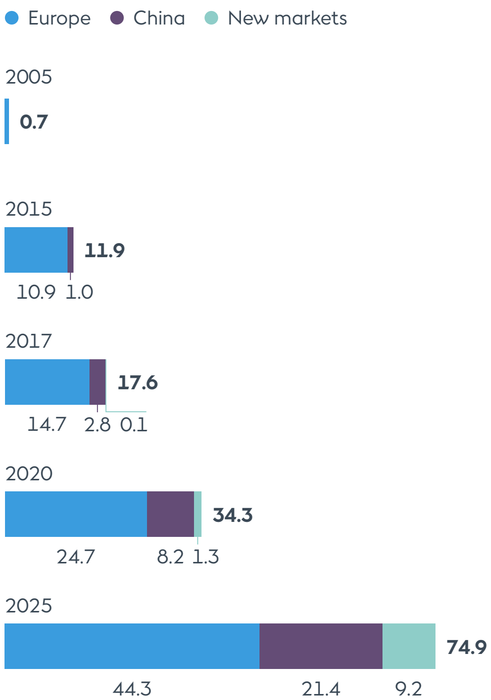
[1] Offshore and onshore wind combined

Source: International Energy Agency (IEA), World Energy Outlook 2017; Bloomberg New Energy Finance (BNEF), New Energy Outlook 2017.

Offshore wind

2017 witnessed the largest annual build-out of global offshore wind capacity, with more than 4GW coming online. Cumulative installed capacity reached 18GW globally. The offshore wind market is expected to grow at an average of 19% in the coming years, and the global offshore wind capacity is therefore expected to quadruple towards 2025.

Installed offshore wind capacity, GW



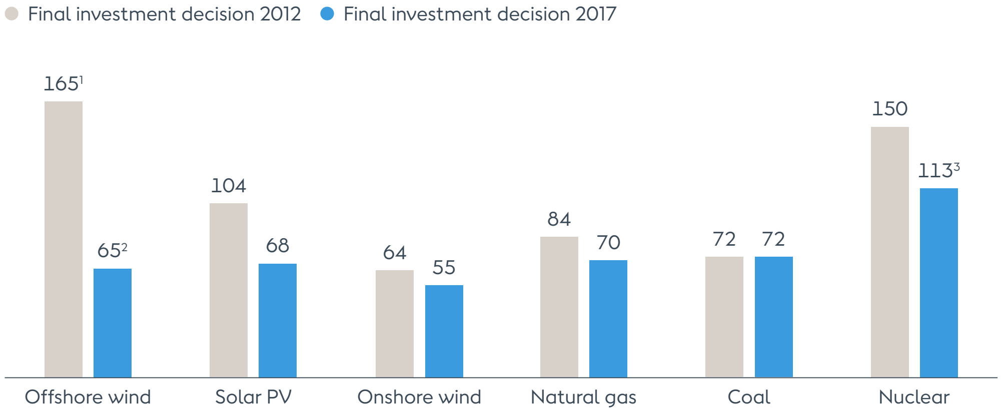
Source: Bloomberg New Energy Finance (BNEF), H2 2017 Offshore Wind Market Outlook

Today, offshore wind farms are primarily installed in Europe, but going forward, this segment of energy generation will become increasingly global. Towards 2020, the majority of capacity additions will take place in Europe, with 3.4GW being commissioned annually, while North America and Asia combined are expected to grow by 2.3GW annually. From 2020 to 2025, however, Europe is expected to add 3.7GW annually, while North America and Asia are expected to add 3.4GW annually. With an expected average annual growth rate of more than 150% from 2020 to 2025, the US market is among the fastest-growing markets.

A key driver of this capacity expansion is a significant reduction in costs. Over the past five years, the cost of offshore wind has been reduced by up to 60% in Northwestern Europe and there is still considerable potential for further cost reductions. Cost reductions are derived from economies of scale from building larger wind farms and installing larger wind turbines, supported by technological improvements in all parts of an offshore wind farm. Moreover, increased industrialisation, digitalisation, technological innovation and increased competition for the projects have contributed to cost reductions.

The most recent offshore wind farm auctions and tenders confirm the trend of rapidly falling costs. The German auction in April 2017 saw the first zero-subsidy bids for offshore wind projects to date. Two projects, OWP West and Borkum Riffgrund West 2, developed by Ørsted, will, if finally decided in 2021, be put in operation during 2024 without government subsidies. He Dreith, another subsidy-free project, which is developed by EnBW, is planned for commissioning in 2025.

Levelised cost of electricity for new generation capacity, Northwestern Europe, EUR/MWh (2016 prices)



Source: Bloomberg New Energy Finance (BNEF) and UK Department for Business, Energy and Industrial Strategy

1) Generic offshore wind, including transmission, Northwestern Europe, final investment decision (FID) 2012.

2) Hornsea 2, UK, including transmission. Calculated as levelised revenue (price) of power over the lifetime of the project. Market income based on BEIS (Department for Business, Energy & Industrial Strategy, UK) wholesale market price projections at the time of contracting.

3) Same approach as for Hornsea 2 with Hinkley Point strike price of GBP 92.5 per MWh in 2012 real prices. Lifetime of 60 years and 91% capacity factor.

Similarly, in the UK offshore wind auction in September 2017, the Hornsea 2 project (1.4GW developed by Ørsted) saw record-low costs, and was for the first time able to compete on cost with new-builds of conventional coal- and gas-fired power stations.

The allocation of offshore wind projects typically takes place through a public procurement process, organised as an auction or a tender.

In auctions, project developers compete with one or more of their own planned and consented projects. The auction system is prevalent in countries such as the UK, the US, Germany (excluding part of the transmission grid) and to some extent Taiwan. Bid price is often the only award criterion.

In tenders, which is the method applied in Denmark and the Netherlands, the regulatory authority carries out preparations such as site investigations on wind, seabed and environmental conditions for preselected sites. For project developers who prequalify to bid, tender processes typically require lower up-front investments than auction processes, and the risk for project owners of obtaining the necessary permissions is also lower. However, numerious project developers risk spending time and money on a project, for which only one is awarded a contract. In a tender process, the project is awarded to the bidder offering the lowest cost.

Bioenergy
For a long time, the generation of power by conventional fossil fuel-fired power stations in Europe has been under pressure from declining power prices. This pressure is also seen in Denmark, where Ørsted has the majority of its combined heat and power plants. The pressure on earnings from power generation has put an increased focus on the generation of district heating, which represents a stable source of income due to the long-term heat contracts with large urban communities. In recent years, major heat customers have demanded that their deliveries to be covered by green sources, driving the conversions of conventional power stations to sustainable biomass. A bioenergy-based central heat and power plant provides flexible generation capacity to complement the fluctuating energy generation from wind and solar PV and provides large-scale green district heating.

On a European scale, between 0.5 and 1GW of new bioenergy generation capacity has been added annually since 2012, and by 2017, 30% of global bioenergy generation capacity was located in Europe. In Denmark, 13.4% of the total power generation came from biomass in 2016 against 7.5% for Europe in total.

Global waste volumes are growing rapidly at the moment and will continue to do so in the foreseeable future, and most of the waste is destined for landfills or dumped directly into natural habitats, creating large environmental problems, while missing the opportunity to capture the resources in the waste for recycling and energy production. New innovative and cost-effective solutions are needed to address this global challenge. Many countries are currently entering or undergoing major transformations of their waste systems, creating significant growth opportunities for competitive green waste treatment technologies.

Energy storage
Energy storage technologies are expected to play an important role in an energy system incorporating an increasing share of intermittent renewable sources. Storage solutions act as enablers to balance supply and demand in the power markets, thus facilitating energy systems that are both green and secure. In recent years, mainly flexible rapid-response storage solutions have been deployed to provide ancillary services.

The deployment of storage solutions is expected to grow rapidly in the coming years. Today, the global market for storage capacity is 8GWh, but it is expected to increase to 121GWh by 2025, more than two thirds being large-scale utility facilities. In 2017, 80% of newly commissioned energy storage capacity was located in the Americas.

The costs of storage systems are expected to decrease significantly. Some analysts forecast a 20% cost reduction towards 2020 and 40% by 2025. As the volume of deployed storage solutions increases, additional cost reductions are expected, driven by economies of scale, technological innovation and increased competition.

Energy consumption
Energy customers are increasingly demanding green and more intelligent energy solutions to protect for the environment and save money. New technological solutions are key drivers in achieving this as they provide detailed overviews of consumption, can add flexibility and enable matching customers' consumption patterns topower generation based on intermittent renewable sources.

Currently, smart meters are being rolled out across Europe, providing customers with timely information about their consumption. By 2017, 128 million smart meters had been installed in Europe, up from 96 million the year before, and this number is forecast to reach 266 million by 2021.

A growing portfolio of innovative solutions such as energy management systems allows consumers to better monitor and manage their power consumption. In 2016, EUR 8.3 billion were invested in smart energy solutions globally, primarily in digitalisation (49%) and energy efficiency solutions (30%).

Solutions to enable the green transformation are also deployed in the European heating sector. Electrification of heating with heat pumps is picking up, with approximately 1 million units sold in 2016 alone, totalling around 9.5 million units deployed across the EU. With some 244 million residential buildings across the EU, heat pumps cover approximately 4% of the building stock today.

Another sector that is becoming increasingly electrified is transportation. Towards 2030, the share of electric vehicles sold globally is expected to reach 24%. This will be driven by a sharp decline in battery costs, supportive regulation and a significant increase in available models with longer driving ranges, as car manufacturers are increasingly committed to lower greenhouse gas emissions.

Offshore wind market development – selected upcoming events

Germany
2nd German auction, 1,610MW in Q2 2018

The Netherlands
Holland Coast South 3 & 4 tender, 700MW in Q3 2018
Holland Coast 5, 700MW in 2019

United Kingdom
UK CfD auction in H1 2019

USA
Connecticut auction, 200MW in April 2018
New York auction, min 800MW (combined) in H2 2018 and in H1 2019

Taiwan
Taiwan grid allocation, 3.5GW in Q2 2018

Our strategy

Transformation of the company

Over the past 11 years, Ørsted has undergone a significant transformation towards green energy. Ørsted (then DONG Energy) was among the most coal-intensive utilities in Europe in 2006, and only 13% of our heat and power generation was based on renewable energy sources. In 2017 this ratio was 64%, and already by 2020 more than 80% of our heat and power generation is expected to be based on renewable sources. By 2023, when coal has been phased out completely, more than 95% of our heat and power generation will come from renewable energy sources.

This green transformation has been driven primarily by a significant expansion of our offshore wind capacity. More than DKK 80 billion has been invested to expand our offshore wind capacity to currently 3.9GW, and with more than 5GW in the construction pipeline, Ørsted is currently the largest European renewables developer. Our scalable offshore wind build-out has been instrumental in reducing the offshore wind cost-of-electricity by 60% since 2012. A key component in our build-out has been the formation of 16 project partnerships with investors, enabling us to attract DKK 83 billion of capital, a key factor in financing our expansion.

In our conventional power generation, we have closed more than 40% of total capacity and converted five of seven combined heat and power plants (CHP) to biomass to decarbonise our generation and ensure sustainable financials. The initiatives taken have been instrumental in lowering our carbon emissions by 67% compared to 2006. By 2023 our CHP operations will be completely coal-free, and we will have reduced our total carbon emissions per produced kWh by 96% compared to 2006.

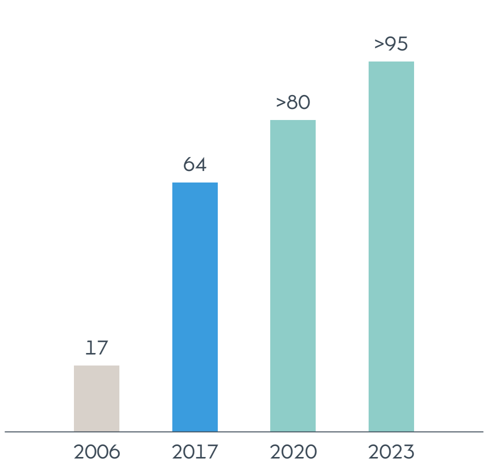
In our retail business, we have initiated a strategic shift from commodity sales to developing integrated green energy solutions for our private and business customers.

As part of Ørsted's green transformation, we announced in November 2016 the decision to divest our upstream oil and gas business to become a pure-play green energy company. A sale to INEOS was announced in May 2017 and closed in September. The divestment completed the strategic transformation of Ørsted.

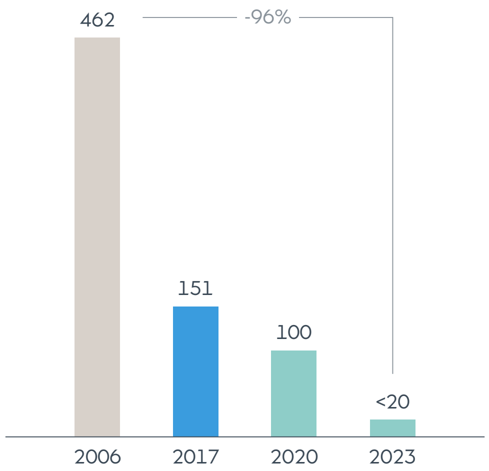
The transformation has made Ørsted one of the greenest and fastest-growing energy companies in Europe.

In financial terms, we have shifted our capital base profoundly from fossil fuels to renewables, which now account for 83% of capital employed, up from 21% in 2006. During the same span of years, we have more than doubled our operating profit (EBITDA) to DKK 22.5 billion, and more than quadrupled our return on capital employed, from 6% to 25%.

Green share of generation,
%



Carbon emissions,
g CO_2 e / kWh



We expect more than 95% of our heat and power generation in 2023 to be green.

To reflect our transformation, we decided to change our name from DONG Energy (Danish Oil and Natural Gas) to Ørsted in honour of the Danish 19th century scientist H.C. Ørsted, who discovered electromagnetism and thereby laid the foundation for modern generation of electricity. We also launched a new and bolder vision for the company: *Let's create a world that runs entirely on green energy*. We do not have all the answers to the climate problem, but we want to be part of the solution. And as the global leader within offshore wind, we are already an integral part of the solution.

Strategic direction and priorities

We want to lead the transformation to green energy. We do that by investing in our competitiveness and core competences within offshore wind, flexible and sustainable CHP plants, intelligent grids and green customer solutions. At the same time, we are looking at further green growth initiatives that will enable us to gradually expand our strategic platform and flexibility. All of this with a view to creating long-term profitable growth.

Our business can be divided into three areas: offshore wind, our utility business and a portfolio of new growth initiatives. Across all three areas, our strategic focus is green growth.

Offshore wind

— Maintain our market leadership in offshore wind

— Continue to pioneer new markets and develop a global business

— Keep innovating and reducing the cost of electricity from offshore wind

— Leverage market-leading partnership model for incremental value creation and risk diversification

— Realise the current build-out plan of 8.9GW towards 2022 and expand to 11-12GW by 2025

— Implement operational excellence and digitisation initiatives across EPC and O&M

Utility business

— Complete biomass conversions of Danish CHP plants and phase out the use of coal by 2023

— Roll out smart meters to build an intelligent power distribution grid

— Enhance customer experience through digitisation and product innovation

— Provide a competitive route-to-market for our own and our customers' generation portfolios

— Optimise natural gas activities as a transition fuel to a world that runs entirely on green energy

— Drive cost efficiency across the utility business to maintain competitiveness

New growth initiatives

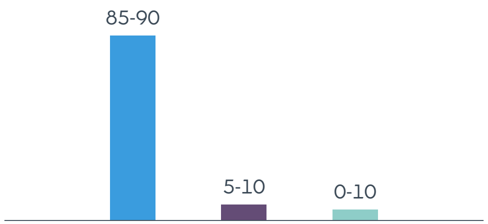
— Continue the commercial development of our innovative Renescience technology for enzymatic waste treatment

— Mature the Energy-as-a-Service concept for our industrial and commercial customers

— Explore potential within other renewable energy technologies:
  - Energy storage
  - Solar PV
  - Onshore wind

Expected share of gross investment 2018-2023, %

- Offshore wind
- Utility business
- New growth initiatives



Each of the three areas plays a particular role in our portfolio: Offshore wind is the main growth engine and adds scale to our green vision. Our utility business complements our offshore wind business by providing a route-to-market and enabling us to integrate large volumes of renewable generation into the energy system. Finally, our portfolio of new growth initiatives provides options for additional, profitable long-term growth that support an integrated, cost-efficient and green energy system. The growth initiatives are all in an early stage, and we are working on establishing a scalable, commercial model for them. As such, we do not expect them to make substantial financial contribution in the short term. They will contribute by diversifying our long-term growth journey and provide us with the strategic agility required to continually adapt to the market.

To support innovation, growth and long-term strategic renewal of our business platform, we invest significantly in four areas that enable our strategy: talent, digitalisation, operational excellence and innovation.

Our talent programmes focus on bringing people with the right competences into the business, and developing the leaders and specialists we need to drive growth and maintain a competitiveness in our business. We run our own internal Ørsted Academy, which supports talent at every level – from young talents to specialists to new and experienced leaders – to develop the professional and personal skills they need to perform, develop our business and create a good culture.

Our digital strategy is focused on bringing digital technologies, advanced analytics and automation to all parts of our business. We focus in particular on our O&M and EPC business in Wind Power, digitalising our heat and power plants through our 'Smart Plant Programme', as well as bringing more intelligence to our power grid and to our downstream customer solutions. To unleash the full potential of digitalisation, we work with new organisational models including digital labs based on agile methods.

In our core operating entities we implement excellence initiatives to drive efficiency, agility and quality into our processes and daily operations. These operational excellence programmes are implemented particularly within areas like grid operations, CHP plants, EPC, O&M, customer service and shared finance functions. Our cost efficiency and our ability to execute with speed, precision and according to high safety standards are, of course, critical to both near-term results and long-term competitiveness.

Within business innovation, we aim to stimulate the sourcing of new ideas, both from inside the company and from our external environment. We run cross-company Innovation Games, where internal teams collaborate and compete to generate new business or technology concepts to enhance our business. To increase our exposure to external innovation environments, we have established Ørsted Ventures. Located in Silicon Valley, California, Ørsted Ventures engages with venture funds, start-up companies, universities and think-tanks, to explore new technologies and business models.

Capital allocation

From 2019, we expect the free cash flow generated by our business to be sufficient to finance our planned investment programme.

The majority of our free cash flow will support our growth plan for offshore wind with the ambition of an installed capacity of 11-12GW by 2025. In addition, we will complete the conversions of our Danish CHP plants to biomass and install 1 million smart meters at our grid customers by 2020. In the period 2018-2023, we expect to allocate around 85-90% of our gross investments to offshore wind, 5-10% to our utility business and 0-10% to new growth initiatives.

In our ongoing capital allocation, we reaffirm our strong commitment to maintaining a BBB+ / Baa1 rating and to the dividend payout expectations stated at any time.

Even in light of our current ambitious investment plans, the clear commitment to our credit rating target and higher dividends, we expect to have further financial capital – dependingt on our success in winning new offshore wind projects and the extent to which we farm-down future projects. This means that, beyond Hornsea 1, we will evaluate farm-downs on a case-by-case basis, based on clear value creation criteria and risk diversification considerations.

To the extent possible, we will deploy potential excess investment capacity into new, value-creating growth initiatives that support our green energy vision, reinforce our long-term competitiveness, and deliver value for our shareholders. If possible, we will, in particular, pursue additional value-creating investment opportunities in offshore wind beyond our 11-12GW ambition by 2025. In addition, we will continue to work with and potentially scale up new growth initiatives within Renescience, Energy-as-a-Service, energy storage, solar PV and onshore wind if they meet our investment criteria. Growth investments can include both CAPEX and OPEX for organic business building as well as acquisitions.

Over time, excess capital beyond such value-creating growth investments will be distributed to shareholders through increased annual dividends and/or share buy-backs.

Corporate social responsibility reporting

Our sustainability strategy and results are reported on in our sustainability and ESG report, which constitutes our annual Communication on Progress to the UN Global Compact. The reports highlight areas in which our expertise can make a real difference when it comes to promoting the UN's global goals for sustainable development. With this report, we live up to the requirements for corporate social responsibility reporting set out in section 99a of the Danish Financial Statements Act as well as section 99b on the gender balance at management levels etc.

See and download the reports here:
orsted.com/sustainability2017
orsted.com/ESGperformance2017

Strategic targets

We implement our strategy by pursuing eight strategic targets, divided into four themes:

We create value for our shareholders in the form of competitive total returns.

We address profound societal challenges by developing green, independent and economically viable energy systems that reduce greenhouse gas emissions.

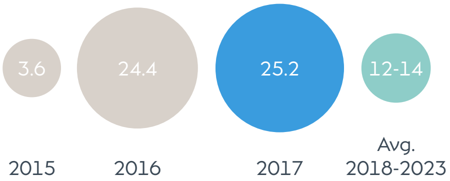
We fulfil our customers' energy needs through green, innovative and efficient energy solutions.

We are committed to a sustainable work life and keep a constant focus on being **a great and safe place to work**, with motivated and satisfied employees.

Create shareholder value

1. ROCE, %

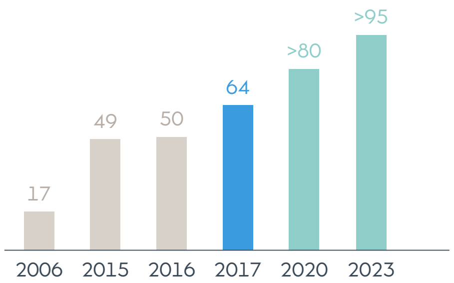
Our target is an average return on capital employed (ROCE) of 12-14% for the Group in the 2018-2023 period (formerly 2017-2023).



Address profound societal challenges

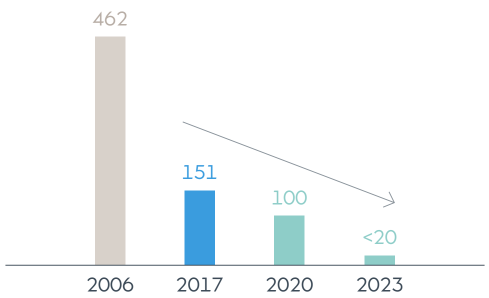
2. Green share of generation, %

In 2017, we decided to phase out our use of coal completely by 2023. Our objective is for more than 95% of our heat and power generation in 2023 to be green.



3. Carbon emissions, g CO_2e / kWh

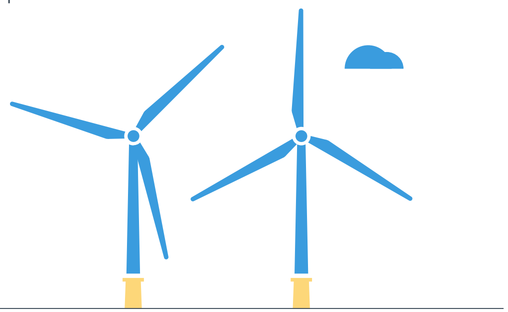
The conversion of our power stations to sustainable biomass has reduced our carbon emissions by 67% since 2006. Our target is to reduce emissions to no more than 20g CO_2e per kWh in 2023.



4. Installed offshore wind capacity, GW

Our ambition is to install 11-12GW by the end of 2025. Those of our projects where a final investment decision has already been made will increase capacity to 8.9GW at the end of 2022. The rest will come from a significant pipeline.

2025	11-12
2017	3.9
2016	3.6
2015	3.0
2006	0.5

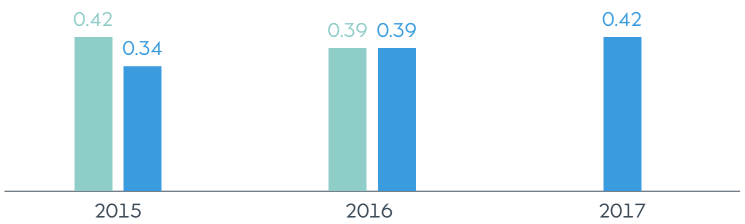


Fulfil our customers' energy needs

5. Security of supply, power outage per customer

Our ambition is to offer a level of security of supply which is on a par with or higher than the Danish average, which is approximately 0.4 outages per customer per year.

● Radius ● DK average (excluding transmission grid)*

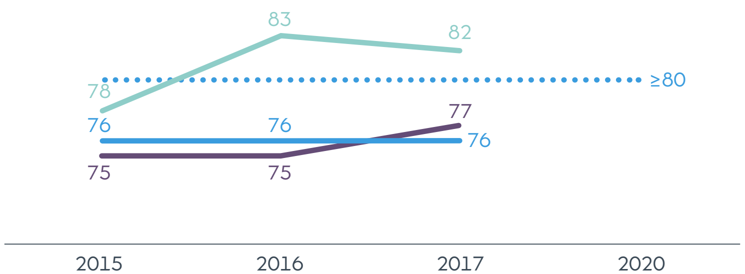


* DK average is published in April

6. Customer satisfaction, scale 1-100

Our ambition is to deliver a market-leading customer experience, which we continuously strive to do. Our target of customer satisfaction is at least 80 from 2020.

B2C B2B Distribution Target 2020

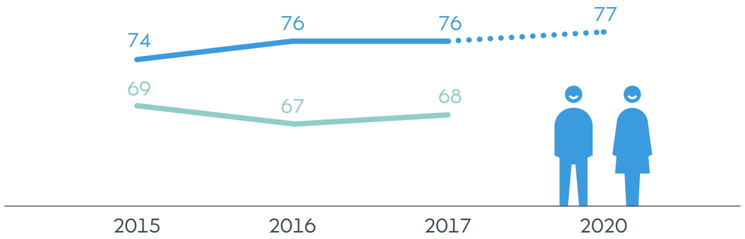


Be a great and safe place to work

7. Employee satisfaction, scale 1-100

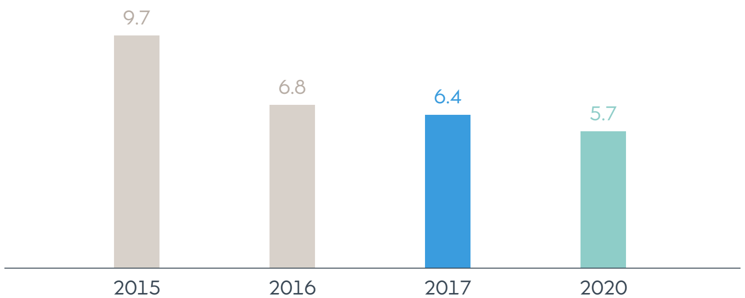
We believe that well-being and positive results go hand in hand. Therefore, we are working continuously to maintain and increase employee satisfaction. The employee satisfaction in Ørsted is above comparable companies.

Ørsted Ennova benchmark



8. Safety, TRIR

Effective from 2018, we have introduced a new safety target – total recordable injury rate (TRIR). There are more facets to TRIR compared to the previously used LTIF, and we believe that this reflects everyday life in Ørsted better.



Results

Follow-up on outlook announced for 2017

In the outlook announced in our annual report for 2016, we expected an EBITDA of DKK 15-17 billion and gross investments of DKK 18-20 billion for 2017.

With an EBITDA of DKK 22.5 billion, our expectations were exceeded. The main reasons were the farm-down of 50% of Borkum Riffgrund 2 in 2017 rather than at the beginning of 2018, as previously expected, and the fact that the farm-down of 50% of Walney Extension resulted in a different distribution of earnings between 2017 and 2018 than expected. In addition, earnings from our offshore wind farms in operation were higher than expected, especially towards the end of the year, as a result of stronger winds and faster ramp-up of generation from new offshore wind farms as well as higher earnings from our gas portfolio and trading activities. Gross investments amounted to DKK 17.7 billion.

At the beginning of the year, we expected our interest-bearing net debt to increase in 2017. However, our net debt decreased by DKK 5.0 billion to DKK -1.5 billion at year-end. The decline was mainly due to higher proceeds in 2017 from the farm-downs described above. In addition, investments were at the low end of the announced range, and cash flows from operating activities were higher than expected. The latter was due partly to improved underlying earnings, and partly to lower than expected funds tied up in work in progress.

Follow-up on outlook for 2017, DKKbn	Guidance 2 Feb 2017	Guidance 7 Aug 2017	Guidance 1 Nov 2017	Guidance 11 Dec 2017	2017 Realised	
EBITDA	15-17	17-19	19-21	~21	22.5	√
Wind Power	Higher (>11.9)	Significantly higher	Significantly higher	Significantly higher	20.6	√
Bioenergy & Thermal Power	Higher (>0.1)	Higher	Higher	Higher	0.2	√
Distribution & Customer Solutions	Significantly lower (<7.1)	Significantly lower	Significantly lower	Significantly lower	2.1	√
Gross investments	18-20	18-20	18-20	18-20	17.7	√

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 22.6 billion in 2017 against DKK 16.9 billion in 2016. Calculated in accordance with the business performance principle, EBITDA was DKK 22.5 billion and DKK 19.1 billion, respectively. The difference between the two principles was thus DKK 0.1 billion in 2017 compared with DKK -2.2 billion in 2016, and is specified below.

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 recognised in the income statement, which means that the IFRS results for the individual years are not comparable. IFRS results do not reflect the commercial risk hedging, according to which the business units and the Group are managed and evaluated. In the management's review, comments are made on business performance only, unless otherwise is specified. Reference is also made to note 1.1.

Business performance vs. IFRS, DKKm	2017	2016
EBITDA – business performance	**22,519**	**19,109**
Market value adjustments for the year of financial and physical hedging contracts relating to a future period	(138)	(1,397)
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	193	(773)
EBITDA – IFRS	**22,574**	**16,939**

Continuing and discontinued operations
Until 29 September 2017, Oil & Gas was presented as assets held for sale and discontinued operations. The results from the oil and gas business are therefore presented in a separate line in the income statement and the statement of cash flows.

Revenue
Power generation from offshore wind farms increased by 42% to 8.5TWh in 2017, as a result of newly constructed offshore wind farms in Germany and the UK and higher wind speeds in 2017. Thermal power generation declined by 2% to 8.2TWh. Heat generation also declined by 2% to 9.0TWh in 2017. Offshore wind power accounted for 51% of our total power generation, while the renewable energy share of our total heat and power generation accounted for 64% in 2017 compared with 50% in 2016.

Revenue declined by 3% to DKK 59.5 billion in 2017 against DKK 61.2 billion in 2016. 2017 was primarily impacted by higher revenue from power generation from our offshore wind farms, an average increase in gas prices as well as increased power sales in the UK. 2016 was impacted by a high level of activity from our construction contracts.

EBITDA
Operating profit (EBITDA) increased by 18%, amounting to DKK 22.5 billion in 2017 compared with DKK 19.1 billion in 2016. Earnings from Wind Power were up 74% compared to 2016, amounting to DKK 20.6 billion. The higher earnings were attributable to power generation from the newly constructed offshore wind farms as well as an almost doubling of earnings from partnership agreements, which totalled DKK 13.7 billion in 2017. This was primarily due to gains from the farm-downs of 50% of Walney Extension and Borkum Riffgrund 2. EBITDA for 2016 was positively affected by one-off payments of DKK 4.7 billion from the renegotiation of gas purchase contracts and earnings from the now divested gas distribution activities. Adjusted for the above-mentioned non-recurring income, our underlying EBITDA increased by 56%.

EBIT
EBIT increased by 17% to DKK 16.2 billion in 2017, primarily driven by the higher EBITDA.

Depreciation increased by DKK 0.5 billion to DKK 5.7 billion in 2017. The rise was due to a higher number of offshore wind farms in operation.

Impairment losses totalled DKK 0.5 billion and related to capitalised project development costs in Wind Power, due to uncertainty about the carrying through of the projects.

Gain (loss) on divestment of enterprises
Gain (loss) on divestment of enterprises primarily concerned A2SEA in 2017 and the gas distribution network in 2016.

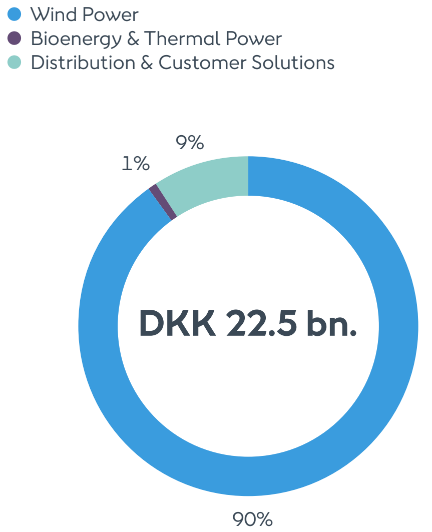
Financial income and expenses
Net financial income and expenses amounted to DKK -1.0 billion and were DKK 0.3 billion higher than in 2016. Both years were affected by capital losses and costs relating to the

Financial results, DKKm	2017	2016	%
Revenue	59,504	61,201	(3%)
EBITDA	22,519	19,109	18%
Underlying EBITDA	22,519	14,442	56%
Depreciation	(5,739)	(5,232)	10%
Impairment losses	(545)	-	n.a.
EBIT	16,235	13,877	17%
Gain (loss) on divestment of enterprises	(139)	1,250	n.a.
Net financial income and expenses	(1,042)	(767)	36%
Tax	(1,765)	(2,191)	(19%)
Tax rate	12%	15%	(3%p)
Profit for the year from continuing operations	13,279	12,161	9%
Profit for the year from discontinued operations	6,920	1,052	558%
Profit (loss) for the period	20,199	13,213	53%

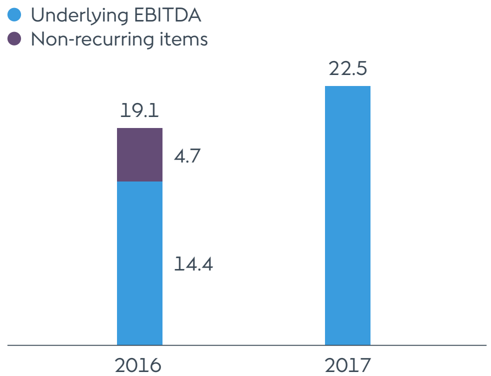
In 2017, regulated and quasi-regulated activities and contracted activities accounted for 34% and 65% of our EBITDA from continuing operations respectively, whereas market exposed activities accounted for 1%.

Read more about profit for the year from discontinued operations in note 3.6.

EBITDA



Underlying EBITDA development, DKK bn.



The underlying operating profit excludes one-off payments related to renegotiations of gas purchase contracts and earnings from divested gas distribution assets in 2016.

early repurchase of bonds and, in 2016, also early repayment of bank loans and interest rate swaps. In 2016, there was a positive impact from exchange rate adjustments of loans and deposits.

Tax and tax rate

Tax on profit for the year amounted to DKK 1.8 billion, which was DKK 0.4 billion lower than in 2016. The effective tax rate was 3%-points lower than in 2016. In both periods, the tax rate was affected by non-taxable divestment gains. Gains on the farm-downs of Walney Extension and Borkum Riffgrund 2 as well as a deferred selling price for Race Bank impacted the tax rate in 2017, while gains on the farm-downs of Burbo Bank Extension and Race Bank as well as the divestment of our gas distribution activities impacted the tax rate in 2016.

Profit for the year from continuing operations

Profit for the year from continuing operations increased by 9%, totalling DKK 13.3 billion in 2017. The increase of DKK 1.1 billion is explained by substantial differences in our operations between the two years. 2017 was positively impacted by the significant increase in EBITDA in Wind Power, while 2016 was characterised by one-off payments from the above-mentioned renegotiations of gas purchase contracts.

Profit for the year from discontinued operations

Profit after tax from discontinued operations amounted to DKK 6.9 billion in 2017 against DKK 1.1 billion in 2016. The increase was due partly to a gain from the divestment of our Oil & Gas business of DKK 2.4 billion, partly to higher EBIT and lower tax. The higher EBIT in 2017 relative to 2016 was due to the assets classified as held for sale at the end of 2016, not being depreciated in 2017. EBITDA was in line with 2016 despite one less quarter of production activities in 2017 compared with 2016 as a result of the divestment in September. The lower tax in 2017 relative to 2016 primarily reflected the reversal of the remaining tax assets, which contributed negatively in 2016.

Cash flows from operating activities

Cash flows from operating activities totalled DKK 1.0 billion in 2017 compared with DKK 11.3 billion in 2016. The decrease of DKK 10.2 billion was due to the lower EBITDA (adjusted for gains from farm-downs, as they are not recognised in cash flows from operating activities), the settlement of ineffective price hedges in the oil and gas business totalling DKK 2.0 billion between the Group's continuing and discontinued operations in Q2 2017 (no effect on the Group's total net debt) as well as a change in funds tied up in working capital of DKK 7.9 billion in 2017 against DKK 1.5 billion in 2016.

In 2017, funds tied up in work in progress increased by DKK 3.7 billion due to the construction of transmission assets at Hornsea 1, Race Bank and Walney Extension as well as the construction of Race Bank for partners. This was partially offset by milestone payments received from partners in connection with the construction of Borkum Riffgrund 2 in 2017 as well as high trade payables relating to the construction of Walney Extension. Funds tied up in work in progress in 2016 were lower than in 2017 (DKK 2.4 billion) due to the divestment

Cash flow and net debt, DKKm	2017	2016	%
Cash flow from operating activites	1,023	11,272	(91%)
EBITDA	22,519	19,109	18%
Financial instruments	(528)	806	n.a.
Change in provisions	98	(366)	n.a.
Reversal of gain (loss) on sale of assets	(10,835)	(2,939)	269%
Other items	297	217	37%
Interest expenses, net	36	(861)	n.a.
Paid tax	(2,660)	(3,182)	(16%)
Change in work in progress	(3,674)	(2,393)	54%
Change in other working capital	(4,230)	881	n.a.
Gross investments	(17,744)	(14,960)	19%
Divestments	16,982	9,055	88%
Free cash flow	261	5,367	(95%)
Net debt at 1 January	3,461	9,193	(62%)
Free cash flow continuing operations	(261)	(5,367)	(95%)
Free cash flow from dicontinued operations	(9,025)	(1,106)	n.a.
Interest bearing receivable re Oil & Gas divestment	(1,014)	-	n.a.
Dividends and hybrid coupon paid	3,523	1,016	247%
Exchange rate djustments etc.	1,799	(275)	n.a.
Net debt at 31 December	(1,517)	3,461	n.a.

Gain/loss on sale of assets is part of EBITDA but is presented as part of the 'divestment' cash flow. The EBITDA effect is thus reversed in the specification of cash flow from operating activities.

Key ratios, DKKm, %	2017	2016	%
ROCE	25.2	24.4	0.8%p
Adjusted net debt	15,900	18,046	(12%)
FFO/adjusted net debt	50.3	64.2	(13.9%p)

ROCE and FFO/adjusted net debt is specified in notes 2 and 6.6.

of the Westermost Rough transmission asset and the receipt of milestone payments from partners in connection with the construction of Gode Wind 1 and Burbo Bank Extension, among other factors.

The high level of funds tied up in other working capital was primarily due to lower prepayments from heat customers in connection with biomass conversions, lower VAT payables as well as an increase in trade receivables as a consequence of the high power generation in Wind Power at the end of 2017.

Investments and divestments

Gross investments amounted to DKK 17.7 billion compared with DKK 15.0 billion in 2016. The most important investments in 2017 were as follows:

- offshore wind farms (DKK 15.7 billion), including Walney Extension, Race Bank and Hornsea 1 in the UK as well as Borkum Riffgrund 2 in Germany
- power stations (DKK 1.4 billion), including biomass conversions of the Skærbæk and Asnæs power stations and construction of a Renescience waste treatment plant in the UK.

25%

ROCE increased by 8%-point compared with 2016, when adjusting for lump-sums from renegotiations and amounted to 25% in 2017.

Divestment of activities and enterprises amounted to DKK 17.0 billion in 2017 and related primarily to the farm-downs of 50% of Walney Extension and Borkum Riffgrund 2, receipt of a deferred payment concerning Race Bank as well as the divestment of A2SEA. Divestments in 2016 consisted of the farm-downs of 50% of Burbo Bank Extension and Race Bank, divestment of our gas distribution activities and receipt of a deferred payment related to the farm-down of 50% of Gode Wind 1 in 2015.

Interest-bearing net debt

Interest-bearing net debt totalled DKK -1.5 billion at the end of 2017 against DKK 3.5 billion at the end of 2016. The decrease was mainly due to a free cash flow from discontinued operations of DKK 9.0 billion, of which DKK 5.5 billion concerned cash flows from operating activities, including DKK 2.0 billion from the intragroup settlement of hedging instruments in Q2 2017. In addition, the divestment of our Oil & Gas business contributed positively with DKK 4.6 billion (DKK 3.7 billion of free cash flow and DKK 1.0 billion of interest-bearing receivable). The continuing operations contributed a positive free cash flow of DKK 0.3 billion.

This was partially offset by the payment of dividends to shareholders of DKK 2.5 billion in March.

Equity

Equity was DKK 71.8 billion at the end of December 2017 against DKK 57.5 billion at the end of 2016. The increase was primarily due to the positive results for the year less dividends paid.

Capital employed

Capital employed was DKK 70.3 billion on 31 December 2017 against DKK 61.0 billion at the end of 2016. Wind Power's share of capital employed was 83% at the end of 2017.

Return on capital employed (ROCE)

Return on capital employed (ROCE) was 25% in 2017 against 24% in 2016 (and 17% in 2016 adjusted for compensation received in connection with renegotiations). The increase was attributable to higher EBIT.

Credit metric (FFO/adjusted net debt)

The credit metric 'funds from operations' (FFO) relative to adjusted net debt was 50% in 2017 compared with 64% in 2016. The decline was attributable to the lower FFO, as gains from the farm-downs of offshore wind farms are not included in the calculation. Gains on divestments were DKK 7.9 billion higher than in 2016, whereas 2016 was positively affected by compensation from renegotiations of DKK 4.3 billion. However, adjusted net debt was lower. Read more about the change of the credit metric on page 15.

Non-financial results

Carbon emmisions

In 2017, carbon emissions from our heat and power generation were 151 g CO_2e/kWh against 224 g CO_2e/kWh i 2016. Carbon emissions per kWh decreased due to the lower coal and gas consumption for thermal power generation as a result of the biomass conversions of the Avedøre, Studstrup and Skærbæk power stations. Moreover, generation from our offshore wind farms increased.

Green share of heat and power generation

The green share of heat and power generation was 64%, up 14%-points relative to 2016. The increase was attributable to a larger share of biomass-based generation as a result of the conversions of the above-mentioned power stations as well as increased generation from offshore wind farms.

Safety

In 2017, we registered 32 lost-time injuries, 25 of which involved employees working for our suppliers. Over the past 12 months, our lost-time injury frequency (LTIF) has declined from 1.8 in 2016 to 1.6 in 2017.

Five-year summary

Income statement (business performance), DKKm	2017	2016	2015	2014	2013
Revenue	59,504	61,201	65,444	61,280	68,555
EBITDA	22,519	19,109	8,730	7,798	7,680
Wind Power	20,595	11,867	6,151	6,057	4,252
Bioenergy & Thermal Power	152	100	283	422	744
Distribution & Customer Solutions	2,082	7,108	2,173	1,404	2,348
Other activities	(310)	34	123	(85)	336
Depreciation and amortisation	(5,739)	(5,232)	(5,673)	(5,319)	(5,030)
Impairment losses	(545)	0	(1,184)	(216)	(1,344)
Operating profit (loss) (EBIT)	16,235	13,877	1,873	2,263	1,306
Gain (loss) on divestment of enterprises	(139)	1,250	56	1,258	2,045
Net financial income and expenses	(1,042)	(767)	(1,409)	(838)	(3,079)
Profit (loss) from associates and joint ventures	(10)	(8)	(8)	(484)	(57)
Profit (loss) before tax	15,044	14,352	512	2,199	215
Tax	(1,765)	(2,191)	455	(298)	478
Profit (loss) for the year from continuing operations	13,279	12,161	967	1,901	693
Profit (loss) for the year from discontinued operations	6,920	1,052	(13,051)	(7,185)	(1,686)
Profit (loss) for the year	20,199	13,213	(12,084)	(5,284)	(993)
Balance sheet					
Assets	146,521	136,489	147,457	149,914	145,672
Total equity	71,837	57,500	51,736	61,533	51,543
Shareholders of Ørsted A/S	54,791	39,106	32,090	41,736	31,599
Non-controlling interests	3,807	5,146	6,398	6,561	6,708
Hybrid capital	13,239	13,248	13,248	13,236	13,236
Interest bearing net debt	(1,517)	3,461	9,193	3,978	25,803
Capital employed	70,320	60,961	60,930	65,511	77,345
Additions to property, plant and equipment	20,022	17,750	19,843	15,350	19,437
Cash flow					
Cash flow from operating activities	1,023	11,272	7,521	9,568	5,754
Gross investments	(17,744)	(14,960)	(12,709)	(10,327)	(11,623)
Divestments	16,982	9,055	1,982	10,559	15,329
Free cash flow	261	5,367	(3,206)	9,800	9,460
Financial ratios					
Return on capital employed (ROCE)[1], %	25.2	24.4	3.6	4.3	2.2
FFO/adjusted net debt[2], %	50.3	64.2	28.8	31.6	13.1
Number of outstanding shares, 31 December, '000	420,155	420,155	417,726	417,726	293,710
Share price, 31 December, DKK	338.7	267.6	-	-	-
Market capitalisation, 31 December, DKK billion	142.3	112.5	-	-	-
Earnings per share (EPS) (BP), DKK	46.4	30.6	(30.7)	(14.9)	(5.9)
Dividend yield, %	2.7	2.2	-	-	-
Income statement (IFRS)					
Revenue	59,709	57,393	66,708	61,866	67,329
EBITDA	22,574	16,939	9,888	7,546	6,555
Profit (loss) for the year from continuing operations	13,321	10,467	1,854	1,708	(146)

Business drivers	2017	2016	2015	2014	2013
Wind Power					
Decided (FID) capacity[3], offshore wind, GW	8.9	7.4	5.1	3.8	3.6
Installed capacity, offshore wind[3], GW	3.9	3.6	3.0	2.5	2.1
Generation capacity, offshore wind[3], GW	2.5	2.0	1.7	1.4	1.3
Wind energy content (WEC)[3], %	95	93	103	97	97
Wind speed[3], m/s	9.3	8.9	9.7	9.2	9.0
Load factor[3], %	44	41	45	44	42
Availability[3], %	93	92	93	94	93
Power generation, TWh	8.5	6.0	5.8	5.0	5.3
Bioenergy & Thermal Power					
Degree days[3], number	2,705	2,715	2,621	2,462	2,890
Heat generation, TWh	9.0	9.2	9.3	8.7	11.2
Power generation, TWh	8.2	8.4	7.1	8.7	13.8
Distribution & Customer Solutions					
Regulatory value of power distribution assets[4]	10,623	10,648	10,778	10,373	10,127
Power distribution, TWh	8.4	8.5	8.4	8.4	8.6
Power sales, TWh	37.7	36.7	35.5	34.5	25.5
Gas sale, TWh	136.1	150.4	159.1	151.3	131.7
People & environment					
Employees (FTE), end of period, number	5,638	5,775	5,947	5,751	5,807
Lost-time injury frequency (LTIF), per 1 million hours worked	1.6	1.8	2.0	2.5	3.5
Total recordable injury rate (TRIR),	6.4	6.8	9.7	10.9	12.0
Fatalities, number	0	0	0	0	0
Green share of heat and power generation, %	64	50	49	44	35
CO_2 emmisions, g CO_2e/kWh	151	224	220	280	311

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 1.1.

ROCE is calculated for continuing operations.

1) EBIT / average capital employed.

2) Net debt including 50% of hybrid capital, cash and securities not available for use (with the exception of repo transactions), present value of lease obligations, and decommissioning obligations less deferred tax. The definition of FFO has been changed in 2017. Comparable figures have been restated.

3) See definition on page 172 and in the ESG statements.

4) The figures indicate values from the latest regulatory financial statements (updated in June).

Fourth quarter

Financial performance – Group

Revenue
Revenue in Q4 2017 was in line with Q4 2016 and amounted to DKK 15.6 billion compared with DKK 15.7 billion in the prior-year period. 2017 was driven primarily by 77% growth in revenue from wind farms in operation as a result of increased power generation from new wind farms as well as higher wind speeds. Q4 2016 was impacted by high revenue from construction contracts.

EBITDA
Operating profit (EBITDA) more than doubled to DKK 13.0 billion against DKK 6.3 billion in Q4 2016. The substantial increase was primarily due to high operating profit from our wind farms in operation as well as earnings from our partnership agreements, mainly gains from the farm-downs of 50% of Walney Extension and Borkum Riffgrund 2. The operating profit for Bioenergy & Thermal Power also doubled in Q4 2017, amounting to DKK 0.2 billion, primarily driven by higher earnings from heat activities. The increase was partially offset by one-off payments from completed renegotiations of gas purchase contracts, which contributed positively in Q4 2016.

Profit for the period from continuing operations
Profit for the period from continuing operations totalled DKK 9.4 billion compared with DKK 4.0 billion in Q4 2016. The increase was primarily driven by the higher EBITDA.

Profit for the period from discontinued operations
Profit for the period from discontinued operations amounted to DKK 0.1 billion in Q4 2017 against DKK -0.5 billion in Q4 2016. The result in Q4 2017 related to an adjustment of the gains from the divestment of our oil and gas business.

Cash flows from operating activities
Cash flows from operating activities totalled DKK 3.1 billion in Q4 2017 compared with DKK 1.8 billion in 2016. The increase was mainly due to a higher EBITDA (adjusted for divestment gains and adjustment of provisions) as well as prepayments and milestone payments from partners in connection with the farm-downs of 50% of Borkum Riffgrund 2 and Walney Extension. The increase was partially offset by receivables received from completed renegotiations of gas purchase contracts in Q4 2016.

Gross investments and divestments
Gross investments amounted to DKK 5.8 billion in Q4 2017, with investments in Wind Power accounting for 86%. The main investments related to Walney Extension, Race Bank and Hornsea 1 in the UK and Borkum Riffgrund 2 in Germany.

Farm-downs totalled DKK 14.9 billion in Q4 2017 and related to Walney Extension and Borkum Riffgrund 2.

Financial performance, DKKm	Q4 2017	Q4 2016	%
Revenue	15,598	15,678	(1%)
EBITDA	13,032	6,310	107%
Underlying EBITDA	13,032	5,871	122%
EBIT	10,970	4,708	133%
Profit (loss) before tax	10,349	4,273	142%
Tax	(999)	(285)	251%
Profit (loss) for the period from continuing operations	9,350	3,988	134%
Profit (loss) for the period from discontinued operations	79	(473)	n.a.
Profit (loss) for the period	9,429	3,515	168%

Cash flows and net debt, DKKm	Q4 2017	Q4 2016	%
Cash flow from operating activites	3,078	1,752	76%
EBITDA	13,032	6,310	107%
Financial instruments	470	845	(44%)
Change in provisions	461	(276)	n.a.
Reversal of gain (loss) on sale of assets	(9,468)	(2,695)	251%
Other items	333	27	n.a.
Interest expenses, net	(136)	(75)	81%
Paid tax	(2,652)	(3,231)	(18%)
Change in work in progress	2,262	(8)	n.a.
Change in other working capital	(1,224)	855	n.a.
Gross investments	(5,805)	(4,732)	23%
Divestments	14,875	5,013	197%
Free cash flow	12,148	2,033	498%
Net debt, beginning of period	10,260	5,942	73%
Free cash flow from continuing operations	(12,148)	(2,033)	498%
Free cash flow from dicontinued operations	(289)	(1,020)	72%
Interest-bearing receivable re Oil & Gas divestment	(1,014)	-	n.a.
Dividends and hybrid coupon paid	211	240	(12%)
Exchange rate adjustments etc.	1,463	332	341%
Net debt, end of period	(1,517)	3,461	n.a.

Financial performance – Business units

Wind Power

Power generation was up 61% on Q4 2016 due to generation from the new offshore wind farms Gode Wind 1 and 2, Burbo Bank Extension, Race Bank and partially Walney Extension as well as high wind speeds in Q4 2017.

Revenue totalled DKK 5.6 billion in Q4 against DKK 4.4 billion in Q4 2016. The increase was driven by revenue from wind farms in operation, which was up 77% as a result of increased power generation. Revenue from construction contracts amounted to DKK 1.7 billion in Q4 2017 against DKK 2.2 billion in Q4 2016. The decline was due to a high level of activity from construction contracts in Q4 2016, relating primarily to the construction of Burbo Bank Extension for partners and transmission assets in the UK. The decrease was partially offset by activities in connection with contract work on Race Bank and Walney Extension as well as transmission assets in Q4 2017.

EBITDA was up 149%, totalling DKK 12.6 billion in Q4 2017 compared with DKK 5.1 billion in Q4 2016.

Earnings from offshore wind farms increased by 70% as a result of the commissioning of new offshore wind farms as well as high wind speeds in Q4 2017. Earnings from partnership agreements tripled and were primarily attributable to gains on the farm-downs of 50% of Walney Extension and Borkum Riffgrund 2 as well as the above-mentioned activities in connection with contract work on Race Bank and Walney Extension. The increase was partially offset by a gain on the farm-down of 50% of Race Bank in Q4 2016 and a high level of activity from the construction contract for Burbo Bank Extension in the same period.

EBITDA from other activities totalled DKK -0.7 billion in Q4 2017 against DKK -0.2 billion in 2016. The decrease was mainly due to higher project development costs.

Cash flows from operating activities totalled DKK 3.6 billion in Q4 2017 compared with DKK -1.9 billion in Q4 2016. The increase was primarily due to higher tax payments in Q4 2016. In addition, we received milestone payments from partners in connection with the farm-downs of Borkum Riffgrund 2 and Walney Extension in Q4 2017.

Bioenergy & Thermal Power

Revenue was DKK 1.8 billion in Q4 2017 against DKK 2.0 billion in 2016. The decrease was due to revenue from sales of power and ancillary services which, due to lower generation, totalled DKK 0.9 billion in Q4 2017 against DKK 1.1 billion in the prior-year period. Revenue from heat sales remained unchanged in the two quarters in spite of lower generation. This is primarily attributable to Avedøre, Studstrup and Skærbæk power stations where heat generation was converted from coal to biomass at the first two power stations at the end of 2016. Skærbæk Power Station has generated heat using biomass from Q4 2017.

EBITDA doubled relative to Q4 2016 and amounted to DKK 0.2 billion in Q4 2017. The increase was primarily driven by higher earnings from heat activities on converted CHP plants. In addition, earnings from ancillary services and the power business were also higher.

Wind Power's results, DKKm	Q4 2017	Q4 2016	%
Revenue	5,558	4,415	26%
Sites, O&M and PPA[1]	3,848	2,173	77%
Construction contracts	1,678	2,159	(22%)
Other incl. A2SEA	32	83	(61%)
EBITDA	12,591	5,054	149%
Sites, O&M and PPA[1]	3,226	1,899	70%
Construction contracts and divestment gains	10,033	3,309	203%
Other incl. A2SEA and project development	(668)	(154)	334%
Cash flow from operating activities	3,590	(1,948)	n.a.
Free cash flow	13,417	(958)	n.a.

Bioenergy & Thermal Power's results, DKKm	Q4 2017	Q4 2016	%
Revenue	1,788	1,956	(9%)
Heat	850	849	0%
Power incl. ancillary services	938	1,107	(15%)
EBITDA	240	115	109%
Heat	235	172	37%
Ancillary services	122	89	37%
Power	(117)	(146)	(20%)
Cash flow from operating activities	600	814	(26%)
Free cash flow	147	299	(51%)

Distribution & Customer Solutions' results, DKKm	Q4 2017	Q4 2016	%
Revenue	10,396	10,879	(4%)
EBITDA	179	1,243	(86%)
Distribution	172	223	(23%)
Sales	21	(71)	n.a.
Markets	575	1,131	(49%)
LNG	(589)	(40)	n.a.
Cash flow from operating activities	214	1,081	(80%)
Free cash flow	(71)	922	n.a.

For more details on quarterly figures for our business units, please go to orsted.com/en/Investors/Key-figures-and-presentations.

[1] O&M: Operation and Maintenance Agreements
PPA: Power Purchase Agreements.

Distribution & Customer Solutions
Revenue was DKK 10.4 billion in Q4 2017 compared with 10.9 billion in Q4 2016.

EBITDA was DKK 0.2 billion compared with DKK 1.2 billion in Q4 2016.

EBITDA from Markets decreased by DKK 0.6 billion, primarily due to one-off payments from completed renegotiations of gas purchase contracts totalling DKK 0.4 billion, which made a positive contribution in Q4 2016. Hence, underlying EBITDA from Markets was in line with Q4 2016.

EBITDA from our LNG activities decreased by DKK 0.5 billion, mainly as a result of further provisions in Q4 2017 related to the onerous contract at the Gate terminal in Rotterdam as well as provisions regarding purchase contracts.

Cash flows from operating activities totalled DKK 0.2 billion in Q4 2017. The negative development relative to Q4 2016 was primarily due to the lower EBITDA as well as the positive impact in Q4 2016 from receivables received from completed renegotiations of gas purchase contracts in both Q3 and Q4 2016.

Quarterly summary, 2016-2017

Income statement (business performance), DKKm	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Revenue	15,598	11,869	15,540	16,497	15,678	13,114	15,001	17,408
EBITDA	13,032	1,757	4,442	3,288	6,310	3,099	2,615	7,085
Wind Power	12,591	1,674	4,191	2,139	5,054	1,643	2,270	2,900
Bioenergy & Thermal Power	240	(142)	(153)	207	115	(128)	(41)	154
Distribution & Customer Solutions	179	202	516	1,185	1,243	1,507	452	3,906
Other activities	22	23	(112)	(243)	(102)	77	(66)	125
Depreciation and amortisation	(1,517)	(1,385)	(1,541)	(1,296)	(1,602)	(1,239)	(1,215)	(1,176)
Impairment losses	(545)	-	-	-	-	-	-	-
Operating profit (loss) (EBIT)	10,970	372	2,901	1,992	4,708	1,860	1,400	5,909
Gain (loss) on divestment of enterprises	(14)	(108)	(6)	(11)	(80)	1,314	19	(3)
Net financial income and expenses	(649)	22	(81)	(334)	(352)	(114)	(589)	288
Profit (loss) from associates and joint ventures	42	(7)	(2)	(43)	(3)	(4)	0	(1)
Profit (loss) before tax	10,349	279	2,812	1,604	4,273	3,056	830	6,193
Tax	(999)	(70)	(306)	(390)	(285)	(536)	(157)	(1,213)
Profit (loss) for the period from continuing operations	9,350	209	2,506	1,214	3,988	2,520	673	4,980
Profit (loss) for the period from discontinued operations	79	2,931	2,484	1,426	(473)	811	478	236
Profit (loss) for the period	9,429	3,140	4,990	2,640	3,515	3,331	1,151	5,216
Balance sheet								
Assets	146,521	126,190	133,550	132,030	136,489	141,197	140,700	155,915
Total equity	71,837	64,203	62,160	58,112	57,500	57,517	54,694	56,682
Shareholders of Ørsted A/S	54,791	47,050	43,990	39,828	39,106	39,029	35,946	37,614
Non-controlling interests	3,807	3,905	4,922	5,036	5,146	5,240	5,500	5,820
Hybrid capital	13,239	13,248	13,248	13,248	13,248	13,248	13,248	13,248
Interest-bearing net debt	(1,517)	10,260	10,332	6,523	3,461	5,942	3,821	940
Capital employed	70,320	74,462	72,491	64,635	60,961	63,459	58,515	57,622
Additions to property, plant and equipment	7,137	4,795	5,475	2,615	4,378	5,168	3,037	5,167
Cash flows								
Cash flow from operating activities	3,078	(1,095)	(1,848)	888	1,752	(56)	1,215	8,361
Gross investments	(5,805)	(5,150)	(4,287)	(2,502)	(4,732)	(4,658)	(2,339)	(3,231)
Divestments	14,875	1,882	160	65	5,013	2,139	(46)	1,949
Free cash flow	12,148	(4,363)	(5,975)	(1,549)	2,033	(2,575)	(1,170)	7,079
Financial ratios								
Return on capital employed (ROCE)[1,5], %	25.2	15.0	18.4	17.4	24.4	14.6	12.6	12.8
FFO/Adjusted net debt[2,5], %	50.3	26.5	32.0	34.2	64.2	53.6	54.8	66.1
Number of outstanding shares, end of period, '000	420,155	420,155	420,155	420,155	420,155	420,155	420,155	417,726
Share price, end of period, DKK	338.7	360.4	293.9	268.9	267.6	275.0	240.3	-
Market capitalisation, end of period, DKKbn	142.3	151.4	123.5	113.0	112.5	115.6	101.0	-
Earnings per share (EPS) (BP), DKK	21.7	7.1	11.2	6.4	8.2	7.7	1.9	12.8
Income statement (IFRS)								
Revenue	14,711	11,647	15,925	17,426	13,396	13,200	13,134	17,663
EBITDA	12,311	1,643	4,777	3,843	4,572	3,222	1,487	7,658
Profit (loss) for the period from continuing operations	8,787	120	2,765	1,649	2,633	2,615	(207)	5,426

Business drivers	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Wind Power								
Decided (FID) capacity[3], offshore wind, GW	8.9	8.9	7.5	7.4	7.4	7.4	6.7	6.3
Installed capacity[3], offshore wind, GW	3.9	3.8	3.8	3.6	3.6	3.0	3.0	3.0
Generation capacity[3], offshore wind, GW	2.5	2.3	2.2	2.1	2.0	1.8	1.7	1.7
Wind energy content[3], %	118	75	84	105	108	78	75	111
Wind speed[3], m/s	11.0	7.9	8.5	9.9	9.4	8.1	7.8	10.2
Load factor[3], %	54	34	38	50	49	35	34	46
Availibility[3], %	92	92	93	93	94	92	94	89
Power generation, TWh	2.9	1.7	1.8	2.1	1.8	1.3	1.2	1.7
Bioenergy & Thermal Power								
Degree days[3], number	895	115	451	1,244	962	54	399	1,300
Heat generation, TWh	2.8	0.7	1.3	4.2	3.1	0.4	1.4	4.3
Power generation, TWh	2.3	1.2	1.5	3.2	3.0	1.3	1.1	3.0
Distribution & Customer Solutions								
Regulatory value of power distribution assets[4]	10,623	10,623	10,623	10,648	10,648	10,648	10,648	10,778
Power distribution, TWh	2.2	1.9	2.0	2.3	2.3	1.9	1.9	2.4
Power sales, TWh	10.6	8.2	8.8	10.1	9.2	8.3	8.5	10.7
Gas sales, TWh	36.9	29.4	28.3	41.5	36.1	37.1	35.6	41.6

People & environment	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Employees, end of period, number	5,638	5,641	5,802	5,787	5,775	5,890	5,881	6,019
Lost time injury frequency (LTIF), per million hours worked[5]	1.6	1.5	1.5	1.6	1.8	2.1	1.9	2.1
Total recordable injury rate (TRIR)[5]	6.4	6.7	6.5	6.4	6.8	7.4	8.5	9.2
Fatalities, number	0	0	0	0	0	0	0	0
Green share of heat and power generation, %	76	60	64	56	56	47	54	43
Carbon emissions, g CO_2e/kWh	106	203	150	170	183	329	210	232

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 1.1.

ROCE is calculated for continuing operations.

1) EBIT/average capital employed.

2) Net debt including 50% of hybrid capital, cash and securities not available for use (with the exception of repo transactions), present value of lease obligations, and decommissioning obligations less deferred tax. The definition of FFO has been changed in 2017. Comparable figures have been restated.

3) See definition on page 172 and in the ESG statements.

4) The figures indicate values from the latest regulatory financial statements (updated in June).

5) Last 12 months.

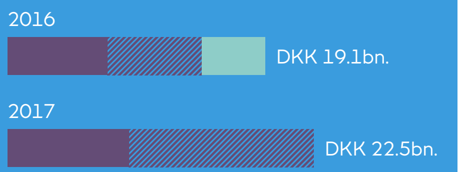
Business units

Our business units

Ørsted

Core business
Green energy.

EBITDA 2016-2017[1]
- Underlying EBITDA
- Of which partnership gains
- Non-recurring EBITDA



Key figures 2017

Revenue	DKK 59.5bn.
Gross investments	DKK 17.7bn.
Capital employed	DKK 70.3bn.
ROCE	25.2%
LTIF	1.6
Number of employees	5,638

Financial target
ROCE 12-14% (avg. 2018-2023)

Wind Power

Core business
Development, construction, ownership and operation of offshore wind farms in the UK, Germany, Denmark, the Netherlands, the USA and Taiwan.

EBITDA 2016-2017[1]
- Underlying EBITDA
- Of which partnership gains

Key figures 2017

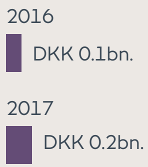
Revenue	DKK 20.4bn.
Gross investments	DKK 15.5bn.
Capital employed	DKK 59.7bn.
ROCE	28.4%
LTIF	1.1
Number of employees	2,253

Financial target
ROCE 13-15% (avg. 2018-2023)

Bioenergy & Thermal Power

Core business
Power and heat generation from CHP plants in Denmark.

EBITDA 2016-2017[1]
- Underlying EBITDA



Key figures 2017

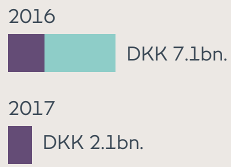
Revenue	DKK 5.9bn.
Gross investments	DKK 1.4bn.
Capital employed	DKK 2.6bn.
Free cash flow (FCF)	DKK (0.8)bn.
LTIF	2.8
Number of employees	749

Financial target
FCF Positive from 2018

Distribution & Customer Solutions

Core business
Power distribution and sale of power and gas in the wholesale and retail markets in Denmark, Sweden, Germany and the UK as well as optimisation and hedging of the Group's energy portfolio.

EBITDA 2016-2017[1]
- Underlying EBITDA
- Non-recurring EBITDA



Key figures 2017

Revenue	DKK 40.2bn.
Gross investments	DKK 0.9bn.
Capital employed	DKK 9.8bn.
ROCE	13.1%
LTIF	2.2
Number of employees	1,263

Financial target
ROCE 9-11% (avg. 2018-2023)

[1] The sum of the business units' key figures for 2017 does not equal to the consolidated key figures due to other activities and eliminations. Read more in note 2.1.

Wind Power

Highlights 2017

- Power generation from our wind farms in operation increased by 42%
- We were awarded the contract for the construction of Hornsea 2 in the UK, which increased our FID capacity by 1.4GW
- We divested 50% of Walney Extension in the UK and 50% of Borkum Riffgrund 2 in Germany and divested A2SEA
- We inaugurated the Burbo Bank Extension and Gode Wind 1 and 2 offshore wind farms
- All wind turbines on Race Bank, and the first part of Walney Extension were installed
- We were awarded three offshore wind farm projects in Germany, two of which were won with zero-subsidy bids
- We participated in the first offshore wind auction in Massachusetts, USA, together with our partner Eversource Energy
- We entered into a partnership agreement with US-based Dominion Energy on an offshore wind farm project in Virginia
- Our environmental impact assessments of the Greater Changhua projects in Taiwan were recommended for final approval in Q1 2018.

Financial performance

Power generation increased 42% compared to 2016, driven by Gode Wind 1 and 2 and Burbo Bank Extension as well as the start-up of power generation from Race Bank and Walney Extension. In addition, wind speeds were higher in 2017. We commissioned Gode Wind 1 and 2 in December 2016 and Burbo Bank Extension in May 2017. At Race Bank, we installed the last wind turbine in December 2017 and fully commissioned the wind farm in January 2018. Walney Extension is expected to be fully commissioned in H2 2018. Moreover, power generation in 2016 was negatively affected by a cable fault at Walney 2. Availability was 93% in 2017 against 92% in 2016.

Revenue from wind farms in operation was up 46%, driven by higher power generation and higher power prices, which were partially offset by lower contributions from price hedges. Walney 2 also contributed to the higher revenue due to the cable fault in 2016.

Revenue from construction contracts decreased by DKK 5.6 billion due to a high level of activity in 2016 with both Gode Wind

"Our company has constructed the most offshore wind farms globally. In addition to maintaining our position as global market leader, we'll continue to pave the way for offshore wind power in new markets and develop a global business.

Martin Neubert
CEO, Wind Power

EBITDA increased by 74%.

[1] O&M: Operation and Maintenance agreements
PPA: Power Purchase Agreements

Performance highlights		2017	2016	%
Business drivers				
Decided (FID) capacity, offshore wind	GW	8.9	7.4	20%
Installed capacity, offshore wind	GW	3.9	3.6	8%
Generation capacity, offshore wind	GW	2.5	2.0	25%
Wind speed	m/s	9.3	8.9	4%
Wind energy content	%	95	93	2%p
Load factor	%	44	41	3%p
Availability	%	93	92	1%p
Power generation	TWh	8.5	6.0	42%
Denmark		2.5	2.2	14%
United Kingdom		4.5	3.1	45%
Germany		1.5	0.7	114%
Power price, LEBA UK	GBP/MWh	52.6	42.7	23%
British pound	DKK/GBP	8.5	9.1	(7%)
Financial performance				
Revenue	DKKm	20,352	22,428	(9%)
Sites, O&M and PPA[1]		11,319	7,757	46%
Construction contracts		8,734	14,323	(39%)
Other, incl. A2SEA		299	348	(14%)
EBITDA	DKKm	20,595	11,867	74%
Sites, O&M and PPA[1]		8,529	5,869	45%
Construction contracts and divestment gains		13,667	7,012	95%
Other, incl. A2SEA and project development		(1,601)	(1,014)	58%
Depreciation	DKKm	(4,080)	(3,565)	14%
Impairment losses	DKKm	(545)	-	n.a.
EBIT	DKKm	15,970	8,302	92%
Cash flow from operating activities	DKKm	3,353	4,347	(23%)
Gross investments	DKKm	(15,462)	(12,426)	24%
Divestments	DKKm	16,737	6,874	143%
Free cash flow	DKKm	4,628	(1,205)	n.a.
Capital employed	DKKm	59,652	52,825	13%
ROCE	%	28.4	16.5	11.9%p

1 and 2 and Burbo Bank Extension under construction for partners. The decrease was also attributable to a higher level of activity regarding the construction of transmission assets in 2016 (Walney Extension, Race Bank and Burbo Bank Extension) than in 2017 (Hornsea 1, Race Bank and Walney Extension). The decrease was partially offset by activity at Walney Extension and Race Bank, which were under construction for partners in 2017.

EBITDA increased by 74% relative to 2016.

EBITDA from wind farms in operation increased by 45% to DKK 8.5 billion, driven by the factors described above.

EBITDA from partnership agreements almost doubled to DKK 13.7 billion in 2017. The year was positively affected by gains from the farm-down of 50% of Walney Extension (DKK 7.5 billion) and Borkum Riffgrund 2 (DKK 2.2 billion). 2017 was also positively impacted by the recognition of the deferred selling price and milestone income from Race Bank, as well as the construction of the wind farm for partners. 2016 was affected by a gain of DKK 2.5 billion from the divestment of Race Bank as well as a gain of DKK 0.6 billion from the farm-down of 50% of Burbo Bank Extension. In addition, 2016 was affected by high activity levels relating to the construction of Gode Wind 1 and 2 and Burbo Bank Extension for partners.

EBITDA from other activities totalled DKK -1.6 billion in 2017 against DKK -1.0 billion in 2016. The decrease was mainly due to higher project development costs.

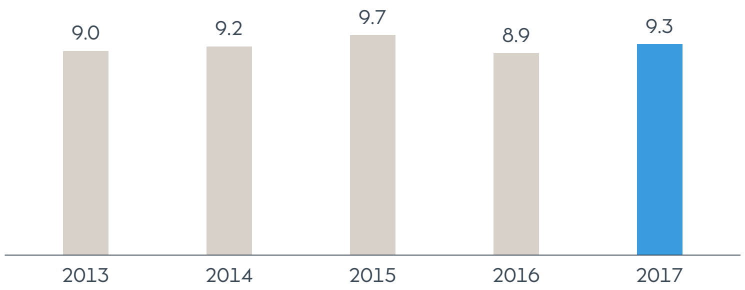
Depreciation increased by 14% due to the commissioning of new offshore wind farms in Germany and the UK.

Impairment losses totalled DKK 0.5 billion and related to capitalised project development costs in Wind Power, due to uncertainty about the carrying through of the projects.

Cash flows from operating activities totalled DKK 3.4 billion in 2017 compared with DKK 4.3 billion in 2016. The decrease was due to more funds tied up in offshore wind farm construction contracts in progress for partners and offshore transmission assets in the UK. In 2017, funds tied up in work in progress increased by DKK 3.7 billion due to the construction of transmission assets at Hornsea 1, Race Bank and Walney Extension as well as the construction of Race Bank for partners. This was partially offset by milestone payments received from partners in connection with the construction of Borkum Riffgrund 2 in 2017, as well as high trade payables relating to the construction of Walney Extension. Funds tied up in work in progress in 2016 were lower due to the divestment of the Westermost Rough transmission asset and the receipt of milestone payments from partners during the construction of Gode Wind 1 and Burbo Bank Extension, among other factors. Funds tied up in work in progress totalled DKK 7.5 billion at the end of 2017.

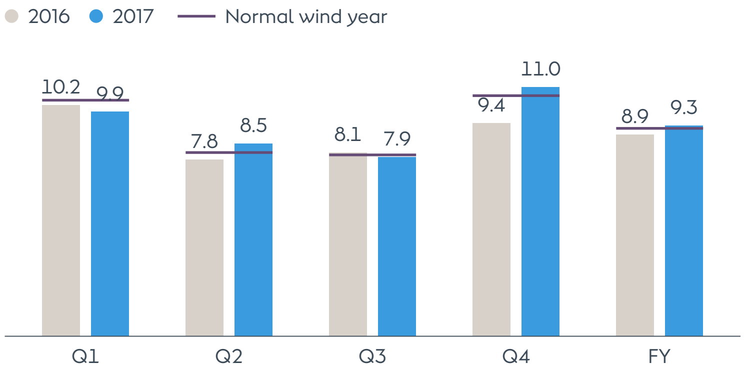
The high level of funds tied up in other working capital was primarily due to lower VAT payable as well as an increase in trade receivables following a high level of power generation at the end of 2017.

Yearly wind speed for our offshore wind farms, m/s



The wind speed indicates how many metres per second the wind has blown in the areas where we have offshore wind farms. The weighting is based on our generation capacity.

Quarterly wind speed for our offshore wind farms, m/s



The wind speed was higher than normal in Q4 2017.

Change from wind energy content (WEC) to wind speed

Wind speed and availability are the two most important parameters that can affect the volume of power generated by our offshore wind turbines in a given period. In the past, we have used wind energy content (WEC) as the residual for the power generation that cannot be explained by the availability of the offshore wind farms. However, this method means that generation constraints, with no negative impact on availability, are included in the calculation of wind energy content. This type of impact increased in 2017. For example, the German transmission system operator curtailed our generation from Borkum Riffgrund 1 and Gode Wind 1 and 2 in periods of 2017 by reducing the available grid capacity.

In order to obtain a cleaner measure of the impact of wind on our generation, we now apply the measure of wind speed in metres per second. Wind speed is based on external data sources and is a transparent and easy-to-understand measure of how windy it has been at our offshore wind farms in a given period.

Gross investments amounted to DKK 15.5 billion in 2017. The largest investments related to the construction of Walney Extension and Race Bank, Hornsea 1 and Borkum Riffgrund 2.

Cash flows from divestments related to Walney Extension, Borkum Riffgrund 2, Race Bank and A2SEA. Divestments in 2016 related to the farm-down of 50% of Burbo Bank Extension, Race Bank as well as receipt of the deferred selling price from the farm-down of 50% of Gode Wind 1 in 2015.

ROCE increased by 12%-points to 28%, particularly impacted by a gain on the farm-downs.

The world's largest offshore wind farms since 2012, MW installed (year indicates actual or expected commissioning)

[1] London Array was built in partnership with E.ON UK Renewables and Masdar
Source: Bloomberg New Energy Finance (BNEF)

Strategy follow-up

Wind Power's strategic focus is to:

— maintain our market leadership in offshore wind
— continue to pioneer new markets and develop a global business
— keep innovating and reducing the cost of electricity from offshore wind
— leverage market-leading partnership model for incremental value creation and risk diversification
— realise the current build-out plan of 8.9GW towards 2022 and expand to 11-12GW by 2025
— implement operational excellence and digitisation initiatives across EPC and O&M.

Maintain our market leadership in offshore wind

Offshore wind plays an increasingly important role in the European conversion to green energy, and the potential is enormous. Worldwide, we are the company that has constructed most offshore wind farms. In fact, we have constructed close to a quarter of the total global capacity.

In 2017, we completed the Burbo Bank Extension offshore wind farm in the UK, the first offshore wind farm in the world to feature the MHI Vestas 8MW offshore wind turbine. Including Burbo Bank Extension, at the end of 2017 we had installed 3.9GW of offshore wind capacity since the beginning in 1991, where we constructed the world's first offshore wind farm off Vindeby in Denmark. After more than 25 years, the Vindeby offshore wind farm, as the first offshore wind farm in the world, was decommissioned in the autumn of 2017.

In September, we were awarded a contract for difference (CfD) for our Hornsea 2 project in the UK. With a total capacity of 1.4GW, it will be the world's largest offshore wind farm when completed in 2022. The project will thus be larger than our Hornsea 1 offshore wind farm with a capacity of 1.2GW, which is expected to be completed in 2020.

Continue to pioneer new markets and develop a global business

2017 has been a year where we really fuelled our project development in two new strategic markets. Together with Eversource Energy, our partner on the US Bay State Wind project, we submitted a bid for capacity in the first offshore wind auction in Massachusetts in December 2017. The preferred bidder or bidders are expected to be selected in April 2018, followed by an invitation to negotiate a fixed-price agreement with the three local power distribution companies. In addition, we entered into an agreement to construct a demonstration project for Dominion Energy off the Virginia Beach coast. At the same time, we entered into a letter of intent, which gives us the exclusive right to negotiate a strategic partnership with Dominion Energy concerning their 2GW development project off the Virginia coast.

At the end of 2017, the Taiwanese EIA review panel recommended approval of our environmental impact assessments of the four Greater Changhua offshore wind sites in Taiwan with a total capacity of 2.4GW. We will now await the final approval by the EIA General Assembly, which is expected to convene in Q1 2018.

Keep innovating and reducing the cost of electricity from offshore wind

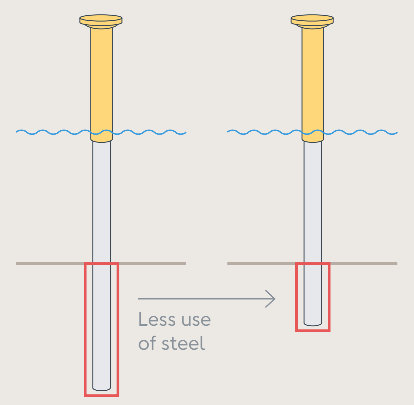
2017 was a breakthrough year for the competitiveness of offshore wind. For example, we were granted the Hornsea 2 CfD contract at a price which is 50% lower than the price in the CfD auction round only two years ago, illustrating how fast costs are reduced. Costs have been reduced across the industry by means of increasing levels of industrialisation, economies of scale and innovation.

A good example of our approach to innovation is our work on developing a new design standard for foundations for offshore wind farms. Together with leading industry experts, we have developed and tested a new foundation design that enables us to use far less steel. This design is used in the most recent projects which we have bid for in auctions, and it has contributed to significantly reducing the cost of electricity.

Overall, the declining prices are tangible proof of the global potential of offshore wind technology as a cornerstone in an economically sustainable transition towards green energy systems. As a result, we are making a dedicated effort to further reduce the cost of power from offshore wind farms.

Leverage market-leading partnership model for incremental value creation and risk diversification
Our partnership model yet again proved its worth through the 50% divestment of the offshore wind farms Borkum Riffgrund 2 and Walney Extension in 2017. Borkum Riffgrund 2 was divested to Global Infrastructure Partners, which also owns 50% of our German offshore wind farm Gode Wind 1, while Walney Extension was divested to a consortium consisting of the Danish pension funds PFA and PKA. PKA now has ownership interests in four Ørsted offshore wind farms.

New foundation design



In addition to incremental value creation, the partnership model contributes to diversifying risk as well as releasing capital to invest in other offshore wind farms in strategic markets.

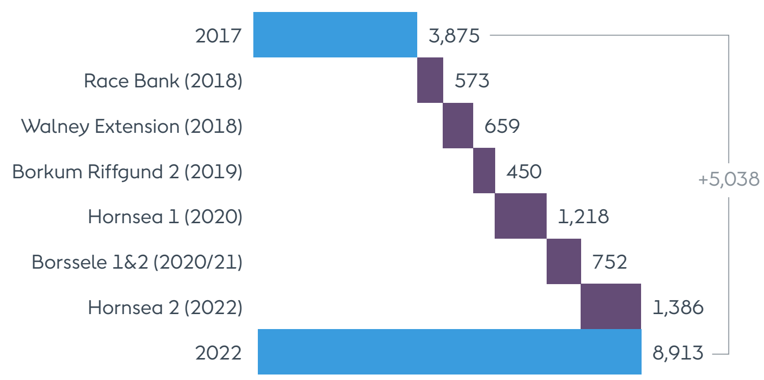
Realise the current build-out plan of 8.9GW towards 2022 and expand to 11-12GW by 2025
Race Bank was commissioned in January 2018 and consequently added 0.6GW to our installed capacity. Up until 2022, we will construct a further five offshore wind farms with a total capacity of 4.5GW. Out of these five wind farms, we have generated first power from the British offshore wind farm Walney Extension (40% of capacity commissioned), which is expected to be fully commissioned in H2 2018. The remaining four offshore wind farms under construction are all progressing according to plan, and when the last wind farm, Hornsea 2 in the UK, is commissioned, we will have 8.9GW installed by the end of 2022.

Up until 2025, we have a significant pipeline, and our ambition is to have 11-12GW installed by the end of 2025, provided that a healthy risk and return profile can be achieved.

In April, we were awarded the concessions for the three German offshore wind farms OWP West, Borkum Riffgrund West 2 and Gode Wind 3 in competition with other developers. Two of the wind farms have been awarded on zero-subsidy terms. Overall, this gives us an option on 0.6GW capacity in Germany for commissioning in 2024, provided that the final investment decision is made in 2021.

Build-out plan, installed MW

The figure shows our current build-out plan of 8.9GW towards 2022.



The rest of the pipeline consists mainly of projects which we have the exclusive right to develop in preparation of an investment decision, which is typically conditional on the granting of subsidies via an auction process. A minor part of the pipeline consists of projects for which the authorities allocate capacity in a competitive process involving tendering of project rights. We are familiar with this process, e.g. from the tendering in recent years of offshore wind projects in Denmark and the Netherlands.

In addition to the opportunities in Taiwan and the USA, 2018 will see an auction for 1.6GW in Germany and a 700MW tender in the Netherlands. They will be followed by a CfD auction round in the UK in the spring of 2019 and another 700MW tender in the Netherlands in 2019.

Implement operational excellence and digitisation initiatives across EPC and O&M
The digital transformation is important in offshore wind. In Ørsted, we are exploring new and wider opportunities for leveraging technological advances. Using agile and advanced analytics in our business, we are starting to harvest the benefits of the digital transformation.

As an operational example, a higher temperature in the nacelle of the turbine puts the converter module at risk. Previously, a turbine would stop in case of high temperatures, which led to an availability loss until the turbine could be checked by a technician and restarted. Now, continuous temperature monitoring and predictive, in-house developed models identify the risk. A notification is then sent to the technician who proactively mitigates the risk by repairing the component before the turbine stops. This lowers lead time, limits the availability loss and creates value.

Bioenergy & Thermal Power

Highlights 2017

- We entered into an agreement to convert Asnæs Power Station to sustainable biomass from 2019
- We inaugurated Skærbæk Power Station's new plant following the conversion from gas to biomass. The plant can now run 100% on sustainable biomass
- In partnership with Bigadan, we decided to build a biogas plant in Kalundborg which will recycle and convert residues from the Novo Nordisk and Novozymes production facilities into biogas
- We completed our first commercial Renescience plant in 2017. We expect to commission the plant in H1 2018.

Financial performance

Revenue increased by 14% to DKK 5.9 billion in 2017.

Revenue from heat sales increased by 16% despite lower heat generation. This is attributable to Avedøre, Studstrup and Skærbæk power stations where heat generation is based on biomass. Revenue from power and ancillary services rose by 13% to DKK 3.3 billion despite lower generation. This is due to an increase in the power price.

EBITDA increased by 52% to DKK 0.2 billion in 2017. The increase was mainly due to heat generation activities, where the bio-conversions led to a 71% increase in earnings to DKK 0.7 billion in 2017. The increase was partially offset by a decline in the power business where lower generation as well as unfavourable market conditions (primarily negative spreads) resulted in earnings of DKK -0.9 billion against DKK -0.6 billion in 2016.

EBITDA from ancillary services was in line with 2016.

Cash flows from operating activities totalled DKK 0.6 billion compared with DKK 1.3 billion in 2016. The decrease was mainly due to higher prepayments from heat customers in connection with biomass conversions in 2016 than in 2017. The decrease was partially offset by a lower level of funds tied up in inventories (wood pellets and coal) in 2017.

Gross investments amounted to DKK 1.4 billion in 2017. The largest investments related to the biomass conversions of the Skærbæk and Asnæs power stations as well as the construction of the Renescience plant in the UK.

"

In 2017, we reached new milestones on our journey to convert all our CHP plants to sustainable biomass.

Thomas Dalsgaard
CEO, Bioenergy & Thermal Power

Operating profit from the heat business increased as a result of biomass conversions.

Performance highlights		2017	2016	%
Business drivers				
Degree days	number	2,705	2,715	(0%)
Heat generation	TWh	9.0	9.2	(2%)
Power generation	TWh	8.2	8.4	(2%)
Power price, DK	EUR/MWh	31.0	28.0	11%
Green dark spread, DK	EUR/MWh	(1.6)	3.4	n.a.
Green spark spread, DK	EUR/MWh	(6.2)	(2.2)	182%
Financial results				
Revenue	DKKm	5,864	5,149	14%
Heat		2,607	2,255	16%
Power, incl. ancillary services		3,257	2,894	13%
EBITDA	DKKm	152	100	52%
Heat		695	407	71%
Ancillary services		321	300	7%
Power		(864)	(607)	42%
Depreciation	DKKm	(690)	(763)	(10%)
EBIT	DKKm	(538)	(663)	(19%)
Cash flow from operating activities	DKKm	592	1,285	(54%)
Gross investments	DKKm	(1,390)	(1,926)	(28%)
Divestments	DKKm	2	6	(67%)
Free cash flow	DKKm	(796)	(635)	25%
Capital employed	DKKm	2,554	2,283	12%
ROCE	%	(22.2)	(29.5)	7.3%p

Strategy follow-up

Bioenergy & Thermal Power's strategic focus is to:

- continue the conversion of Danish CHP plants to sustainable biomass and phase out coal by 2023
- continue to strengthen operational efficiency
- continue the commercial development of our Renescience enzyme based waste technology
- explore business opportunities within energy storage solutions.

Continue conversions to sustainable biomass and phase out coal by 2023

For several years, we have been committed to converting our power stations to use sustainable wood pellets and wood chips. And in 2017, we decided to phase out coal by 2023, as coal is the fuel with the greatest carbon impact per produced quantity of power and heat. Our ongoing work will reduce our annual carbon emissions in Denmark significantly towards 2023. In just over ten years, we will have gone from being one of the most coal-intensive utilities in Europe to having a completely coal-free generation by 2023.

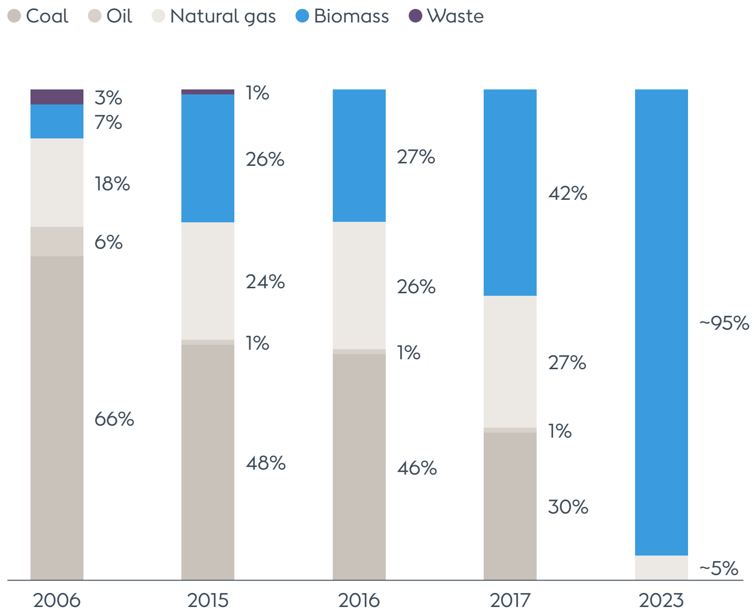
In cooperation with our heat customers, we reached even more milestones in 2017 in the execution of our large-scale biomass conversion projects. The new biomass-fired CHP plant in Skærbæk was inaugurated in October by HRH Crown Princess Mary and now supplies green heat to district heating customers in the Danish Triangle Region and green power to the Danish grid. Later in October, we cut the first sod for our new biomass-fired CHP plant at Asnæs near Kalundborg, Denmark. The plant is expected to be completed by the end of 2019 and will supply green district heating to district heating customers in and around Kalundborg, green steam to Novo Nordisk and Novozymes as well as green power to the Danish grid. In November, we decided to invest in flue gas condensation at the Herning Power Station, enabling us to increase the energy efficiency potential of the biomass used. At the same time, we extended our agreement with the heat customers in and around Herning until 2033. Finally, we are engaged in a constructive dialogue with our heat customers in and around Esbjerg on also supplying green solutions to them within a few years.

Our portfolio of seven central CHP plants in Denmark will thus be able to supply green district heating equivalent to the consumption of almost one million Danes in the near future. Our power stations will be some of the largest biomass-fired CHP plants in the world, making them key to the green transformation of the nearby towns, cities and municipalities – and of Denmark as a whole.

It is important to us that our customers can be confident that the biomass-based heat and power we supply is sustainable and makes a real and significant contribution to reducing their carbon footprint. Therefore, we fully support the Danish industry agreement on sustainable wooden biomass which commits not just Ørsted, but the entire Danish energy industry to documenting the sustainability of our use of biomass. Together with other European energy companies, we are also part of the Sustainable Biomass Programme (SBP) which has developed a robust and independent scheme for the certification of sustainable biomass. The Danish industry agreement on sustainable wooden biomass entered into force in 2016 and is being phased in during the period up until 2019. In 2017, 72% of our purchased biomass came from certified partners, and our target is that 100% should come from certified partners in 2020.

Biomass conversions will support a reduction in the usage of coal in the coming years.

Share of fuels in the thermal power and heat generation, %



Continue to strengthen operational efficiency

For much of 2017, market conditions remained challenging for Danish CHP plants. Therefore, we have focused on maintaining our leading position as an efficient and flexible operator and on continuing to reduce costs. In 2017, we initiated a comprehensive digitisation programme aimed at streamlining and automating production at our CHP plants. With this programme, we introduce new technology and improved analytical tools across our CHP plants in order to strengthen our operational efficiency. In addition, we have increased our focus on our plant control processes. A case in point is the development of systems that support the balance between cost, risk and performance at our plants. This provides for efficient prioritisation of our capital expenditures.

Continue the commercial development of our innovative Renescience enzyme based waste technology

We are currently working to further develop and expand our bioenergy business – with special emphasis on the commercialisation of our Renescience technology. By means of enzymes, the technology efficiently converts household waste into biogas and recyclable materials (metal, plastic, etc.). In 2017, we established the first full-scale plant in Northwich in the UK. We are finalising the optimisation of the plant's mechanical operation, which has taken longer than expected. We expect to start full commercial operation in H1 2018. We expect the plant to process 120,000 tonnes of unsorted household waste per year, which corresponds to the waste from approximately 110,000 British households.

Explore business opportunities within energy storage solutions

In 2017, we established a new business unit, Energy Storage Solutions. This unit will support initiatives across Ørsted and at the same time offer battery power storage solutions, potentially in combination with solar PV, for our customers. In 2017, Radius commissioned a battery solution for the power distribution grid in the Nordhavn area in Copenhagen, and we initiated the work to establish a storage solution at our Burbo Bank offshore wind farm in the UK.

Distribution & Customer Solutions

Highlights 2017

- At the end of 2017, the customers in our power distribution company Radius had taken 183,000 smart meters in use
- We decided that the power consumption of our 733,000 Danish residential power customers is to be covered by green power from offshore wind farms – without any surcharge
- We installed Denmark's first large-scale battery for balancing the grid in Nordhavn, together with ABB
- We entered into an agreement with the Good Energy trading company about the supply of green power to their customers from the Westermost Rough offshore wind farm.

Financial performance

Revenue increased by 6% to DKK 40.2 billion in 2017. The increase was driven primarily by a 24% average increase in gas prices relative to 2016 and higher power sales in the UK. The increase was offset by lower revenue from power distribution, given that duties and costs are no longer invoiced on behalf of the transmission asset owner, and from the distribution of gas following the divestment of activities to Energinet in September 2016.

EBITDA was DKK 2.1 billion compared with DKK 7.1 billion in 2016. The decrease was expected and was mainly ascribable to non-recurring items of DKK 4.7 billion in 2016 as well as a provision of DKK 0.4 billion related to the onerous contract at the Gate terminal in Rotterdam.

EBITDA from the distribution business decreased by DKK 0.4 billion as a result of the divestment of our gas distribution activities in September 2016.

EBITDA from Markets decreased by DKK 4.3 billion, primarily due to one-off payments of DKK 4.3 billion from completed renegotiations of gas purchase contracts in 2016.

EBITDA from LNG declined by DKK 0.3 billion as a result of further provisions related to an onerous contract at the Gate terminal in Rotterdam as well as provisions regarding purchase contracts. This was partially offset by improved margins from renegotiated contracts, lower costs and short-term trades.

"Our ambition is to bridge the gap between supply and demand in the green transformation.

Morten Buchgreitz
CEO, Distribution & Customer Solutions

EBITDA was positively affected by one-off payments from gas contracts of DKK 4.3 billion in 2016.

Gas distribution contributed DKK 0.4 billion to EBITDA until divestment in September 2016.

Performance highlights		2017	2016	%
Business drivers				
Regulatory asset base (power)	DKKm	10,623	10,648	(0%)
Degree days	number	2,705	2,715	(0%)
Gas sales	TWh	136.1	150.4	(10%)
Sales		40.8	37.6	9%
Markets (excl. volumes to Sales)		95.3	112.7	(15%)
Power sales	TWh	37.7	36.7	3%
Sales		11.8	10.0	18%
Markets (excl. volumes to Sales)		26.0	26.8	(3%)
Gas distribution	TWh	-	5.8	n.a.
Power distribution	TWh	8.4	8.5	(1%)
Gas price, TTF	EUR/MWh	17.3	14.0	24%
Oil price, Brent	USD/boe	54.3	43.7	24%
US dollar	DKK/USD	6.6	6.7	(1%)
British pound	DKK/GBP	8.5	9.1	(7%)
Financial results				
Revenue	DKKm	40,195	38,009	6%
EBITDA	DKKm	2,082	7,108	(71%)
Distribution		1,199	1,602	(25%)
Sales		32	(15)	n.a.
Markets		1,422	5,766	(75%)
LNG		(571)	(245)	133%
Depreciation	DKKm	(933)	(874)	7%
EBIT	DKKm	1,149	6,234	(82%)
Cash flow from operating activities	DKKm	(628)	4,302	n.a.
Gross investments	DKKm	(857)	(569)	51%
Divestments	DKKm	196	2,238	(91%)
Free cash flow	DKKm	(1,289)	5,971	n.a.
Capital employed	DKKm	9,780	7,797	25%
ROCE	%	13.1	75.8	(62.7%p)

Cash flows from operating activities totalled DKK -0.6 billion in 2017. The decrease of DKK 4.9 billion was primarily due to lower EBITDA and the early settlement of Oil & Gas price hedges of DKK 1.6 billion in 2017. This was partially offset by a lower level of funds tied up in working capital, mainly higher trade payables relating to gas purchases.

Gross investments totalled DKK 0.9 billion in 2017, relating primarily to maintenance of the power distribution grid and installation of the new smart meters.

ROCE was 13% in 2017. This is a decrease of 63%-points relative to 2016, as that year was positively impacted by income in the form of one-off payments from renegotiations. ROCE adjusted for these one-off payments was 24% in 2016.

Strategy follow-up

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

Distribution & Customer Solutions' strategic focus within these four areas is to:

- **Sales B2C**: make it easier and financially possible for our customers to contribute to the green transformation
- **Sales B2B:** help business customers benefit from the green transformation
- **Distribution:** be industry-leading and maintain high levels of security of supply and customer satisfaction
- **Markets (including LNG):** manage Ørsted's energy portfolio and provide competitive access to the energy market for customers.

Sales B2C: make it easier and financially possible for our customers to contribute to the green transformation

We will make it easier for our customers to play a part in the green transformation. In 2017, we therefore decided to cover all our residential customers' power consumption with green power from our own Danish offshore wind farms by purchasing green certificates – at no extra cost for our customers.

With 824,000 residential customers, our ambition is to deliver Denmark's best customer experience, which we continuously strive to do. In 2017, the customer satisfaction score among residential customers, who had been in touch with us, was unchanged at 76 on a scale of 1-100. We have seen an increase in customer loyalty to 71 from 69. During the year, we have, among other things, worked to make our customer service more accessible and also implemented a successful online chat function and a new website in connection with the launch of our new name.

By the end of 2020, all power customers in Denmark will have the option of hourly settlement of consumption via remote-read power meters. This means that our power customers can take advantage of variable power prices during each 24-hour period – for example free power during certain hours of the night – as our most common subscription is based on the hourly market prices.

We continuously strive to reduce our costs and strengthen our competitiveness. Among other things, we are developing a new, simple and flexible digital platform. The new platform will provide a better customer experience and reduce our costs.

Sales B2B: help business customers benefit from the green transformation

Across our geographical markets, we are working to establish and develop our partnerships with business customers beyond the classic role of a utility company. We are seeing growing demand for integrated, green energy solutions, and we would like to take the lead on this development.

Among other things, we offer our customers in Denmark climate partnerships comprising green power and advice on energy efficiency and procurement. For example, we are working with Novo Nordisk and Novozymes on a new biogas plant in Kalundborg that will convert by-products from their factories to biogas.

We have also experienced strong growth in our flexibility solutions which contribute to balancing the energy system and ensuring lower costs. For example, we give our business customers the opportunity to move parts of their production to times when demand in the grid is lower. Our customer satisfaction score for business customers has increased to 77 out of 100.

Distribution: be industry-leading and maintain high levels of security of supply and customer satisfaction

Ørsted's distribution activities are undertaken by the subsidiary Radius Elnet.

It is crucial that our customers experience a high level of security of supply. This means that their supply is rarely interrupted, and that we ensure rapid response and communication of correct information when this happens. In 2017, customers experienced the security of supply of 0.42 disconnections a year, excluding faults in the primary transmission grid owned by the Danish transmission system operator, Energinet.

As mentioned above, all Danish households must have a remote-read power meter installed by the end of 2020. We are thus working hard to replace one million power meters. At the end of 2017, 183,000 meters were in use. We focus on ensuring that the replacement is a positive customer experience, so we are pleased that we succeeded in maintaining a high customer satisfaction score of 82 in 2017. The remote-read power meters come with a number of advantages for our customers.

Among other things, they no longer have to read their power meters themselves, and they can monitor and control their electricity consumption during the day and the year. From 1 December, billing by the hour was introduced for our first customers to have the new meters installed. For the individual customer, this is a chance to reduce costs by keeping consumption low during peak hours in the grid. On the other hand, customers with a more inexpedient consumption pattern will pay more. The average consumer will not experience any price changes.

On 1 January 2018, a new financial regulation for grid companies came into force. During the year, the Danish Energy Regulatory Authority will define new revenue caps that will give us healthier incentives and a more stable framework. Initially, the financial consequences of this regulation are as expected.

Markets (including LNG): manage Ørsted's energy portfolio and provide competitive access to the energy market for customers

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

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

In 2017, we made significant progress in the management of power portfolios – particularly in relation to balancing products for external customers. As a consequence, we increased our number of external customers and our managed production capacity. The assets which we manage in portfolios include offshore wind farms, onshore wind, waste-fired power stations and small-scale gas-fired electric motors. In addition to our focus on the administration of renewable energy, we have signed agreements with small and flexible gas-fired power stations, supporting the objective of creating balance in the power grid.

In the transition to renewable energy, gas, as the least polluting and most flexible of the fossil energy sources, will continue to play an important role on the way towards a fossil-free energy system. Our gas portfolio consists partly of long-term purchase contracts, partly of contracts on capacity in gas storage facilities and an LNG terminal. At the end of 2017, a plan was announced for the full redevelopment of the Mærsk-owned Tyra gas field in the North Sea, which has increased the security of continued deliveries from the Danish Underground Consortium (DUC) to us. In addition, we have further reduced our exposure to oil prices in our gas purchase contracts through renegotiations with our counterparties.

Our LNG activities are loss-making. And even though we experience great interest and activity in LNG, the earnings from these activities are not enough to cover our fixed costs for the lease of the terminal.

Governance

Risk and risk management

In Ørsted, we regard risks as a natural and integral part of our business activities. Through risk management, risks are reduced to an acceptable level.

In addition to general operational and business risks, we are exposed – as part of our activities – to a number of different risks, including fluctuations in exchange rates, commodity prices and interest rates as well as credits and insurance. Managing these risks is an important focus area for us. The purpose of our risk management is to identify the various risks to which we are exposed, and then decide how to manage them. We assess the extent to which individual risks are acceptable or perhaps even desirable, as well as the extent to which these risks can be reduced to ensure an optimum balance between risk and return.

Following the divestment of our upstream oil and gas business in September 2017, our earnings are now to a large extent centred within offshore wind and green energy. When we invest in new assets and activities or divest other assets, the risk associated with our portfolio changes. We therefore assess the impact of a given decision on the portfolio in advance.

We work systematically with risks and follow a plan for the year according to which all business units and selected staff functions identify and prioritise their business risks. An assessment is made of the potential financial impact of individual risks and of whether they are of a short-term, long-term or recurring nature. The risks are consolidated and then prioritised at Group level. The ultimate responsibility for the individual risks rests with a member of the Group Executive Management. Similar processes are in place for identifying and prioritising risks related to sustainability, cybersecurity/IT and compliance/legal.

The most important business risks identified in connection with the process in the autumn of 2017 are shown on the right. They are also illustrated in the figure based on their potential impact (post-risk mitigation) on our value and credit metrics over the next few years. You can read more about these risks in the following pages.

The risks related to sustainability, cybersecurity/IT as well as compliance/legal are assessed using different parameters, which is why we are unable to show a consolidated picture of our combined risks. You can find a description of the most significant sustainability risks in our Sustainability Report and for each of the two other areas on page 50.

In addition, we are exposed to risks entailing a very small probability of having a considerable impact on the Group's finances and/or reputation. These include, among other things:

- 1,000-year storm, which can lead to the loss of offshore wind farms
- Broken pipes at the Nybro gas treatment plant in Denmark, which can lead to personal injury and damage to the environment
- Breakdowns at power stations that can lead to personal injury and loss of assets.

For each of the identified risks, Group Executive Management has assessed whether the level of risk – after risk-reducing measures have been implemented – is appropriate or slightly or significantly higher than the desired level. If the risk is higher than the desired level, further risk-reducing measures are initiated to the extent possible.

Development in risks in 2017

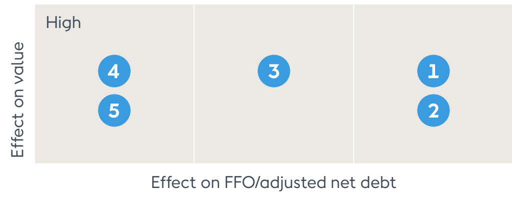
The risk outlook diminished in 2017 after the divestment of our upstream oil and gas business, as that industry is generally characterised by a high level of inherent risk.

Our five most important business risks are unchanged in relation to last year, however.

Market risks are still deemed to be the most material business risks for us. Following the

Top 5 business risks

Effect on our value and credit metric



Quantification of risk is based on a scenario where the risk occurs with 10% probability (P90).

1 (#1 2016) Market risks

2 (#2 2016) Development and construction of production assets

3 (#4 2016) Operation of offshore wind farms

4 (#3 2016) Regulatory risks in Wind Power

5 (#5 2016) Cost of electricity for offshore wind

divestment of the oil and gas business, our exposure to oil and gas prices has been reduced. In contrast, our exposure to exchange rate fluctuations, primarily GBP, has increased, due to our large investments in offshore wind farms in the UK.

Development and construction of production assets is still ranked as the second-largest risk. However, there were no significant challenges in 2017.

Our risks associated with the operation of offshore wind farms (risk no. 3) and regulatory risks in Wind Power (risk no. 4) switched places in 2017. This is due to an increasing risk of faults on e.g. transmission cables, as more and more offshore wind farms become operational. In addition, we believe that the regulatory risks in the European markets have diminished, as the terms and regimes that apply to us are well-known and clarified.

Further reducing the cost of electricity from offshore wind (risk no. 5) remains an important factor for us. 2017 saw a breakthrough for the price of offshore wind power, and our market-leading role in reducing the costs was reaffirmed. In April, we were granted the right to build three offshore wind projects in the German part of the North Sea, and in September we were awarded the contract to construct Hornsea 2. Two of the German projects were awarded on zero-subsidy terms, and the settlement price for Hornsea 2 is 50% lower than in the most recent CfD allocation in the UK only two years ago.

1. Market risks

Our primary market risks relate to energy prices, exchange rates, interest rates and inflation.

Risk management

The management of market price risks aims to ensure stable and robust financial ratios that support our growth strategy.

We hedge prices for up to five years to reduce cash flow fluctuations. Prices are normally not hedged in the longer term. This means that our long-term market risks are determined by our strategic decisions on investments in new assets, the conclusion of long-term contracts, debt issuance as well as any divestments of assets.

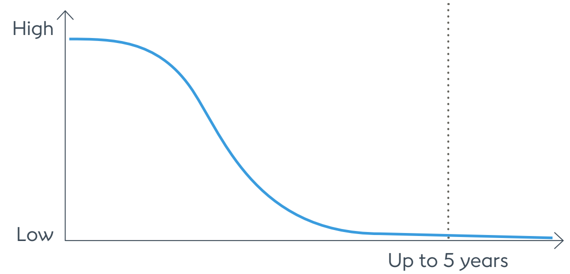
Energy prices

Our energy price risks can be divided into direct price risks, where the exposure depends on a specific price, and spread risks, where the exposure depends on the difference between two or more prices. Direct price risks are generally considered to be higher than spread risks as prices are often co-variant.

We hedge prices based on minimum hedging requirements, defined by the Board of Directors, for the three business units. See note 7.1 in the financial statements. In the first two years, a high degree of hedging is wanted to ensure stable cash flows after tax. The degree of hedging will be lower in the subsequent years. This is due to declining certainty about generated volumes and the increasing cost of hedging instruments due to declining liquidity of the instruments.

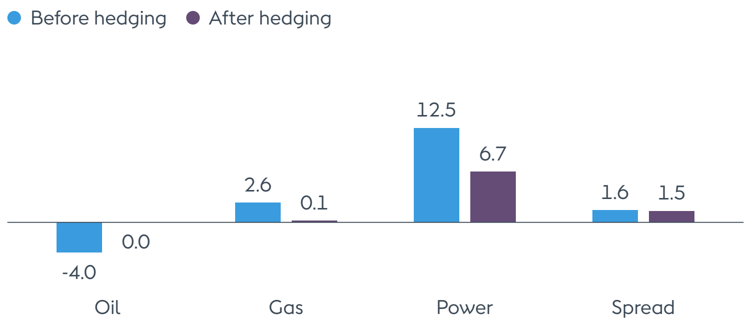
We hedge market prices with a horizon of up to 5 years.

Risk horizon



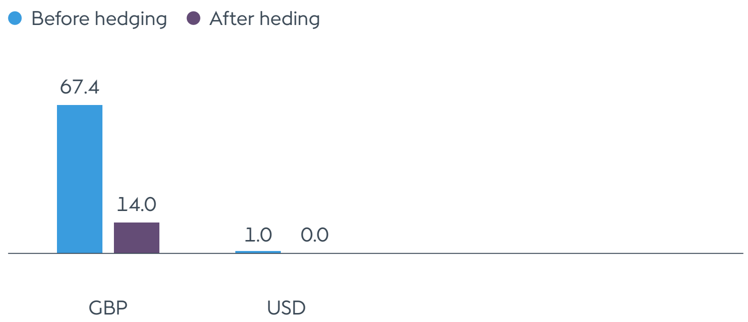
Our energy exposures have been reduced from DKK 20.7bn to DKK 8.3bn via hedging.

Energy exposure 2018-2022, DKK billion



Our currency exposures have been reduced from DKK 68.4bn to DKK 14.0bn via hedging.

Currency exposure 2018-2022, DKK billion



Exchange rates

Our international activities entail financial exposure to exchange rate fluctuations. The most important risk relates to GBP due to the Group's substantial investments in offshore wind farms in the UK.

The main currency risk management principle is that currency risks are hedged when it is deemed relatively certain that the underlying cash flows in foreign currencies will materialise. Currency risks relating to energy prices are therefore hedged only when the energy price is hedged.

Similarly, currency risks relating to divestments and investments are hedged only when the divestment and investment prices are sufficiently certain.

Cash flows that relate to fixed tariffs and guaranteed minimum prices from offshore wind farms in the UK deviate from the main principle and are hedged after deduction of operating costs, with a decreasing degree of hedging over the five-year risk management horizon. See note 7.1 in the financial statements. Fluctuations in GBP therefore constitute a strategic risk for Ørsted.

Our EUR risk is subject to continuous assessment, but is generally not hedged as we believe that Denmark will maintain its fixed exchange rate policy.

Interest rates and inflation

Our interest rate risks relate to interest-bearing loans and borrowings, interest-bearing assets and financial price hedges.

The management of interest rate risks is based on the composition of our assets and the interest rate sensitivity of the cash flows generated by these assets. We match assets and liabilities, aiming at fixed-interest financing of assets with fixed, interest-insensitive cash flows over the same periods. Conversely, more variable-interest financing is sought for assets with varying, interest-sensitive cash flows.

Our inflation risk primarily relates to fixed nominal earnings from offshore wind farms in Denmark, Germany and the Netherlands. We match the inflation risk by issuing debt with fixed nominal cash flows.

2. Development and construction of production assets

Our strategy includes the construction of large-scale investment projects, especially within offshore wind. Value creation from new projects heavily depends on choosing the right technical and commercial solutions, on the design and construction phase progressing as planned, including compliance with our agreements on the part of suppliers, on avoiding investment budget overruns and on the timely start-up of generation.

Most of our new investments are made in offshore assets, which naturally increases risks in the construction phase. The nature of the seabed, weather conditions and dependence on installation vessels are some of the risks associated with the construction of offshore assets.

In Wind Power and Bioenergy & Thermal Power, we have successfully completed several investment projects in recent years, including the construction of offshore wind farms in the UK and Germany as well as bioconversions of Danish CHP plants. Based on these experiences, we have been able to significantly reduce the risks associated with projects in progress due to the implementation of standard processes for the construction and estimation of project costs.

3. Operation of offshore wind farms

The risks associated with the operation of offshore wind farms relate to forecasts for availability and operating expenses as well as faults in transmission cables and substations.

Our forecasts for availability and operating expenses are based on a number of assumptions received from our suppliers, and on historical data. There is a risk that the assumptions do not hold, and that fault rates and costs are higher than expected. This may lead to deviations between actual generation and the forecasts.

In addition, we are exposed to faults in transmission cables and substations, which may result in breakdowns and loss of production from parts of or an entire offshore wind farm over an extended period of time. We are not compensated for loss of production in the UK. However, in Denmark we are fully compensated, and in Germany we are compensated for a large share of such operating losses. The German transmission system operator, TenneT, is entitled to deduct up to 28 days for planned (10 days) and unplanned (18 days) maintenance of the transmission grid before we are entitled to financial compensation. The final form of the compensation rules is not yet clear in the new markets in the Netherlands, the USA and Taiwan, but we are monitoring the issue closely.

We have put in place various contingency plans to cater for unforeseeable events, including critical repair services to handle transmission cable faults. In addition, we are working continuously to reduce the risk of faults in the operation of offshore wind farms, among other things, by monitoring and analysing operational data collected and carrying out preventive remedial work of emerging damage.

4. Regulatory risks in Wind Power

The risk associated with regulatory regimes is twofold. It is associated with the possibilities for obtaining subsidies and with the possibilities for obtaining relevant approvals from the local authorities.

The EU targets are unchanged, and member states must still reduce carbon emissions by 40% and increase the share of generation from renewable energy sources (RES) to at least 27% of total generation – both targets to be achieved before 2030.

Under the reformed EU guidelines on state aid for environmental protection and energy, subsidies are generally granted in a competitive bidding process, with the price quoted by the bidder being the only or most important criterion. This will increase the competition, which can affect the profitability of the projects and the number of projects we are allocated. Denmark, Germany and the Netherlands have tender-based funding schemes, while funding schemes are auction-based in the UK, the USA and Taiwan.

We do not expect changes to be made to the subsidy schemes, including tax incentive schemes, with retrospective effect for existing offshore wind projects in any of the countries where we have commissioned or planned offshore wind farms.

The greatest risks relating to project development are associated with the need to obtain relevant approvals from the local authorities and to be connected to the grid. Delays in both areas may lead to the total or partial loss of subsidies. This risk is significantly reduced for projects where subsidies and possibly project rights are granted in competitive bidding processes.

We mitigate the risks by monitoring political developments in all the relevant countries and by engaging in an active dialogue with relevant authorities about environmental approvals, regulatory milestones and the economic regimes.

To ensure an appropriate pipeline and the realisation of the desired level of build-out, we are working with a flexible portfolio of projects, the number of which actually exceeds our capacity. In this way, it is not critical if individual projects fail to materialise. Furthermore, we are continuously exploring new markets with a view to spreading the geographical risk.

5. Cost of electricity for offshore wind power

It is still imperative that the cost of electricity from offshore wind is reduced further. Especially if offshore wind is to be less dependent on subsidies and more competitive in relation to other technologies, such as onshore wind and solar PV. In addition, it is also important for us to maintain our market-leading position by continuing to win tenders and auctions in key markets.

We will continue our efforts to optimise both development and operations. We have created a streamlined organisation and initiated strategic cooperation with key suppliers to ensure continuous cost reductions. However, we are also very aware of the need to ensure financial sustainability in our industry to the benefit of all parties.

Other risks

Cybersecurity/IT

In 2017, several major cyberattacks were launched against companies around the world, and according to the Danish Centre for Cybersecurity, the risk of cyberattacks aimed at Danish companies is high. Thus, we have a strong focus on IT security.

We are responsible for critical infrastructure, and we own various types of intellectual property rights. This means that we are a potential target for cyberattacks or industrial espionage. To ensure monitoring of system-related risks, we have implemented a global framework for safety risk management.

Our strategy also focuses on protecting us against cyberattacks and on ensuring that the necessary control systems are in place for monitoring and managing the operation of our activities.

Compliance and legal

Risks associated with compliance and legal are assessed on the basis of financial significance and probability. Our most important risks are described below.

Financial regulation

We are subject to a number of financial regimes, such as REMIT, MAR, EMIR, Dodd Frank, MiFID, SFRT and AML. The financial rules and related procedures are complex and constantly changing. In 2016, we established a new compliance structure to ensure a consistent level of compliance controlling and reporting on financial regulation throughout Ørsted.

General Data Protection Regulation

We are subject to a number of rules on processing of personal data. From May 2018, we will be subject to the new EU General Data Protection Regulation (GDPR). Like today, we will be obliged to implement appropriate technical and organisational initiatives and procedures to ensure the protection of the rights of data subjects in connection with the processing of personal data. In order to ensure that we process personal data in a confidential and secure way, we have in recent years implemented a number of initiatives and carried out various analyses of our personal data security.

Public procurement law

Most of our products and services are subject to EU public procurement law, which is generally complex and constantly changing. Last year, a new EU Directive came into force, which the various member states have interpreted differently. This is making it difficult to compete for contracts in different countries. To counter the risk, we have ensured that our procurement function is involved in the relevant activities.

Corporate governance

Each year, we consider the recommendations from the Danish Committee on Corporate Governance, describe our corporate governance in the annual report and prepare a detailed report which you can find on our website.

Our governance model is illustrated in the figure to the right and explained below.

1. Shareholders

Our shareholders exercise their rights at the general meeting, which for example appoints the Board of Directors and the auditor.

2. General meeting

The general meeting adopts decisions in accordance with the standard rules set out in the Danish Companies Act. However, for the general meeting to be able to approve proposals to amend the Articles of Association or to dissolve the company, the Danish State as majority shareholder must participate in the general meeting and vote in favour of the proposal.

3. Nomination Committee

Members and duties

The Nomination Committee has been appointed in accordance with the Articles of Association and consists of the Chairman and Deputy Chairman of the Board of Directors and up to four members appointed by the largest shareholders every autumn. If one of the four largest shareholders does not want to sit on the committee, the right of appointment is transferred to the fifth largest shareholder and so on.

Current members of the committee are Thomas Thune Andersen, Lene Skole, Peder Lundquist (elected by the Danish Ministry of Finance), Jesper Hjulmand (elected by the Danish energy company SEAS-NVE), Claus Wiinblad (elected by the Danish pension fund ATP) and Anders Damgaard (elected by the Danish pension fund PFA Pension).

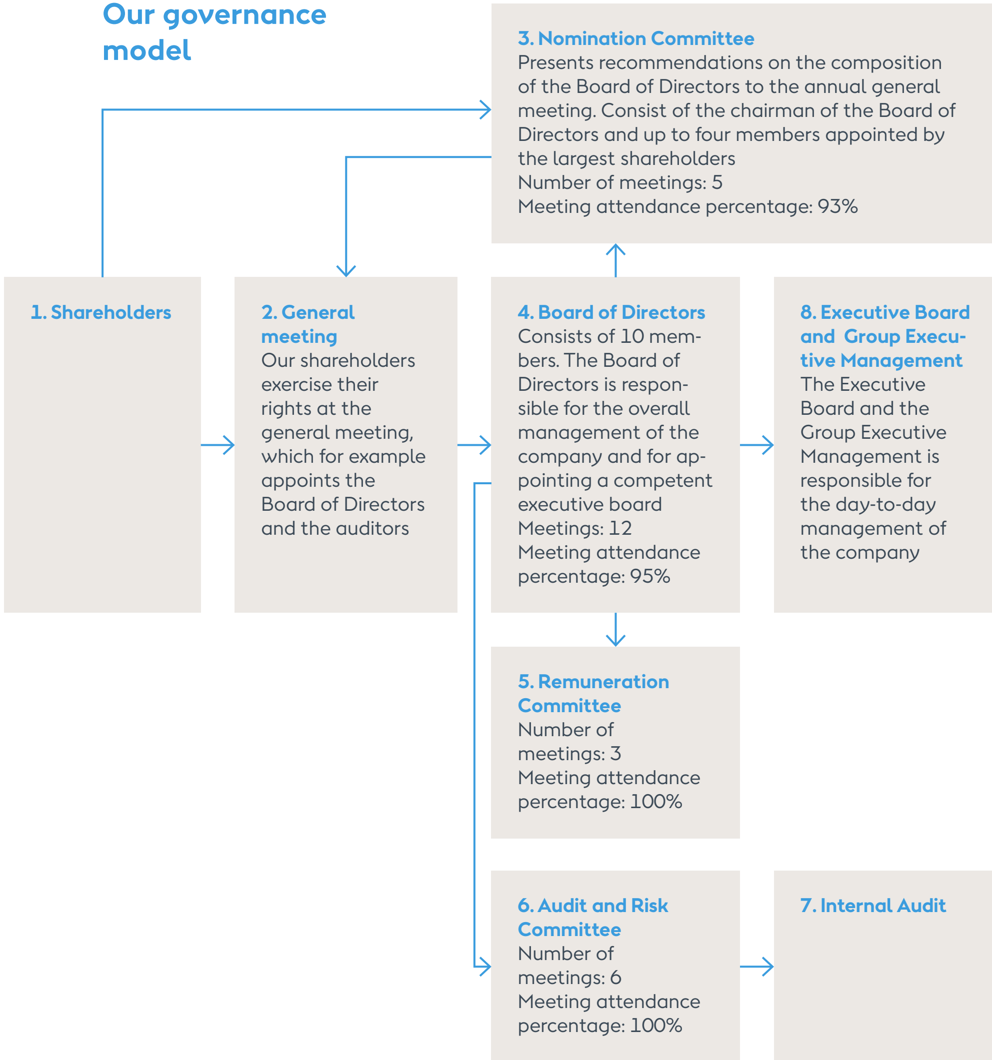
The committee's work results in recommendations for the re-election or new election of board members. We publish and submit the recommendations to the shareholders before the general meeting. The committee does not perform any other duties for the company.

The Nomination Committee's duties, meetings, etc., are described in its rules of procedure, which you can find at orsted.com/en/About-us/Corporate-Governance.

Special tasks in 2017

Claus Wiinblad, Poul Arne Nielsen and Martin Hintze stepped down from the Board of Directors in connection with the annual general meeting in 2017.

Our governance model



Meeting attendance

Member of the board	Board of Directors	Audit and Risk Committee	Remuneration Committee	Nomination Committee*
Thomas Thune Andersen	12/0		3/0	5/0
Lene Skole	12/0	6/0	2/0	4/1
Hanne Steen Andersen	12/0			
Lynda Armstrong	10/2			
Poul Dreyer	12/0			
Pia Gjellerup	12/0		3/0	
Benny Gøbel	12/0			
Benny D. Loft	11/1	6/0		
Jens Nybo Stilling Sørensen	10/2			
Peter Korsholm	10/1	5/0		
Martin Hintze	1/0		1/0	
Poul Arne Nielsen	1/0			
Claus Wiinblad	1/0	1/0		

*The Nomination Committee is made up of four members in addition to the members from the Board of Directors.

The numbers indicate how many meetings the members have attended and not attended respectively.

In February 2017, the Nomination Committee recommended re-election of the other board members and election of Peter Korsholm as a new member of the Board. Peter Korsholm strengthens the Board of Directors' corporate finance competences.

After the annual general meeting in March 2017, the committee continued the process of finding a new board member with audit and accounting experience. In July 2017, the committee decided to recommend Dieter Wemmer as a new board member at the annual general meeting in March 2018.

In the autumn of 2017, the Nomination Committee decided to search for an additional board member with experience from Ørsted's primary business areas. In January 2018, the committee recommended Jørgen Kildahl as a new board member and reelection of the existing six members of the Board of Directors.

4. Board of Directors

Members and duties

The annual general meeting elects six to eight members each year, and the employees elect a number of members every four years, corresponding to half of the board members elected by the general meeting. The Board of Directors currently has ten members. The general meeting has elected six members, and the employees have elected four members. An election of employee representatives for the Board of Directors will be held in 2018, where the employees will have the right to elect three members. The reduction is attributable to the number of external board members being six at the time the election commenced.

Information about the members of the Board of Directors, their other supervisory and executive positions, independence and special competences can be found on pages 61-62.

The Board of Directors is responsible for the overall management of the company. The Board of Directors lays down the company's strategy and makes decisions concerning major investments and divestments, the capital base, key policies, control and audit matters, risk management and significant operational issues. The Board of Directors appoints the Executive Board.

The Board of Directors has appointed two committees from among its members, an Audit and Risk Committee and a Remuneration Committee.

The rules of procedure of the Board of Directors describe the work and duties of the Board of Directors and the two committees. Each year, the Board of Directors assesses the need to update the rules of procedure. You can read the rules of procedure for the two committees at orsted.com/en/About-us/Corporate-Governance.

Important tasks for the Board of Directors in 2017

Investments and divestments

- Investment in the offshore wind power project Hornsea 2 in the UK
- Investment in Taiwan's first offshore wind power project, Formosa 1
- Investment in the biomass conversion of Asnæs Power Station in Denmark
- Divestment of the upstream oil and gas business
- Sale of ownership interests in A2SEA
- Farm-down of offshore wind farms Borkum Riffgrund 2 in Germany and Walney Extension in the UK

Other tasks

- Development of our offshore wind project portfolio after 2020, including the German authorities' grant of the right to construct three offshore wind projects in Germany, submission of bid on the Bay State Wind project in Massachusetts in the USA in cooperation with Eversource as well as development of the project portfolio in Taiwan
- Conclusion of the partnership agreement with Dominion Energy on a development project in the USA
- Settlement of the contract on the construction of the Hejre platform and repair of the Siri platform
- Decision on a new organisation to support green growth and to change name to Ørsted
- Completion of the annual strategy process
- Issuance of subordinated green hybrid bonds and green unsecured senior bonds as well as buy-back of senior bonds.

Special tasks in 2017
Key tasks for the Board of Directors have been the divestment of our upstream oil and gas business, investment in the offshore wind farm project Hornsea 2, the build-out of our project portfolio in Germany, the USA, Taiwan and the Netherlands, farm-down of offshore wind farms in the UK and Germany as well as our name change.

The Board of Directors conducted its annual self-assessment in December 2017. All members responded to an anonymous questionnaire before the Board of Directors discussed the results. At the meeting, the Board of Directors also considered the follow-up items from last year's self-assessment.

Remuneration
Each year, the general meeting approves the remuneration for the members of the Board of Directors for the coming year. In the section on remuneration on page 57, you can read more about the remuneration of the Board of Directors.

5. Remuneration Committee

Members and duties
Thomas Thune Andersen (Chairman), Lene Skole and Pia Gjellerup are the members of the Remuneration Committee.

The committee assists the Board of Directors in preparing and implementing the remuneration policy. The committee assesses and prepares recommendations on Group Executive Management's salary adjustments, bonuses, the application of retention schemes for key employees, the use of one-off payments and introduction of new compensatory elements.

In 2017, the Remuneration Committee discussed, among other things, payment of retention bonuses granted in connection with the divestment of our upstream oil and gas business.

6. Audit and Risk Committee

Members and duties
Benny D. Loft (Chairman), Lene Skole and Peter Korsholm are the members of the Audit and Risk Committee.

The committee assists the Board of Directors in overseeing the financial and non-financial reporting process, the capital structure development, financial and business-related risks, compliance with statutory and other requirements from public authorities and the internal controls.

Moreover, the committee approves the framework for the work of the company's external and internal auditors, evaluates the external auditors' independence and qualifications as well as monitoring the company's whistleblower scheme.

Special tasks in 2017
In 2017, the Audit and Risk Committee focused especially on the divestment of our upstream oil and gas business, IT/cyber security and our preparations for the implementation of the new General Data Protection Regulation in May 2018.

7. Internal Audit

Employees and duties
Internal Audit reports to the Audit and Risk Committee and is therefore independent of our administrative management structures. Internal Audit evaluates and suggests ways of improving and streamlining our processes and control environment. Internal Audit is primarily involved in reviewing and advising on our central and critical processes, governance, risk management and IT security.

The chairman of the Audit and Risk Committee is responsible for our whistleblower scheme. The Internal Audit function receives and considers any reports submitted.

Special tasks in 2017
Internal Audit undertook special audit and consultancy tasks within the following areas: Prevention of the risk of cybercrime, ensuring adequate IT security in connection with investments in major new IT systems, tests of our crisis control setup at Group level, investment management, commodity and currency hedging, ensuring adequate compliance and continuous monitoring as well as screening our suppliers' compliance with relevant international standards.

Whistleblower scheme
Our employees and other associates may report serious offences, such as cases of bribery, fraud and other criminal offences, to our whistleblower scheme or through our management system. In 2017, the reports resulted in three substantiated cases. Two concerning violation of employment policies and one concerning conflict of interest. The cases had consequences for the individuals

Important tasks for the Audit and Risk Committee in 2017

Audit and accounting
- Review of the recognition and presentation of the divestment of our upstream oil and gas business
- Supervision of the work involved in the early implementation of IFRS 9 as well as preparation for IFRS 15 implementation in 2018
- Review of expectations for market prices, exchange rates, discount rates and risk-free interest rates
- Review of significant provisions and warranties in the Group related to both continuing and discontinued operations
- Monitoring of capital structure development
- Monitoring of the voluntary limit for non-audit services as well as preliminary approval hereof

Risk
- Review of IT security in operational and administrative areas as well as cybersecurity
- Assessment of liquidity reserve and redemption of bonds as well as the basis for issuance of new green bonds and hybrid capital
- Review and assessment of our exposure to inflation
- Monitoring of currency and energy hedging mandates
- Supervision of the work involved in ensuring ompliance with the requirements of the future General Data Protection Regulation.

involved. None of the cases reported were critical to our business, nor have they impacted on our financial results. We take such cases very seriously and do what we can to avoid that similar cases occur again.

8. Executive Board and Group Executive Management

Members and duties

Henrik Poulsen (CEO) and Marianne Wiinholt (CFO) are the members of the Executive Board of Ørsted A/S.

The Executive Board undertakes the day-to-day management through the Group Executive Management, which from 1 February 2018 will consist of seven members. In addition to Henrik Poulsen and Marianne Wiinholt, the Group Executive Management comprises the Executive Vice Presidents of our three business units Martin Neubert (Wind Power), Thomas Dalsgaard (Bioenergy & Thermal Power) and Morten H. Buchgreitz (Distribution & Customer Solutions) together with Executive Vice President of Wind Power Engineering, Procurement & Construction (EPC) Anders Lindberg and Executive Vice President of Wind Power Partnerships, M&A and Asset Management Ole Kjems Sørensen.

The Board of Directors has laid down guidelines for the work of the Executive Board, including the division of work between the Board of Directors and the Executive Board and the Executive Board's powers to enter into agreements on behalf of the company. The Board of Directors regularly discusses the CEO's performance, for example by following up on developments seen in relation to our strategy and objectives.

The Chairman of the Board of Directors and the CEO also regularly discuss the cooperation between the Board of Directors and the Executive Board.

You can find information about the members of the Executive Board, including their previous employment and other executive functions, on page 60. We describe the remuneration of the Executive Board in the section on remuneration on page 55.

How we relate to the Recommendations on Corporate Governance

We consider the Recommendations on Corporate Governance prepared by the Danish Committee on Corporate Governance on an annual basis. You can find the recommendations at www.corporategovernance.dk.

We do not comply with or comply partially with three out of 47 recommendations.

Our shareholders have decided that our Nomination Committee should have other members and duties than what is assumed in the recommendations, and that our Articles of Association should not stipulate a retirement age for members of the Board of Directors. From 2018, a fixed retirement age will no longer be part of the recommendations. We also have a share programme for the Executive Board with a slightly shorter first vesting period (2½ years) than the recommended three years, as the programme was issued in continuation of our IPO. The vesting period of future allotments is three years in accordance with the recommendations.

In November 2017, revised recommendations for corporate governance were announced, which will apply from 2018. We will review these and we expect to adjust our policies and procedures during 2018, so we can report on these in the 2018 annual report. We will present a proposal to update our remuneration policy at the general meeting in March 2018, enabling it to comply with the revised recommendations.

Our statutory report on corporate governance can be found at https://orsted.com/en/About-us/Corporate-Governance/Statutory-reports, see section 107b of the Danish Financial Statements Act. The report describes in more detail whether and how we comply with or deviate from the 47 Recommendations on Corporate Governance.

Remuneration report

Remuneration report

The overall objective of our remuneration policy is to attract, motivate and retain qualified members of our Board of Directors and our Executive Board and to align the interests of our Board of Directors and our Executive Board with the interests of our shareholders.

In addition, the policy aims to strike the right balance between the Executive Board's fixed and incentive-based remuneration with the target of awarding the members in relation to their achieved results for the company and individually.

The remuneration policy is available at orsted.com/en/About-us/Corporate-Governance.

Remuneration for the Executive Board

Remuneration 2017

The remuneration paid to our CEO totalled DKK 15.9 million in 2017, representing an increase of 17% compared to 2016. His fixed salary increased by 6.4% to DKK 10.0 million (63% of the total remuneration in 2017). The cash bonus (STI) made up DKK 2.7 million, corresponding to 88% of the maximum bonus. The bonus percentage reflects a performance in excess of expectations as regards the Group's financial targets and our safety target. The score for the CEO's personal targets also exceeded expectations. The score was, among other things, affected by strong progress for our offshore wind farms under construction, auctions won, business development in new markets

Remuneration structure and remuneration for the Executive Board

	Henrik Poulsen			Marianne Wiinholt					
Element	2017	2016	2015	2017	2016	2015	Objective	Remuneration level	Performance measure
Fixed salary	10,024	9,425	9,112	5,255	5,062	4,876	Attract and retain qualified managers.	Competitive but not market leading, compared to the level in similar major listed Danish companies with international activities.	n/a
Cash-based incentive schemes (STI)	2,656	2,135	1,815	1,348	1,239	1,186	Ensure shared ownership of the entire company's performance and a clear link between value creation and payment.	Target of 15% of the fixed annual salary. The maximum bonus amounts to 30% and will be paid in case of full achievement of all performance targets.	The performance reward agreement consists of three targets: — financial target (30%) — safety target (10%) — personal targets (60%).
IPO Executive Retention Bonus	1,848	616	-	964	321	-	Retain the Executive Board after the IPO. Phasing in to a long-term incentive scheme	20% of the fixed annual salary as per 1 July 2016.	Employment at 1 September 2018.
Share-based incentive scheme (LTI)	1,367	1,427	2,784	713	889	1,790	Reward long-term value creation and align the Executive Board's interests with those of the shareholders.	Target of 20% of the annual fixed salary at the date of grant. After three years, shares will be allocated at 0-200%, depending on Ørsted's return compared to peers	The final number of shares will be determined on the basis of Ørsted's total shareholder return benchmarked against ten peers.
Pension incl. social security	2	2	2	2	2	2	n/a	The members of the Executive Board are not entitled to pension contribution, only social security	n/a
Severance pay	-	-	-	-	-	-		If a member of the Executive Board is terminated by the company, the person is entitled to 24 months' salary, composed of salary during the notice period (12 months) and a severance pay.	n/a
Total, DKK '000	**15,897**	**13,605**	**13,713**	**8,282**	**7,513**	**7,854**			

Amount of PSUs and shares owned by the Executive Management

	Henrik Poulsen	Marianne Wiinholt
Maximum amount of PSUs per 31 December 2017	28,838	15,150
Number of Ørsted shares owned	130,500	83,916
Owned shares in percentage of fixed salary	**441%**	**541%**

Number of shares
The table shows that both members of the Executive Board meet the share capital requirement.

as well as farm-downs of offshore wind farms. Moreover, the score was positively affected by the divestment of our Oil & Gas business.

The remuneration paid to our CFO totalled DKK 8.3 million, representing an increase of 10% compared to 2016. The fixed salary increased by 3.8% to DKK 5.3 million (63% of the total remuneration in 2017). The cash bonus (STI) made up DKK 1.3 million, corresponding to 86% of the maximum bonus. The bonus percentage reflects the same general targets that apply to the CEO. The score for the CFO's personal targets was above expectations. Among other things, the score was affected by the divestment of our Oil & Gas business and the handling of derived consequences in relation to our insurance captive, funding structure and the internal reorganisation of Ørsted, especially of the finance organisation. Moreover, the score was positively affected by the work done to establish a digital strategy and make our IT organisation more supportive of our business.

In 2017, the remuneration under the share-based incentive programme consisted of the market value of the scheme at the time of granting, distributed over the vesting period.

Both members of the Executive Board are covered by the share programmes from September 2016 and April 2017. The IPO retention bonuses for 2017 and 2018 constitute the phase-in to the first share programme, the vesting period of which ends in spring 2019. The increases in the IPO retention bonuses are attributable to the fact that the scheme covered only four months of 2016.

Remuneration structure
In February, the Board of Directors decided to keep the remuneration structure unchanged for 2017. The remuneration structure and the remuneration for the Executive Board are shown in the table. The two incentive schemes are described in more detail below.

Cash-based incentive schemes (STI)
The cash-based incentive scheme is an annual bonus with a target of 15% of the fixed annual remuneration and may not exceed 30%. The agreement is based on three elements – two general targets, and one individual target. The general targets relate to the Group's financial performance (weighting of 30%) and safety record (weighting of 10%). The individual target consist of personal performance targets related to the strategy (weighting of 60%).

The Remuneration Committee sets bonus targets and assesses the performance of the CEO. The Chairman of the Board of Directors and the CEO set bonus targets and assess the performance of the CFO.

Share-based incentive scheme (LTI)
The Executive Board is covered by the leader share programme in Ørsted. It is a condition for being granted performance share units (PSUs) under the programme that the participant holds a number of Ørsted shares representing a value equal to a share of each participant's fixed annual remuneration. For the CEO, this share is 75% of his fixed salary, and for the CFO 50%.

If the participants fulfil the shareholding requirement at the time of granting, they will each year be granted a number of PSUs representing a value equal to 20% of their fixed annual remuneration on the date of granting.

The granted PSUs have a vesting period of three years, after which each PSU entitles the holder to receive a number of shares free of charge, corresponding to 0-200% of the number of granted PSUs. The final number of shares for each participant will be determined on the basis of the total shareholder return delivered by Ørsted, benchmarked against ten comparable European energy companies.

If a member of the Executive Board leaves Ørsted as a result of his or her own resignation or due to breach of his/her employment, the entitlement to shares is lost.

Remuneration for the Board of Directors

Remuneration 2017
In March, the general meeting decided to keep the Board of Directors' fixed annual fee of DKK 320 thousand for the coming year until the general meeting in 2018.

Remuneration structure
The members of the Board receive a fixed fee each year. The Chairmanship and the members of the committees also receive a multiple of the fixed fee for their extra work. None of the members receives separate fees for consultancy work for Ørsted. The members' travel costs are covered by the company.

The remuneration for the Board of Directors comprises a fixed fee only. However, employee-elected board members may, based on their employment, be covered by general incentive schemes applicable to the Group's employees. Members of the Board of Directors are not entitled to severance payments.

Remuneration multiple 2017, Board of Directors and committees

	Board of Directors	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Chairman	3.0	0.6	0.4	-
Deputy Chairman	2.0	n/a	n/a	n/a
Member	1.0	0.3	0.25	-

Remuneration for the Board of Directors

DKK '000	Annual fee	Audit and risk Committee	Remuneration Committee	2017	2016
Thomas Thune Andersen	960	-	128	1,088	1,088
Lene Skole	640	96	67	803	688
Hanne Steen Andersen[1]	320	-	-	320	320
Lynda Armstrong	320	-	-	320	320
Poul Dreyer[1]	320	-	-	320	320
Pia Gjellerup	320	-	80	400	400
Benny Gøbel[1]	320	-	-	320	320
Benny D, Loft	320	192	-	512	512
Jens Nybo Stilling Sørensen[1]	320	-	-	320	320
Peter Korsholm[1] (joined in March 2017)	267	80	-	347	-
Martin Hintze[2] (resigned in March 2017)	-	-	-	-	-
Poul Arne Nielsen (resigned in March 2017)	80	-	-	80	320
Claus Wiinblad (resigned in March 2017)	80	24	-	104	416
Total	**4,267**	**392**	**275**	**4,934**	**5,024**

Remuneration for the Board of Directors
The table shows the remuneration paid to the members of the Board of Directors and committees. No remuneration is paid to the members of the Nomination Committee.

1) Per 31 December 2017, the board members own the following number of shares in Ørsted A/S: Peter Korsholm 4,500, Hanne Steen Andersen 3,187 (2016: 837), Poul Dreyer 837 (2016: 837), Benny Gøbel 837 (2016: 837) and Jens Nybo Stilling Sørensen 837 (2016: 837). No other board members own shares in Ørsted A/S.

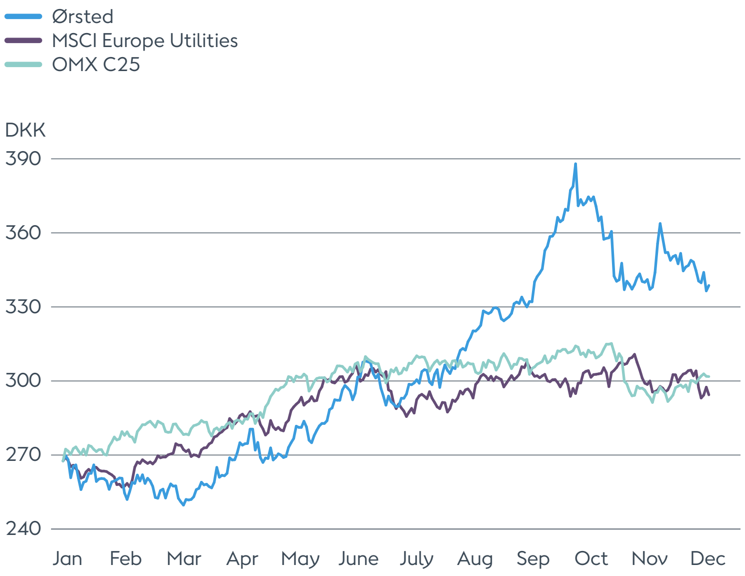
2) Martin Hintze has waived his right to receive Directors' remuneration.

Shareholder information

The Ørsted share yielded a total return of 29% in 2017, an increase in the share price of 27% and dividends of DKK 6 per share.

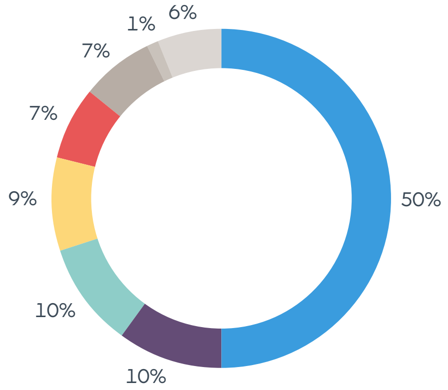
Price development for the Ørsted share in 2017
The Ørsted share started the year at a price of DKK 268 and closed the year at DKK 339. Prices of comparable European utility companies increased by 9%, and the OMX C25 cap increased by 13% in 2017. The market value of Ørsted was DKK 142 billion at the end of the year. Since the IPO in June 2016, the Ørsted share has generated an aggregate return from the share price and dividends of 47%.

Share price development in 2017
Ørsted share price compared to peers.



Shareholders at 31 December 2017,
voting share %*

- Danish State (majority shareholder)
- SEAS-NVE, Denmark
- The Capital Group
- The UK
- Danish institutional investors
- North America
- Private investors
- Others



* See note 16 in the parent company financial statement.

Share information

ISIN	DK 0060094928220
Share classes	1
Nominal value	DKK 10 per share
Average daily volume	723,784
Exchange	Nasdaq OMX Copenhagen
Ticker	ORSTED
Year high	DKK 388 (11 October)
Year low	DKK 246 (3 February)
Registered share	99.6%
Number of shares	420,381,080 shares
Number of treasury shares	225,904 shares

The year's highest traded price of DKK 388 was on 11 October. The year's lowest traded price of DKK 246 was on 3 February.

The average daily turnover on Nasdaq Copenhagen was 724,000 shares. The trading volume showed an increase of 44% compared to 2016. This was particularly due to several of the original shareholders opting to sell all or some of their shareholdings in 2017 at a total trading value of DKK 17 billion. This amount should be compared to the value of the shares sold at our IPO of just under DKK 20 billion. New Energy Investment s.a.r.l. (managed by Goldman Sachs) sold its entire shareholding of 13.3% distributed over four transactions. The Danish energy company Syd Energi sold its entire shareholding of 0.9% at the beginning of the year, while the Danish pension fund ATP reduced its holding in the course of the year.

Share capital
Ørsted's share capital is divided into 420 million shares enjoying the same voting and dividend rights. The company's share capital remained unchanged in 2017. At the end of 2017, the company held a total of 226 thousand treasury shares, which will be used to cover incentive schemes.

Composition of shareholders
At the end of the year, the number of shareholders had increased by 12% to 24,600. Although the geographical spread of the share capital was greater, most of it (68%) is still with Danish owners. The figure to the left shows the composition of our shareholders by country, specifying the three shareholders holding more than 5% of the share capital each. Around 1% of the share capital is owned by private investors.

Annual general meeting and dividends
The annual general meeting will be held on 8 March 2018 in Copenhagen. Dividends for the year are expected to amount to DKK 9 per share, corresponding to DKK 3.8 billion. In 2017, dividends of DKK 6 per share were paid for the 2016 financial year, corresponding to a return of 2.7% relative to a share price of DKK 338.7 per 31 December 2017.

Investor Relations
In order to achieve a fair pricing of our shares and corporate bonds, we seek to ensure a high level of openness and stability in our financial communication. In addition, our management and Investor Relations function engage in regular dialogue with investors and analysts. The dialogue takes the form of quarterly conference calls, road shows, conferences, capital market days and regular meetings with individual or groups of investors and analysts. The dialogue is subject to certain restrictions from three weeks prior to the publication of our financial reporting.

22 share analysts and 12 bond analysts cover the Group. Their recommendations and consensus estimates for Ørsted's future financial performance are available at orsted.com/en/investors. On the site, it is also possible to download our financial reports, investor presentations and a wide range of other data.

Selected company announcements in 2017

13 Apr.	Ørsted awarded three German offshore wind projects
4 May	Ørsted agrees on settlement regarding the Hejre EPC contract
24 May	Ørsted enters into agreement to divest its upstream oil and gas business to INEOS
11 Sep.	Ørsted awarded contract to build world's biggest offshore wind farm
29 Sep.	Ørsted completes the divestment of its upstream oil and gas business to INEOS
2 Oct.	DONG Energy to change company name to Ørsted
10 Nov.	Ørsted completes the divestment of Walney Extension offshore wind farm
16 Nov.	Ørsted issues green bonds
11 Dec.	Ørsted completes the divestment of Borkum Riffgrund 2 offshore wind farm

Financial calendar 2018

1 Feb.	Annual report 2017
8 Mar.	Annual general meeting
26 Apr.	Interim report for the first quarter of 2018
9 Aug.	Interim report for the first half-year of 2018
1 Nov.	Interim report for the first nine months of 2018

Group Executive Management

The Group Executive Management will consist of seven members from 1 February 2018.
From the left (bottom): **Morten Hultberg Buchgreitz** (Distribution & Customer Solutions), **Marianne Wiinholt** (CFO), **Anders Lindberg** (Wind Power) and **Thomas Dalsgaard** (Bioenergy & Thermal Power)
From the left (top): **Ole Kjems Sørensen** (Wind Power), **Henrik Poulsen** (CEO and President) and **Martin Neubert** (Wind Power)

Henrik Poulsen

Registered as CEO
Chief Executive Officer (CEO) and President since August 2012
Education: MSc (finance and accounting), Aarhus School of Business 1994

Born 1967
Remuneration: DKK 15.897 thousand
Read more in the remuneration report.

Career and posts

1994-1995	Novo Nordisk A/S, Controller
1995-1996	Aarsø Nielsen & Partners, Senior Consultant
1996-1999	McKinsey & Co., Senior Engagement Manager
1999-2006	LEGO, VP, Business Development (1999-2000), SVP, Global Segment 8+ (2000-2002), SVP, Global Innovation and Marketing (2002-2003), Regional Managing Director Europe and Asia (2004-2005), EVP, Markets and Products (2005-2006)
2006-2008	Capstone/KKR. Operating Executive
2008-2012	TDC A/S, CEO and President
2012-	Ørsted A/S, CEO and President

Other management positions:
Kinnevik AB: Deputy Chairman and member of the Audit Committee
ISS A/S: Member of the Board of Directors and Chairman of the Audit Committee
EQT Partners: Advisor

Marianne Wiinholt

Registered as CFO
Chief Financial Officer (CFO) since October 2013
Education: MSc in Business Administration and Auditing, Copenhagen Business School 1990, State Authorised Public Accountant 1992
Born 1965
Remuneration: DKK 8.282 thousand
Read more in the remuneration report.

Career and posts

1987-1997	Arthur Andersen, Accountant
1997-2003	Borealis A/S, Head of Group Accounting and Tax (1997-2001), Head of Group Finance and Auditing (2001-2003)
2004-2005	Ørsted A/S, VP, Group Finance and Accounting & Tax
2006-	Ørsted A/S, SVP, Group Finance (2005-2013), SVP, CFO Customers & Markets (2013), EVP, Chief Financial Officer (CFO) 2013-

Other management positions:
Hempel A/S: Member of the Board and Chairman of the Audit Committee
Norsk Hydro ASA: Member of the Board and Audit Committee
Lauritzen A/S: Member of the Board and Chairman of the Audit Committee – Withdraws in April 2018

Board of Directors

Thomas Thune Andersen

Chairman since 2014.
Born 1955.
Not independent.[1]
Joined/re-elected: 2014/2017.
Term of office expires: 2018.

Special competencies:
Knowledge and experience within Ørsted's principal business areas. General management, safety management, risk management and stakeholder management.

Other management positions:
Chairman: Lloyds Register Group and Foundation
Deputy Chairman: VKR Holding A/S
Member: Arcon-Sunmark A/S, BW Offshore ltd.

Lene Skole[2]

Deputy Chairman since 2015.
Born 1959.
Independent.
Joined/re-elected: 2015/2017.
Term of office expires: 2018.

Special competencies:
General management, financial management, safety management, risk management, stakeholder management, human resources management and capital markets.

Present posts:
Lundbeckfonden, CEO.

Other management positions:
Deputy Chairman: ALK-Abello A/S, H. Lundbeck A/S, Falck A/S, TDC A/S.
Member: Tryg A/S, Tryg Forsikring A/S, two subsidiaries of Lundbeckfonden.

Hanne Sten Andersen

Employee representative.
Born 1960.
Not independent
Joined/re-elected: 2007/2014.
Term of office expires: 2018.

Special competencies:
General management and human resources management.

Present posts:
Ørsted, Lead HR Business Partner, Distribution & Customer Solutions.

Lynda Armstrong

Born 1950.
Independent.
Joined/re-elected: 2015/2017.
Term of office expires: 2018.

Special competencies:
General management, safety management, risk management, stakeholder management and human resources management.

Other management positions:
Chairman: ECITB
Member: KAZ Minerals plc[3], Central Europe Oil Company, SBM Offshore N.V.[4]

Poul Dreyer

Employee representative.
Born 1964.
Not independent
Joined: 2014.
Term of office expires: 2018.

Special competencies:
Knowledge and experience within Distribution & Customer Solutions.

Present posts:
Ørsted, Technician, Distribution & Customer Solutions.

[1] Independence: Thomas Thune Andersen is considered independent of shareholder interests. Until December 2017, he was a member of the Board of Directors of Petrofac Limited which has had significant business relations with the oil and gas business now divested by Ørsted. Thus, he is not considered independent with respect to the 2017 reporting pursuant to the corporate governance recommendations.
[2] In addition to the positions mentioned above, Lene Skole also holds the following positions: member of the Audit and Election Committee at ALK, member of the Remuneration and Science Committee at Lundbeck, member of the Audit and Risk Committee at Tryg, member of the Remuneration and Election Committee at TDC, member of the Audit and Remuneration Committee at Falck A/S.
[3] As well as Chairman of the Remuneration Committee, member of the HSE Committee and member of the Project Assurance Committee.
[4] As well as member of the Technical and Commercial Committee and the Remuneration Committee.

Pia Gjellerup

Born 1959.
Independent.
Joined/re-elected: 2012/2017.
Term of office expires: 2018.

Special competencies:
General management, financial management, stakeholder management and human resources management.

Present posts:
Center for Public Innovation, Center Director.

Other management positions:
Chairman: Vanførefonden, Fondet Dansk-Norsk Samarbejde.
Member: Gefion Gymnasium

Benny Gøbel

Employee representative.
Born 1967.
Not independent
Joined/re-elected: 2011/2014.
Term of office expires: 2018.

Special competencies:
Knowledge and experience within Bioenergy & Thermal Power.

Present posts:
Ørsted, Engineer, Bioenergy & Thermal Power.

Peter Korsholm

Born 1971.
Independent.
Joined: 2017.
Term of office expires: 2018.

Special competencies:
General management, financial management, risk management, stakeholder management, capital markets and M&A.

Present posts:
DSVM Invest A/S, CEO, DSV Miljø Group A/S, CEO, Togu ApS, CEO.

Other management positions:[1]
Chairman: Nymølle Stenindustrier A/S, GDL Transport Holding AB, Lion Danmark and two wholly owned subsidiaries in the Lomax group. **Member:** DSVM Invest A/S, Bone's Invest ApS, A/S United Shipping and Trading Company, Uni-tankers A/S and Bunker Holding A/S.

Benny D. Loft

Born 1965.
Independent.
Joined/re-elected: 2012/2017.
Term of office expires: 2018.

Special competencies:
General management, financial management, risk management, stakeholder management, human resource management, capital markets, IT and M&A.

Other management positions:
Member and Chairman of the Finance and Audit Committee: New Xellia Group A/S.

Jens Nybo Stilling Sørensen

Employee representative.
Born 1968.
Not independent
Joined/re-elected: 2007/2014.
Term of office expires: 2018.

Special competencies:
Knowledge and experience within Bioenergy & Thermal Power.

Present posts:
Ørsted, Key Business Project Manager, Bioenergy & Thermal Power.

[1] In addition to the positions mentioned above, Peter Korsholm also holds the following positions: Chairman of the Investment Committee at Zoscales Partners, member of the Board of Directors in a subsidiary of Uni-tankers A/S, 5 wholly owned subsidiaries at DSVM Invest Group and 2 wholly owned subsidiaries of the Bones Group.

Financial statements

1 January 2017 - 31 December 2017

2017

Income statement

1 January - 31 December

		2017			2016		
Note	DKK million	Business performance	Adjustments	IFRS	Business performance	Adjustments	IFRS
2.2	Revenue	59,504	205	59,709	61,201	(3,808)	57,393
2.3	Cost of sales	(40,544)	(150)	(40,694)	(39,260)	1,638	(37,622)
	Other external expenses	(4,241)	-	(4,241)	(4,078)	-	(4,078)
2.6, 2.7	Employee costs	(3,197)	-	(3,197)	(3,088)	-	(3,088)
	Share of profit (loss) in associates and joint ventures	(119)	-	(119)	25	-	25
2.5	Other operating income	11,665	-	11,665	4,867	-	4,867
2.5	Other operating expenses	(549)	-	(549)	(558)	-	(558)
	Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA)	**22,519**	**55**	**22,574**	**19,109**	**(2,170)**	**16,939**
3.1	Amortisation, depreciation and impairment losses on intangible assets and property, plant and equipment	(6,284)	-	(6,284)	(5,232)	-	(5,232)
	Operating profit (loss) (EBIT)	**16,235**	**55**	**16,290**	**13,877**	**(2,170)**	**11,707**
3.4	Gain on divestment of enterprises	(139)	-	(139)	1,250	-	1,250
	Share of profit (loss) in associates and joint ventures	(10)	-	(10)	(8)	-	(8)
6.5	Financial income	4,253	-	4,253	8,489	-	8,489
6.5	Financial expenses	(5,295)	-	(5,295)	(9,256)	-	(9,256)
	Profit (loss) before tax	**15,044**	**55**	**15,099**	**14,352**	**(2,170)**	**12,182**
5.2	Tax on profit (loss) for the year	(1,765)	(13)	(1,778)	(2,191)	476	(1,715)
	Profit (loss) for the year from continuing operations	**13,279**	**42**	**13,321**	**12,161**	**(1,694)**	**10,467**
3.6	**Profit (loss) for the year from discontinued operations**	**6,920**	**(816)**	**6,104**	**1,052**	**(3,584)**	**(2,532)**
	Profit (loss) for the year	**20,199**	**(774)**	**19,425**	**13,213**	**(5,278)**	**7,935**
	Profit (loss) for the year is attributable to:						
	Shareholders in Ørsted A/S	19,493	(774)	18,719	12,825	(5,278)	7,547
	Interests and costs after tax, hybrid capital owners of Ørsted A/S	716		716	499		499
	Non-controlling interests	(10)		(10)	(111)		(111)
6.2	**Profit (loss) per share, DKK:**						
	From continuing operations	29.9		30.0	28.1		24.1
	From discontinued operations	16.5		14.5	2.5		(6.0)
	Total profit (loss) per share	**46.4**		**44.5**	**30.6**		**18.1**

Profit (loss) for the year from our continuing operations
In 2016, we decided to divest our Oil & Gas business. The divestment was approved and closed on 29 September 2017. The Oil & Gas business was therefore classified as discontinued operations in 2016 and 2017.

Profit (loss) per share
Diluted profit (loss) per share corresponds to profit (loss) per share, as the dilutive effect of the share programme is less than 0.1% of the share capital

Accounting policies

Business performance
The business performance principle was introduced by the Ørsted Group in 2011 as an 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 1.1.

Statement of comprehensive income

1 January - 31 December

Note	DKK million	2017 Business performance	2017 Adjustments	2017 IFRS	2016 Business performance	2016 Adjustments	2016 IFRS
	Profit (loss) for the year	**20,199**	**(774)**	**19,425**	**13,213**	**(5,278)**	**7,935**
	Other comprehensive income:						
	Cash flow hedging:						
	Value adjustments for the year	652	138	790	(878)	2,373	1,495
6.2	Value adjustments transferred to income statement	(2,464)	853	(1,611)	(4,846)	4,392	(454)
	Tax on cash flow hedging instruments	410	(217)	193	1,258	(1,487)	(229)
	Exchange rate adjustments:						
	Exchange rate adjustments relating to net investment in foreign enterprises	(1,513)	-	(1,513)	(5,326)	-	(5,326)
	Value adjustment of net investment hedges	565	-	565	3,040	-	3,040
6.2	Value adjustments and hedges transferred to income statement	892	-	892	-	-	-
	Tax on exchange rate adjustments	62	-	62	100	-	100
	Other comprehensive income	**(1,396)**	**774**	**(622)**	**(6,652)**	**5,278**	**(1,374)**
	Total comprehensive income	**18,803**	**-**	**18,803**	**6,561**	**-**	**6,561**
	Comprehensive income for the year is attributable to:						
	Shareholders in Ørsted A/S	-	-	18,256	-	-	6,910
	Interest payments and costs after tax, hybrid capital owners of Ørsted A/S	-	-	716	-	-	499
	Non-controlling interests	-	-	(169)	-	-	(848)
	Total comprehensive income	**-**	**-**	**18,803**	**-**	**-**	**6,561**

Statement of comprehensive income
All items in other comprehensive income may be recycled to the income statement.

Foreign exchange losses relating to net investments in foreign enterprises of DKK 1,513 million in 2017 are primarily attributable to a drop in the GBP exchange rate of 4%.

In 2016, a foreign exchange loss of DKK 5,326 million was posted, which was primarily attributable to a drop in the GBP exchange rate of 14%.

Balance sheet

31 December

Note	**Assets,** DKK million	2017	2016
3.1	**Intangible assets**	**689**	**955**
3.1	Land and buildings	1,501	1,505
3.1	Production assets	60,603	53,708
3.1	Fixtures and fittings, tools and equipment	413	438
3.1	Property, plant and equipment under construction	13,328	14,531
	Property, plant and equipment	**75,845**	**70,182**
	Investments in associates and joint ventures	339	1,060
	Receivables from associates and joint ventures	48	626
	Other securities and equity investments	130	158
5.4	Deferred tax	2,865	88
4.4	Other receivables	1,955	515
	Other non-current assets	**5,337**	**2,447**
	Non-current assets	**81,871**	**73,584**
4.1	Inventories	3,853	3,451
7	Derivatives	4,870	8,689
4.2	Construction contracts	10,817	6,453
4.3	Trade receivables	9,170	7,286
4.4	Other receivables	3,519	1,710
	Receivables from associates and joint ventures	-	49
	Income tax	296	430
6.4	Securities	25,280	16,533
6.4	Cash	4,203	2,931
	Current assets	**62,008**	**47,532**
3.5	**Assets classified as held for sale**	**2,642**	**15,373**
	Assets	**146,521**	**136,489**

Note	**Equity and liabilities,** DKK million	2017	2016
6.2	Share capital	4,204	4,204
6.2	Reserves	(1,524)	20,218
	Retained earnings	52,111	14,684
	Equity attributable to shareholders in Ørsted A/S	**54,791**	**39,106**
6.3	Hybrid capital	13,239	13,248
3.7	Non-controlling interests	3,807	5,146
	Equity	**71,837**	**57,500**
5.4	Deferred tax	2,128	2,185
3.2	Provisions	10,840	8,337
6.1	Bond and bank debt	25,715	22,164
4.5	Other payables	5,714	6,622
	Non-current liabilities	**44,397**	**39,308**
3.2	Provisions	680	702
6.1	Bond and bank debt	3,921	2,019
7	Derivatives	4,374	6,930
4.2	Construction contracts	1,317	171
	Trade payables	11,499	10,024
4.5	Other payables	6,368	6,277
	Income tax	1,498	54
	Current liabilities	**29,657**	**26,177**
	Liabilities	**74,054**	**65,485**
3.5	**Liabilities relating to assets classified as held for sale**	**630**	**13,504**
	Equity and liabilities	**146,521**	**136,489**

Assets classified as held for sale
Until the divestment on 29 September 2017, the Oil & Gas business was presented as assets classified as held for sale.

Statement of changes in equity

1 January - 31 December

DKK million	2017 Share capital	2017 Reserves*	2017 Retained earnings	2017 Proposed dividends	2017 Share-holders in Ørsted A/S	2017 Hybrid capital	2017 Non-con-trolling interests	2017 Total Group	2016 Share capital	2016 Reserves*	2016 Retained earnings	2016 Proposed dividends	2016 Share-holders in Ørsted A/S	2016 Hybrid capital	2016 Non-con-trolling interests	2016 Total Group
Equity at 1 January	4,204	20,218	12,162	2,522	39,106	13,248	5,146	57,500	4,177	20,855	7,058	-	32,090	13,248	6,398	51,736
Comprehensive income for the year:																
Profit (loss) for the year	-	-	18,719	-	18,719	716	(10)	19,425	-	-	7,547	-	7,547	499	(111)	7,935
Other comprehensive income:																
Cash flow hedging	-	(821)	-	-	(821)	-	-	(821)	-	1,041	-	-	1,041	-	-	1,041
Exchange rate adjustments	-	103	-	-	103	-	(159)	(56)	-	(1,543)	-	-	(1,543)	-	(743)	(2,286)
Tax on other comprehensive income	-	255	-	-	255	-	-	255	-	(135)	-	-	(135)	-	6	(129)
Total comprehensive income	**-**	**(463)**	**18,719**	**-**	**18,256**	**716**	**(169)**	**18,803**	**-**	**(637)**	**7,547**	**-**	**6,910**	**499**	**(848)**	**6,561**
Transactions with owners:																
Coupon payments, hybrid capital	-	-	-	-	-	(640)	-	(640)	-	-	-	-	-	(640)	-	(640)
Tax on coupon payments, hybrid capital	-	-	-	-	-	141	-	141	-	-	-	-	-	141	-	141
Additions, hybrid capital	-	-	-	-	-	3,668	-	3,668	-	-	-	-	-	-	-	-
Disposals, hybrid capital	-	-	-	-	-	(3,894)	-	(3,894)	-	-	-	-	-	-	-	-
Share premium reserve transferred to retained earnings	-	(21,279)	21,279	-	-	-	-	-	-	-	-	-	-	-	-	-
Proposed dividends	-	-	(3,783)	3,783	-	-	-	-	-	-	(2,522)	2,522	-	-	-	-
Dividends paid	-	-	1	(2,522)	(2,521)	-	(376)	(2,897)	-	-	-	-	-	-	(404)	(404)
Issuance of bonus shares	-	-	-	-	-	-	-	-	27	-	(27)	-	-	-	-	-
Purchases of treasury shares	-	-	-	-	-	-	-	-	-	-	(53)	-	(53)	-	-	(53)
Share-based payment	-	-	15	-	15	-	-	15	-	-	43	-	43	-	-	43
Tax on share-based payment	-	-	(3)	-	(3)	-	-	(3)	-	-	93	-	93	-	-	93
Disposals, non-controlling interests	-	-	-	-	-	-	(794)	(794)	-	-	23	-	23	-	-	23
Other changes	-	-	(62)	-	(62)	-	-	(62)								
Total transactions with owners	**-**	**(21,279)**	**17,447**	**1,261**	**(2,571)**	**(725)**	**(1,170)**	**(4,466)**	**27**	**-**	**(2,443)**	**2,522**	**106**	**(499)**	**(404)**	**(797)**
Equity at 31 December	**4,204**	**(1,524)**	**48,328**	**3,783**	**54,791**	**13,239**	**3,807**	**71,837**	**4,204**	**20,218**	**12,162**	**2,522**	**39,106**	**13,248**	**5,146**	**57,500**

* See note 6.2 on 'Equity' for more information about reserves.

Statement of cash flows

1 January - 31 December

Note	DKK million	2017	2016
	Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA), IFRS	22,574	16,939
	Change in derivatives, business performance adjustments	(55)	2,170
	Change in derivatives, other adjustments	(528)	806
	Change in provisions	98	(366)
	Reversal of gain on divestment of assets	(10,835)	(2,939)
	Other items	297	217
4.6	Change in net working capital	(7,904)	(1,512)
	Interest received and similar items	3,508	5,177
	Interest paid and similar items	(3,472)	(6,038)
5	Income tax paid	(2,660)	(3,182)
	Cash flows from operating activities	**1,023**	**11,272**

Our supplementary statements of gross and net investments appear from note 3.3 and free cash flows (FCF) from note 2.1.

Note	DKK million	2017	2016
	Purchase of intangible assets and property, plant and equipment	(17,592)	(14,980)
	Sale of intangible assets and property, plant and equipment	16,333	7,105
	Acquisition of enterprises	(83)	(16)
3.4	Divestment of enterprises	588	1,999
	Divestment of other equity investments	28	32
	Purchase of securities	(21,162)	(8,278)
	Sale/maturation of securities	11,965	12,842
	Change in other non-current assets	(5)	3
	Transactions with associates and joint ventures	(139)	211
	Dividends received and capital reduction	13	22
	Cash flows from investing activities	**(10,054)**	**(1,060)**
	Proceeds from raising of loans	5,468	-
	Instalments on loans	(4,069)	(11,097)
	Coupon payments on hybrid capital	(640)	(640)
	Proceeds from issuance of hybrid capital	3,668	-
	Dividends paid to shareholders in Ørsted A/S	(2,521)	-
	Purchases of treasury shares	-	(53)
3.7	Transactions with non-controlling interests	(431)	(527)
	Change in other non-current liabilities	(11)	28
	Cash flows from financing activities	**1,464**	**(12,289)**
	Cash flows from continuing operations	(7,567)	(2,077)
3.6	Cash flows from discontinued operations	9,025	1,466
	Total net change in cash and cash equivalents	**1,458**	**(611)**
6.4	Cash and cash equivalents at 1 January	2,628	3,677
	Total net change in cash and cash equivalents	1,458	(611)
	Cash flows for the year from assets classified as held for sale	(140)	(433)
	Exchange rate adjustments of cash and cash equivalents	(55)	(5)
6.4	**Cash and cash equivalents at 31 December**	**3,891**	**2,628**

Accounting policies

Cash flows from operating activities are determined using the indirect method as operating profit (loss) before depreciation, amortisation and impairment losses adjusted for changes in operating items without cash flow effect. Trade payables relating to purchases of intangible assets and property, plant and equipment are not recognised in change in net working capital.

Other items primarily comprise reversal of share of profit (loss) of and dividends in associates and joint ventures as well as changes in bad debt provisions.

Cash flows from investing activities comprise payments in connection with the purchase and sale of non-current assets and enterprises, and the purchase and sale of securities that are not recognised as cash and cash equivalents.

Cash flows from financing activities comprise changes in the size or composition of equity and loans. Proceeds from raising of short-term repo loans are presented net.

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.

Note summary

1. Basis of reporting

1. Basis of reporting

This section provides an overview of our principal accounting policies, key accounting estimates and judgements as well as new and amended IFRS standards and interpretations.

The following sections provide an overall description of the accounting policies applied to the consolidated financial statements as a whole. We provide a more detailed description of the accounting policies and key estimates and judgements in the notes.

The descriptions of accounting policies in the statements and notes form part of the overall description of accounting policies.

In November 2016, the Board of Directors decided to initiate a process with the ultimate objective of divesting our Oil & Gas business. The divestment of our Oil & Gas business was closed on 29 September 2017. Consequently, we have presented the external activities of Oil & Gas, including revenue and other income and expenses, as discontinued operations in the annual reports for 2016 and 2017.

Accounting policies and key accounting estimates and judgements

The financial statements for the period 1 January - 31 December 2017 comprise the consolidated financial statements of Ørsted A/S and its subsidiaries (the Group) as well as separate financial statements for the parent company, Ørsted A/S. See page 158 for the parent company's accounting policies. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act (Årsregnskabsloven).

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

All business units in the Ørsted Group apply the Group's accounting policies.

Measurement basis

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

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

Key accounting estimates and judgements

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

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

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

Note	Accounting policies	Key accounting estimates and judgements	Estimate/ judgement	Extent of accounting estimates and judgements
1.1	Consolidated financial statements	Assessment of classification of partnerships	Judgement	●●●○
2.2	Revenue	Assessment of assumptions for recognition of revenue from the construction of offshore wind farms	Judgement	●●●○
2.5	Other operating income	Assumptions for the accounting treatment of divestment gains	Estimate	●●●○
		Assessment of classification of divestment	Judgement	●●●○
3.2	Provisions and contingent liabilities	Assumptions for decommissioning obligations	Estimate	●●○○
		Estimate of onerous contracts	Estimate	●●○○
		Estimate of litigation outcomes	Estimate	●●○○
4.2	Construction contracts	Assumptions for the determination of the expected selling price and expected costs	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 A/S and subsidiaries controlled by Ørsted A/S. See more in the company overview in note 8.5.

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. Intra-group income and expenses, shareholdings, balances and dividends as well as realised and unrealised gains and losses arising from intra-group transactions are eliminated on consolidation.

Unrealised gains resulting from transactions with associates and joint ventures are eliminated to the extent of the Group's ownership interest. Unrealised losses are eliminated in the same way as unrealised gains to the extent that there has been no impairment.

The Group's share in joint operations is recognised in the consolidated balance sheet through recognition of the Group's own assets and liabilities and income and expenses. The Group's share of joint income and expenses and assets and liabilities is then recognised. The proportionate share of realised and unrealised gains and losses arising from intra-group transactions between fully consolidated enterprises and joint operations is eliminated.

Investments in associates and joint ventures are measured using the equity method.

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.

Any such enterprises that satisfy the criteria for joint control are instead accounted for as investments in joint ventures.

We present the profit (loss) from investments in associates and joint ventures before EBITDA when deemed to pertain to our principal activity. The profit (loss) from investments in associates and joint ventures is presented after EBITDA when not deemed to pertain to the Group's principal activity.

Associates and joint ventures with negative net assets are measured at nil.

If we have a legal or constructive obligation to cover the negative equity of an associate or joint venture, the obligation is recognised as a liability.

Receivables from associates and joint ventures are measured at amortised cost. On initial recognition of our receivables, write-downs are made for bad debts.

The proportionate share of associates' and joint ventures' profit (loss) after tax and non-controlling interests is recognised in profit (loss) for the year. We eliminate the proportionate share of internal gains (losses) in the profit (loss) for the year.

On acquisition of investments in associates and joint ventures, the purchase method is applied.

Gains (losses) on the divestment of investments in associates and joint ventures are determined as the difference between the selling price and the carrying amount of net assets, including goodwill at the date of divestment and transaction costs.

Gains and losses are recognised in profit (loss) for the year as gain or loss on the divestment of enterprises. The profit (loss) for the year and total comprehensive income from associates and joint ventures are identical.

Key accounting judgements

Assessment of classification of partnerships
On initial recognition of investments and in connection with any restructuring of joint ventures and joint operations, we assess whether an investment is a joint venture or a joint operation.

In assessing joint operations, we look at:
– the corporate form of the operation, and
– whether we are only entitled to the net profit or income and expenses resulting from the operation.

In addition, the fact that the parties buy all output, for example the power generated, will lead to the structure being considered to be a joint operation.

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 at 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, joint operations, associates and joint ventures, 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 derivatives 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 divided between the equity of the parent company and the equity of the non-controlling interests. On full or partial divestment 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) from the disposal is recognised. The part of the foreign currency translation reserve that relates to non-controlling interests is not transferred to profit (loss) for the year.
- disposal does not result in loss of control: A proportionate share of the foreign currency translation reserve is transferred from the parent company shareholders' share of equity to the minority shareholders' share of equity.

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

Implementation of new standards and interpretations

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

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

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

- Simplification of the requirements for hedge accounting. For instance, hedge accounting will be facilitated for proxy hedging strategies, which are often used to hedge risks in the energy markets.
- The number of categories of financial assets is reduced from four to three: amortised cost, fair value through income statement or fair value through other comprehensive income.
- A loss allowance for expected credit losses must be recognised at initial recognition of a receivables. Previously a loss allowance could only be recognised if there was objective evidence of impairment.

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

Comparative figures are not restated as the effect is immaterial.

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

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

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

New standards and interpretations

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

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

Standard	Expected effect		Commencement	Transitional provision
IFRS 15 – Revenue from Contracts with Customers	We have completed our review of contracts and the analysis of the cash flows in Ørsted. The analysis concluded that the implementation only affects the recognition of income from our transmission assets in connection with the construction of offshore wind farms. In the UK, we offer construction contracts for transmission assets, which are subsequently sold to a new owner. When construction of the assets is completed, they are sold to an Offshore Transmission Owner (OFTO) through a regulated sales process. The UK energy regulator 'Office of Gas and Electricity Markets' (Ofgem) manages the sales process, determines the final transfer value and appoints the buyer. Under the new standard, a customer relationship does not exist between Ørsted and a final buyer. As a result, no mutual legal rights and obligations exist between the parties when the construction of transmission assets commences. Following the implementation of IFRS 15, we will initially recognise revenue from transmission assets when we have entered into a contract with a customer which both parties (buyer and seller): – have approved and – intend to perform. Thus, the recognition of income does not begin until we sell a share of the transmission asset under construction to a partner, which takes place upon such partner joining the project.	We recognise the remaining part of the transmission asset when we find that control has passed to the OFTO. Transmission assets have so far been recognised in step with the construction based on the completion degree of the asset. The change has the consequence that revenue is recognised at a later point in time than was the case under the former practice. Similarly, the costs of construction do not affect operations until the sale is recognised as income. The change does not affect the Group's cash flows or results, but only the time when income and costs are recognised in the consolidated financial statements. Historically we have not had, and we do not expect a significant contribution margin in connection with the sale of transmission assets to partners and OFTOs, and the Group's EBITDA, balance sheet total and equity will therefore remain unchanged in all material respects as a consequence of the changed accounting policies. As the effect of the implementation of IFRS 15 on EBITDA, equity and the balance sheet total is immaterial, the expected disaggregated effect has not been disclosed.	IFRS 15 will be implemented on 1 January 2018.	We will implement the standard with retrospective effect as if its requirements have always been applied to our current contracts. We use the option under IFRS 15 of not restating comparative figures, and of reflecting the effect in equity. The requirements of the standard therefore only apply to agreements in progress at 1 January 2018 as well as subsequently concluded agreements.
IFRS 16 – Leases	We are still analysing the effect of IFRS 16 on the consolidated financial statements. The preliminary conclusion is that it will have a limited impact on both the balance sheet, the income statement and related credit key ratios except effects of classifications. The impact at 1 January 2019 will deviate from the present value of the future minimum lease payments stated in note 8.2 (DKK 6,095 million) for the following reasons: – The scope of leases is expected to change up until 1 January 2019, partly as a result of the conclusion of new leases, partly as a result of run-off on the existing leases.	– On recognition of lease obligations in the balance sheet at 1 January 2019, we will apply the implicit interest rates in the determination of the present value of the lease obligations. At 31 December 2017, the present value of our lease obligations was determined at an interest rate of 3.5%. As a general rule, IFRS 16 requires that service elements which are incorporated into leases, and which do not entitle us to use an underlying asset, must be dealt with separately and treated as a current operating expense. This will not have an immediate impact as our total obligation stated in note 8.2 does not include payments relating to service elements. We intend to continue this practice so that service elements are not included in the lease obligation and the right-of-use asset in accordance with IFRS 16.	IFRS 16 will be implemented on 1 January 2019.	We expect to implement the standard based on the simplified transition method, where comparative figures will not be restated. We expect to calculate and recognise the cumulative effect for all ongoing leases at 1 January 2019. Furthermore, we expect to use the other available reliefs to the widest possible extent, including the exclusion of leases with a term to maturity of less than 12 months and low-value assets.

The new or amended standards and interpretations are not mandatory in connection with the financial reporting for 2017. We will implement the standards and interpretations from their mandatory effective dates at the latest.

1.1 Business performance

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 results reflect our internal risk management and show the results 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 in 2011 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 hedge accounting rules, requiring us to recognise the hedging contracts at market value with value adjustment via the income statement, whereas our commercial exposure is accrued.

Our risk management is described in note 7.1.

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, we want the financial impact of the hedging transactions to be 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. For energy companies, it is, however, 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 Nord Pool (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, under IFRS 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 effects of the hedging and for example the sale of power are not recognised in the same period.

Consequently, we have decided not to 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 results are 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 (typically fixed-price physical gas and power contracts).

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. See note 7.3.

The accounting treatment under business performance is otherwise identical to 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.

Type of hedging	IFRS	Business performance
Hedging of energy and associated currency risks as well as fixed-price physical gas and power contracts	Market value adjustment in the income statement	Market value adjustments are deferred and recognised in the period in which the exposure materialises
Hedging of: – proceeds from the divestment of newly constructed offshore wind farms – interest payments	Market value adjustments are deferred and recognised in the period in which the exposure materialises	Recognition the same as under IFRS
Hedging of currency risks associated with investments in foreign entities	Market value adjustments are recognised in other comprehensive income	Recognition the same as under IFRS
Trading portfolio	Market value adjustment in the income statement	Recognition the same as under IFRS

Only the recognition of the hedging of energy and associated currency risks as well as fixed-price physical gas and power contracts differs under IFRS and the business performance principle.

Expected impact on business performance EBITDA from energy and currency hedging

At 31 December 2017, a loss of DKK 812 million has been deferred (2016: DKK 126 million gain), which will affect business performance EBITDA in subsequent years. Of the total deferred loss, a loss of DKK 159 million is expected on business performance EBITDA in 2018 (2016: DKK 737 million gain in 2017).

The decrease in the deferred gain on currency hedging is primarily attributable to the transfer of gains to the income statement in 2017 as a consequence of the hedged transactions having occurred. Power prices rose in 2017, which means that the market value of the hedges has fallen as we are selling power.

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

	2018	2019	after 2019	Deferred for subsequent recognition at 31 December 2017	2017	2018	after 2018	Deferred for subsequent recognition at 31 December 2016
Oil	174	137	63	374	(46)	(48)	18	(76)
Gas	(262)	(266)	(97)	(625)	104	(314)	(418)	(628)
Power	(650)	(385)	(519)	(1,554)	(396)	(290)	(329)	(1,015)
Coal	34	6	1	41	32	4	-	36
Currency	545	139	268	952	1,043	489	277	1,809
Total	**(159)**	**(369)**	**(284)**	**(812)**	**737**	**(159)**	**(452)**	**126**

The table shows when the deferred value adjustments are expected to be recognised in the business performance EBITDA. The table covers both hedging classified as business performance and IFRS.

Explanation of the business performance principle

In year 1, we enter into a contract hedging the price risk associated with Wind Power's generation of 1,000GWh in year 5 at GBP 52,000 per GWh. This ensures a total revenue of GBP 52 million. In year 5, the cost of power has decreased to GBP 45,000 per GWh, which means that the hedging contract has a positive market value of GBP 7 million (a hedged price of GBP 52,000 per GWh minus the spot price of GBP 45,000 per GWh). This means that we ensure that the total income, including the hedging transaction, is still GBP 52 million. The amount of GBP 52 million consists of a gain from the hedging contract of GBP 7 million and GBP 45 million from the sale of 1,000GWh at the spot price of GBP 45,000 per GWh. The financial impact of the hedging transaction in years 1-5 is shown in the table. Under the business performance principle, the hedging transaction is recognised in the income statement in year 5, i.e. at the same time as the hedged contract with a positive market value of GBP 7 million. The value development is, however, recognised continuously in the income statement according to IFRS. Upon the expiry of the contract in year 5, the total effect on results over the period is the same under the IFRS and the business performance principle. Only the timing differs. The business performance principle ensures simultaneity of recognition of the underlying exposure and the hedging contract.

	Recognition in the income statement, GBP million		**Recognised in the income statement as follows**			**Total financial impact**	
	Power price (GBP '000 per GWh)	Sales of power, GBP million	Market value	Business performance	IFRS	Business performance	IFRS
Year 1	52	-	-	-	-	-	-
Year 2	50	-	2	-	2	-	2
Year 3	55	-	(3)	-	(5)	-	(5)
Year 4	46	-	6	-	9	-	9
Year 5	45	45	7	7	1	52	46
Total		**45**		**7**	**7**	**52**	**52**

Example of recognition of the market value of a hedging contract according to the business performance and IFRS principles in the income statement.

Specification of the difference between EBITDA according to business performance and according to IFRS, DKK million	2017	2016
EBITDA – business performance	22,519	19,109
Business performance adjustments in respect of revenue for the year	205	(3,808)
Business performance adjustments in respect of cost of sales for the year	(150)	1,638
EBITDA – IFRS	**22,574**	**16,939**
Total business performance adjustments for the year comprise:		
Value adjustments for the year of hedging contracts that relate to future periods	(138)	(1,397)
Reversal of gains (losses) relating to hedges deferred from prior periods where the hedged production or trading is recognised in business performance EBITDA for this period	193	(773)
Total adjustments	**55**	**(2,170)**

Value adjustments for the year of financial and physical hedging, DKK million	2017	2016
Currency	150	1,156
Power (commercial and hedge)	(836)	(2,160)
Gas (commercial and hedge)	106	(735)
Oil	404	267
Coal	38	75
Total value adjustments	**(138)**	**(1,397)**

The table shows value adjustments by product. The value adjustments are recognised in IFRS EBITDA, but not in business performance EBITDA, as the value relates to future periods.

Reversal of deferred gains (losses) on hedges from previous periods, DKK million	2017	2016
Currency	(12)	(615)
Power (commercial and hedge)	297	(424)
Gas (commercial and hedge)	(106)	(1,539)
Oil	46	1,654
Coal	(32)	151
Total deferred gains (losses) from previous periods	**193**	**(773)**

The table shows reversal of value adjustments by product. These gains (losses) are recognised in business performance EBITDA. The reversal of value adjustment was recognised in IFRS EBITDA in a previous period.

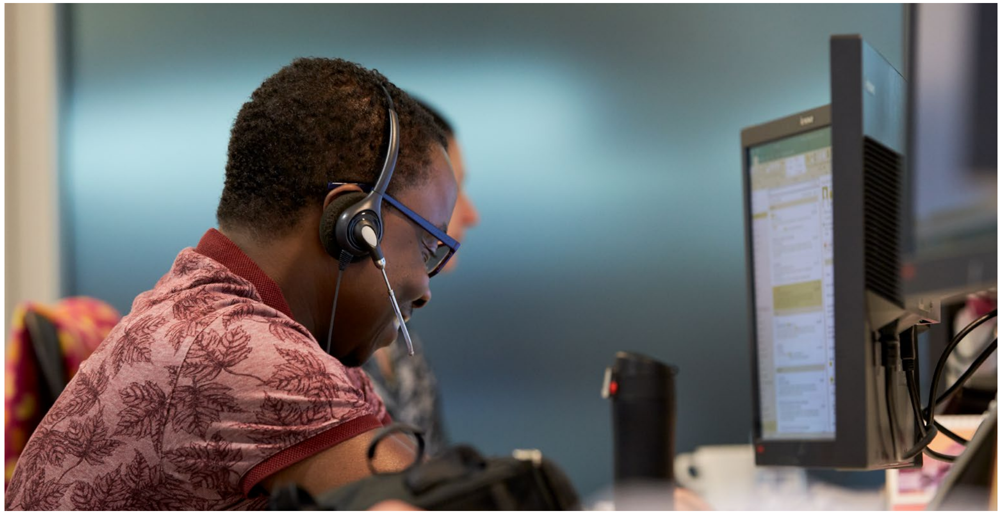
Difference between IFRS and business performance for the year

The value adjustment in respect of future periods totalled DKK -138 million (2016: DKK -1,397 million) and reversal of deferred gains (losses) recognised according to business performance in 2017 totalled DKK 193 million (2016: DKK -773 million).

Market value adjustments for the year of hedging contracts

2017 was mainly affected by losses on the hedging of power as a result of rising prices in 2017. This was partially offset by a gain on the hedging of oil as a consequence of the rising oil prices in 2017.

2016 was mainly affected by losses on the hedging of gas and power as a result of rising prices in 2016. This was partially offset by gains on currency hedging due to the weakened GBP in 2016.



Deferred gains (losses) from previous periods

In 2017, a loss of DKK 193 million was recognised in business performance EBITDA, but as the loss was recognised in IFRS EBITDA in a previous period, the gain was reversed in the 'Adjustments' column in the income statement. The loss was primarily attributable to the hedging of power.

In 2016, a gain of DKK 773 million was recognised in business performance EBITDA, but as the gain was recognised in IFRS EBITDA in a previous period, the gain was reversed in the 'Adjustments' column in the income statement. The gain, which was primarily attributable to the hedging of gas, power and currency, was offset by a loss on oil.

1.2 Definitions of performance highlights

Performance highlights are calculated in accordance with the business performance principle.

Gross investments	Cash flows from investing activities, excluding dividends received from associates, joint ventures and equity investments, purchase and sale of securities, loans to joint ventures and joint operations, and divestments of assets and enterprises.
Net investments	Gross investments less divestments of assets and enterprises. To/from this is added/deducted acquired/transferred debt in connection with acquisitions and divestments of enterprises, and deducted non-controlling interests' share of investments in fully consolidated investment projects, and deducted the selling price of non-controlling interests.
Funds from operations (FFO)	Supplementary concept for cash flows from operating activities determined as business performance EBITDA less the effect of gains on the divestment of ownership interests in offshore wind farms, interest expenses (net) on interest-bearing net debt and hybrid capital (50%), interest element of decommissioning obligations and current tax. In addition, operating lease obligations have been recognised as if they were finance lease obligations, where operating lease payments have been reversed, and calculated interest expenses of the present value of lease payments have been deducted.
Adjusted interest-bearing net debt	Interest-bearing net debt plus 50% of the hybrid capital, cash and securities not available for use with the exception of repo transactions, present value of lease payments (operating lease obligations calculated as if they were finance lease obligations), and the present value of decommissioning obligations less deferred tax.
FFO to adjusted interest-bearing net debt	$\frac{\text{FFO}}{\text{Adjusted interest-bearing net debt}}$
Free cash flow (FCF)	Cash flows from operating activities less gross investments and plus divestments.
Capital employed	Non-interest-bearing net assets corresponding to non-interest-bearing assets less non-interest-bearing liabilities.
Average capital employed	$\frac{\text{Capital employed beginning of year + capital employed year-end}}{2}$
Return on capital employed (ROCE)	$\frac{\text{EBIT}}{\text{Average capital employed}^{1}}$

Proposed dividend per share (DPS) of DKK 10	$\frac{\text{Total proposed dividend}}{\text{Number of shares year-end}}$
Dividend yield	$\frac{\text{Dividend per share (proposed)}}{\text{Stock price the last trading day of the year}}$
Average number of shares	$\frac{1}{\text{Number of days}} \times \sum_{i=1}^{\text{Number of days}} = X_i$
Net working capital	Inventories, trade receivables and other current operating assets less trade payables, deferred income (net) and other current operating liabilities.
Net working capital, excluding trade payables relating to capital expenditure	Net working capital excluding trade payables relating to purchases of intangible assets and property, plant and equipment.
Profit (loss) per share	$\frac{\text{Shareholders' share of the profit (loss) for the period}}{\text{Average number of shares}}$
Diluted profit (loss) per share	$\frac{\text{Shareholders' share of the profit (loss) for the period}}{\text{Average number of shares, including dilutive effect of free shares}}$

[1] ROCE (continuing operations) is based on average capital employed for the continuing operations. Non-interest-bearing net assets related to the oil and gas activities divested in September 2017 are not included.

2. Return on capital employed

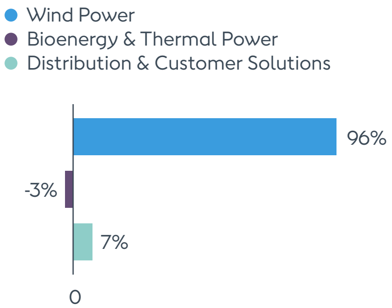
2. Return on capital employed

Return on capital employed is a key ratio that shows how profitable our business is. The strategic target is for ROCE to constitute an average of 12-14% in the period 2018-2023.

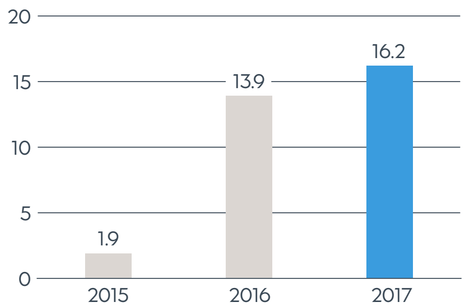
Return on capital employed

Return on capital employed was 25.2% against 24.4% in 2016. The improved operating profit was partially offset by more funds tied up in invested capital. See more in note 2.1.

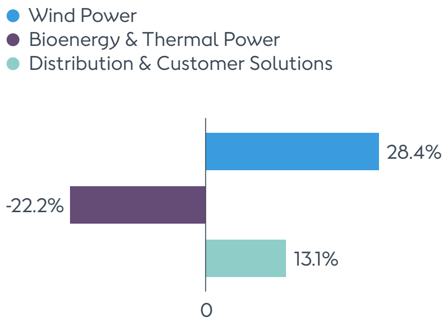
EBIT by segment,
percentage of DKK 16,581 million in 2017



EBIT, business performance,
DKK million

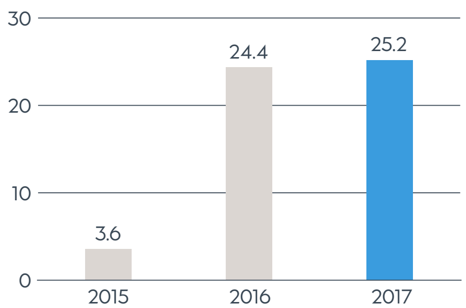


Return on capital employed (ROCE),
% 2017



EBIT and return on capital employed stated according to the business performance principle. EBIT of DKK 16,581 million is calculated as EBIT for reportable segments.

Return on capital employed (ROCE),
%



Return on capital employed (ROCE) was 25% against 24% in 2016 (and 17% in 2016 adjusted for compensation received in connection with renegotiations). The increase was attributable to higher EBIT.

22.5bn

EBITDA totalled DKK 22,519 million in 2017 against DKK 19,109 million in 2016.

16.2bn

Operating profit totalled DKK 16,235 million in 2017 against DKK 13,877 million in 2016.

25.2%

Return on capital employed (ROCE) totalled 25.2% in 2017 against 24.4% in 2016.

2.1 Segment information

Wind Power, DKK million

Revenue	20,352
EBITDA	20,595
Gross investments	15,462
Number of employees	2,253

Bioenergy & Thermal Power, DKK million

Revenue	5,864
EBITDA	152
Gross investments	1,390
Number of employees	749

Distribution & Customer Solutions, DKK million

Revenue	40,195
EBITDA	2,082
Gross investments	857
Number of employees	1,263

Primary activity

Development, construction, ownership and operation of offshore wind farms in the UK, Germany, Denmark, the Netherlands, the USA and Taiwan.

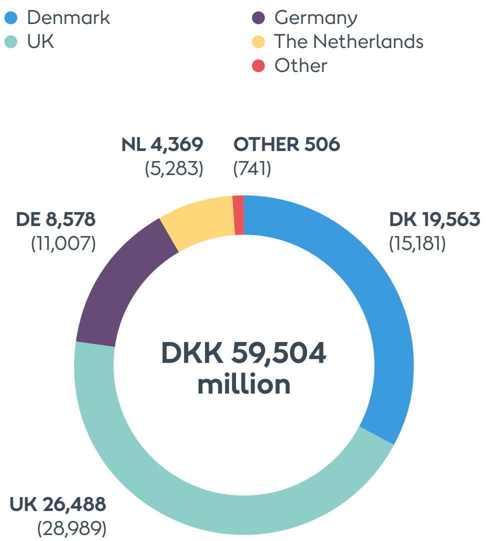
Primary activity

Generation of heat and power from CHP plants in Denmark and a gas-fired power station in the Netherlands as well as a Renescience plant in the UK.

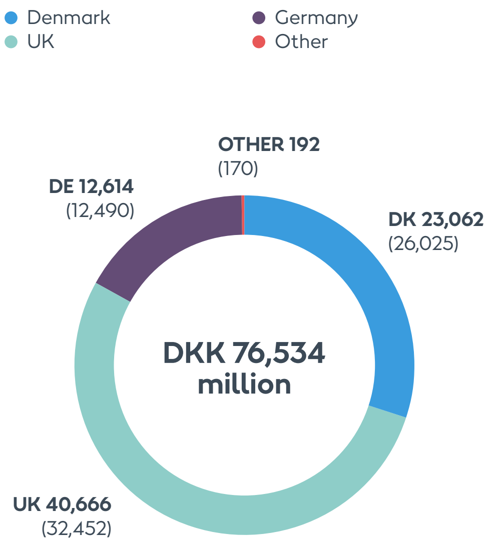
Primary activity

The distribution of power and sales of power and gas in the wholesale and retail markets in Denmark, Sweden, Germany and the UK as well as optimisation and hedging of the Group's total energy portfolio.

Revenue, DKK million 2017[1] (2016)



Intangible assets and property, plant and equipment, DKK million 2017 (2016)



Revenue, intangible assets and property, plant and equipment are presented based on the locations of our customers and assets.

[1] Revenue determined according to the business performance principle.

Geographical distribution of revenue as well as intangible assets and property, plant and equipment

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

A significant part of our sales takes place via power exchanges and gas hubs in Europe, the physical locations of which do not reflect the geographical locations of our customers. When breaking down these sales by geographical location we use the physical locations of the exchange or hub since we do not in all cases know the physical location of our customer.

No single customer accounts for more than 10% of our consolidated revenue.

Non-current assets are broken down geographically based on the physical locations of the assets.

Accounting policies

Our operating segments are consistent with our internal reporting to our top decision-making body, Group Executive Management.

We apply the business performance principle, as described in note 1.1, in connection with our internal management.

The operating segments are managed primarily on the basis of EBITDA and investments. Financial income and expenses and tax are allocated to the operating segments, while we manage them at Group level.

Segment income and segment expenses are those items that, in the internal management reporting, are directly attributable to individual segments or can be indirectly allocated to individual segments on a reliable basis.

2017 **Income statement,** DKK million	Wind Power	Bioenergy & Thermal Power	Distribution & Customer Solutions	Report-able segments	Other activities/ eliminations	Business performance	Adjustments	IFRS
External revenue	15,034	5,652	38,959	59,645	(141)	59,504	205	59,709
Intra-group revenue	5,318	212	1,236	6,766	(6,766)[1]	-	-	-
Revenue	**20,352**	**5,864**	**40,195**	**66,411**	**(6,907)**	**59,504**	**205**	**59,709**
Cost of sales	(6,565)	(4,400)	(36,232)	(47,197)	6,653	(40,544)	(150)	(40,694)
Employee costs and other external expenses	(4,122)	(1,357)	(1,887)	(7,366)	(72)	(7,438)	-	(7,438)
Gain (loss) on disposal of non-current assets	10,811	32	(21)	10,822	13	10,835	-	10,835
Additional other operating income and expenses	238	13	27	278	3	281	-	281
Share of profit (loss) in associates and joint ventures	(119)	-	-	(119)	-	(119)	-	(119)
EBITDA	**20,595**	**152**	**2,082**	**22,829**	**(310)**	**22,519**	**55**	**22,574**
Depreciation and amortisation	(4,080)	(690)	(933)	(5,703)	(36)	(5,739)	-	(5,739)
Impairment losses	(545)	-	-	(545)	-	(545)	-	(545)
Operating profit (loss) (EBIT)	**15,970**	**(538)**	**1,149**	**16,581**	**(346)**	**16,235**	**55**	**16,290**
Key ratios								
Property, plant and equipment and intangible assets	56,942	7,488	11,771	76,201	333	76,534	-	76,534
Equity investments and non-current receivables	114	41	340	495	692	1,187	-	1,187
Net working capital, work in progress	7,526	-	-	7,526	-	7,526	-	7,526
Net working capital, capital expenditures	(2,901)	(138)	-	(3,039)	-	(3,039)	-	(3,039)
Net working capital, other items	1,860	(3,228)	(1,356)	(2,724)	143	(2,581)	-	(2,581)
Derivatives, net	1,025	(192)	85	918	(422)	496	-	496
Assets classified as held for sale, net	-	-	2,012	2,012	-	2,012	-	2,012
Decommissioning obligations	(3,546)	(733)	(472)	(4,751)	-	(4,751)	-	(4,751)
Other provisions	(2,074)	(764)	(2,952)	(5,790)	(980)	(6,770)	-	(6,770)
Tax, net	(296)	80	350	134	(598)	(464)	-	(464)
Other receivables and other payables, net	1,002	-	2	1,004	(834)	170	-	170
Capital employed at 31 December	**59,652**	**2,554**	**9,780**	**71,986**	**(1,666)**	**70,320**	**-**	**70,320**
Of which capital employed from discontinued operations						(236)		(236)
Of which capital employed from continuing operations						70,556		70,556
Return on capital employed (ROCE) %	**28.4**	**(22.2)**	**13.1**	**-**	**-**	**25.2**	**-**	**-**
Cash flows from operating activities	3,353	592	(628)	3,317	(2,294)	1,023	-	1,023
Gross investments	(15,462)	(1,390)	(857)	(17,709)	(35)	(17,744)	-	(17,744)
Divestments	16,737	2	196	16,935	47	16,982	-	16,982
Free cash flow (FCF)	**4,628**	**(796)**	**(1,289)**	**2,543**	**(2,282)**	**261**	**-**	**261**

Profit (loss) and cash flows are shown only for continuing operations.

Up until the divestment, the discontinued operations in the divested oil and gas business were included in assets classified as held for sale and in discontinued operations. Reference is made to note 3.6 'Discontinued operations'.

The column for 'Other activities/eliminations' covers primarily the elimination of inter-segment transactions. Also included are income and costs, assets and liabilities, investment activity, taxes, etc., handled at Group level.

[1] Of which the elimination of intra-group revenue accounts for DKK -8,887 million.

2016 **Income statement,** DKK million	Wind Power	Bioenergy & Thermal Power	Distribution & Customer Solutions	Reportable segments	Other activities/ eliminations	Business performance	Adjustments	IFRS
External revenue	18,831	4,965	36,860	60,656	545	61,201	(3,808)	57,393
Intra-group revenue	3,597	184	1,149	4,930	(4,930)[1]	-	-	-
Revenue	**22,428**	**5,149**	**38,009**	**65,586**	**(4,385)**	**61,201**	**(3,808)**	**57,393**
Cost of sales	(11,130)	(3,718)	(28,900)	(43,748)	4,488	(39,260)	1,638	(37,622)
Employee costs and other external expenses	(3,626)	(1,484)	(2,040)	(7,150)	(16)	(7,166)	-	(7,166)
Gain (loss) on disposal of non-current assets	2,961	56	(77)	2,940	-	2,940	-	2,940
Additional other operating income and expenses	1,210	96	116	1,422	(53)	1,369	-	1,368
Share of profit (loss) in associates and joint ventures	24	1	-	25	-	25	-	25
EBITDA	**11,867**	**100**	**7,108**	**19,075**	**34**	**19,109**	**(2,170)**	**16,939**
Depreciation and amortisation	(3,565)	(763)	(874)	(5,202)	(30)	(5,232)	-	(5,232)
Operating profit (loss) (EBIT)	**8,302**	**(663)**	**6,234**	**13,873**	**4**	**13,877**	**(2,170)**	**11,707**
Key ratios								
Property, plant and equipment and intangible assets	52,202	6,959	11,651	70,812	325	71,137	-	71,137
Equity investments and non-current receivables	865	8	367	1,240	-	1,240	-	1,240
Net working capital, work in progress	3,944	-	-	3,944	-	3,944	-	3,944
Net working capital, capital expenditures	(2,452)	(268)	-	(2,720)	-	(2,720)	-	(2,720)
Net working capital, other items	166	(3,173)	(2,729)	(5,736)	788	(4,948)	-	(4,948)
Derivatives, net	1,723	(155)	(419)	1,149	610	1,759	-	1,759
Assets classified as held for sale, net	-	-	1,930	1,930	(250)	1,680	-	1,680
Decommissioning obligations	(2,785)	(668)	(196)	(3,649)	-	(3,649)	-	(3,649)
Other provisions	(1,894)	(802)	(2,654)	(5,350)	(40)	(5,390)	-	(5,390)
Tax, net	980	352	(234)	1,098	(2,819)	(1,721)	-	(1,721)
Other receivables and other payables, net	76	30	82	188	(559)	(371)	-	(371)
Capital employed at 31 December	**52,825**	**2,283**	**7,798**	**62,906**	**(1,945)**	**60,961**	**-**	**60,961**
Of which capital employed from discontinued operations	-	-	-	-	-	2,769	-	2,769
Of which capital employed from continuing operations	-	-	-	-	-	58,192	-	58,192
Return on capital employed (ROCE) %	**16.5**	**(29.5)**	**75.8**	**-**	**-**	**24.4**	**-**	**-**
Cash flows from operating activities	4,347	1,285	4,302	9,934	1,338	11,272	-	11,272
Gross investments	(12,426)	(1,926)	(569)	(14,921)	(39)	(14,960)	-	(14,960)
Divestments	6,874	6	2,238	9,118	(63)	9,055	-	9,055
Free cash flow (FCF)	**(1,205)**	**(635)**	**5,971**	**4,131**	**1,236**	**5,367**	**-**	**5,367**

Up until the divestment, the discontinued operations in the divested Oil & Gas business were included in assets classified as held for sale and in discontinued operations. Reference is made to note 3.6 'Discontinued operations'.

[1] Of which the elimination of intra-group revenue accounts for DKK -6,939 million.

2.2 Revenue

Revenue 2017, DKK million	Wind Power	Bioenergy & Thermal Power	Distribution & Customer Solutions	Other activities/ eliminations	Total
Distribution and transmission	-	-	2,520	(32)	2,488
Sales of heat and steam	-	2,607	-	-	2,607
Sales of gas	-	-	19,197	(1,556)	17,641
Sales of power and power generation	10,052	3,097	17,743	(5,722)	25,170
Revenue from the construction of offshore wind farms	8,734	-	-	-	8,734
Other revenue	1,566	160	735	403	2,864
Total, business performance	**20,352**	**5,864**	**40,195**	**(6,907)**	**59,504**
Adjustments	(7)	95	(109)	226	205
Total, IFRS	**20,345**	**5,959**	**40,086**	**(6,681)**	**59,709**

Revenue 2016, DKK million	Wind Power	Bioenergy & Thermal Power	Distribution & Customer Solutions	Other activities/ eliminations	Total
Distribution and transmission	-	-	2,318	(16)	2,302
Sales of heat and steam	-	2,255	-	-	2,255
Sales of gas	-	-	18,111	(1,224)	16,887
Sales of power and power generation	6,700	2,717	17,309	(3,416)	23,310
Revenue from the construction of offshore wind farms	14,323	-	-	-	14,323
Other revenue	1,405	177	271	271	2,124
Total, business performance	**22,428**	**5,149**	**38,009**	**(4,385)**	**61,201**
Adjustments	45	(450)	(3,639)	236	(3,808)
Total, IFRS	**22,473**	**4,699**	**34,370**	**(4,149)**	**57,393**

Revenue for the year according to business performance fell from DKK 61,201 million in 2016 to DKK 59,504 million in 2017, down 2.8%. The fall was mainly due to lower activity from the construction of offshore wind farms in Wind Power. This was partially offset by higher gas prices as well as higher generation from offshore wind farms in operation.

Revenue for the year from the construction of offshore wind farms mainly related to transmission assets in the UK and the construction of the offshore wind farms Race Bank, Walney Extension, Gode Wind 1 and 2 as well as Burbo Bank Extension for partners.

In 2017, revenue totalled DKK 59,709 million according to IFRS, of which DKK 52,347 million was revenue from the sale of goods, and DKK 7,362 million was revenue from the sale of services. In 2016, IFRS revenue totalled DKK 57,393 million, of which DKK 53,874 million was related to revenue from the sale of goods, while DKK 3,519 million was related to revenue from the sale of services.

Accounting policies

We recognise revenue from the distribution and transmission of energy and the sale of heat and steam, oil, gas and power when:
- delivery and transfer of risk to the buyer have taken place,
- the income can be measured reliably and is expected to be received, and
- costs incurred or which will be incurred in connection with the sale can be measured reliably.

Revenue is measured at the market value of the agreed consideration excluding VAT and other indirect taxes collected on behalf of third parties.

All forms of discounts granted are recognised in revenue.

Revenue from offshore wind farms comprises sales of power at market prices and regulated prices (fixed tariffs and guaranteed minimum prices for green certificates).

Revenue from offshore wind farms is recognised at the time of generation.

We recognise construction contracts in revenue concurrently with the construction of the offshore wind farms and transmission assets. Revenue corresponds to the selling price of work performed during the year (percentage of completion method).

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised to the extent of costs incurred. See also note 4.2.

Other revenue is income from the installation of offshore wind turbines using vessels in A2SEA, which was divested in August 2017. Trading activities, financial hedging transactions, etc., are also included in other revenue.

Adjustments consist of the reversal of business performance adjustments. See more in note 1.1.

Key accounting judgements

Assumptions for the ongoing recognition of revenue from the construction of offshore wind farms
We construct offshore wind farms in collaboration with partners, where we construct the partner's share. We assess each construction agreement at the time of conclusion of the agreement.

In our view, the transfer of control, risks and rewards takes place in step with the construction of offshore wind farms. This is supported by the regular approval of part deliveries and milestone payments from partners. Revenue is therefore recognised in step with the construction of the offshore wind farms.

2.3 Cost of sales

Cost of sales 2017, DKK million	Wind Power	Bioenergy & Thermal Power	Distribution & Customer Solutions	Other activities/ eliminations	Total
Gas	-	976	16,237	(4,477)	12,736
Power	188	90	16,520	(5,510)	11,288
Biomass	-	2,091	-	-	2,091
Coal	-	829	-	-	829
Distribution and transmission costs	625	138	2,496	(102)	3,157
Costs for construction of offshore wind farms	5,720	-	14	17	5,751
Other cost of sales	32	276	965	3,419	4,692
Total, business performance	**6,565**	**4,400**	**36,232**	**(6,653)**	**40,544**
Adjustments	-	4	164	(18)	150
Total, IFRS	**6,565**	**4,404**	**36,396**	**(6,671)**	**40,694**

Cost of sales 2016, DKK million	Wind Power	Bioenergy & Thermal Power	Distribution & Customer Solutions	Other activities/ eliminations	Total
Gas	-	830	10,440	(5,601)	5,669
Power	-	57	15,303	(3,077)	12,283
Biomass	-	1,408	-	-	1,408
Coal	-	819	-	-	819
Distribution and transmission costs	603	123	2,632	(147)	3,211
Costs for construction of offshore wind farms	10,360	-	22	(22)	10,360
Other cost of sales	167	481	503	4,359	5,510
Total, business performance	**11,130**	**3,718**	**28,900**	**(4,488)**	**39,260**
Adjustments	-	(295)	(2,028)	685	(1,638)
Total, IFRS	**11,130**	**3,423**	**26,872**	**(3,803)**	**37,622**

Cost of sales according to business performance increased from DKK 39,260 million in 2016 to DKK 40,544 million in 2017, up 3.3%. The increase was mainly due to higher gas prices and that 2016 was impacted by one-off payments from completed renegotiations that reduced cost of sales by DKK 4.3 billion. The increase was partly offset by lower cost in connection with construction of offshore wind farms.

Cost of sales relate partly to trading in gas and power, partly to fuel used at CHP plants in connection with heat and power generation and partly to the construction of offshore wind farms.

2.4 Government grants

Government grants, DKK million	2017	2016
Government grants recognised in profit (loss) for the year under revenue	1,917	-
Government grants recognised in profit (loss) for the year under other operating income	4	5
Government grants recognised in the balance sheet	(4)	(5)
Government grants recognised for the year	**1,917**	**5**

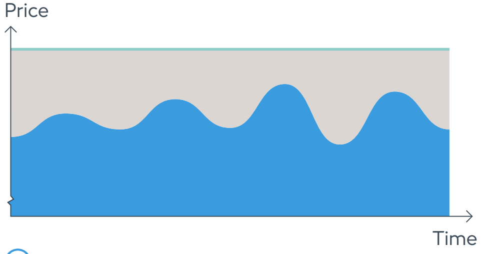
In Denmark, the Danish transmission system operator Energinet administers subsidies for eco-friendly power generation, including for example offshore wind farms. Until 2017, the grant was paid by consumers as a tariff (public service obligation (PSO)) added to their electricity bill. In 2016, a political agreement was made to gradually phase out the PSO tariff. From 2017, the PSO costs will gradually be financed under the Danish Finance Act.

Following the changed legislation, which means that PSO funding will be provided under the Danish Finance Act, we regard the grant for eco-friendly power generation as a government grant as it is paid by the Danish State.

In 2013, the UK introduced a new CfD (Contracts-for-Difference) subsidy scheme as a replacement for the RO (Renewable Obligations) scheme for renewable energy projects. The Burbo Bank Extension and Walney Extension offshore wind farms are our first offshore wind farms under the CfD-regime. 2017 is the first year where we have received this subsidy. We treat the payments from the CfD scheme as a government grant.

Illustrative example of CfD

- Market price of power
- Government grants (difference between the market price of power and the power price fixed in the CfD contract)
- Power price fixed in the CfD contract



When participating in a CfD, we receive a feed-in premium in connection with the generation of power from an offshore wind turbine. The feed-in premium is the difference between the market price of power and the price fixed in the CfD (strike price).

Accounting policies

Government grants comprise grants for eco-friendly power generation, grants for the funding of development projects as well as investment grants, etc.

Government grants are recognised when there is reasonable assurance that the grants will be received.

Grants for the acquisition of assets which we recognise in the balance sheet are recognised under deferred revenue and are transferred to other operating income in step with the depreciation of the assets to which the grants relate.

As grants for power generation are intended as a compensation for the price of power, we systematically recognise the grants under revenue in step with the power generation and thus the related revenue.

Government grants, which are recognised under revenue, are presented as the sale of power and power generation. See note 2.2.

2.5 Other operating income and expenses

Other operating income, DKK million	2017	2016
Gain on divestment of assets	11,142	3,356
Insurance compensation	-	137
Other compensation	369	877
Miscellaneous operating income	154	497
Total other operating income	**11,665**	**4,867**

Other operating expenses, DKK million	2017	2016
Loss on divestment of assets	307	416
Miscellaneous operating expenses	242	142
Total other operating expenses	**549**	**558**

Other operating income

Gains on the divestment of assets in 2017 primarily concerned the farm-downs of 50% of our ownership interests in the offshore wind farms Walney Extension (UK) and Borkum Riffgrund 2 (Germany), contingent consideration relating to the divestment of Race Bank (UK) in 2016 (DKK 1.385 million), and to a lesser extent an adjustment in respect of the divestment of ownership interests in London Array.

In 2016, gains on the divestment of assets consisted primarily of the farm-downs of 50% of our ownership interests in the Burbo Bank Extension and Race Bank offshore wind farms.

Insurance compensation received in 2016 related to the settlement of insurance claims in Wind Power.

Compensation was mainly received from the transmission system operators (TSOs) and suppliers due to delayed deliveries for the construction of offshore wind farms in Wind Power.

Other operating expenses

Losses on the divestment of assets in 2017 consisted, among other things, of the scrapping of components for a new type of foundation in an offshore wind farm under construction.

Losses on the divestment of assets in 2016 consisted, among other things, of the scrapping of a vessel for installation of offshore wind turbines.

Accounting policies

Other operating income and other operating expenses comprise items of a secondary nature to the Group's primary activities.

In connection with the divestment of ownership interests in offshore wind farms before or during the construction phase, the gain is recognised on the divestment date under other operating income/other operating expenses in the income statement.

The gain for the future construction of the partner's share of the offshore wind farm is recognised on an ongoing basis in the income statement in step with the construction. See more in notes 2.2 and 4.2.

Divestment of ownership interests in our offshore wind farms

When we divest an ownership interest in an offshore wind farm to a partner, we typically also enter into agreements on the future construction and operation of the offshore wind farm.

Contracts in connection with divestment are typically:
- Agreement on the sale of shares (divestment of assets)
- Agreement on the future construction of the offshore wind farm (construction contract)
- Agreement on the future operation of the offshore wind farm.

Key accounting estimates

Assumptions for the accounting treatment of divestment gains
Our accounting recognition of the gain in the divestment contracts is based on the individual accounting selling prices of the relevant contracts.

Our accounting treatment of the gains in the contracts is therefore not necessarily identical with the prices negotiated in the individual contracts.

Key accounting judgements

Assessment of classification of divestment
When we divest ownership interests in an offshore wind farm under development, we carry out an individual assessment of whether the divestment qualifies as a divestment of an enterprise or a divestment of assets. We have typically assessed that the offshore wind farms do not constitute an enterprise, as no employees are transferred, and processes are transferred to a limited extent only.

2.6 Employee costs

Employee costs, DKK million	Continuing operations 2017	Continuing operations 2016	Discontinued operations 2017	Discontinued operations 2016
Wages, salaries and remuneration	3,650	3,692	365	692
Share-based payment	15	37	-	6
Pensions	310	311	27	51
Other social security costs	117	128	11	19
Other employee costs	61	29	5	10
Employee costs before transfers to assets	**4,153**	**4,197**	**408**	**778**
Transfers to assets	(956)	(1,109)	(126)	(325)
Total employee costs	**3,197**	**3,088**	**282**	**453**

Employee costs

Employee costs before transfer to assets were on a par with 2016. Employee costs transferred to assets relate to investment projects, which are capitalised in the balance sheet.

Pension plans and number of employees

Pension plans are defined-contribution plans that do not commit Ørsted beyond the amounts contributed.

In 2017, our average number of employees was 5,738 (2016: 5,894).

Remuneration of Group Executive Management

The remuneration of the Executive Board is based on a fixed salary, including personal benefits, such as a company car, free telephone, etc., a variable salary, a retention bonus in connection with the IPO, and share-based payment. The other members of Group Executive Management[1] also receive a pension.

The members of the Board of Directors are paid fixed remuneration only for their work in Ørsted. In addition, Ørsted reimburses any travel expenses.

For further details about the remuneration of the Executive Board and the Board of Directors, reference is made to the remuneration report on page 55.

Salaries and remuneration for Group Executive Management and the Board of Directors, DKK '000	Executive Board 2017	Executive Board 2016	Other members of Group Executive Management[1] 2017	Other members of Group Executive Management[1] 2016	Board of Directors 2017	Board of Directors 2016	Total 2017	Total 2016
Fixed salary	15,279	14,487	17,924	18,995	-	-	33,203	33,482
Remuneration	-	-	-	-	4,934	5,024	4,934	5,024
Variable salary	4,004	3,374	3,917	3,500	-	-	7,921	6,874
Retention bonus	2,812	937	6,535	6,326	-	-	9,347	7,263
Share-based payment	2,080	2,316	949	1,479	-	-	3,029	3,795
Pension	-	-	1,499	1,463	-	-	1,499	1,463
Termination payment	-	-	5,330[2]	-	-	-	5,330	-
Social security	4	4	9	9	-	-	13	13
Total	**24,179**	**21,118**	**36,163**	**31,772**	**4,934**	**5,024**	**65,276**	**57,914**

1 Other members of Group Executive Management in 2017 are: Samuel Leupold (departing 28 February 2018), Thomas Dalsgaard, Morten Hultberg Buchgreitz and David Cook (departed 29 September 2017).

2 The compensation relates primarily to the non-competition clause in connection with Samuel Leupold's notice of termination.

2.7 Share-based payment

Participants	Number of locked-up shares relative to fixed salary
CEO	75% of fixed salary
CFO and other members of Group Executive Management	50% of fixed salary
Senior Vice Presidents	25% of fixed salary
Vice Presidents and Senior Directors	15% of fixed salary

The figure shows the value of the Ørsted share in per cent of the participants' fixed salary which, at the time of granting, must be locked up for the duration of the share programme.

Key assumptions for valuation of PSUs	Time of granting 2017	Time of granting 2016
Share price	269	275
Average volatility, peers	24.9%	25.6%
Volatility, Ørsted	20.3%	24.1%
Risk-free interest rate	(0.3)%	(0.5)%
Expected term at time of granting	3 years	2.5 years

Share programme

Group Executive Management and a number of other senior executives participate in our share programme. Today, approximately 90 senior executives participate in the programme. As a condition for the granting of performance share units (PSUs), the participant must own a number of shares in Ørsted corresponding to a portion of the individual participant's annual fixed salary. The portion depends on the employee category and, for our CEO, makes up 75% of the fixed salary; see the figure to the left for more information. The participants in the programme must invest in Ørsted shares prior to the first granting.

If the participants fulfil the shareholding requirement at the time of granting, they will be granted a number of PSUs each year, representing a value of 15%-20% of the annual fixed salary on the date of granting.

The granted PSUs have a vesting period of approximately three years, after which each PSU entitles the holder, without payment, to receive a number of shares corresponding to 0-200% of the number of PSUs granted. The final number of shares for each participant will be determined on the basis of the total shareholder return delivered by Ørsted, benchmarked against ten comparable European energy companies.

The highest rate will be triggered if Ørsted's results, measured as the total return to shareholders, outperform those of the comparable companies. For each lower ranking, the number of shares granted will fall by 20 percentage points. If, for example, Ørsted ranks third, the participants will be entitled to 160% of the target.

If Ørsted ranks 11 in the comparison, no shares will be granted to the participants. The right to shares is conditional upon continued employment.

Accounting policies

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
- as a set-off in the balance sheet under equity over the vesting period.

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

Maximum number of outstanding shares at the time of granting, '000

Time of granting	Executive Board	Other members of Group Executive Management	Senior executives	Total	% of share capital	Market value (at time of granting) DKK million	Years until expiry
1 September 2016	21	10	123	154	0.04%	24	1.2
1 April 2017	23	10	140	173	0.04%	28	2.2
Maximum number of outstanding shares at 31 December 2017	**44**	**20**	**263**	**327**	**0.08%**	**52**	

Development in maximum number of outstanding shares, '000	Executive Board	Other members of Group Executive Management	Senior executives	Total	% of share capital
Maximum number of outstanding shares at 1 January 2017	20	10	128	158	0.04%
Compensation for dividends paid (2016 programme)	1	0	2	3	0.00%
Granted (2017 programme)	23	10	146	179	0.04%
Cancelled (2016 programme)			(7)	(7)	0.00%
Cancelled (2017 programme)			(6)	(6)	0.00%
Maximum number of outstanding shares at 31 December 2017	**44**	**20**	**263**	**327**	**0.08%**
(DKK million)					
Market value of share programme at the time of granting	7	3	42	52	
Maximum market value of share programme at 31 December 2017	15	7	89	111	

The maximum market value of the share programme at 31 December 2017 is based on the assumption that the participants receive the maximum number of shares. This requires that Ørsted delivers the highest shareholder return benchmarked against the ten comparable companies.

3. Capital employed

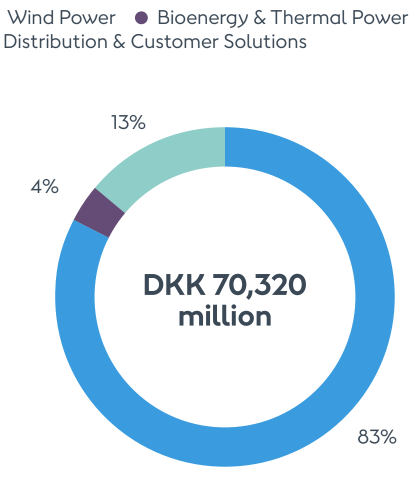
3. Capital employed

Our capital employed primarily relates to production assets, some of which are under construction. We monitor investment projects closely, as a large part of the Group's value is created in the development and construction phases.

Investments and divestments in 2017

We made total investments of DKK 17,744 million in offshore wind farms, biomass conversions and power infrastructure in 2017 and divestments of DKK 16,982 million. The most significant assets under construction at the end of 2017 consisted of our offshore wind farms in the UK and Germany. See note 3.1.

Capital employed by segment, % 2017



83% of the capital employed is tied up in Wind Power.
Capital employed by segment is based on capital employed for reportable segments DKK 71,986.

Capital employed, DKK million	2017	2016
Intangible assets and property, plant and equipment	76,534	71,137
Equity investments and non-current receivables	1,187	1,240
Net working capital, work in progress	7,526	3,944
Net working capital, capital expenditures	(3,039)	(2,720)
Net working capital, other items	(2,581)	(4,948)
Derivatives, net	496	1,759
Assets classified as held for sale, net	2,012	1,680
Decommissioning obligations	(4,751)	(3,649)
Other provisions	(6,769)	(5,390)
Tax, net	(464)	(1,721)
Other receivables and other payables, net	169	(371)
Total capital employed	**70,320**	**60,961**
of which discontinued operations	(236)	2,769
of which continuing operations	70,556	58,192

In 2016, the internal working capital and financial instruments of Oil & Gas were included in the principal items, while the rest of the capital employed was included in the item 'Assets classified as held for sale'. Following the divestment of the oil and gas business on 29 September 2017, capital employed from discontinued operations includes our receivables and liabilities from the transaction.

70.3bn

Capital employed totalled DKK 70,320 million at 31 December 2017 against DKK 60,961 million in 2016.

17.7bn

Gross investments amounted to DKK 17,744 million in 2017 against DKK 14,960 million in 2016.

16.9bn

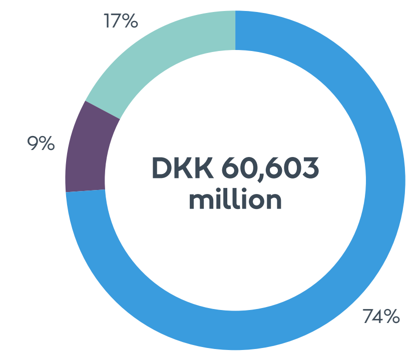
Cash flows from divestments, exclusive of Oil & Gas, totalled DKK 16,921 million in 2017 against DKK 9,055 million in 2016.

3.1 Intangible assets and property, plant and equipment

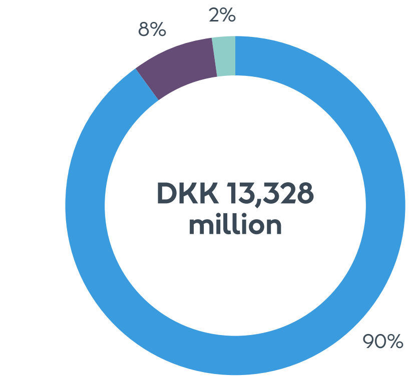
Intangible assets and property, plant and equipment, DKK million	Intangible assets	Land and buildings	Production assets	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Property, plant and equipment
Cost at 1 January 2017	4,996	2,625	86,962	1,154	14,531	105,272
Exchange rate adjustments	99	(5)	(1,172)	(43)	(393)	(1,613)
Additions	133	-	2,172[1]	59	17,791	20,022
Divestment of enterprises	(243)	-	(2,218)	-	-	(2,218)
Disposals	(210)	(64)	(1,844)	(11)	(5,871)	(7,790)
Adjustment of decommissioning obligations	-	-	753	-	368	1,121
Reclassified assets	-	88	12,433	15	(12,536)	-
Cost at 31 December 2017	**4,775**	**2,644**	**97,086**	**1,174**	**13,890**	**114,794**
Depreciation and amortisation at 1 January 2017	(2,999)	(1,056)	(28,872)	(716)	-	(30,644)
Exchange rate adjustments	(23)	6	356	19	-	381
Additions	-	-	(385)[1]	-	-	(385)
Depreciation and amortisation	(286)	(80)	(5,298)	(75)	-	(5,453)
Divestment of enterprises	9	-	467	-	-	467
Disposals	-	51	1,618	11	-	1,680
Depreciation and amortisation at 31 December 2017	**(3,299)**	**(1,079)**	**(32,114)**	**(761)**	**-**	**(33,954)**
Impairment losses at 1 January 2017	(1,042)	(64)	(4,382)	-	-	(4,446)
Exchange rate adjustments	23	-	(15)	-	(17)	(32)
Impairment losses	-	-	-	-	(545)	(545)
Divestment of enterprises	232	-	28	-	-	28
Impairment losses at 31 December 2017	**(787)**	**(64)**	**(4,369)**	**-**	**(562)**	**(4,995)**
Carrying amount at 31 December 2017	**689**	**1,501**	**60,603**	**413**	**13,328**	**75,845**

[1] An accounting change in the classification of our share of the Lincs offshore wind farm from an equity investment to a joint operation in 2017 resulted in additions of DKK 2,024 million under cost and DKK -385 million under depreciation and amortisation.

Production assets by segment, % 2017



Property, plant and equipment under construction by segment, % 2017



Intangible assets

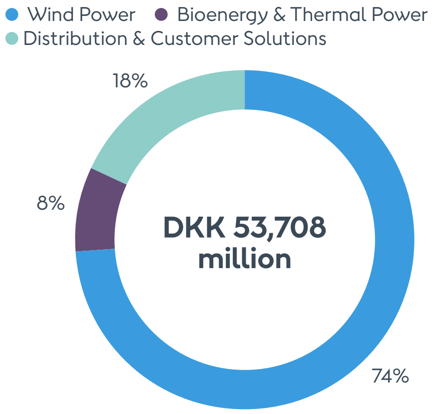
Intangible assets comprise goodwill of DKK 125 million (2016: DKK 125 million), carbon emissions allowances of DKK 180 million (2016: DKK 247 million), other rights of DKK 33 million (2016: DKK 190 million), completed projects of DKK 321 million (2016: DKK 317 million) and development projects in progress of DKK 30 million (2016: DKK 76 million).

90% of property, plant and equipment under construction is ongoing construction of offshore wind farms in Wind Power.

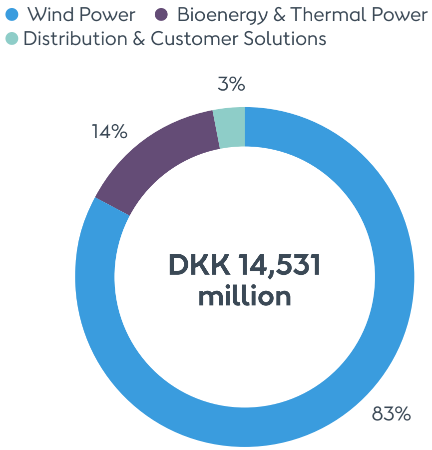
Intangible assets and property, plant and equipment, DKK million	Intangible assets	Land and buildings	Production assets	Exploration assets	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Property, plant and equipment
Cost at 1 January 2016	5,501	2,603	123,272	14	1,138	33,280	160,307
Exchange rate adjustments	6	(18)	(4,324)	(2)	(28)	(1,376)	(5,748)
Addition on acquisition of enterprises	21	-	-	-	-	-	-
Additions	159	2	272	191	56	17,229	17,750
Divestment of enterprises	-	-	(8,882)	(4)	-	-	(8,886)
Disposals	(645)	(90)	(1,286)	(250)	(8)	(3,255)	(4,889)
Adjustment of decommissioning obligations	-	-	397	57	-	572	1,026
Reclassified assets	-	140	20,590	-	21	(20,751)	-
Transferred to assets classified as held for sale	(46)	(12)	(43,077)	(6)	(25)	(11,168)	(54,292)
Cost at 31 December 2016	**4,996**	**2,625**	**86,962**	**-**	**1,154**	**14,531**	**105,272**
Depreciation and amortisation at 1 January 2016	(3,334)	(1,049)	(49,874)	-	(664)	-	(51,587)
Exchange rate adjustments	(1)	1	261	-	3	-	265
Depreciation and amortisation	(293)	(97)	(6,932)	-	(85)	-	(7,114)
Disposal on divestment of enterprises	-	-	5,164	-	-	-	5,164
Disposals	589	77	656	-	5	-	738
Transferred to assets classified as held for sale	40	12	21,853	-	25	-	21,890
Depreciation and amortisation at 31 December 2016	**(2,999)**	**(1,056)**	**28,872**	**-**	**(716)**	**-**	**30,644**
Impairment losses at 1 January 2016	(1,033)	(64)	(12,291)	-	-	(16,136)	(28,491)
Exchange rate adjustments	(9)	-	462	-	-	471	933
Impairment losses	-	-	-	-	-	(953)	(953)[1]
Disposal on divestment of enterprises	-	-	3,383	-	-	-	3,383
Disposals	-	-	192	-	-	-	192
Reclassified assets	-	-	(5,339)	-	-	5,339	-
Transferred to assets classified as held for sale	-	-	9,211	-	-	11,279	20,490
Impairment losses at 31 December 2016	**(1,042)**	**(64)**	**(4,382)**	**-**	**-**	**-**	**(4,446)**
Carrying amount at 31 December 2016	**955**	**1,505**	**53,708**	**-**	**438**	**14,531**	**70,182**

[1] Impairment losses on property, plant and equipment under construction concerned the construction of the Hejre field (Oil & Gas). Provisions had been made for this in 2015, and the impairment loss thus had no effect on the profit for 2016.

Production assets by segment, % 2016



Property, plant and equipment under construction by segment, % 2016



CGUs in Wind Power

The CGUs are made up of individual offshore wind farms, each of which generates cash flows for the segment independently of each other.

Most significant offshore wind farms: Anholt – Borkum Riffgrund 1 – Borkum Riffgrund 2 – Burbo Bank Extension – Gode Wind 1 – Gode Wind 2 – Gunfleet Sands – Hornsea 1 – London Array – Race Bank – Westermost Rough – Walney – Walney Extention – West of Duddon Sands

CGUs in Bioenergy & Thermal Power

The Danish power stations constitute a single CGU as overall production planning is for the entire Danish portfolio of CHP plants. The Dutch power station Enecogen is deemed to constitute a single CGU, just as the not yet commissioned waste power station Renescience Northwich is deemed to constitute an independent CGU.

– Central CHP plants (including goodwill)
– Renescience Northwich
– Enecogen

CGUs in Distribution & Customer Solutions

The CGUs are constituted primarily by distribution assets, each of which generates cash flows for the segment independently of each other.

– Power distribution – Oil pipelines – Offshore gas pipelines – Street lighting

Impairment losses

Impairment losses relating to goodwill
We have not impaired goodwill or other intangible assets in 2017.

Impairment losses relating to property, plant and equipment
In 2017, impairment losses of DKK 545 million were recognised on projects in progress in Wind Power due to uncertainty about the carrying through of the project.

Useful lives

Buildings	20-50 years
Offshore wind farms	20-24 years
Production assets, power (thermal) and district heating	20-25 years
Gas transportation system (marine pipelines)	20-40 years
Oil transportation system (marine pipeline)	15 years
Distribution grids, power	20-40 years
Fixtures and fittings, tools and equipment	3-10 years

Accounting policies

Intangible assets
Rights are measured at cost less accumulated amortisation and impairment losses. Rights are amortised on a straight-line basis over their estimated future useful lives, which are 5-20 years.

Property, plant and equipment
Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Cost of property, plant and equipment is depreciated on a straight-line basis, using the diminishing-balance method or the reducing-fraction method. The diminishing-balance method and the reducing-fraction method result in decreasing depreciation over the useful life of the offshore wind farm.

Cost comprises 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 costs of materials, components, sub-suppliers and labour. Borrowing costs relating to both specific and general borrowing directly attributable to assets under construction with a lengthy construction period are recognised in cost during the construction period. Cost is increased by the present value of the estimated obligations for demolition and decommissioning of assets to the extent that they are recognised as a provision.

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. Other repair and maintenance expenses are recognised in profit (loss) for the year as incurred.

Assumptions for impairment test
Production assets are tested for impairment if there is any indication of impairment. For production assets with a limited lifetime, such as offshore wind farms and CHP plants, cash flows are calculated based on forecasts for the entire lifetime of the asset. For power distribution, cash flows are based on 25-year forecasts with the addition of a terminal value. The determination of the recoverable amount of production assets is based on a number of assumptions where estimates are made for the determination. These assumptions include future market conditions, market prices of power, biofuel, gas, coal, carbon, weighted average cost of capital (WACC), exchange rates, etc. The market prices applied are based on available forward prices for a period of up to five years and our best estimate of long-term prices for the remainder of the period.

When calculating the recoverable amount of property, plant and equipment under construction, the expected completion costs and the commissioning dates are also assumptions which are based on estimates.

3.2 Provisions and contingent assets and liabilities

Provisions, DKK million	2017 Decom-missioning obligations	2017 Onerous contracts	2017 Other liabilities	2017 Total	2016 Decom-missioning obligations	2016 Onerous contracts	2016 Other liabilities	2016 Total
Provisions at 1 January	3,649	2,596	2,794	9,039	11,144	5,472	2,572	19,188
Exchange rate adjustments	(58)	-	(8)	(66)	(153)	(17)	128	(42)
Used during the year	(134)	(436)	(235)	(805)	(187)	(1,413)	(505)	(2,105)
Provisions reversed during the year	-	(22)	(28)	(50)	-	(774)	(350)	(1,124)
Provisions made during the year	320	464	1,584	2,368	746	-	1,490	2,236
Change in estimates of other factors	219	-	-	219	215	-	-	215
Transferred to assets classified as held for sale/disposal on divestment of enterprises	(11)	-	-	(11)	(6,941)	(883)	(532)	(8,356)
Interest element of provisions	766	109	-	875	534	211	-	745
Disposal on divestment of enterprises	-	-	(49)	(49)	(1,709)	-	(9)	(1,718)
Total provisions	**4,751**	**2,711**	**4,058**	**11,520**	**3,649**	**2,596**	**2,794**	**9,039**
Falling due as follows:								
0-1 year	23	335	322	680	49	327	326	702
1-5 years	43	1,025	3,080	4,148	73	1,089	2,016	3,178
After 5 years	4,685	1,351	656	6,692	3,527	1,180	452	5,159

Provisions mainly consisted of decommissioning obligations and onerous contracts.

Provisions

Decommissioning obligations mainly comprise estimated expenses relating to demolition and disposal of our offshore wind farms, restoration of seabeds and the demolition of our CHP plants.

As developers of offshore wind farms, we are obliged to decommission offshore wind farms and restore the surroundings at our own expense. When we construct offshore wind farms in cooperation with partners, they are liable for their share of the decommissioning costs. Therefore, we have included only the decommissioning obligations associated with our ownership interest in the offshore wind farms.

Decommissioning obligations increased by DKK 1,102 million from 2016 to 2017, due primarily to a change in the discount rate applied and to an adjustment of other assumptions applied in the determination of our decommissioning obligations.

Onerous contracts comprise the following:

- contract for booked LNG terminal capacity in the Netherlands, DKK 1,329 million. (2016: DKK 1,033 million)
- contract for the lease of gas storage capacity in Germany, DKK 1,075 million (2016: DKK 1,179 million)
- contract for the lease of gas storage capacity in Denmark, DKK 290 million (2016: DKK 384 million).

Other provisions comprise primarily:

- warranty obligations for offshore wind farms
- possible repayments to electricity consumers in respect of previous years
- obligations in connection with divestments, primarily in relation to the divestment of our Oil & Gas business
- obligations in respect of our own carbon emissions
- other contractual obligations.

Contingent liabilities

This note primarily concerns our continuing operations – see also note 3.6 regarding our discontinued operations.

Liability to pay compensation

In case of any environmental accidents or other types of damage caused by our oil and gas transport, the companies Ørsted Salg & Service A/S and Danish Oil Pipe A/S are liable to pay compensation according to legislation. This also applies if there is no proof of negligence (strict liability). We have taken out insurance to cover any such claims.

Litigation
We are party to actions relating to the Danish competition authorities' claim that Elsam A/S and Elsam Kraft A/S charged excessive prices in the Danish wholesale power market in some periods. Following a merger in 2008, Elsam Kraft A/S is part of Ørsted Bioenergy & Thermal Power A/S.

The Danish Competition Appeals Tribunal has concluded that Elsam A/S and Elsam Kraft A/S abused their dominant position in the wholesale power market in Western Denmark to some extent in the periods 1 July 2003 to 31 December 2004 and 1 January 2005 to 30 June 2006 by charging excessive prices. We dispute the rulings, and appeals have been lodged with the Copenhagen Maritime and Commercial Court. In 2016, the Copenhagen Maritime and Commercial Court found the former Elsam guilty of violating the Danish Competition Act in 2005 and the first half of 2006 without, however, providing clear grounds for its decision. We have appealed the case to the High Court of Western Denmark, where the case is pending.

In connection with the above-mentioned cases, some energy companies, some of their customers and others have raised claims for damages. One group has chosen to commence legal proceedings before the Copenhagen Maritime and Commercial Court with a claim for damages of approximately DKK 4.4 billion with addition of interest, while suspension agreements have been concluded with others, meaning that the limitation period for these alleged claims has been suspended. In response to the claims for damages, we have made a provision of DKK 298 million plus interest. The provision has been calculated on the basis of the Danish Competition Council's determination of consumer losses.

In addition, we are party to a number of court cases and legal disputes. In our assessment, none of these will significantly impact the company's financial position, neither individually nor collectively.

Change of control
Some of our activities are subject to consents, permits and licences granted by public authorities. We may be faced with a claim for acceptance of any transfer, possibly with additional terms and conditions, if the Danish State holds less than 50% of the share capital or voting rights in Ørsted A/S. Read more in note 6.1

Decommissioning obligations by segment, DKK million	Wind Power	Bioenergy & Thermal Power	Distribution & Customer Solutions	Total
0-5 years	60	4	2	66
5-10 years	350	119	-	469
10-20 years	2,261	190	-	2,451
After 20 years	874	420	471	1,765
2017	**3,545**	**733**	**473**	**4,751**
2016	**2,785**	**668**	**196**	**3,649**

The table shows decommissioning obligations by segment as well as a maturity analysis.

Accounting policies

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 demolition and 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.

Key accounting estimates

Timing, probabilities, amounts, etc. which have a bearing on our provisions estimates are updated quarterly based on our expectations.

Assumptions for decommissioning obligations
Estimates of decommissioning obligations are based on our expectations of, for example:
- timing and scope
- future cost level
- adopted laws and regulations on remediation.

The timing of our decommissioning obligations depends on the expected useful lives of the assets. The expected useful life of our offshore wind farms is 24 years.

We expect that our CHP plants in Denmark must be removed within 12 years of decommissioning at the latest.

In measuring provisions, the costs required to meet the obligations are discounted. In determining decommissioning obligations at 31 December 2017, a discount rate of 3.5% is applied. The rate has been reduced from 4.5% in 2016 due to the continued low interest rate environment. The rate has been estimated on the basis of expectations concerning the future, long-term interest rate level, based on historical interest rate levels.

Timing as well as special demolition and decommissioning requirements are assessed based on current legislation and standards in this area. Future cost levels are based, among other things, on expectations with regard to:
- general price development or development in market prices
- demand
- development of existing technologies.

Estimates of onerous contracts
We have entered into a number of contracts with fixed terms. Depending on market developments, etc., and uncertainty about obligations incurred under the contracts made, these contracts may become onerous. Our estimates concerning these complex contracts and their future effects are subject to significant uncertainties.

Estimates of litigation outcomes
When exercising a judgement about a potential liability in connection with litigation, we assess the following factors:
- the nature of the litigation, claim or statement
- the development of the case
- the judgements and recommendations of legal or other advisers
- experience from similar cases
- management's decision on how we are going to react to the litigation, claim or statement.

3.3 Gross and net investments

Gross and net investments, DKK million	2017	2016
Cash flows from investing activities	(10,054)	(1,060)
Dividends received and capital reduction, reversed	(13)	(22)
Purchase and sale of securities, reversed	9,197	(4,564)
Loans to associates and joint ventures, reversed	47	(210)
Sale of non-current assets, reversed	(16,921)	(9,104)
Total gross investments	**(17,744)**	**(14,960)**
Transactions with non-controlling interests in connection with divestments	61	(49)
Sale of non-current assets	16,921	9,104
Total cash flows from divestments	**16,982**	**9,055**
Total net investments	**(762)**	**(5,905)**

In 2017, gross investments totalled DKK 17,744 million (2016: DKK 14,960 million).

Gross investments in Wind Power primarily consisted in the build-out of offshore wind farms (DKK 15,462 million), including the UK offshore wind farms Race Bank, Walney Extension and Hornsea 1 as well as the German offshore wind farm Borkum Riffgrund 2.

In 2017, cash flows from the divestment of assets and enterprises totalled DKK 16,982 million (2016: DKK 9,055 million).

In 2017, Wind Power farmed down 50% of Walney Extension to the Danish pension funds PKA and PFA, 50% of Borkum Riffgrund 2 to Global Infrastructure Partners as well as divesting all ownership interests in A2SEA.

Wind Power also received contingent consideration regarding the divestment of UK Race Bank in 2016.

In 2016, Wind Power divested 50% of Burbo Bank Extension to the Danish pension fund PKA and the Danish investment company KIRKBI as well as 50% of Race Bank to Macquarie.

Distribution & Customer Solutions divested Gas Distribution to the Danish transmission asset owner Energinet in 2016.

For more information, see the management's review on page 28.

3.4 Divestment of enterprises

Selling price, DKK million	2017	2016
Payment	605	2,348
Addition/reduction for receivables/payables transferred	-	(113)
Working capital adjustment	(1)	(117)
Selling price on divestment of enterprises	**604**	**2,118**
Transaction costs	(20)	(38)
Of which selling price receivable	4	(81)
Cash selling price on divestment of enterprises	**588**	**1,999**

Gain (loss) on divestment of enterprises, DKK million	2017	2016
Selling price on divestment of enterprises	604	2,118
Net assets sold	(725)	(844)
Provisions as a result of the transaction	2	14
Transaction costs	(20)	(38)
Gain (loss) on divestment of enterprises	**(139)**	**1,250**

Gains on the divestment of enterprises in 2017 primarily concerned A2SEA. Transferred cash and cash equivalents totalled DKK 278 million.

In 2016, gains on the divestment of enterprises consisted primarily of a gain on the divestment of Gas Distribution to Energinet (Distribution & Customer Solutions). Transferred net cash and cash equivalents in the form of bank deposits and drawn bank overdrafts totalled DKK -242 million.

Accounting policies

We recognise income from divested enterprises in the income statement up until the date of divestment.

The date of divestment is the date on which we relinquish control of the divested enterprise.

Gains or losses on the divestment or discontinuation of subsidiaries and associates are determined as the difference between the selling price and the carrying amount of the net assets divested.

Moreover, the fees of advisers, etc., in connection with the divestment or discontinuation of the enterprise are deducted.

3.5 Assets classified as held for sale

At 31 December 2017, assets classified as held for sale comprised only our oil pipe system in Denmark which is to be sold to the Danish transmission asset owner Energinet.

At 31 December 2016, assets classified as held for sale comprised our Oil & Gas business and our oil pipe system.

On 29 September 2017, we divested our Oil & Gas business to INEOS. Until the divestment, we presented our Oil & Gas business as assets classified as held for sale and as discontinued operations. Read more in note 3.6.

The sales process for our oil pipeline is expected to be completed within 12 months. Consequently, these activities have been classified as assets held for sale.

Assets classified as held for sale, DKK million	2017	2016
Intangible assets	20	5
Property, plant and equipment	2,119	12,719
Inventories	16	7
Trade receivables	73	192
Other receivables	368	1,139
Income tax	46	586
Cash	-	725
Total assets classified as held for sale	**2,642**	**15,373**
Deferred tax	99	1,057
Provisions	359	8,356
Trade payables	80	825
Other payables	92	1,479
Income tax	-	1,787
Total liabilities relating to assets classified as held for sale	**630**	**13,504**
Net assets classified as held for sale	**2,012**	**1,869**

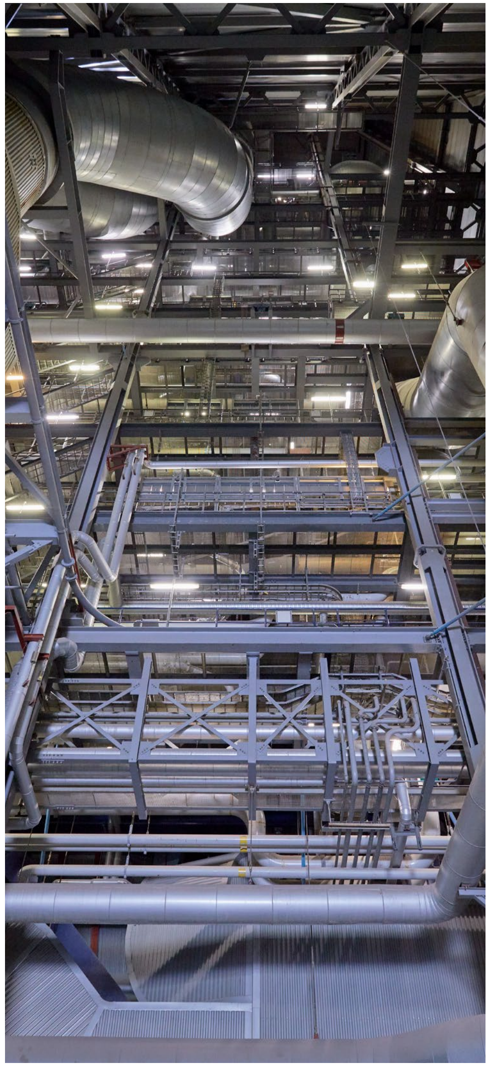
Accounting policies

Assets classified as held for sale comprise assets and liabilities, the value of which is highly probable to be recovered through a sale within 12 months rather than through continued use.

Assets and liabilities classified as held for sale are measured at the carrying amount at the time of classification as 'held for sale' or at market value less selling costs, whichever is lower. The carrying amount is measured in accordance with the Group's accounting policies.

No depreciation or amortisation is effected on property, plant and equipment and intangible assets from the time of classification as 'held for sale'.

The table shows assets and liabilities which have been put up for sale, and which are therefore not expected to contribute to our earnings in future.



3.6 Discontinued operations

In November 2016, the Board of Directors decided to initiate a process with the ultimate objective of divesting Oil & Gas.

As a result of this decision, we have presented our oil and gas business as assets classified as held for sale and as discontinued operations from the end of 2016. The classification means that assets and liabilities are presented separately from other assets and liabilities. Discontinued operations are also shown separately in the income statement and the statement of cash flows.

The divestment of Oil & Gas to INEOS was closed on 29 September 2017.

Financial performance

The key figures for discontinued operations in 2017 comprise only results for the first nine months of the year up until the divestment. In addition to the results from the first nine months of 2017, net profit from discontinued operations, cash flows from operating activities and cash flows from divestments include adjustments after the closing of the transaction. See more below.

EBITDA totalled DKK 6.4 billion, which is unchanged relative to the first nine months of 2017 and on a par with all of 2016. EBITDA rose as a result of the recognition of inefficient price hedges totalling DKK 1.4 billion as well as a provision (without impact at EBIT level) which contributed negatively in 2016. This was offset by one less quarter of operations in 2017 compared with 2016.

Net profit from discontinued operations amounted to DKK 6.9 billion in 2017 against DKK 1.1 billion in 2016. The increase of DKK 5.8 billion was due partly to a gain on the divestment of DKK 2.4 billion, partly to higher EBIT and lower tax. The higher EBIT in 2017 relative to 2016 was due to non-depreciation of the Oil & Gas assets since the business was classified as assets held for sale at the end of 2016. The lower tax in 2017 relative to 2016 primarily reflected the impairment of the remaining tax assets, which contributed negatively in 2016.

Cash flows from operating activities totalled DKK 5.5 billion in 2017 against DKK 4.1 billion in 2016. The increase was due primarily to the recognition of price hedges mentioned above. The increase was offset by one less quarter of operations in 2017 than in 2016. Cash flows from operating activities totalled DKK 0.3 billion in Q4 2017 and were due to a tax receivable received relating to net losses on hedging instruments in 2016 and 2017.

Cash flows from divestments totalled DKK 0.2 billion in 2017 compared with DKK 0.4 billion in 2016. In both periods, they were impacted by payments received concerning the Glenlivet field. Moreover, the Norwegian fields Trym, Ula, Tambar and Oselvar were divested in 2016. There were no significant changes in cash flows from divestments in Q4 2017.

Key figures	2017	2016
Business drivers (million boe)		
Oil and gas production	21.4	36.6
Financial performance (DKK million)		
Revenue	7,999	10,530
EBITDA	6,436	6,507
EBIT	7,149	5,082
Profit from discontinued operations	4,488	1,052
Gain (loss) on disposal of discontinued operations	2,432	-
Net profit from discontinued operations	6,920	1,052
Cash flows from operating activities	5,545	4,138
Gross investments	(430)	(3,436)
Divestments	233	404
Payment from the divestment of Oil & Gas	3,677	-
Free cash flow	9,025	1,106

Cash flows from discontinued operations, DKK million	2017	2016
Cash flows from operating activities	5,545	4,138
Cash flows from investing activities	3,480	(3,032)
Cash flows from financing activities	-	360
Total cash flows from discontinued operations	**9,025**	**1,466**

Capital employed, discontinued operations, DKK million	2017	2016
Property, plant and equipment and intangible assets	-	11,914
Equity investments and non-current receivables	691	2
Net working capital, other items	-	1,121
Derivatives, net	-	1,356
Decommissioning obligations	-	(6,971)
Other provisions	(935)	(2,415)
Tax, net	(3)	(2,238)
Other receivables and other payables, net	11	-
Total net assets	**(236)**	**2,769**

The remaining net assets under discontinued operations consist of the selling price receivable and provisions as a result of the divestment of Oil & Gas.

Divestment of Oil & Gas

The payment from the divestment of Oil & Gas consisted of:

- an unconditional payment of USD 1,050 million on a cash and debt-free basis
- a conditional payment of USD 150 million, which relates to the stabilisation plant in Fredericia, and
- a payment of up to USD 100 million, which is conditional upon the development of the Rosebank field.

'Payment' in the table includes the unconditional payment and the fair value of the conditional payment in respect of the Rosebank field.

Under the agreement with INEOS, all cash flows from 1 July to 29 September 2017 accrued to the buyer. As control of Oil & Gas remained with us until 29 September, we have consolidated results and cash flows for accounting purposes in this period. The obtained net debt reduction of DKK 707 million from the consolidation in this period has therefore been deducted from the selling price for discontinued operations. In addition, the selling price from INEOS was reduced by the outstanding tax payable and creditors regarding assets at 30 June 2017. These payables concern activities from before the financial exposure and risks passed to INEOS.

Thus, the accounting selling price from the transaction amounted to DKK 5,456 million, of which DKK 3,652 million was received and recognised in our free cash flow from discontinued operations in Q3 2017. All in all, the transaction reduced the Group's net debt by DKK 4,588 million, as USD 150 million of the outstanding selling price is interest-bearing.

The gain on the divestment was recognised at DKK 2,179 million in net profit from discontinued operations in Q3 2017. In Q4 2017, we reversed a proportion of the provision for indemnification of INEOS concerning tax matters prior to 30 June 2017 as well as other minor adjustments. This resulted in an increase in the gain of DKK 253 million and is a consequence of the adoption of the bill concerning extended right to deduct payroll costs within a group. The profit statement includes provisions of DKK 935 million which primarily concern two factors:

- indemnification of INEOS concerning tax matters prior to 30 June 2017
- difference between INEOS' conditional payment to Ørsted A/S concerning the stabilisation plant and our expected payment.

The payments from INEOS for the stabilisation plant are expected to be settled over a 10-year period beginning in 2019-2021. The remaining non-interest-bearing net assets (capital employed) in our balance sheet relating to Oil & Gas amounted to DKK -236 million at 31 December 2017. In addition to the above-mentioned provision, this includes the non-interest-bearing part of the outstanding payment. The net assets will be recognised in cash flows from discontinued operations as they fall due.

Secondary liability

As part of the divestment of Oil & Gas, we have assumed a secondary liability regarding the decommissioning of offshore installations. We consider the payment of the liability to be very unlikely. The matter is described in further detail in the interim financial report for the first nine months of 2017.

Main elements of the divestment on 29 September 2017

Selling price, DKK million	2017
Payment	7,209
Reduction for outstanding tax payable and creditors concerning non-current assets at 30 June 2017	(1,198)
Accounting adjustment for reduction of net debt from 30 June 2017 to 29 September 2017	(707)
Working capital adjustment and interest	152
Selling price for discontinued operations	**5,456**
Transaction costs	(78)
Of which selling price receivable	(1,726)
Cash selling price for discontinued operations	**3,652**

The table shows the items included in the determination of the selling price from the divestment of Oil & Gas.

Transferred cash on the divestment of Oil & Gas amounted to DKK 1,524 million.

Net debt, impact, DKK million	2017
Cash selling price for discontinued operations	(3,652)
Interest-bearing receivable payment	(1,014)
Transaction costs	78
Net debt	**(4,588)**

The table shows the effect of the divestment of Oil & Gas on our interest-bearing net debt.

Gain (loss) on divestment of discontinued operations, DKK million	2017
Selling price for discontinued operations	5,456
Net assets sold	(1,276)
Provisions as a result of the transaction	(1,228)
Foreign currency translation reserve and hedging of net investment	(695)
Transaction costs	(78)
Gain (loss) on divestment of discontinued operations	**2,179**

The table shows the items in the determination of financial gain on the divestment of Oil & Gas.

Net profit from discontinued operations, DKK million	2017
Profit from discontinued operations	4,662
Gain (loss) on divestment of discontinued operations	2,179
Net profit from discontinued operations	**6,841**

The table shows profit from discontinued operations, including gain on the divestment of Oil & Gas.

Profit from discontinued operations, DKK million	2017 Business performance	2017 Adjustments	2017 IFRS	2016 Business performance	2016 Adjustments	2016 IFRS
External revenue	4,178	(1,047)	3,131	5,912	(4,595)	1,317
Intra-group revenue	3,821	-	3,821	4,618	-	4,618
Revenue	**7,999**	**(1,047)**	**6,952**	**10,530**	**(4,595)**	**5,935**
Cost of sales	(957)	-	(957)	(1,020)	-	(1,020)
Employee costs and other external expenses	(920)	-	(920)	(2,391)	-	(2,391)
Other operating income and expenses	252	-	252	(700)	-	(700)
Gain (loss) on disposal of non-current assets	62	-	62	88	-	88
Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA)	**6,436**	**(1,047)**	**5,389**	**6,507**	**(4,595)**	**1,912**
Depreciation and amortisation	-	-	-	(2,175)	-	(2,175)
Impairment losses and reversals	713	-	713	750	-	750
Operating profit (loss) (EBIT)	**7,149**	**(1,047)**	**6,102**	**5,082**	**(4,595)**	**487**
Gain on divestment of enterprises	-	-	-	151	-	151
Financial income and expenses, net	(393)	-	(393)	(814)	-	(814)
Profit (loss) before tax	**6,756**	**(1,047)**	**5,709**	**4,419**	**(4,595)**	**(176)**
Tax on profit (loss) for the year	(2,267)	230	(2,037)	(3,367)	1,011	(2,356)
Profit from discontinued operations	**4,489**	**(817)**	**3,672**	**1,052**	**(3,584)**	**(2,532)**

The profit from discontinued operations relates to our divested oil and gas business.

Tax for the period, discontinued operations, DKK million	2017 Profit (loss) before tax	2017 Tax	2017 Tax rate	2016 Profit (loss) before tax	2016 Tax	2016 Tax rate
Oil and gas activities in Norway (hydrocarbon income)	2,308	(1,765)	76%	1,860	(1,489)	80%
Oil and gas exploration activities in the UK and the Faroe Islands	530	6	(1)%	269	-	n.a.
Gains (losses) from divestments as well as other non-taxable income and non-deductible costs	-	210	n.a.	(17)	38	223%
Impairment losses and reversals	713	-	n.a.	750	(1,575)	210%
Other activities in Oil & Gas	3,205	(718)	22%	1,557	(341)	22%
Total, business performance	**6,756**	**(2,267)**	**34%**	**4,419**	**(3,367)**	**76%**
Total, IFRS	**5,709**	**(2,037)**	**36%**	**(176)**	**(2,356)**	**(1,339)%**

Impairment losses in Oil & Gas consisted of a reversal of impairment losses from previous years.

3.7 Non-controlling interests

Transactions with non-controlling interests, DKK million	2017	2016
Transactions with non-controlling interests		
Dividends paid to non-controlling interests	(376)	(404)
Divestment of equity investments to non-controlling interests	(108)	(100)
Other capital transactions with non-controlling interests	53	(23)
Total transactions, see statement of cash flows	**(431)**	**(527)**
Divestment of equity investments to non-controlling interests		
Selling price	8	19
Of which changes in receivables relating to the acquisition and divestment of non-controlling interests	(116)	(119)
Cash selling price, total	**(108)**	**(100)**

Subsidiaries with significant non-controlling interests	Non-controlling interest	Registered office
Gunfleet Sands Holding Ltd.	49.9%	London, UK
Walney (UK) Offshore Windfarms Ltd.	49.9%	London, UK

A2SEA was a significant non-controlling interest until the divestment of our ownership interest on 31 August 2017.

Accounting policies

Transactions with non-controlling interests are accounted for as transactions with the shareholder base.

Gains and losses on the divestment of equity investments to non-controlling interests are recognised in equity when the divestment does not result in a loss of control.

Net assets acquired are not revalued on the acquisition of non-controlling interests. Any difference between the carrying amount and the acquisition or selling price is recognised in equity.

	Gunfleet Sands Holding Ltd. group		Walney (UK) Offshore Windfarms Ltd.	
DKK million	2017	2016	2017	2016
Statement of comprehensive income				
Revenue	466	430	1,087	1,126
EBITDA	276	233	545	569
Profit (loss) for the year	58	21	46	67
Total comprehensive income	(21)	(202)	(115)	(508)
Profit (loss) for the year attributable to non-controlling interests	29	10	23	21
Balance sheet				
Non-current assets	2,638	2,637	6,159	6,813
Current assets	305	166	225	231
Non-current liabilities	334	304	776	700
Current liabilities	73	63	217	195
Carrying amount of non-controlling interests	1,265	1,215	2,697	3,075
Statement of cash flows				
Cash flows from operating activities	245	225	562	650
Cash flows from investing activities	30	-	(1)	(1)
Cash flows from financing activities	(256)	(227)	(577)	(630)
– of which dividends paid to non-controlling interests	(113)	(113)	(263)	(302)

In the table, we provide financial information for subsidiaries with significant non-controlling interests. The amounts stated are the consolidated accounting figures of the individual enterprises/groups, determined according to our accounting policies. Amounts are stated before intra-group eliminations.

4. Working capital

4. Working capital

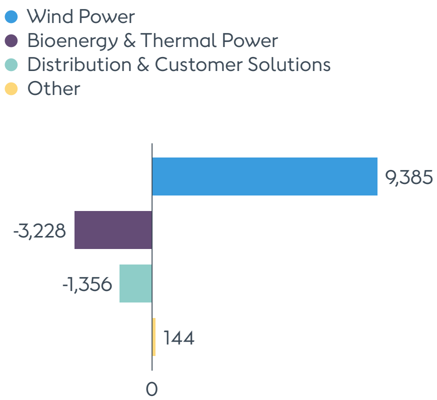
Working capital

Our key working capital items consist of inventories, construction contracts, trade receivables, trade payables and other payables, including prepayments from heat customers and connection charges from power customers.

Working capital items vary across the year in line with the seasonal variations in our production and sales activities. Our construction contracts in Wind Power, which are the construction of offshore wind farms for partners and the construction of transmission assets in the UK, also vary over the year and from year to year. This is due to the fact that payments are received in the form of milestone payments from partners and upon divestment of the transmission assets after construction.

Trade payables relating to capital investments are not included in this section as they are presented as part of the cash flows from investing activities.

Working capital, DKK million 2017



4.9bn

Our net working capital excluding trade payables relating to capital expenditure in 2017 against -1.0bn in 2016.

5.9bn

We have an additional amount of DKK 5,949 million tied up in working capital relative to 2016, of which DKK 3,581 million pertained to work in progress and related trade payables in Wind Power.

Working capital, DKK million	2017	2016
Inventories	3,853	3,451
Construction contracts, net	9,500	6,282
Trade receivables	9,170	7,286
Other receivables	2,082	1,402
Trade payables, excluding trade payables relating to capital expenditure	(8,460)	(7,304)
Other payables	(11,200)	(12,121)
Net working capital, excluding trade payables relating to capital expenditure at 31 December	**4,945**	**(1,004)**
Of which work in progress and related trade payables	7,526	3,944
Of which other working capital	(2,581)	(4,948)

Our net working capital has changed substantially relative to 2016. The primary cause is the development in construction contracts, net and trade receivables.

Work in progress consists of construction contracts and service level agreements in connection with the construction of transmission assets and offshore wind farms for partners as well as related trade payables.

Wind Power primarily has funds tied up in construction contracts and trade receivables, while Bioenergy & Thermal Power and Distribution & Customer Solutions have a negative working capital as a result of prepayments from heat and power customers.

4.1 Inventories

Inventories, DKK million	2017	2016
Biomass	258	244
Gas	1,526	1,286
Coal	396	395
Oil	124	111
Green certificates	1,441	1,282
Carbon emissions allowances	52	80
Other inventories	56	53
Total inventories	**3,853**	**3,451**

We use biomass, gas, coal and, to a limited extent, oil as fuel at our CHP plants. Green certificates are primarily renewables obligation certificates (ROCs) which are issued to generators of power sourcing from renewable energy sources under the Renewables Obligation support mechanism in the UK.

Accounting policies

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

Purchased carbon emissions allowances are measured at market value.

Green certificates, which we earn by generating power using renewable energy sources, are recognised in inventories in step with our generation. We measure green certificates (earned and bought) at cost using the FIFO principle.

Other inventories are measured at cost using the FIFO principle or net realisable value.

Inventories are written down to the lower of net realisable value and cost price.

The net realisable value is the sum (discounted) which the inventories are expected to generate through a normal sale.

4.2 Construction contracts

Construction contracts, DKK million	2017	2016
Selling price of construction contracts	11,679	18,279
Invoicing on account	(2,179)	(11,997)
Construction contracts, total	**9,500**	**6,282**
Construction contracts (assets)	10,817	6,453
Construction contracts (liabilities)	(1,317)	(171)
Construction contracts, total	**9,500**	**6,282**

The table shows the selling price less invoicing on account as well as the way in which construction contracts are presented in the balance sheet under assets and liabilities.

Construction contracts

We construct offshore wind farms in co-operation with partners, with each party usually owning 50% of the offshore wind farm. Construction contracts comprise our partners' shares of the offshore wind farms and our construction of offshore transmission assets for Ofgem in the UK. The contracts are negotiated individually in terms of their design, construction and technology.

At the end of 2017, construction contracts included our partners' share of the Walney Extension and Borkum Riffgrund 2 offshore wind farms. The offshore wind farms are under construction, and we expect them to be finished in 2018. Construction contracts also included the construction of the transmission assets for the Burbo Bank Extension, Race Bank, Walney Extension and Hornsea 1 offshore wind farms in the UK. They are expected to be finished in 2018-2020.

At the end of 2016, construction contracts included our partners' shares of the offshore wind farms Burbo Bank Extension and Gode Wind 1 and 2. Construction contracts also included the construction of four transmission assets in the UK.

Accounting policies

The construction contracts are recognised in revenue when the outcome of the contracts can be estimated reliably.

The construction contracts are measured at the selling price of the work which we have performed on the offshore wind farms less invoicing on account. Our calculation of the selling price is based on the total expected income from the individual contracts and the completion degree of the offshore wind farm or offshore transmission asset at the balance sheet date.

We estimate the degree of completion on the basis of an assessment of the work performed, normally calculated as the ratio between the costs incurred and the total expected costs incidental to the contract in question.

An expected loss is recognised when it is deemed probable that the total construction costs will exceed the total revenue from individual contracts.

We recognise construction contracts as receivables when the selling price of the work which we have performed exceeds invoicing on account and expected losses.

Construction contracts are recognised as liabilities when invoicing on account and expected losses exceed the selling price of the work which we have performed. Prepayments from our investors are recognised as liabilities.

Key accounting estimates

Assumptions for the determination of the expected selling price and expected costs
We make estimates when determining the expected selling price of individual construction contracts. These estimates are influenced by our assessment of:
- the completion degree of the individual offshore wind farms and offshore transmission assets
- total expected costs for the individual contract
- the value of incentive agreements under which we may be paid a bonus for early delivery or have to pay compensation for late delivery
- guarantee commitments undertaken
- share of total costs associated with transmission assets which are expected to be covered upon handover etc.

Our determination of profit on payment received on account and the recognition of receivables are therefore subject to significant uncertainty. We believe that our estimates are the most likely outcomes of future events.

4.3 Trade receivables

Trade receivables, DKK million	2017	2016
Trade receivables, not due	8,644	6,661
Trade receivables, 1-30 days overdue	303	568
Trade receivables, more than 30 days overdue	305	171
Trade receivables, write-down	(82)	(114)
Total trade receivables	**9,170**	**7,286**

The table shows the due dates of our trade receivables.

Trade receivables

Our trade receivables primarily concern residential customers in Distribution & Customer Solutions where the general terms of payment vary according to customer type and product type down to payment terms of 10 days.

In 2017, the supply of services in the form of construction management of the construction of our partner's share of Race Bank resulted in a receivable of DKK 1,344 million.

We perform credit ratings as described in note 7.5. For customers with a general credit risk, a write-down of 0-1% is carried out on initial recognition. In 2017, write-downs of receivables amounted to DKK 6 million (2016: DKK 59 million). Losses for the year totalled DKK 25 million (2016: DKK 43 million).

Accounting policies

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 in accordance with IFRS 9. The write-down is calculated as the difference between the carrying amount of the receivable and the net present value of expected future cash flows from the receivable. The discount rate used is the effective interest rate for the individual receivable or the individual portfolio.

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

4.4 Other receivables

Other receivables, DKK million	2017	2016
Receivables from the divestment of equity investments to non-controlling interests	648	544
Receivables from the divestment of assets and investments	2,680	202
VAT and other indirect taxes receivable	572	367
Collateral provided	775	400
Prepayments	304	207
Other accounts receivables	495	505
Other receivables	**5,474**	**2,225**
Of which working capital	2,082	1,402
Of which other capital employed	1,622	545
Of which interest-bearing net debt	1,770	278

The table shows our other receivables broken down into working capital, interest-bearing net debt and other capital employed.

Other receivables

Receivables from the divestment of equity investments to non-controlling interests in 2017 and 2016 related primarily to the divestment of our ownership interests in the Gunfleet Sands and Walney offshore wind farms.

In 2017, receivables from the divestment of assets and investments primarily included receivables related to the divestment of our Oil & Gas business as well as the divestment of 50% of our ownership interests in the Walney Extension offshore wind farm.

The collateral provided by the Group is receivables from banks in connection with trading on energy exchanges.

The short-term portion of other receivables amounted to DKK 3,519 million (2016: DKK 1,710 million).

Other non-current receivables consist primarily of receivables from the divestment of the Oil & Gas business, where it is assessed that there is no material credit risk.

4.5 Other payables

Other payables, DKK million	2017	2016
Payables to associates and joint ventures	-	136
Prepaid VAT on exports	1,500	1,749
Carbon rights	42	72
VAT and other indirect taxes payable	1,312	1,460
Salary-related items payable	762	736
Accrued interest	882	629
Virtual gas storage	83	69
Advance payments from heat customers	3,286	2,890
Grid connection charges	1,893	1,775
Other deferred income	1,114	1,320
Collateral received	119	1,096
Other payables	1,089	967
Total other payables	**12,082**	**12,899**
Of which working capital	11,200	12,121
Of which other capital employed	882	629
Of which interest-bearing net debt	-	149

The table shows our other payables broken down into working capital, interest-bearing net debt and other capital employed.

Other payables

In 2017, the short-term portion of other payables amounted to DKK 6,369 million (2016: DKK 6,277 million).

Export VAT was repaid in January 2018.

4.6 Changes in net working capital

Change in net working capital, DKK million	2017	2016
Change in inventories	(423)	32
Change in construction contracts	(3,318)	(3,232)
Change in trade receivables	(3,705)	616
Change in other receivables	(563)	(322)
Change in trade payables	1,188	874
Change in other payables	(1,083)	520
Total change in net working capital	**(7,904)**	**(1,512)**
Of which changes relating to work in progress and related trade payables	(3,674)	(2,393)
Of which changes relating to other working capital	(4,230)	881

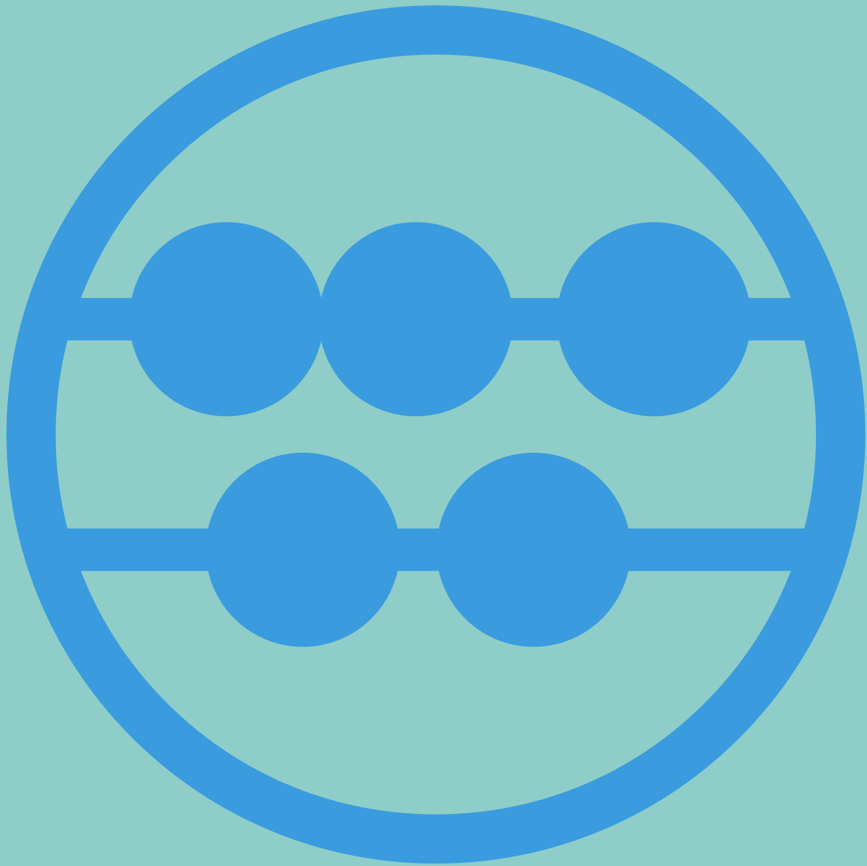
Work in progress consists of construction contracts and service agreements in connection with the construction of transmission assets and offshore wind farms for partners as well as related trade payables.

Change in net working capital

Our funds tied up in work in progress and related trade payables increased due to high activity in 2017 related to construction contracts for the construction of transmission assets as well as from higher receivables from the sale of services in the form of construction management of the construction of the offshore wind farm Race Bank. The increase was partly offset by receipt of milestone payments in 2017 regarding construction contracts for the construction of offshore wind farms for partners.

Our funds tied up in other net working capital increased due to higher trade receivables as a consequence of high power generation at the end of 2017 in Wind Power, lower prepayments from heat customers in connection with bioconversions in Bioenergy & Thermal Power as well as more funds tied up in inventories (mainly gas) at the end of 2017.

5. Tax



5. Tax

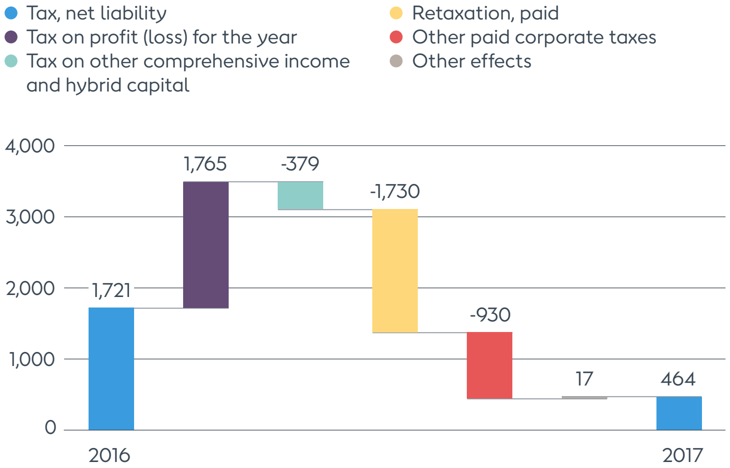
Tax on profit (loss) for the year

The effective tax rate was 12% for the continuing operations. The effective tax rate was particularly affected by a tax-exempt gain on the farm-downs of 50% of the Walney Extension and Borkum Riffgrund 2 offshore wind farms and the remaining portion of the tax-exempt gain on Race Bank, which was divested in 2016.

Taxes paid

We have paid DKK 2,660 million in taxes for 2017, of which DKK 689 million related to residual tax for 2016. The tax paid reflects our activities and that we expect to exit the international joint taxation scheme. We expect to have a residual tax of DKK 570 million regarding 2017 as earnings in the last part of the year were higher than expected.

Development in current and deferred tax asset and liabilities (tax, net), DKK million 2017



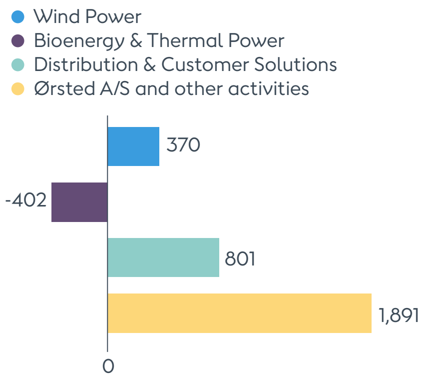
2.7bn

Income tax paid by the Group in 2017 totalled DKK 2,660 million against DKK 3,182 million in 2016.

2.7bn

Current tax in 2017 totalled DKK 2,698 million against DKK 3,541 million in 2016.

Income tax paid by segment, DKK million 2017



	Business performance		
2017, DKK million	Profit (loss) before tax	Tax	Tax in %
Gain (loss) on divestments	10,965	(714)	7%
Rest of the Group	4,079	(1,051)	26%
Effective tax for the year	**15,044**	**(1,765)**	**12%**

Tax on gain (loss) on divestments related to taxable gains. See more in note 2.5.
The tax rate for 'Rest of the Group' is higher than the weighted average tax rate in the countries in which we generate income as a result of adjustments relating to previous years as well as non-deductible expenses and non-taxable income.

5.1 Tax policy and tax regimes

Our tax policy

We acknowledge that tax plays a key role for society. We also believe that a responsible approach to tax is essential to the long-term sustainability of our business in the countries in which we operate.

We are subject to a number of different rules on direct and indirect taxes as well as taxes collected on behalf of the public authorities. Also, many transactions involve different segments across national borders and between different tax systems. This complexity demands a strong focus on the management of our tax affairs.

Read more about our tax policy at https://orsted.com/taxpolicy

We comply with tax rules

We regularly assess our internal processes and controls to ensure that we comply with all local and international tax rules.

We only use structures that have commercial substance and meet the spirit of the relevant local or international tax law.

We use the incentives and tax reliefs applying where we have commercial activities, and where this is the legislator's intention.

As a proactive approach to handling any uncertainties about the interpretation of tax rules, we have an open dialogue with the national tax authorities in Denmark and abroad.

At the end of 2017, our major activities were in Denmark, the UK and Germany.

International joint taxation

In 2005, we chose Danish international joint taxation. Under international joint taxation, subsidiaries are included in joint taxation from the date they are consolidated in the consolidated financial statements and up to the date on which they are no longer consolidated. International joint taxation means that profit earned abroad is taxed in Denmark, and that depreciation and amortisation for tax purposes and expenses incurred abroad can be deducted in the Danish statement of taxable income.

The rules concerning Danish international joint taxation merely result in changes to the timing of the tax payments in Denmark. Thus, it leads to increased Danish tax payments at a later point in time, corresponding to the tax savings realised in previous years.

We have continuously assessed when it will be the most appropriate time to exit from the international joint taxation scheme, and we currently expect that this will be for the income year 2017, which is reflected in the annual report. We will make the final decision in 2018 when preparing the tax returns for 2017. Therefore, the retaxation liability has been transferred to tax payable in 2017.

In 2016, deferred tax payments were recognised as a retaxation liability and amounted to DKK 1,730 million. See note 5.4.

Local taxes

In terms of taxation, we were affected by completed construction contracts in connection with the construction of offshore wind farms in Denmark in 2017.

We have made significant investments in offshore wind farms in the UK and Germany, resulting in the accumulation of large tax assets in recent years. Accordingly, we have not paid taxes in the UK and Germany. Going forward, this will change as the offshore wind farms are commissioned and generate positive results.

We expect to start paying tax in the UK in 2018, and in 2019 in Germany.

5.2 Tax on profit (loss) for the year

	2017				2016			
	Business performance		IFRS		Business performance		IFRS	
Effective tax rate, DKK million/%	DKK million	%	DKK million	%	DKK million	%	DKK million	%
Tax on profit (loss) for the year can be explained as follows:								
Calculated 22% tax on profit (loss) before tax (2016: 22%)	(3,310)	22	(3,323)	22	(3,157)	22	(2,681)	22
Adjustments of calculated tax in foreign subsidiaries in relation to 22% (2016: 22%)	86	-	86	-	229	(2)	229	(2)
Tax effect of:								
Non-taxable income and non-deductible costs, net	1,323	(9)	1,323	(9)	709	(5)	709	(6)
Unrecognised tax assets and capitalisation of tax assets not previously capitalised	(184)	1	(184)	1	(28)	-	(28)	-
Share of profit (loss) in associates and joint ventures	(12)	-	(12)	-	4	-	4	-
Adjustment of tax concerning previous years	332	(2)	332	(2)	11	-	11	-
Effect of change in tax rate	-	-	-	-	41	-	41	-
Effective tax for the year	**(1,765)**	**12**	**(1,778)**	**12**	**(2,191)**	**15**	**(1,715)**	**14**

Income tax

Tax on the business performance profit (loss) was DKK 1,765 million in 2017 against DKK 2,191 million in 2016. The effective tax rate was 12% in 2017 against 15% in 2016.

The effective tax rate in 2017 was particularly affected by a tax-exempt gain on the farm-down of 50% of our Walney Extension and Borkum Riffgrund 2 offshore wind farms.

In addition, our effective tax rate was affected by the remaining portion of the tax-exempt gain on Race Bank, which was divested in 2017, and adjustments to prior years.

The effective tax rate in 2016 was particularly affected by a tax-exempt gain on the divestment of Gas Distribution and 50% of the Burbo Bank Extension and Race Bank offshore wind farms.

Accounting policies

Tax for the year consists of current tax, changes in deferred tax and adjustment in respect of previous years. Tax on profit (loss) for the year is recognised in the income statement. Tax relating to other items is recognised in other comprehensive income.

Adjustments of calculated tax in foreign subsidiaries were due to the differences in tax rates between Denmark and primarily the UK and Germany.

Non-taxable income and non-deductible expenses primarily concern the tax-exempt gain on divestments. See more in note 2.5.

Income tax, DKK million	2017 Business performance	2017 IFRS	2016 Business performance	2016 IFRS
Tax on profit (loss) for the year	(1,765)	(1,778)	(2,191)	(1,715)
Tax on other comprehensive income	238	251	345	(131)
Tax on hybrid capital	141	141	141	141
Total tax for the year	**(1,386)**	**(1,386)**	**(1,705)**	**(1,705)**
Tax on profit (loss) for the year can be broken down as follows:				
Current tax	(2,698)	(2,698)	(3,541)	(3,541)
Deferred tax	586	573	1,385	1,861
Tax relating to assets classified as held for sale	15	15	(87)	(87)
Adjustment of tax concerning previous years	332	332	52	52
Tax on profit (loss) for the year	**(1,765)**	**(1,778)**	**(2,191)**	**(1,715)**
Tax on other comprehensive income can be broken down as follows:				
Current tax	255	255	(138)	(138)
Deferred tax	(17)	(4)	483	7
Tax on other comprehensive income	**238**	**251**	**345**	**(131)**

Income tax for the year is calculated on the basis of the profit (loss) before tax from continuing operations.

Tax on profit (loss) for the year and other comprehensive income

In 2017, tax on the IFRS profit (loss) for the year amounted to DKK 1,778 million, consisting of current tax of DKK 2,698 million, changes in deferred tax of DKK 573 million, tax on assets classified as held for sale of DKK 15 million, and an adjustment of tax in respect of previous years of DKK 332 million.

In 2016, tax on the IFRS profit (loss) for the year amounted to DKK 1,715 million, consisting of current tax of DKK 3,541 million, changes in deferred tax of DKK 1,861 million, tax on assets classified as held for sale of DKK 87 million, and an adjustment of tax in respect of previous years of DKK 52 million.

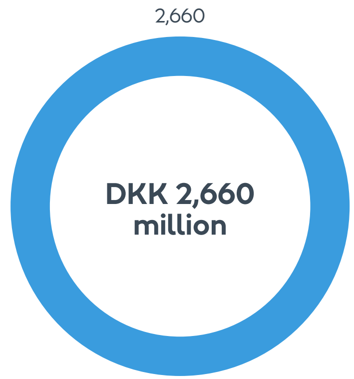
5.3 Taxes paid

In 2017, we paid DKK 2,660 million in taxes. The tax paid mainly related to ordinary operations and retaxation in connection with the expected exit from the Danish international joint taxation scheme.

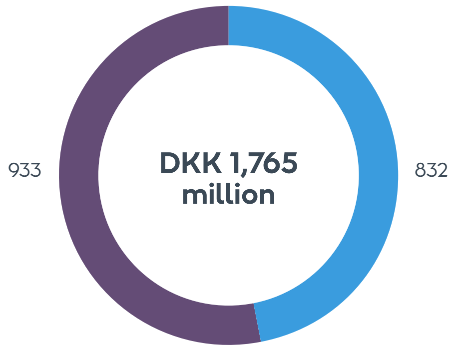
We paid most of our Danish taxes in November. Accordingly, the income tax paid for the year was based on estimates and preliminary tax positions. As our earnings towards the end of the year were higher than expected, we expect to have a residual tax of DKK 570 million regarding 2017, which has been recognised as a payable tax.

The tax payment included residual tax for 2016 of DKK 689 million in total for continuing operations. DKK 236 million related to the utilisation of losses for the Group's Danish companies in the oil and gas business for the period during which they were included in the joint taxation.

Taxes paid for the year, 2017, DKK million

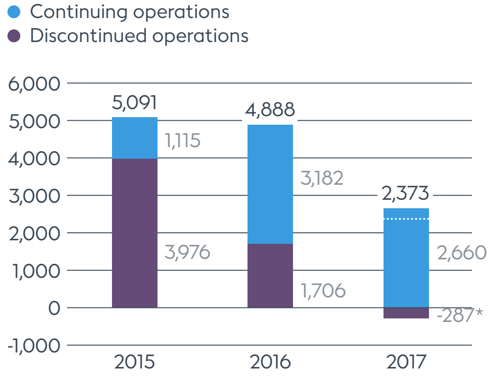


Tax on profit (loss) for the year, 2017, DKK million

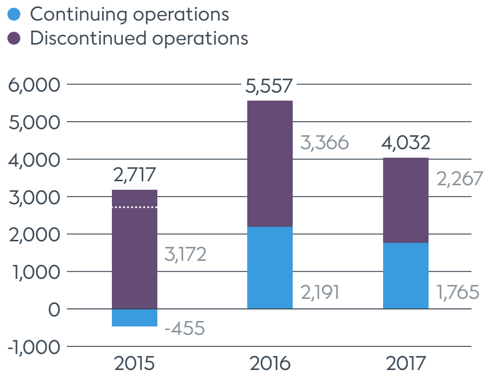


The figures only shows our continuing operations.

Taxes paid, DKK million



Tax on profit (loss) for the year, DKK million



The figures show the relationship between the tax on profit (loss) for the year for accounting purposes and the taxes paid for the year.
* Relates to internal transfers between continuing and discontinued operations.

5.4 Deferred tax

Development in deferred tax

In 2017, deferred tax from continuing operations decreased as a result of deferred tax liabilities materialising as tax payable. This includes differences in the tax and accounting treatment of profit received on account on works in progress, differences in the tax and accounting recognition of financial instruments, retaxation due to the expected exit from the international joint taxation scheme and adjustments to prior years.

The adjustment concerning previous years mainly comprised adjustments of work in progress and recognition of tax assets relating to offshore wind farms in Germany.

The most significant changes in 2016 concerned the taxation of profit received on account, affecting deferred tax on property, plant and equipment, and a reduction of the retaxation balance relating to the farm-downs of 50% of the Burbo Bank Extension and Race Bank offshore wind farms in the UK.

Deferred tax by segment

Deferred tax (liabilities) in our segments primarily concerned the following:

– Wind Power: recognised profit received on account and property, plant and equipment, in respect of which depreciation for tax purposes exceeds depreciation for accounting purposes
– Bioenergy & Thermal Power: property, plant and equipment for which impairment was made in previous years
– Distribution & Customer Solutions: financial instruments.

Other activities/eliminations comprised intra-group eliminations in the joint taxation across segments.

Deferred tax 2017, DKK million	Wind Power	Bioenergy & Thermal Power	Distribution & Customer Solutions	Other activities/ eliminations	Deferred tax at 31 December
Deferred tax, assets	1,407	444	972	42	2,865
Deferred tax, liabilities	1,227	352	617	(68)	2,128
Unrecognised tax assets	123	-	61	-	184

Deferred tax 2016, DKK million	Wind Power	Bioenergy & Thermal Power	Distribution & Customer Solutions	Other activities/ eliminations	Deferred tax at 31 December
Deferred tax, assets	548	420	25	(905)	88
Deferred tax, liabilities	1,065	231	584	305	2,185
Unrecognised tax assets	209	11	308	-	528

The table shows the reconciliation of deferred tax to the balance sheet by segment.

Accounting policies

Deferred tax is recognised in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

However, deferred tax is not recognised in respect of temporary differences relating to:
– The acquisition of joint operations, including licence interests
– Other items, where differences arise at the time of acquisition affecting neither the profit (loss) for the year nor the taxable income. However, this does not include differences arising in connection with company acquisitions.

Deferred tax is measured depending on how we plan to use the assets and settle the liabilities. We set off tax assets and liabilities when the tax assets can be offset against tax liabilities in the year in which the deferred tax assets are expected to be used.

Deferred tax assets are recognised at the value at which they are expected to be used. They may be offset against future earnings or against deferred tax. This is done within a joint taxation scheme. Intra-group gains and losses are eliminated.

Deferred tax is measured based on the tax rules and rates applying when the deferred tax becomes current tax. Changes in deferred tax as a result of changes in tax rates are recognised in profit (loss) for the year.

Liabilities in respect of uncertain tax positions are measured as follows:
– the most-likely-outcome method is applied in cases where there are only two possible outcomes
– the weighted-average method is used in cases with more than two possible outcomes.

The liability is recognised under income tax payable or deferred tax, depending on how the realisation of the tax position will affect the financial statements.

Development in deferred tax assets and liabilities 2017, DKK million	Balance sheet 1 January	Transferred to assets and liabilities classified as assets held for sale	Exchange rate adjustments	Additions, individual assets and activities, net	Recognised in profit (loss) for the year	Recognised in other comprehensive income	Adjustments to prior years, etc.	Balance sheet 31 December
Intangible assets	109	-	-	-	(48)	-	-	61
Property, plant and equipment	2,395	2	(94)	57	1,450	(4)	(1,788)	2,018
Other non-current assets	(1)	-	-	(1)	174	-	(32)	140
Current assets	(6)	37	-	-	(36)	-	(6)	(11)
Decommissioning obligations	(626)	-	(6)	-	(169)	-	4	(797)
Other non-current liabilities	(950)	-	(1)	-	(242)	-	87	(1,106)
Current liabilities	644	-	-	-	(50)	-	(942)	(348)
Retaxation	1,730	-	-	-	(1,730)	-	-	-
Tax loss carryforwards	(1,198)	-	61	329	78	-	36	(694)
Deferred tax	**2,097**	**39**	**(40)**	**385**	**(573)**	**(4)**	**(2,641)**	**(737)**
Of which recognised in the balance sheet under assets	88							2,865
Of which recognised in the balance sheet under equity and liabilities	2,185							2,128

Development in deferred tax assets and liabilities, 2016, DKK million								
Intangible assets	151	-	-	5	(46)	-	(1)	109
Property, plant and equipment	4,807	(1,292)	(141)	57	(1,194)	4	154	2,395
Other non-current assets	(40)	-	22	17	-	-	-	(1)
Current assets	19	(36)	3	-	2	5	1	(6)
Decommissioning obligations	(3,957)	3,292	(121)	-	147	-	13	(626)
Other non-current liabilities	(1,163)	-	(6)	-	222	-	(3)	(950)
Current liabilities	1,362	-	-	-	(771)	(4)	57	644
Retaxation	2,903	-	-	-	(1,175)	-	2	1,730
Tax loss carryforwards	(2,710)	165	133	-	954	2	258	(1,198)
Deferred tax	**1,372**	**2,129**	**(110)**	**79**	**(1,861)**	**7**	**481**	**2,097**
Of which recognised in the balance sheet under assets	274							88
Of which recognised in the balance sheet under equity and liabilities	1,646							2,185

The amounts transferred to assets and liabilities classified as assets held for sale only concerned Oil Pipe in 2017.

In 2016, the activities in the oil and gas business were transferred to assets and liabilities classified as assets held for sale.

Adjustments to prior years primarily relate to movement between deferred tax and tax payable.

6. Capital structure

6. Capital structure

During the year, we issued new senior bonds of EUR 750 million, corresponding to DKK 5,584 million. We also redeemed bonds with a notional amount of DKK 1,480 million early.

Also, in 2017, we issued a new hybrid bond of EUR 500 million, corresponding to DKK 3,723 million. In addition, it was decided to redeem the hybrid bond issued in 2013 with a notional amount of EUR 500 million at the first redemption date in 2018.

Capital structure

To ensure the financial strength to operate in the international energy and capital markets and secure financing on attractive terms, we have defined credit rating and capital structure targets. The overarching capital structure targets are a credit rating of Baa1/BBB+ and an FFO/adjusted net debt credit metric of around 30%.

Financing policy

The aim of our financing policy is to ensure the best possible loan arrangements, while also minimising financing costs, liquidity and refinancing risks.

The borrowing activities are diversified among various funding sources and maturities. In addition, we have robust financial resources.

Our borrowing activities are consolidated in the parent company, where cash resources are available to the Group's companies via an internal bank.

Cash management

We have decided to maintain robust financial resources to limit the company's sensitivity to unrest in the financial markets.

The financial resources consist of bank deposits and securities, as well as non-cancellable credit facilities from a group of robust Nordic and international banks. The financial resources totalled DKK 39,158 million at 31 December 2017 (2016: DKK 31,511 million).

50.3%

Funds from operations (FFO) relative to adjusted interest-bearing net debt amounted to 50.3% at 31 December 2017 against 64.2% at 31 December 2016.

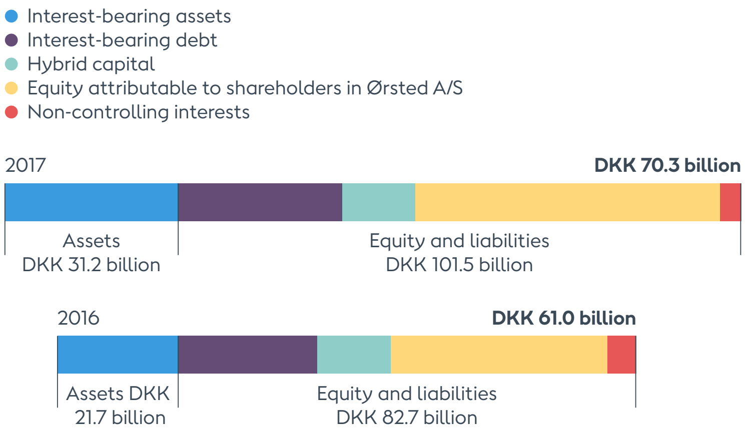
-1.5bn

Our interest-bearing net debt totalled DKK -1.517 million at 31 December 2017 against DKK 3,461 million at 31 December 2016.

39,2bn

Our cash reserve totalled DKK 39,158 million at 31 December 2017 against DKK 31,511 million at 31 December 2016.

Equity and interest-bearing net debt, DKK billion



6.1 Interest-bearing debt

Interest-bearing debt and interest-bearing assets, DKK million	2017	2016
Interest-bearing debt comprises:		
Bank debt	2,069	4,064
Bond debt	27,567	20,119
Total bond and bank debt	**29,636**	**24,183**
Liabilities classified as held for sale	-	803
Other interest-bearing debt	-	150
Total interest-bearing debt	**29,636**	**25,136**
Interest-bearing assets comprise:		
Securities	25,280	16,533
Cash	4,203	2,931
Receivables from associates and joint ventures	48	674
Other receivables	647	544
Receivables in connection with divestments	975	-
Assets classified as held for sale	-	993
Total interest-bearing assets	**31,153**	**21,675**
Total interest-bearing net debt	**(1,517)**	**3,461**

The tabel shows our interest-bearing net debt split on interest-bearing debt and interest-bearing assets

Interest-bearing net debt

Interest-bearing net debt totalled DKK -1,517 million at the end of 2017, down DKK 4,978 million relative to 2016. The decline was due to an increase in interest-bearing assets of DKK 9,478 million, partially offset by an increase in interest-bearing debt of DKK 4,500 million.

In November 2017, we issued a new bond of EUR 750 million, corresponding to DKK 5,584 million. We also redeemed bonds with a notional amount of DKK 1,480 million early. At the same time, it was decided to redeem the hybrid bond issued in 2013 with a notional amount of EUR 500 million at the first redemption date in 2018. As a consequence of this, we have reclassified the hybrid bond from equity to interest-bearing debt with a carrying amount of DKK 3,810 million at 31 December 2017.

Market value of bond and bank debt

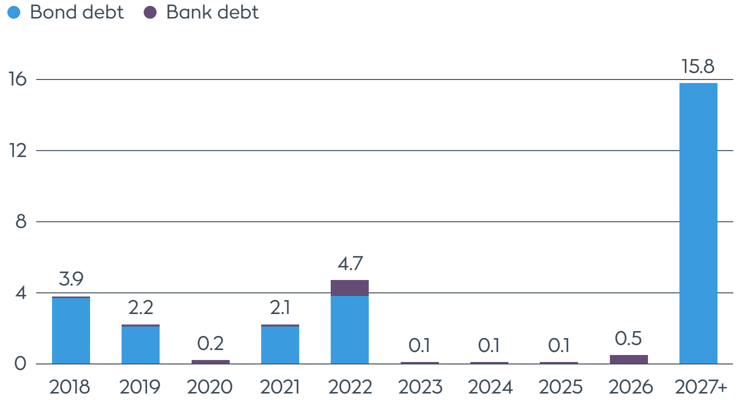
The market value of our bond and bank debt amounted to DKK 32,959 million and DKK 2,108 million, respectively, at 31 December 2017 (2016: DKK 26,010 million and DKK 4,110 million, respectively). The market value of our bond and bank debt exceeds the carrying amount due to the drop in interest levels since the arrangement of the debt.

Changes in bond and bank debt, DKK million	2017	2016
Bond and bank debt 1 January	24,183	36,401
Instalments on loans according to the statement of cash flows	(4,069)	(11,097)
Proceeds from raising of loans according to the statement of cash flows	5,468	-
Reclassification to bond and bank debt	4,192	-
Capital losses on early repayment of debt	230	653
Foreign exchange adjustments and amortisation	(368)	(1,774)
Bond and bank debt 31 December	**29,636**	**24,183**

The tabel shows the changes in bond and bank debt.

The graph shows the maturity profile for our bank loans and bond debt.

Maturity profile, DKK billion



Loan arrangements

At 31 December 2017, we had loan obligations totalling DKK 2,069 million (2016: DKK 4,064 million), primarily to the European Investment Bank and the Nordic Investment Bank. The loans are recognised in the balance sheet under bank debt. The loans offered by these multilateral financial institutions include loans to co-fund infrastructure and energy projects on favourable terms and with maturities exceeding those normally available in the commercial banking market. In connection with these loans, the Group may be met with demands for repayment or collateral in the event of the Danish State holding less than 50% of the share capital or voting rights in Ørsted A/S (change of control), or repayment in the event of Moody's or Standard & Poor's downgrading our rating to Baa3 or BBB- or less, respectively.

Furthermore, at 31 December 2017, we had non-cancellable credit facilities of DKK 10,424 million (2016: DKK 13,000 million) with a number of Scandinavian and international banks.

In connection with these credit facilities, we may be met with demands for cancellation and repayment of any used share in the event of players other than a group consisting of the Danish State and Danish power distribution companies acquiring more than 50% of the share capital or voting rights in Ørsted A/S, or in the event of the Danish State ceasing to hold at least 20% of the share capital. Our financing agreements are not subject to any other unusual terms or conditions.

Interest rate risk

Our interest rate risks relate to interest-bearing debt, interest-bearing assets and financial price hedges. We manage the interest rate risk through the composition of assets and the variability of the cash flows generated by the assets. Fixed-interest financing over a longer term is sought for assets with fixed, interest--insensitive cash flows over a longer term. Conversely, more variable-interest financing is sought for assets with more varying, interest-sensitive cash flows.

We have fixed the interest rate on most of our debt by issuing fixed-rate debt. At the end of 2017, 95% (2016: 89%) of the Group's debt was fixed-rate debt. In addition, forward exchange contracts have been concluded to hedge the currency risk associated with interest payments on loans in GBP over the next five years at an average price of 9.3. See note 7.2 for further information.

At 31 December 2017, the loan portfolio had an average time to maturity of 9.8 years (2016: 8.5 years). Interest-bearing assets consist primarily of short-term bonds with limited risk.

Accounting policies

Bond debt, bank debt and other payables are recognised at inception at market value (typically proceeds received) net of transaction costs incurred. In subsequent periods, the liabilities are measured at amortised cost so that the difference between the cost (proceeds) and the nominal value is recognised in profit (loss) for the year as interest expenses over the term of the loan, using the effective interest rate method.

Financial liabilities are classified as current unless the Group has an unconditional right to defer settlement of the liability to at least one year after the balance sheet date.

The market value of issued bonds has been determined as the market value at 31 December (Level 1 – quoted prices).

The market value of bank loans has been determined as the present value of expected future instalments and interest payments using the Group's current interest rate on loans as the discount rate (Level 2 – observable inputs).

Bond issues at 31 December 2017

Currency	Outstanding amount (million)	Coupon (%)	Time of issue	Maturing	Quoted in
Senior bonds					
EUR	280	6.500	6 May 2009	7 May 2019	London
EUR	272	4.875	16 Dec 2009	16 Dec 2021	London
EUR	517	2.625	19 Sep 2012	19 Sep 2022	London
EUR	750	1.500	24 Nov 2017	26 Nov 2029	London
GBP	750	4.875	12 Jan 2012	12 Jan 2032	London
GBP	500	5.750	9 Apr 2010	9 Apr 2040	London

In addition to senior bonds, we have also issued a number of hybrid bonds; see note 6.3.

6.2 Equity

Earnings per share, DKK million	2017 Business performance	2017 IFRS	2016 Business performance	2016 IFRS
Profit (loss) for the year from continuing operations	13,279	13,321	12,161	10,467
Interest and costs after tax, hybrid capital owners of Ørsted A/S	(716)	(716)	(499)	(499)
Non-controlling interests	10	10	111	111
Ørsted's share of profit (loss) for the year from continuing operations	**12,573**	**12,615**	**11,773**	**10,079**
Profit (loss) for the year from discontinued operations	6,920	6,104	1,052	(2,532)
Ørsted's share of profit (loss) for the year from discontinued operations	**6,920**	**6,104**	**1,052**	**(2,532)**
('000)				
Average number of outstanding shares	420,155	420,155	419,010	419,010
Dilutive effect of share programme	271	271	1,296	1,296
Average number of outstanding shares, diluted	**420,426**	**420,426**	**420,306**	**420,306**
(DKK)				
Profit (loss) per share				
From continuing operations	29.9	30.0	28.1	24.1
From discontinued operations	16.5	14.5	2.5	(6.0)
Total profit (loss) per share	**46.4**	**44.5**	**30.6**	**18.1**

Development in share capital (DKK million)	2017	2016
Share capital at 1 January	4,204	4,177
Capital injection	-	27
Share capital at 31 December	**4,204**	**4,204**

Share capital

Ørsted's share capital is DKK 4,203,810,800, divided into shares of DKK 10 (2016: DKK 4,204 million). No shares are subject to special rights or restrictions on voting rights. The shares are fully paid up.

Treasury shares

To secure our share programme, we acquired a portfolio of treasury shares consisting of 225,904 shares at 31 December 2017 (2016: 225,904), corresponding to 0.1% of the share capital.

The table shows earnings per share distributed on continuing and discontinued operations. Diluted profit (loss) per share corresponds to profit (loss) per share, as the dilutive effect of the share programme is less than 0.1% of the share capital (2016: 0.3% of the share capital).

The table shows a change in the share capital, which is due to the issuance of bonus shares in connection with the expiry of the 2014 share programme.

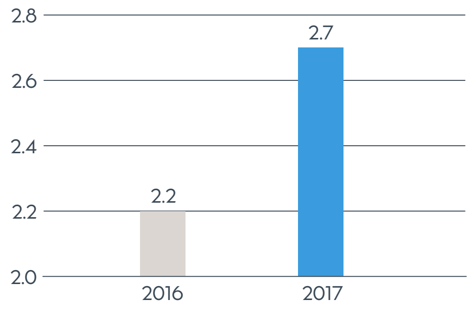
Dividends

The Board of Directors recommends that dividends of DKK 3,783 million (2016: DKK 2,522 million) be paid for the financial year, corresponding to DKK 9 per share (2016: DKK 6 per share). The proposed dividends correspond to a dividend yield of 2.7% (2016: 2.2%) calculated on the basis of the closing price for an Ørsted share on the last trading day of the year.

Owners in Ørsted

The Danish State is the principal shareholder with an ownership interest of 50.1%. In addition, SEAS-NVE and The Capital Group also have significant ownership interests. See also note 16 in the parent company's financial statements.

Dividend yield, %



The graph shows the proposed dividends in relation to the closing price for an Ørsted share on the last trading day of the year.

Reserves 2017, DKK million	Foreign currency translation reserve	Hedging reserve: Hedging of net investments	Hedging reserve: Hedging of cash flows, divestments	Hedging reserve: Hedging of cash flows, interest	Deferred costs of hedging: Basic spread	Deferred costs of hedging: Time value of options	Share premium reserve	Total reserves
Reserves at 1 January 2017	(1,546)	10	973	(498)	-	-	21,279	20,218
Transferred to retained earnings	-	-	-	-	-	-	(21,279)	(21,279)
Transition to IFRS 9 at 1 January	-	(22)	(35)	-	57	-	-	-
Exchange rate adjustments	(1,354)	-	-	-	-	-	-	(1,354)
Value adjustments of hedging	-	625	984	(190)	12	(76)	-	1,355
Value adjustments transferred to:								
Revenue	-	-	(283)	-	-	-	-	(283)
Other operating income	325	(128)	(1,113)	-	-	-	-	(916)
Profit (loss) from discontinued operations	562	133	(444)	-	-	-	-	251
Financial income and expenses	-	(42)	8	229	(14)	48	-	229
Tax:								
Tax on hedging and currency adjustments	188	(126)	195	(8)	-	6	-	255
Movement in comprehensive income for the year	**(279)**	**440**	**(688)**	**31**	**55**	**(22)**	**-**	**(463)**
Total reserves at 31 December	**(1,825)**	**450**	**285**	**(467)**	**55**	**(22)**	**-**	**(1,524)**

Reserves 2016, DKK million	Foreign currency translation reserve	Hedging of net investments	Hedging of cash flows, divestments	Hedging of cash flows, interest	Basic spread	Time value of options	Share premium reserve	Total reserves
Reserves at 1 January 2016	2,274	(2,361)	(48)	(289)	n.a.	n.a.	21,279	20,855
Exchange rate adjustments	(4,583)	-	-	-	n.a.	n.a.	-	(4,583)
Value adjustments of hedging	-	3,040	2,005	(510)	n.a.	n.a.	-	4,535
Value adjustments transferred to:								
Revenue	-	-	(415)	-	n.a.	n.a.	-	(415)
Other operating income	-	-	(271)	-	n.a.	n.a.	-	(271)
Financial income and expenses	-	-	-	232	n.a.	n.a.	-	232
Tax:								
Tax on hedging and currency adjustments	763	(669)	(298)	69	n.a.	n.a.	-	(135)
Movements in comprehensive income for the year	**(3,820)**	**2,371**	**1,021**	**(209)**	**n.a.**	**n.a.**	**-**	**(637)**
Total reserves at 31 December	**(1,546)**	**10**	**973**	**(498)**	**n.a.**	**n.a.**	**21,279**	**20,218**

Accounting policies

Foreign currency translation reserve
The foreign currency translation reserve comprises:
- exchange rate adjustments arising on translation of the financial statements of foreign entities with a currency that is not the Group's functional currency
- exchange rate adjustments relating to loans that form part of our net investment in such entities
- exchange rate adjustments relating to hedging transactions on our net investment in such entities.

On realisation or partial realisation of the net investment, the exchange rate adjustments are recognised in profit (loss) for the year if a foreign exchange gain (loss) is realised by the divested entity. The foreign exchange gain (loss) is transferred to the item in which the gain (loss) is recognised.

Hedging of net investments
Hedging of net investments comprises:
- exchange rate adjustments relating to hedging transactions on our net investment in such entities.

Hedging reserve
The hedging reserve covers:
- the cash flow hedging of interest payments
- the currency risk associated with the construction of offshore wind farms.

Deferred costs of hedging
Changes in the basic spread on currency swaps and time value of options are included in deferred costs of hedging.

Share premium reserve
Retained earnings include the share premium reserve of DKK 21,279 million, representing the excess of the amount of subscribed-for share capital over the nominal value of these shares in connection with capital injections.

6.3 Hybrid capital

Hybrid bonds	Due in 3013	Due in 3013	Due in 3015	Due in 3017
Type	Subordinate to other creditors	Subordinate to other creditors	Subordinate to other creditors	Subordinate to other creditors
Carrying amount	DKK 5,148 million	DKK 3,810 million	DKK 4,423 million	DKK 3,668 million
Financial classification	Equity	Loans and borrowings	Equity	Equity
Notional amount	EUR 700 million (DKK 5,212 million)	EUR 500 million (DKK 3,723 million)	EUR 600 million (DKK 4,467 million)	EUR 500 (DKK 3,723 million)
Issued	June 2013	July 2013	May 2015	November 2017
Maturing	June 3013	July 3013	November 3015	November 3017
First redemption date at par	26 June 2023	8 July 2018	6 November 2020	24 November 2024
Interest	For the first ten years, the coupon is fixed at 6.25% p.a., after which it is adjusted every five years with the 5-year euro swap + 4.75 percentage points from 2023-2043 and + 5.5 percentage points after 2043.	Coupon for the first five years is fixed at 4.875% p.a., after which it is adjusted every five years with the 5-year euro swap + 3.8 percentage points from 2018, 4.05 percentage points from 2023, and 4.80 percentage points from 2038.	Coupon for the first 5.5 years is fixed at 3.0% p.a., after which it is adjusted every five years with the 5-year euro swap + 2.819 percentage points from 2020, 3.069 percentage points from 2025, and 3.819 percentage points from 2040.	Coupon for the first seven years is fixed at 2.25% p.a., after which it is adjusted every five years with the five-year euro swap + 1.899 percentage points from 2024, 2.149 percentage points from 2029 and 2.899 percentage points from 2044.
Deferral of interest payment	Optional	Optional	Optional	Optional

We have issued hybrid capital which is subordinate to our other creditors. The purpose of issuing hybrid capital is to strengthen our capital base and fund our investments. In the European capital markets, we have issued EUR hybrid bonds with a total nominal value of DKK 17,125 million (EUR 2,300 million).

In 2017, we issued a further hybrid bond at a nominal value of EUR 500 million which is classified as equity. In addition, in 2017, we decided to redeem the hybrid bond maturing in July 3013 at par at the first redemption date on 8 July 2018. This hybrid bond is therefore reclassified to loans and borrowings.

For hybrid bonds, we may defer coupon payments to bond holders and ultimately decide not to pay them. Deferred coupon payments become payable, however, if we decide to pay dividends to our shareholders or pay coupon payments on another hybrid bond.

As a consequence of the special terms attaching to the hybrid bonds, these are classified as equity, and coupon payments are therefore recognised in equity.

Accounting policies

Hybrid capital comprises issued bonds that qualify for treatment in accordance with the rules on compound financial instruments due to the special characteristics of the loan. The notional amount, which constitutes a liability, is recognised at present value, and equity has been increased by the difference between the net proceeds received and the present value of the discounted liability. Accordingly, any coupon payments are accounted for as dividends, which are recognised directly in equity at the time the payment obligation arises. This is because coupon is discretionary, and any deferred coupon therefore lapses upon maturity of the hybrid capital. Coupon payments consequently do not have any effect on profit (loss) for the year.

The part of the hybrid capital that is accounted for as a liability is measured at amortised cost. However, as the carrying amount of this component amounted to nil on initial recognition, and because of the 1,000-year term of the hybrid capital, amortisation charges will only impact on profit (loss) for the year towards the end of the 1,000-year term of the hybrid capital. Coupon payments are recognised in the statement of cash flows in the same way as dividend payments within financing activities.

On redemption of the hybrid capital, the payment will be distributed between the liability and equity applying the same principles as used when the hybrid capital was issued. This means that the difference between the payment on redemption and the net proceeds received on issue is recognised directly in equity as the debt portion of the existing hybrid issues will be nil during the first part of the life of the hybrid capital.

On the date on which the Board of Directors decides to exercise an option to redeem the hybrid capital, the part of the hybrid capital that will be redeemed will be reclassified to loans and borrowings. The reclassification will be made at the market value of the hybrid capital at the date the decision is made. Coupon payments and exchange rate adjustments following the reclassification to loans and borrowings will be recognised in profit (loss) for the year as financial income or expenses.

6.4 Financial resources

Our liquidity and financing risks are managed centrally in accordance with the principles and delegated authorities laid down by the Board of Directors.

One of the most significant financial management tasks is to secure sufficient and flexible financial resources in relation to our day-to-day operations, investment programme and debt maturity profile.

We therefore define minimum financial resources for the coming calendar year.

Cash and cash equivalents and securities

Cash not available for use which is not part of the financial resources primarily comprises:

– cash and cash equivalents pledged as collateral for insurance-related provisions and
– cash and cash equivalents pledged as collateral for trading in derivatives.

Securities are a key element in our financial resources, for which reason investments are primarily made in liquid AAA-rated Danish mortgage bonds and to a lesser extent in other bonds. Most of the securities qualify for repo transactions in the Danish central bank, 'Danmarks Nationalbank'.

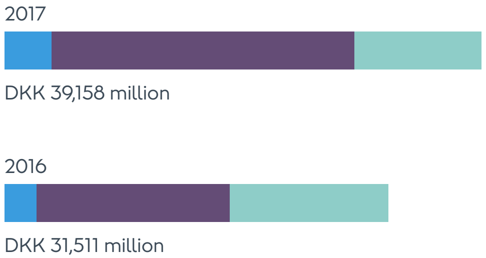
Securities not available for use comprise:

– Securities pledged as collateral for insurance-related provisions. These amounted to DKK 397 million at 31 December 2017 (2016: DKK 394 million)
– Securities pledged as collateral for trading in financial instruments. These amounted to DKK 40 million at 31 December 2017 (2016: DKK 276 million).

At 31 December 2017, we had received collateral in the amount of DKK 787 million (2016: DKK 773 million) concerning the positive market value of derivatives.

Financial resources, DKK million

- Cash, available
- Securities, available
- Undrawn, non-cancellable credit facilities



Cash and cash equivalents and securities, DKK million	2017	2016
Cash, available	3,891	2,648
Bank overdrafts that are part of the ongoing cash management	-	(20)
Total cash and cash equivalents at 31 December, cf. statement of cash flows	**3,891**	**2,628**
Cash can be specified as follows:		
Cash, available	3,891	2,648
Cash, not available for use	312	283
Total cash at 31 December, cf. balance sheet	**4,203**	**2,931**
Securities can be specified as follows:		
Securities, available	24,843	15,863
Securities, not available for use	437	670
Total securities at 31 December	**25,280**	**16,533**

The table shows our cash which is divided into cash available and cash not available for use.

Overview of securities, DKK million

Maturities	Fixed-rate	Floating-rate	2017	Fixed-rate	Floating-rate	2016
0-2 years	2,091	1,971	4,062	4,650	2,193	6,843
2-5 years	17,712	3,506	21,218	7,877	1,749	9,626
After 5 years	-	-	-	36	28	64
Total carrying amount	**19,803**	**5,477**	**25,280**	**12,563**	**3,970**	**16,533**

Maturity analysis of loans and borrowings 2017, DKK million	2018	2019	2020-2021	After 2021	2017
Bank loans and issued bonds					
Notional amount	3,828*	2,192	2,345	21,457	29,822
Interest payments	1,152	973	1,690	8,772	12,587
Trade payables	11,499	-	-	-	11,499
Other payables	5,644	216	-	-	5,860
Derivatives	2,912	736	471	6	4,125
Liabilities relating to assets classified as held for sale	119	-	-	-	119
Total payment obligations	**25,154**	**4,117**	**4,506**	**30,235**	**64,012**

Maturity analysis of loans and borrowings 2016, DKK million	2017	2018	2019-2020	After 2020	2016
Bank loans and issued bonds					
Notional amount	1,994	105	2,592	19,684	24,375
Interest payments	970	969	1,790	9,209	12,938
Trade payables	10,024	-	-	-	10,024
Other payables	5,287	84	38	1,669	7,078
Derivatives	4,551	1,674	884	67	7,176
Liabilities relating to assets classified as held for sale	2,291	-	-	-	2,291
Total payment obligations	**25,117**	**2,832**	**5,304**	**30,629**	**63,882**

* The amount primarily relates to reclassified hybrid capital. See more in note 6.3.

Maturity analysis of loans and borrowings
The Group's cash needs in respect of its financial loans and borrowings are shown in the table on the left. The maturity analysis was determined on 31 December 2017.

The maturity analysis is based on undiscounted cash flows, including estimated interest payments. Interest payments are based on market conditions and interest-rate hedging entered into on 31 December 2017.

The maturity analysis does not include hybrid capital classified as equity. At 31 December 2017, we had issued hybrid capital with a notional amount totalling DKK 13,402 million due in 3013 (DKK 5,212 million), 3015 (DKK 4,467 million) and 3017 (DKK 3,723 million), respectively.

Accounting policies

Securities comprise bonds that are monitored, measured and reported at market value on an ongoing basis in conformity with the Group's investment policy. Changes in market value are recognised in profit (loss) for the year as financial income and expenses. Purchase and sale of securities are recognised at the settlement date.

For listed securities, market value equals the market price, and for unlisted securities, market value is estimated based on generally accepted valuation methods and market data.

Divested securities where a repurchase agreement (repo transactions) has been made at the time of sale are recognised in the balance sheet at the settlement date as if the securities were still held. The amount received is recognised as a liability, and the difference between the selling price and the purchase price is recognised in profit (loss) for the year over the term as interest. The return on the securities is recognised in profit (loss) for the year.

6.5 Financial income and expenses

Net financial income and expenses, DKK million	2017	2016
Interest expenses, net	(629)	(402)
Interest element of provisions, etc.	(451)	(392)
Capital losses on early repayment of loans and interest rate swaps	(230)	(892)
Value adjustments of derivatives, net	(67)	(124)
Exchange rate adjustments, net	391	1,035
Value adjustments of securities, net	(150)	(96)
Net financial income and expenses	94	104
Net financial income and expenses	**(1,042)**	**(767)**

The table shows net financial income and expenses, corresponding to our internal control. Exchange rate adjustments and hedging contracts entered into to hedge currency risks are presented net under the item 'Exchange rate adjustments, net'.

Financial income and expenses, DKK million	2017	2016
Interest income from cash, etc.	71	349
Interest income from securities at market value	216	420
Capital gains on securities at market value	250	0
Foreign exchange gains	1,523	3,446
Value adjustments of derivatives	2,043	4,169
Other financial income	150	105
Total financial income	**4,253**	**8,489**
Interest expenses relating to loans and borrowings, etc.	(1,670)	(1,744)
Interest expenses transferred to assets	754	574
Interest element of provisions	(303)	(296)
Capital losses on securities at market value	(419)	(111)
Foreign exchange losses	(1,568)	(2,821)
Value adjustments of derivatives	(1,887)	(3,919)
Other financial expenses	(202)	(939)
Total financial expenses	**(5,295)**	**(9,256)**
Net financial income and expenses	**(1,042)**	**(767)**

Exchange rate adjustments of currency hedging are recognised in revenue and cost of sales with a gain of DKK 190 million (2016: a gain of DKK 1,257 million).

Borrowing costs transferred to property, plant and equipment under construction are calculated at the weighted average effective interest rate for general borrowing. This amounted to 5.3% in 2017 (2016: 4.4%).

Accounting policies

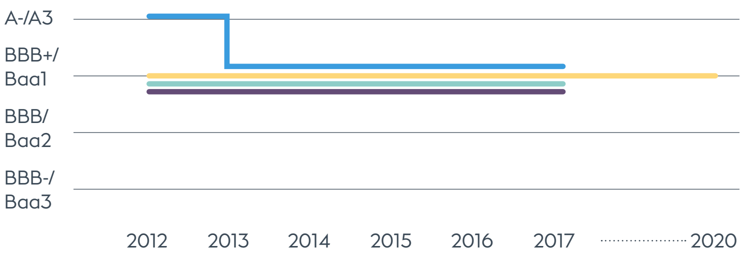
Market value adjustments of interest rate and currency derivatives that have not been entered into for hedging purposes are presented as financial income or expenses.

6.6 Funds from operations (FFO)/ adjusted interest-bearing net debt

Our long-term target is for funds from operations (FFO) to be around 30% of adjusted interest-bearing net debt.

In 2017, the calculation of FFO has been updated to exclude gain (loss) on divestment of assets. This brings our calculation of FFO more in alignment with the principles used by the rating agencies. Comparative figures have been restated.

Rating, category



The figure shows the development in our credit rating since 2012 compared to our objective.

Credit rating	
Standard & Poor's	Minimum BBB+
Moody's	Minimum Baa1
Fitch	Minimum BBB+

Funds from operations (FFO), DKK million	2017	2016
EBITDA – business performance	**22,519**	**19,109**
Interest expenses, net	(629)	(402)
Reversal of interest expenses transferred to assets	(754)	(574)
Interest element of decommissioning obligations	(194)	(172)
50% of coupon payments on hybrid capital	(320)	(320)
Calculated interest paid on operating lease obligations	(234)	(194)
Adjusted interest expenses, net	**(2,131)**	**(1,662)**
Reversal of gain (loss) on divestment of assets	(10,835)	(2,940)
Reversal of recognised operating lease payment in profit (loss) for the year	885	746
Total current tax	(2,447)	(3,665)
Funds from operations (FFO)	**7,991**	**11,588**

The table shows which items are included in funds from operations. FFO is calculated for the continuing operations.

Adjusted interest-bearing net debt, DKK million	2017	2016
Total interest-bearing net debt	**(1,517)**	**3,461**
50% of hybrid capital	6,619	6,624
Cash and securities not available for distribution, excluding repo loans	749	953
Present value of operating lease payments	6,095	3,986
Decommissioning obligations	4,751	3,649
Deferred tax on decommissioning obligations	(797)	(627)
Total adjusted interest-bearing net debt	**15,900**	**18,046**

The table shows which items are included in the adjusted interest-bearing debt as well as FFO relative to adjusted interest-bearing debt.

Funds from operations (FFO)/ adjusted interest-bearing net debt, %	2017	2016
Funds from operations (FFO)/ adjusted interest-bearing net debt	**50.3%**	**64.2%**

7. Risk management

7. Risk management

Market and credit risks are a natural part of our business activities and a precondition for being able to create value. Through risk management, risks are reduced to an acceptable level.

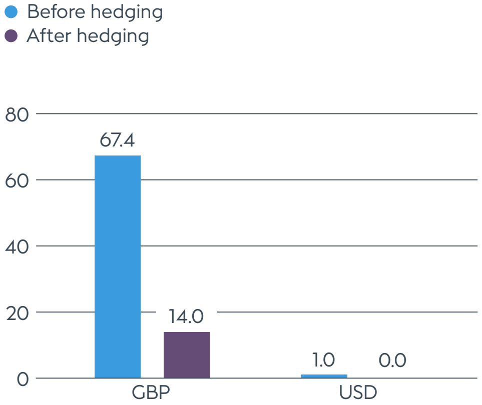
Energy and currency exposures

At the end of 2017, our forward looking energy and currency exposures from production, sales, investments and divestments had been reduced from DKK 89.1 billion to DKK 22.3 billion via hedging.

Trading portfolio

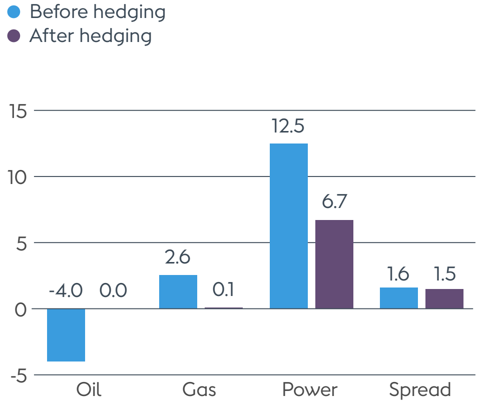
We have a limited trading portfolio, the main purpose of which is to optimise the execution of hedging contracts and gain from short-term energy price fluctuations. The trading activities comply with the mandates approved by the Board of Directors. Read more in note 7.3.

Currency exposure 2018-2022, DKK billion



Our currency exposure totalled DKK 68.4 billion before hedging and DKK 14.0 billion after hedging at the end of 2017. We do not deem EUR to constitute a risk, as we expect that Denmark will maintain its fixed-exchange-rate policy.

Energy exposure 2018-2022, DKK billion



Our energy exposures totalled DKK 20.7 billion before hedging and DKK 8.3 billion after hedging at the end of 2017.

5 years

We hedge prices for up to five years to reduce cash flow fluctuations.

+1.7bn

In 2017, business performance EBITDA was positively impacted by DKK 1,665 million from hedging instruments against DKK 1,459 million in 2016.

-0.8bn

The value of our energy and currency hedging instruments at 31 December 2017 was negative at DKK 812 million, which will reduce business performance EBITDA for a future period against DKK +737 million at 31 December 2016.

7.1 Market risks

Market risks and market risk management

Our most significant market risks relate to:
– energy prices
– foreign exchange rates
– inflation rates and
– interest rates (see note 6.1).

The management of market risks is to ensure stable and robust financial ratios that support our growth strategy.

We hedge prices for up to five years to reduce cash flow fluctuations. Prices are not hedged in the long term, and our long-term market risks are therefore determined by our strategic decisions on investments in new assets, the conclusion of long-term contracts as well as any divestment of assets.

The Board of Directors determines the minimum hedging levels in the five-year period. In the first two years, a high degree of hedging is wanted to ensure stable cash flows after tax. The degree of hedging is lower in subsequent years. This is due to:
– reduced certainty about long-term production volumes and
– rising hedging costs in the medium to long term.

Energy price risks
Our risks after hedging for the years 2018-2022 can be summarised as shown in the table.

Risk after hedging, DKK billion	Effect of price change +10%	-10%
Oil: 0.0 purchase position	+0.0	-0.0
Gas: 0.1 sales position	+0.0	-0.0
Power: 6.7 sales position	+0.7	-0.7
Spread: 1.5 sales position	+0.1	-0.1

A 10% increase in the power price in 2018-2022 will therefore result in a gain of DKK 0.7 billion in the period, all else remaining unchanged.

Currency risks
Our risks after hedging for the years 2018-2022 can be summarised as shown in the table.

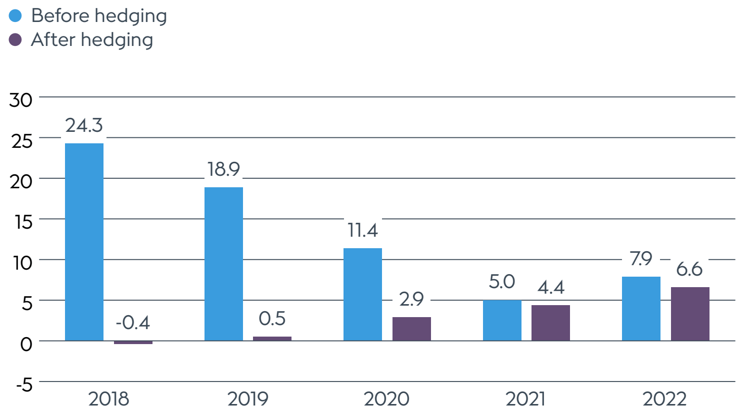
Risk after hedging, DKK billion	Effect of price change +10%	-10%
GBP: 14.0 sales position	+1.4	-1.4
USD: 0.0 sales position	+0.0	-0.0

Our largest currency risk relates to GBP due to our investments in offshore wind farms in the UK.

The exchange rate related to proceeds in foreign currency from divestments is hedged when we have a high degree of certainty about the price and structure of the transaction. The proceeds are estimated to be the cost price of the divested asset added an estimated markup that is increased as we gain certainty of the markup. The expected cash flows from divestments reflect the cash flows we would otherwise have obtained from the operation of the offshore wind farms had we kept the share divested. As the payments are concentrated on a few years, they represent a relatively large share of our GBP exposure the next two years. Any subsequent divestments are not included, as we do not have high certainty about the price and structure of the transaction. Investments in GBP are set off against the expected proceeds from divestments before hedging.

The exchange rate related to energy prices in foreign currency is not hedged until the energy price is hedged. This means that the GBP exchange rate associated with power generation in the UK is not hedged until the GBP power price is hedged.

GBP exposures, DKK billion



The graph shows our GBP exposure from:
- divestment and investment
- green certificates
- hedged energy

before and after hedges.

Cash flows that relate to fixed tariffs and guaranteed minimum prices from offshore wind farms in the UK deviate from the main principle. Hedging of these, less operating expenses, is based on a declining level of hedging over the five-year risk management horizon. The target is to hedge 100% of the risk in year 1, declining by 20 percentage points each year, to 20% in year 5.

Our GBP exposure amounted to DKK 14.0 billion after hedging for the years 2018-2022. Of these, unhedged prices of green certificates amounted to DKK 14.3 billion, while other unhedged prices represent a value of DKK -0.3 billion.

The GBP exchange rate for hedges impacting EBITDA is in 2018 and 2019 hedged at an average exchange rate of DKK/GBP 9.0 and 8.5. The average exchange rates are calculated excluding options that only account for a smaller part of our GBP hedges.

Our EUR risk is subject to continuous assessment, but is generally not hedged as we believe that Denmark will maintain its fixed-exchange-rate policy.

Our USD exposure after hedging amounts to DKK 0.0 billion for the 2018-2022 period. Our USD exposure relates to the purchase of gas, LNG and coal.

Wind Power

Earnings from our generation of power from offshore wind farms mainly comprise:
– fixed tariffs (Denmark, Germany, the Netherlands and the UK) and
– guaranteed minimum prices for green certificates (the UK).

At the end of 2017, such fixed tariffs and guaranteed minimum prices cover 82% of the expected income from offshore wind farms over the next five years. The remaining price exposure concerns sales of power at market price in the UK and Denmark. See the graph 'Distribution of revenue from Wind Power's power generation' for further information.

The annual adjustment of the fixed tariffs varies from country to country:
– In the UK, the tariff is adjusted with inflation
– In Denmark, Germany and the Netherlands, the tariff is not adjusted.

This results in an inflation risk for earnings from tariff-based wind farms in Denmark, Germany and the Netherlands. The share of our debt which is fixed in nominal terms partially offsets this inflation risk.

Bioenergy & Thermal Power

Our CHP plant portfolio consists of biomass and coal-fired plants in Denmark and a gas-fired power station in the Netherlands. The plants in Denmark generate both heat and power.

Concurrently with the biomass conversion of our CHP plants, a larger share of our earnings will be coming from our heat generation. Heat generation does not give rise to price risk as the associated costs are borne by the heat customers. However, heat generation often entails a price risk for power, as heat and power are generated simultaneously.

The profitability of power generation is determined by the difference between the selling price of power and the purchase price of fuel and carbon emissions allowances. For our coal-based power generation, we secure profitability by selling power and buying fuel and carbon emissions allowances, while for biomass-based power generation, we secure profitability by buying biomass at fixed prices and hedging the associated power generation.

The risk management horizon is three years due to low liquidity in the hedging markets.

At the end of 2017, 42% of the power generation expected in 2018 from our power stations was hedged. The total net risk associated with the power stations' power generation for the 2018-2022 period is DKK 1.5 billion after hedging.

Distribution & Customer Solutions

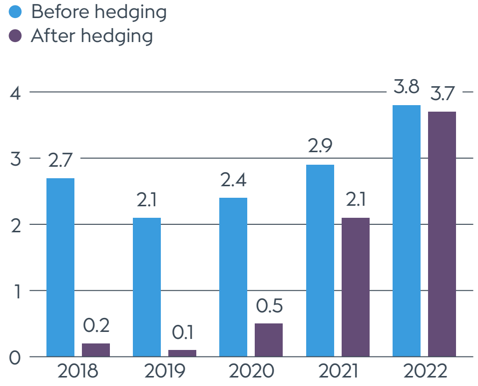
Our price risk in Distribution & Customer Solutions arises from the purchase and sale of power and gas. The price risks associated with the purchase and sale of gas result from differences in the indexing of sales and purchase prices. Our largest gas purchase contracts include the option of renegotiating 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, however, as we conclude more and more LNG purchase agreements which are typically oil-indexed.

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

Principles for estimating exposures

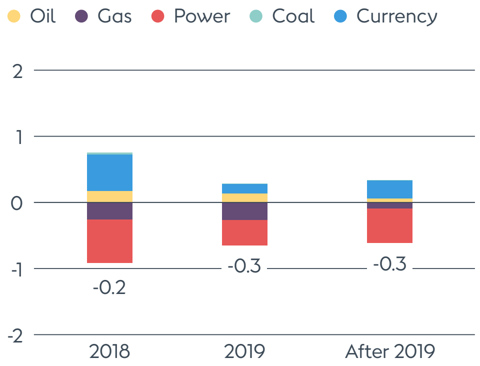
Exposure is calculated as the expected production (or net purchase/sale) times the forward price for the respective years. In addition, the exposure is determined on the basis of the expected exposure after renegotiations of oil-indexed gas purchase contracts.

Wind Power's power price exposure, DKK billion



The table shows the split of income from Wind Power's generation of power divided into market prices and other fixed elements.

Expected value for recognition in business performance EBITDA, DKK billion



The table shows the time of the transfer of the value of hedging contracts in business performance EBITDA for both business performance and IFRS hedges.

Note	**Overview of the Group's derivative positions,** DKK million	2017 Energy hedging Contractual principal amount	2017 Energy hedging Market value	2017 Currency and interest rate hedging Contractual principal amount	2017 Currency and interest rate hedging Market value	2016 Energy hedging Contractual principal amount	2016 Energy hedging Market value	2016 Currency and interest rate hedging Contractual principal amount	2016 Currency and interest rate hedging Market value
	Recognised with EBITDA impact								
1.1, 7.2	Economic hedging	21,396	(940)	25,303	592	21,319	(1,068)	20,946	512
7.2	Hedging of cash flows, currency	-	-	23,588	678	-	-	15,532	1,476
7.3	Trading portfolio	8,720	118	-	-	4,783	(375)	-	-
	Total	**30,116**	**(822)**	**48,891**	**1,270**	**26,102**	**(1,443)**	**36,478**	**1,988**
	Recognised in financial income and expenses								
6.4	Hedging of fair value, securities	-	-	-	-	-	-	794	(3)
7.2	Hedging of fair value, currency	-	-	18,178	(716)	-	-	18,334	(398)
7.2	Hedging of cash flows, interest	-	-	-	-	-	-	677	78
7.2	Hedging of cash flows, currency	-	-	2,739	(365)	-	-	2,846	(391)
	Other interest derivatives	-	-	550	-	-	-	550	(25)
	Other currency derivatives	-	-	3,923	605	-	-	851	344
	Total	**-**	**-**	**25,390**	**(476)**	**-**	**-**	**24,052**	**(395)**
	Recognised in other comprehensive income								
7.2	Hedging of net investments	-	-	29,686	476	-	-	24,421	253
	Total	**-**	**-**	**29,686**	**476**	**-**	**-**	**24,421**	**253**
	Total continuing operations	**30,116**	**(822)**	**103,967**	**1,270**	**26,102**	**(1,443)**	**84,951**	**1,846**
	Recognised in discontinued operations								
	Economic hedging	-	-	-	-	10,849	1,557	11,541	(201)
	Hedging of fair value, currency	-	-	2,480	48	-	-	-	-
	Total discontinued operations	**-**	**-**	**2,480**	**48**	**10,849**	**1,557**	**11,541**	**(201)**
	Total	**30,116**	**(822)**	**106,447**	**1,318**	**36,951**	**114**	**96,492**	**1,645**

The table shows the Group's derivatives and commercial contracts according to the type of accounting treatment and the affected items. The accounting treatment and classification of hedging contracts depend on the purpose of the hedging:

- Economic hedging comprises hedging of energy-related risks and related currency risks. These hedging contracts are treated as hedge accounting in accordance with the business performance principle (see note 1.1 for a detailed description), whereby the value adjustment (loss/gain) is deferred and only recognised during the period in which the hedged transaction materialises. Under IFRS, the value adjustment of this type of hedging is recognised directly in the income statement.

- Hedging of cash flows concerning interest rates and currencies comprises hedging of future interest payments and currency risks on future income. When hedging cash flows, the effective portion of the market value is temporarily recognised in equity until the hedged transaction materialises.

- Hedging of the market value of securities or currency comprises hedging of recognised assets or liabilities. By hedging the market value, the effective portion of the market value is recognised in profit (loss) for the year together with changes in the market value of the hedged asset or the hedged liability.

- Hedging of net investments comprises hedging of the currency risk associated with investments in assets located in foreign countries. By hedging of net investments, the effective portion of the market value is recognised in equity until the hedged net investment is divested.

- The trading portfolio and other interest and currency derivatives are recognised at market value in the income statement.

Note 1.1 provides further details on economic hedging, including information about the underlying products traded.

7.2 Hedge accounting and economic hedging

Hedge accounting 2017, DKK million	Contractual principal amount	Maturity analysis 2018	2019	After 2019	Market value Asset	Liability	Recognised in comprehensive income	Expected transfers to income statement 2018	2019	After 2019
Hedging of cash flows										
Revenue etc. (USD)	1,316	136	132	1,048	27	(14)	13	1	1	11
Divestments (GBP)	22,272	10,143	11,575	554	819	(154)	385	344	41	-
Interest payments (fixed)	-	-	-	-	-	-	(234)	(41)	(41)	(152)
Interest payments (GBP)	2,739	548	548	1,643	-	(365)	(365)	(105)	(102)	(158)
Hedging of fair value										
EUR	9,391	4,924	-	4,467	3	(1)				
GBP	8,787	-	-	8,787	-	(718)				
USD	2,480	310	1,240	930	48	-				
Hedging of net investment										
GBP	23,868	10,563	2,602	10,703	1,381	(906)				
EUR	5,668	1,201	-	4,467	2	(2)				
USD	150	-	-	150	1	-				

Hedge accounting 2016, DKK million	Contractual principal amount	Maturity analysis 2017	2018	After 2018	Market value Asset	Liability	Recognised in comprehensive income	Expected transfers to income statement 2017	2018	After 2018
Hedging of cash flows										
Divestments (GBP)	15,532	12,238	3,294	-	1,514	38	1,309	1,032	277	-
Interest payments (fixed)	677	-	-	677	78	-	(247)	(84)	(35)	(128)
Interest payments (GBP)	2,846	569	569	1,708	-	(391)	(391)	(93)	(90)	(208)
Hedging of fair value										
EUR	7,439	1,784	1,198	4,457	-	(21)				
GBP	10,895	-	-	10,895	-	(377)				
Hedging of net investment										
EUR	5,656	-	1.199	4,457	16	(4)				
GBP	18,765	(2.817)	8.327	13,255	2,136	(1,895)				

Cash flow hedging

Forward exchange contracts have been concluded for the purpose of hedging the currency risk associated with the construction of offshore wind farms which are expected to be divested.

Ineffectiveness of currency hedging totalled DKK 0 million (2016: DKK 0 million). Forward exchange contracts have also been concluded for the purpose of hedging the currency risk associated with interest payments on loans in GBP.

All hedges take place using an instrument with the same price risk as the exposure. The GBP exposure, for example, is hedged using GBP derivatives or GBP loans. Therefore, the hedging ratio for all IFRS hedges is one-to-one.

Accounting policies

We primarily use hedge accounting for currency and interest where it is possible to use hedging instruments which hedge the desired risk one-to-one. The GBP exposure, for example, is hedged using GBP forward exchange contracts, GBP swaps or GBP loans. There are thus no significant sources of ineffectiveness. For currency swaps, the basic spread is accounted for according to the cost of the hedging model.
To the extent that a risk needs to be hedged, and if there is no fully effective instrument available in the market, analyses are performed of the expected effectiveness of the hedging instrument before the hedging transaction is concluded. In this case, the ratio between the hedged risk and the hedging instrument may deviate from the one-to-one principle and will be determined as the ratio which most effectively hedges the desired risk.

We recognise changes to the market value of hedging instruments that qualify for recognition as a hedge of future cash flows in other comprehensive income in the hedging reserve. On realisation of the hedged cash flow, the resulting gain or loss is transferred from equity and recognised in the same item as the hedged item. However, on hedging of proceeds from future loans, the resulting gain or loss is transferred from equity over the term of the loan.

When we conclude a hedging transaction, and each time we present financial statements thereafter, we assess whether the hedged exposure and the hedging instrument are still financially correlated. If the hedged cash flows are no longer expected to be realised, the accumulated value change is transferred to profit (loss) for the year.

Changes in the market value of derivatives that are classified as hedges of the fair value of a recognised asset or liability are recognised in profit (loss) for the year together with changes in the value of the hedged asset or liability to the extent of the hedged risk.

Economic hedging and commercial contracts

The purpose of economic hedging is to reduce our risk from generation and sale of energy. Fluctuations in value are expected to be offset by the underlying exposure.

When the market value of contracts classified as economic hedging, commercial contracts and partly cash flow hedging (currency) is recognised in the income statement, we present them in the hedging item which is included in EBITDA.

We have entered into a number of commercial contracts under which physical delivery is made, and which are managed together with the financial contracts, for which reason they are recognised at market value in accordance with IFRS.

Under the business performance principle, the market value adjustment of contracts concluded for the purpose of economic hedging and commercial contracts is deferred to the period during which the hedged transaction affects results. See note 1.1.

Our hedging of energy prices and commercial contracts recognised at market value is specified in the table below.

The table shows an effect on EBITDA from agreements with a contractual principal amount of DKK 46,699 million (2016: DKK 42,265 million).

Hedging of net investments in foreign subsidiaries

Our foreign activities entail currency risk. We hedge this currency risk by raising loans in foreign currencies, entering into forward exchange contracts and investing in currency swaps and options.

Economic hedging and commercial contracts, DKK million	2017 Contractual principal amount	2017 Market value	2016 Contractual principal amount	2016 Market value
Energy				
Oil swaps	3,595	374	3,985	(76)
Gas swaps	6,939	(626)	7,522	(629)
Power swaps	7,745	(1,009)	8,014	(641)
Power options	2,941	280	1,497	242
Coal	176	41	301	36
Currency				
Forward exchange contracts	25,303	592	20,946	512
Total	**46,699**	**(348)**	**42,265**	**(556)**

Under the business performance principle, economic hedging is accounted for as effective hedging. The resulting market value adjustment is consequently deferred to the period in which the hedged transaction affects results.

The contractual principal amount has been determined as the net position per derivative type.

At 31 December 2017, the accumulated exchange rate adjustments totalled DKK -1,606 million divided between the exchange rate adjustment of the net investment of DKK -2,189 million and the hedging thereof of DKK 583 million.

Ineffectiveness relating to hedging of net investments in foreign subsidiaries totalled DKK 0 million (2016: DKK 1 million) and is recognised in financial income and expenses.

Hedging of net investments in foreign subsidiaries, DKK million

2017	Net investment[1]	Of which non-controlling interests	Hedged amount in currency	Net position	Accumulated exchange rate adjustment in equity
Currency					
GBP	35,991	(3,777)	(23,868)	8,346	(1,527)
EUR	13,784	-	(5,668)	8,116	(15)
Other	286	-	(150)	136	(64)
Total	**50,061**	**(3,777)**	**(29,686)**	**16,598**	**(1,606)**
2016					
Currency					
GBP	35,678	(4,291)	(18,765)	12,622	(1,309)
EUR	15,220	-	(5,656)	9,564	(38)
Other	3,349	-	-	3,349	(363)
Total	**54,247**	**(4,291)**	**(24,421)**	**25,535**	**(1,710)**

At 31 December 2017, net investments hedged by a derivative were hedged at an average price of 8.61 for GBP and 7.43 for EUR.

The table shows our hedging of investments in foreign subsidiaries. The table also shows the exchange rate adjustment of the investment as well as the associated hedging value.

The net position expresses the accounting exposure. If, for example, the GBP/DKK exchange rate had gone up by 10% on 31 December 2017, equity would have increased by DKK 835 million, corresponding to 10% of DKK 8,346 million.

Accounting policies

Economic hedging and commercial contracts
Market value adjustments of financial contracts offered to customers with a view to price hedging and financial instruments that have been entered into to hedge the Group's principal operating activities are recognised as revenue or cost of sales.

Under the business performance principle, economic hedging is accounted for as effective hedging. The resulting market value adjustment is consequently deferred to the period in which the hedged transaction affects results. See note 1.1 for further information.

The contractual principal amount has been determined as net position per derivative type.

Hedging of net investments in foreign subsidiaries
Changes in the market value of derivatives and loans that are used to hedge net investments in foreign subsidiaries or associates are recognised in the consolidated financial statements directly in equity within a separate foreign currency translation reserve.

7.3 Trading portfolio

Trading portfolio

The purpose of our trading portfolio is to:
– optimise hedging contracts
– contribute to increased market insight and
– profit from short-term fluctuations in energy prices.

The trading portfolio consists primarily of positions in oil, gas and power.

The trading portfolio constitutes a smaller part of our total portfolio of derivatives, and the associated risk is limited. Also, earnings from the trading portfolio constitute a limited share of our total earnings.

When a hedging instrument does not fully correspond to the hedged risk, any difference between the hedging contract entered into and the hedged exposure is recognised in the income statement as part of the gain (loss) from the trading portfolio.

Overview of the Group's trading portfolio, DKK million	2017 Contractual principal amount	2017 Market value	2016 Contractual principal amount	2016 Market value
Oil swaps	287	(361)	848	(810)
Gas swaps and options	2,772	170	2,199	440
Power swaps and options	5,566	363	1,647	3
Carbon emissions allowances	44	(14)	69	(18)
Coal	51	(40)	20	10
Total	**8,720**	**118**	**4,783**	**(375)**

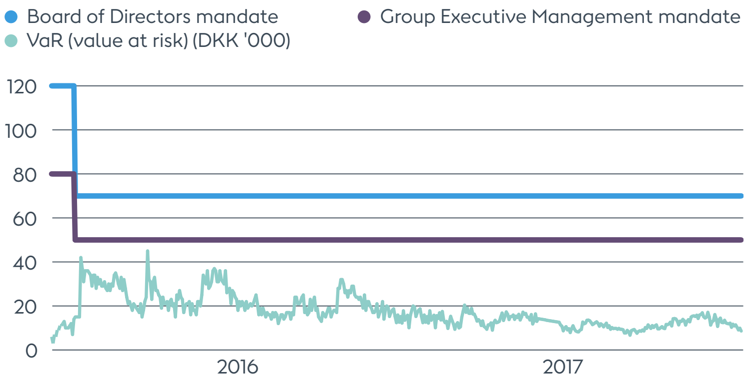
The contractual principal amount has been determined as the net position per derivative type. The table shows the market value of our derivatives which are included in the trading portfolio at 31 December 2017.

Market trading mandates

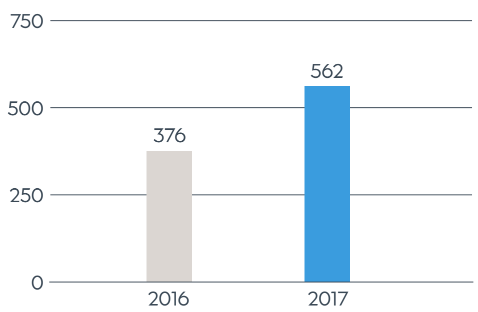
VaR max. in 2017: DKK 70 million	Stress max. in 2017: DKK 400 million	Maximum open positions in trading portfolio
VaR indicates the largest loss in one trading day to a probability of 95%. VaR is based on data for the past 60 trading days with the heaviest weighting being assigned to the most recent trading days.	Stress indicates the largest daily loss we risk sustaining with the given portfolio. Stress is based on data from 1 January 2006 to the present day.	– Max. 15TWh of gas – Max. 4 million boe of oil – Max. 8TWh of power – Max. 3 million tonnes of CO_2 – Max. 2 million tonnes of coal

Trading activities are carried out within mandates approved by the Board of Directors. The mandates comprise a value-at-risk (VaR) mandate and a stress mandate as well as a limit for the maximum positions measured in energy units per product (oil, gas, etc.).

Daily position in the trading portfolio, market trading mandates, DKK million



Annual contribution margin from the trading portfolio, DKK million



Accounting policies

Market value adjustments of physical and financial contracts relating to energy that are concluded with a view to generating gains from short-term price changes are recognised as revenue.

7.4 Sensitivity analysis of financial instruments

The sensitivity analysis in the table shows the effect of market value changes assuming a relative price change at 31 December 2017.

Effect on profit (loss) before tax comprises financial instruments that remained open at the balance sheet date, and which have an effect on profit (loss) in the current financial year. The effect is broken down by:

– trading portfolio; these contracts will affect profit
– Other financial instruments include economic hedging and commercial contracts; the market value changes of contracts allocated as economic hedges will be offset, in full or in part, by a change in the hedged risk.

Effect on equity before tax comprises financial instruments that remained open at the balance sheet date, and which are value-adjusted directly in equity.

Financial instruments include derivatives as well as receivables and payables in foreign currencies.

The illustrated sensitivities only comprise our financial instruments and therefore omit 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.

Sensitivity analysis of financial instruments, DKK million

		31 December 2017			31 December 2016		
		Effect on profit (loss) before tax		Effect on equity before tax	Effect on profit (loss) before tax		Effect on equity before tax
Risk	Price change	Trading portfolio	Other financial instruments[1]		Trading portfolio	Economic hedging [1]	
Oil	10%	10	134	-	10	(86)	-
	-10%	(10)	(134)	-	(10)	86	-
Gas	10%	(81)	(607)	-	(107)	(2,773)	-
	-10%	75	607	-	107	2,773	-
Power	10%	86	(952)	-	126	(885)	-
	-10%	(81)	959	-	(135)	894	-
Coal	10%	(6)	(43)	-	(1)	(43)	-
	-10%	6	43	-	1	43	-
USD	10%	91	131	(132)	38	(243)	-
	-10%	(91)	(131)	132	(38)	243	-
GBP	10%	31	(2,312)	(1,534)	(57)	(2,112)	(1,165)
	-10%	(31)	2,312	1,942	57	2,112	1,285
EUR	10%	419	(1,304)	522	175	(468)	-
	-10%	(419)	1,304	(522)	(175)	468	-
Interest	100 basis points	-	-	-	(255)	-	(4)

[1] Other financial instruments include derivatives classified as economic hedging comprises derivatives entered into to hedge future financial risks. The market value changes of these contracts will be offset, in full or in part, by a change in the hedged risk. Also included are commercial contracts recognised at market value.

If the hedged exposure had been included in the sensitivity analysis, the effect of a price change would have been reduced or offset entirely.

Net investments and associated hedging of net investments in foreign subsidiaries are not included in the table, as the effect of the sum of the investment and the hedging is considered to be neutral to price changes.

A 10% increase in the currencies hedged in connection with net investments would reduce equity by DKK -2,969 million (2016: DKK -2,442 million) arising from the hedging instruments. All other conditions being equal, a decrease in the exchange rate would have had a corresponding opposite effect.

7.5 Credit risks

We are exposed to credit risks from our trading partners and customers. A large part of our counterparty risks concerns major international energy companies and banks. Such trading is regulated under standard agreements, such as EFET and ISDA agreements, which feature, for instance, credit rating and netting provisions. Our credit exposure is mainly concentrated on counterparties in Denmark, the UK, Germany and Sweden.

We limit our credit risks by:
– systematically rating significant counterparties
– granting credit limits or
– demanding that collateral be furnished or credit insurance.

Credit quality of the Group's counterparties, DKK million

	2017	2016
AAA/Aaa	23,329	14,047
AA/Aa	5,197	3,687
A/A	4,969	7,382
BBB/Baa	1,712	2,558
Non-rated	11,072	9,849
Total credit exposure	**46,279**	**37,523**

The table shows the credit quality of our counterparties distributed by category. In addition, we have receivables and construction contracts related to the construction of offshore wind farms amounting to DKK 13.349 million where we have collateral in the offshore wind farm under construction.

The counterparties and credit limits granted are monitored on an ongoing basis. The monitoring is based on the framework established by our Board of Directors and Executive Board. For the most significant counterparties, an internal credit rating is required to determine the internal rating and the granting of credit limits. The rating is based on information from external credit rating agencies, publicly available information and own analyses.

We suffered no losses from any single major counterparty in 2017 or 2016.

The credit risk from our financial assets primarily concerns derivatives, cash and bond portfolios as well as receivables. The assessment is based on the individual counterparty's ratings with Standard & Poor's, Moody's and Fitch. The figures do not reflect our actual credit exposure as the positions are calculated before offsetting our debt to such counterparties.

The AAA/Aaa category covers our position in Danish AAA-rated government and mortgage bonds. The non-rated category primarily consists of trade receivables from customers, such as end-users and PSO customers.

Accounting policies

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

Offsetting of financial assets, DKK million

	Derivatives	Trade receivables	2017	Derivatives	Trade receivables	2016
Financial assets	9,743	33,270	43,013	21,734	30,349	52,083
Financial liabilities, offset	(5,000)	(29,480)	(34,480)	(14,065)	(28,061)	(42,126)
Financial assets in the balance sheet	**4,743**	**3,790**	**8,533**	**7,669**	**2,288**	**9,957**
Amounts not offset in the balance sheet:						
Liabilities with right of set-off	(1,611)	-	(1,611)	(1,697)	-	(1,697)
Collateral received in the form of bonds	(787)	-	(787)	(773)	-	(773)
Net	**2,345**	**3,790**	**6,135**	**5,199**	**2,288**	**7,487**

Offsetting of financial liabilities, DKK million

	Derivatives	Trade payables	2017	Derivatives	Trade payables	2016
Financial liabilities	8,700	32,327	41,027	19,683	30,330	50,013
Financial assets, offset	(5,000)	(29,480)	(34,480)	(14,065)	(28,061)	(42,126)
Financial liabilities in the balance sheet	**3,700**	**2,847**	**6,547**	**5,618**	**2,269**	**7,887**
Amounts not offset in the balance sheet:						
Assets with right of set-off	(1,611)	-	(1,611)	(1,697)	-	(1,697)
Collateral provided in the form of bonds	(40)	-	(40)	(276)	-	(276)
Net	**2,049**	**2,847**	**4,896**	**3,645**	**2,269**	**5,914**

The table shows our financial assets and liabilities where a share is offset and is therefore presented net. We have a number of counterparties in respect of which we are both buyer and seller of financial contracts, etc. Consequently, our gross financial assets and liabilities can be significant before offsetting. Offsetting is typically limited within specific products.

The decrease in the amount offset regarding derivatives is mainly attributable to the decrease in the market value of oil derivatives.

7.6 Categories of financial instruments

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 and issued bonds where the market value is stated in note 6.1.

Categories of financial instruments, DKK million	2017	2016
Energy and currency derivatives	2,589	4,945
Securities	25,280	16,533
Financial assets measured at fair value via income statement	**27,869**	**21,478**
Interest derivatives	-	78
Currency derivatives	2,281	3,666
Derivatives (assets) used as hedging instrument	**2,281**	**3,744**
Trade receivables	9,170	7,286
Other accounts receivable	8,812	5,204
Financial assets measured at amortised cost	**17,982**	**12,490**
Energy and currency derivatives	2,214	4,201
Financial liabilities measured at fair value via income statement	**2,214**	**4,201**
Interest derivatives	-	3
Currency derivatives	2,160	2,726
Derivatives (liabilities) used as hedging instrument	**2,160**	**2,729**
Bank loans and issued bonds	29,636	24,183
Trade payables	11,499	10,024
Other accounts payable	2,767	4,032
Financial liabilities measured at amortised cost	**43,902**	**38,239**

The table shows our financial instruments divided into categories. The category indicates how the financial instrument is recognised in the financial statements.

7.7 Fair value measurement

Fair value hierarchy, DKK million	Assets			Equity and liabilities
	Securities	Derivatives	Other receivables	Derivatives
2017				
Level 1	22,490	444	-	667
Level 2	2,790	3,478	-	2,602
Level 3	-	948	105	1,105
Total 2017	**25,280**	**4,870**	**105**	**4,374**
2016				
Level 1	13,428	2,461	-	1,467
Level 2	3,105	5,959	-	5,037
Level 3	-	269	-	426
Total 2016	**16,533**	**8,689**	**-**	**6,930**

Valuation principles and key 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 external information that most accurately reflects the fair values.

Fair values are determined continuously by our Risk Management function, which reports to the CFO.

Accounting policies

Level 1 comprises quoted securities and derivatives that are traded in active markets.

Level 2 comprises derivatives, where valuation models with observable inputs are used to measure fair value.

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

The fair values are based on assumptions concerning the long-term prices of, in particular, power, gas, coal, USD, EUR, volatilities as well as risk premiums in respect of liquidity and market risks. Since there are no active markets for the long-term prices of power, oil and gas, the fair value has been determined through an estimate of the future prices. The most important parameter resulting in commodity contracts being classified as level 3 is the power price. Normally, the price can be observed for a maximum of five years in the power market, after which an active market no longer exists. Beyond the five-year horizon, the energy price is thus projected on the basis of the observable forward price for years one to five. As the forward price of power develops stably during the five-year period, the projection over a small number of years is not deemed to be associated with any material risk.

In connection with the divestment of our Oil & Gas business, we will receive USD 100 million if the Rosebank field is developed. This payment is recognised at fair value under other receivables.

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

8. Other notes

8.1 Related-party transactions

Related parties that have control over the Group comprise the Danish State, represented by the Danish Ministry of Finance.

Related parties with a significant influence included Goldman Sachs until 2 March 2017, when Martin Hintze from Goldman Sachs stepped down from Ørsted A/S's Board of Directors.

Other related parties are the Group's associates and joint ventures, members of the Board of Directors and the Executive Board as well as other senior executives.

See note 8.5 for an overview of our joint ventures and associates.

Related-party transactions are made on arm's length terms. Intra-group transactions have been eliminated in the consolidated financial statements.

The remuneration and share programme for Group Executive Management and the Board of Directors is described in notes 2.6 and 2.7.

Board member Peter Korsholm has, through a company indirectly owned by him, had ordinary transactions with Danish Oil Pipe A/S, a wholly-owned subsidiary in the Ørsted Group.

In 2016, we divested Gas Distribution A/S to the Danish transmission system operator Energinet, which is owned by the Danish State. The cash selling price was DKK 2,325 million.

We use the exemption set out in IAS 24.25 concerning entities in which the Danish State is a related party, and transactions with government-related companies are therefore not disclosed. Transactions with owners consist solely of transactions with Goldman Sachs until 2 March 2017.

There were no other related-party transactions during the period.

Joint ventures, DKK million	2017	2016
Dividends received and capital reductions	-	175
Capital transactions, net	91	29
Purchase of goods and services	(23)	(143)
Interest, net	-	24
Receivables	-	674
Payables	-	133

Associates, DKK million	2017	2016
Dividends received and capital reductions	14	15
Sale of goods and services	7	17
Purchase of goods and services	(20)	(20)
Interest, net	1	-
Receivables	48	-
Payables	-	3

Owners, DKK million	2017	2016
Sale of goods and services	58	469
Receivables	-	17

Board of Directors, DKK million	2017	2016
Purchase of goods and services	110	-
Payables	11	-

8.2 Operating lease obligations

Our total operating lease obligations increased by DKK 3,106 million relative to last year. The increase in the obligations is primarily due to the fact that we have launched the Hornsea 1 project and in this connection entered into leases amounting to just over DKK 2 billion.

Wind Power's assets held under operating leases comprise mainly seabeds relating to the offshore wind farms in the UK, service vessels and a harbour area in Belfast, Northern Ireland.

Bioenergy & Thermal Power's most significant leased assets are two plots of land. In the Netherlands, we lease the land on which the Enecogen Power Station is located, and in the UK, we lease land in Northwich which will be the site of our first Renescience plant.

Distribution & Customer Solutions mainly lease gas storage facilities in Germany.

Leased assets recognised under 'Other activities' mainly comprise our two office premises in Gentofte and London. The premises are used by employees in most of our segments.

Seabed leases include variable lease payments which depend on the number of MWh generated. However, we have typically agreed on minimum lease payments for the seabeds.

Lease payments recognised in profit (loss) for the year amounted to DKK 885 million (2016: DKK 746 million).

For the purpose of calculating the FFO/adjusted interest-bearing net debt credit metric, the present value and interest expenses of the lease obligations are calculated. The results and the discount rate are shown in the table with supplementary information for operating lease obligations. We reduced the discount rate in 2017 due to the continued low interest rate environment.

Accounting policies

We recognise operating lease payments in profit (loss) for the year over the term of the lease on a straight-line basis. When using assets held under operating leases in respect of construction of offshore wind farms or other assets, we recognise lease payments in the cost of the asset in step with the construction of the asset.

Operating lease obligations by segment 2017, DKK million	Wind Power	Bioenergy & Thermal Power	Distribution & Customer Solutions	Other activities	Total
0-1 year	462	11	145	171	789
1-2 years	731	9	159	198	1,097
2-3 years	417	7	79	206	709
3-4 years	203	7	79	203	492
4-5 years	230	6	80	200	516
After 5 years	3,330	144	101	1,529	5,104
Total	**5,373**	**184**	**643**	**2,507**	**8,707**
Present value	**3,638**	**117**	**453**	**1,887**	**6,095**

Operating lease obligations by segment 2016, DKK million	Wind Power	Bioenergy & Thermal Power	Distribution & Customer Solutions	Other activities	Total
0-1 year	166	9	146	182	503
1-2 years	133	6	159	196	494
2-3 years	100	7	79	202	388
3-4 years	99	7	80	199	385
4-5 years	100	7	80	199	386
After 5 years	1,661	145	101	1,538	3,445
Total	**2,259**	**181**	**645**	**2,516**	**5,601**
Present value	**1,449**	**108**	**563**	**1,866**	**3,986**

Supplementary information to operating lease obligations, continuing operations, DKK million	2017	2016
Present value of lease payments	6,095	3,986
Lease payments recognised in profit (loss) for the year	885	746
Calculated interest expenses on lease obligations	234	194
Discount rate applied	3.5%	4.5%

The present value is calculated by discounting the individual obligations each year using our internal discount rate of 3.5% (2016: 4.5%).

8.3 Auditor's fees

PwC is Ørsted's auditors appointed by the annual general meeting. PwC audits the consolidated financial statements of Ørsted and our subsidiaries' financial statements in all the countries where we are represented.

Other assurance engagements primarily included reviews of the internal interim balance sheet for Oil & Gas, reviews of non-financial data and of regulatory financial statements.

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

Other services include other consultancy services from PwC, including advice in connection with due diligence and the divestment of assets and enterprises.

Fees for services other than statutory audit supplied by PwC Denmark to Ørsted amounted to DKK 8 million and consisted of accounting and tax advice in connection with the divestment of assets and enterprises, review of non-financial data and other general accounting and tax advice.

In 2016, PwC provided consultancy services in connection with the IPO. The fee for this totalled DKK 18 million.

Auditor's fees, DKK million	2017	2016
Statutory audit	11	9
Other assurance engagements	2	14
Tax and VAT advice	4	11
Other services	7	9
Total fees to PwC	**24**	**43**

In 2017, PwC provided advisory services totalling DKK 1.8 million concerning acquisition and divestment activities, which are not included in our limit for the use of PwC for non-audit services.

8.4 Contractual obligations

At 31 December 2017, contractual obligations in Wind Power mainly related to offshore wind turbines, foundations and cables, etc., for the construction of offshore wind farms. The obligations of Bioenergy & Thermal Power mainly related to the biomass conversion of Asnæs Power Station, while the obligations of Distribution & Customer Solutions related to the roll-out of smart meters.

Contractual obligations by segment, DKK million	Wind Power	Bioenergy & Thermal Power	Distribution & Customer Solutions	Other activities	Total
0-1 year	14,363	605	590	-	15,558
1-5 years	17,122	285	531	-	17,938
2017	**31,485**	**890**	**1,121**	**-**	**33,496**
2016	**41,676**	**569**	**1,300**	**869**	**44,414**

Overview of concluded contracts where delivery had not taken place at 31 December 2017.

8.5 Company overview

Segment/company/registered office	Type[1]	Ownership interest
Parent company		
Ørsted A/S, Fredericia, Denmark	-	-
Wind Power		
Anholt Havvindmøllepark I/S[2], Fredericia, Denmark	JO	50%
Barrow Offshore Wind Limited, London, UK	S	100%
Bay State HoldCo LLC., Delaware, USA	JV	50%
Bay State Wind LLC., Delaware, USA	S	100%
Borkum Riffgrund I Holding A/S, Fredericia, Denmark	S	100%
Borkum Riffgrund I Offshore Windpark A/S GmbH & Co. oHG, Norden, Germany	JV	50%
Borkum Riffgrund 2 Holding GmbH, Hamburg, Germany	S	100%
Borkum Riffgrund 2 Offshore Wind Farm GmbH & Co. oHG, Norden, Germany	S	50%
Breesea Limited, London, UK	S	100%
BSW Holdco LLC, Delaware, USA	JO	50%
BSW Projectco LLC, Delaware, USA	S	50%
Burbo Extension Holding Ltd, London, UK	JO	50%
Burbo Extension Ltd, London, UK	S	50%
Celtic Array Limited, Berkshire, UK	JV	50%
CT Offshore A/S, Fredericia, Denmark	S	67%
Cygnus Wind Transmission Limited, London, UK	S	100%
Formosa 1 Investment Company Limited, Taipei City, Taiwan	A	35%
Formosa I Wind Power Co., Ltd, Taipei City, Taiwan	A	35%
Gode Wind 03 GmbH, Hamburg, Germany	S	100%
Gode Wind 04 GmbH, Hamburg, Germany	S	100%
Gode Wind 1 Offshore Wind Farm GmbH & Co. oHG, Norden, Germany	JO	50%
Gode Wind 2 Offshore Wind Farm P/S GmbH & Co. oHG, Norden, Germany	JO	50%
Gunfleet Sands Holding Ltd., London, UK	S	50%
Gunfleet Sands II Limited, London, UK	S	100%
Gunfleet Sands Limited, London, UK	S	100%

Segment/company/registered office	Type[1]	Ownership interest
Horns Rev I Offshore Wind Farm, Fredericia, Denmark	JO	40%
Hornsea 1 Holdings Limited, London, UK	S	100%
Hornsea 1 Limited, London, UK	S	100%
Lincs Renewable Energy Holdings Limited, London, UK	JV	50%
Lincs Wind Farm (Holding) Limited, London, UK	JO	25%
Lincs Wind Farm Limited, Aberdeen, UK	JO	25%
London Array Limited, Kent, UK	JO	25%
Morecambe Wind Limited, London, UK	JO	50%
Njord Limited, London, UK	S	100%
Northern Energy OWP West GmbH, Hamburg, Germany	S	100%
Nysted Havmøllepark I, Fredericia, Denmark	JO	43%
Nysted I A/S, Fredericia, Denmark	S	86%
Nördlicher Grund GmbH, Hamburg, Germany	S	100%
Ocean Wind LLC, Delaware, USA	S	100%
OFTRAC Limited, London, UK	S	100%
Optimus Wind Limited, London, UK	S	100%
Optimus Wind Transmission Limited, London, UK	S	100%
Orsted Borkum Riffgrund I GmbH, Hamburg, Germany	S	100%
Orsted Borkum Riffgrund I HoldCo GmbH, Hamburg, Germany	S	100%
Orsted Borkum Riffgrund West I GmbH, Hamburg, Germany	S	100%
Orsted Borkum Riffgrund West II GmbH, Hamburg, Germany	S	100%
Orsted Borssele 1 B.V., 's-Gravenhage, Netherlands	S	100%
Orsted Borssele Holding B.V., 's-Gravenhage, Netherlands	S	100%
Orsted Burbo (UK) Limited, London, UK	S	100%
Orsted Burbo Extension Holding Ltd, London, UK	S	100%
Orsted Gode Wind 1 Holding GmbH, Hamburg, Germany	S	100%
Orsted Gode Wind 2 GmbH, Hamburg, Germany	S	100%
Orsted Gunfleet Sands Demo Ltd, London, UK	S	100%

Segment/company/registered office	Type[1]	Ownership interest
Orsted Hornsea Project Four Limited, London, UK	S	100%
Orsted Hornsea Project Three (UK) Limited, London, UK	S	100%
Orsted InvestCo Limited, Taipei City, Taiwan	S	100%
Orsted Isle of Man (UK) Limited, Isle of Man	S	100%
Orsted Lincs (UK) Ltd., London, UK	S	100%
Orsted London Array II Limited, London, UK	S	100%
Orsted London Array Limited, London, UK	S	100%
Orsted North America Inc., Delaware, USA	S	100%
Orsted Power (Gunfleet Sands) Ltd, London, UK	S	100%
Orsted Power (Participation) Ltd, London, UK	S	100%
Orsted Power (UK) Limited, London, UK	S	100%
Orsted Race Bank (Holding) Ltd., London, UK	S	100%
Orsted Shell Flats (UK) Limited, London, UK	S	100%
Orsted Speicher R GmbH, Hamburg, Germany	S	100%
Orsted Taiwan Ltd., Taipei City, Taiwan	S	100%
Orsted UK III Limited, London, UK	S	100%
Orsted Walney Extension Holdings Limited, London, UK	S	100%
Orsted West of Duddon Sands (UK) Limited, London, UK	S	100%
Orsted Westermost Rough Limited, London, UK	S	100%
Orsted Wind Power Germany GmbH, Hamburg, Germany	S	100%
Orsted Wind Power Netherlands B.V., 's-Gravenhage, Netherlands	S	100%
Orsted Wind Power Netherlands Holding B.V.,'s-Gravenhage, Netherlands	S	100%
Orsted Wind Power North America LLC, USA	S	100%
Race Bank Wind Farm (Holding) Limited, London, UK	JO	50%
Race Bank Wind Farm Limited, London, UK	JO	50%
Rhiannon Wind Farm Limited, Windsor, UK	JV	50%
Scarweather Sands Limited, Coventry, UK	JV	50%
SMart Wind Limite, London, UK	S	100%
Smart Wind SPC8 Limited., London, UK	S	100%
Sonningmay Wind Limited, London, UK	S	100%
Soundmark Wind Limited, London, UK	S	100%
UMBO GmbH, Hamburg, Germany	A	90%

Segment/company/registered office	Type[1]	Ownership interest
VI Aura Limited, London, UK	S	100%
VI Aura Transmission Limited, London, UK	S	100%
Walney (UK) Offshore Windfarms Limited, London, UK	S	50%
Walney Extension Holdings Limited, London, UK	JO	50%
Walney Extension Limited, London, UK	JO	50%
West of Duddon Sands, London, UK	JO	50%
Westermost Rough (Holding) Limited, London, UK	JO	50%
Westermost Rough Limited, London, UK	JO	50%
Ørsted - Anholt Offshore A/S, Fredericia, Denmark	S	100%
Ørsted Horns Rev 2 A/S, Fredericia, Denmark	S	100%
Ørsted Horns Rev I A/S, Fredericia, Denmark	S	100%
Ørsted Hornsea 1 Holdings Limited, London, UK	S	100%
Ørsted Nearshore Wind ApS, Fredericia, Denmark	S	100%
Ørsted VE A/S, Fredericia, Denmark	S	100%
Ørsted Vind A/S, Fredericia, Denmark	S	100%
Ørsted Wind Power A/S, Fredericia, Denmark	S	100%
Ørsted Wind Power Denmark A/S, Fredericia, Denmark	S	100%
Ørsted Wind Power Holding A/S[3], Fredericia, Denmark	S	100%
Ørsted Wind Power TW Holding A/S, Fredericia, Denmark	S	100%
Bioenergy & Thermal Power		
Cure Renescience B.V., 's-Gravenhage, Netherlands	S	50%
DE Thermal Power Nr. 1 A/S in voluntary liquidation, Fredericia, Denmark	S	100%
DONG Energy Kraftwerke Greifswald Verwaltungs GmbH in liquidation, Stralsund, Germany	S	100%
DONG Energy New Bio Solutions Co. Ltd., Beijing, China	S	100%
Emineral A/S, Fredericia, Denmark	S	50%
Enecogen V.O.F, Europoort Rotterdam, Netherlands	JO	50%
Haderslev Kraftvarmeværk A/S in voluntary liquidation, Fredericia, Denmark	S	100%
Inbicon A/S, Fredericia, Denmark	S	100%
Kalundborg Bioenergi A/S, Skanderborg, Denmark	S	40%
Konsortiet for etablering af Maabjerg Energy Concept, Holstebro, Denmark	NC	50%
Maabjerg Energy Concept A/S, Fredericia, Denmark	S	70%
Orsted Holding Ludwigsau I GmbH, Hamburg, Germany	S	100%

Segment/company/registered office	Type[1]	Ownership interest
Orsted Kraftwerke Holding GmbH, Hamburg, Germany	S	100%
Orsted Netherlands B.V., 's-Gravenhage, Netherlands	S	100%
Orsted Power Rotterdam B.V., 's-Gravenhage, Netherlands	S	100%
Orsted Renescience Northwich Limited, London, UK	S	100%
Orsted Renescience Northwich O&M Limited, London, UK	S	100%
Orsted SP (UK) Limited, London, UK	S	100%
Orsted SP Holding (UK) Limited, London, UK	S	100%
Pyroneer A/S, Fredericia, Denmark	S	100%
Renescience A/S, Fredericia, Denmark	S	100%
Severn Power Funding Ltd., London, UK	S	100%
Stigsnæs Vandindvinding I/S, Slagelse, Denmark	NC	64%
Vejen Kraftvarmeværk A/S in voluntary liquidation, Fredericia, Denmark	S	100%
Ørsted Bioenergy & Thermal Power A/S[3], Fredericia, Denmark	S	100%
Ørsted Energy Storage Holding A/S, Fredericia, Denmark	S	100%
Ørsted New Bio Solutions China A/S, Fredericia, Denmark	S	100%
Ørsted New Bio Solutions Holding A/S, Fredericia, Denmark	S	100%
Distribution & Customer Solutions		
Danish Offshore Gas Systems A/S, Fredericia, Denmark	S	100%
Danish Oil Pipe A/S[3], Fredericia, Denmark	S	100%
Etzel-Kavernenbetriebsgesellschaft mbH & Co. KG, Bremen, Germany	A	33%
Etzel-Kavernenbetriebs-Verwaltungsgesellschaft mbH, Bremen, Germany	A	33%
GNG ApS, Copenhagen, Denmark	A	31%
Obviux A/S, Fredericia, Denmark	S	100%
Orsted AB, Malmö, Sweden	S	100%
Orsted Energy Solutions (UK) Limited, London, UK	S	100%
Orsted Infrastructure GmbH[3], Hamburg, Germany	S	100%
Orsted Leitung E GmbH, Hamburg, Germany	S	100%
Orsted Markets GmbH, Hamburg, Germany	S	100%
Orsted Power Sales (UK) Limited, London, UK	S	100%
Orsted S&D (UK) Limited, London, UK	S	100%
Orsted Sales (UK) Limited, London, UK	S	100%
Orsted Sales GmbH, Hamburg, Germany	S	100%

Segment/company/registered office	Type[1]	Ownership interest
Orsted Services B.V.'s, Gravenhage, Netherlands	S	100%
Orsted Speicher E GmbH, Hamburg, Germany	S	100%
Radius Elnet A/S, Fredericia, Denmark	S	100%
Ørsted Pipelines A/S, Fredericia, Denmark	S	100%
Ørsted Real Estate A/S, Fredericia, Denmark	S	100%
Ørsted Sales & Distribution A/S[3], Fredericia, Denmark	S	100%
Ørsted Salg & Service A/S[3], Fredericia, Denmark	S	100%
Other		
EM El Holding A/S, Fredericia, Denmark	S	100%
EnergiGruppen Jylland El A/S, Fredericia, Denmark	S	100%
EnergiGruppen Jylland El Holding A/S, Fredericia, Denmark	S	100%
Lithium Balance A/S, Egedal, Denmark	A	15%
Orsted (UK) Ltd., London, UK	S	100%
Orsted Services Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia	S	100%
Orsted Polska Sp. z o. o., Warszawa, Poland	S	100%
Ørsted EGJ A/S, Fredericia, Denmark	S	100%
Ørsted El A/S[3], Fredericia, Denmark	S	100%
Ørsted Insurance A/S[3], Fredericia, Denmark	S	100%
Ørsted nr. 1 2008 A/S[2, 3], Fredericia, Denmark	S	100%
Ørsted Nr. 1 2014 A/S[2, 3], Fredericia, Denmark	S	100%
Ørsted Nr. 2 2014 A/S[2, 3], Fredericia, Denmark	S	100%
Ørsted Nr. 3 2014 A/S[2, 3], Fredericia, Denmark	S	100%
Ørsted Nr. 4 2014 A/S[2, 3], Fredericia, Denmark	S	100%
Ørsted Services A/S[3], Fredericia, Denmark	S	100%

[1] S = subsidiary
A = associate
JO = joint operation
JV = joint venture
NC = non-consolidated entity

[2] The company applies the provision in section 5 or section 6 of the Danish Financial Statements Act to omit presenting a separate annual report.

[3] Subsidiaries owned directly by Ørsted A/S

Consolidated ESG statements (additional information)

Introduction

Consolidated ESG statements

In the consolidated ESG statements, we give an account of our results, objectives and accounting policies in accordance with our strategic targets, business drivers and selected environmental, social and governance data.

Consolidation

Unless otherwise stated, ESG data are consolidated according to the same principles as the financial statements.

Data for accident statistics are calculated according to operational scope, which means that data are included for operations where Ørsted is responsible for safety, including the safety of external suppliers.

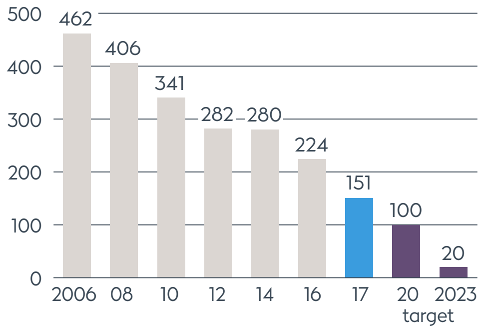
For further ESG data

Our full ESG data set can be seen in the independent publication 'ESG performance report 2017', which includes:

- a description of Ørsted's work for greater gender diversity at management level in accordance with section 99b of the Danish Financial Statements Act
- the distribution of selected ESG indicators by business unit and country.

In addition, we report on our sustainability efforts in the publication 'Sustainability report 2017'.

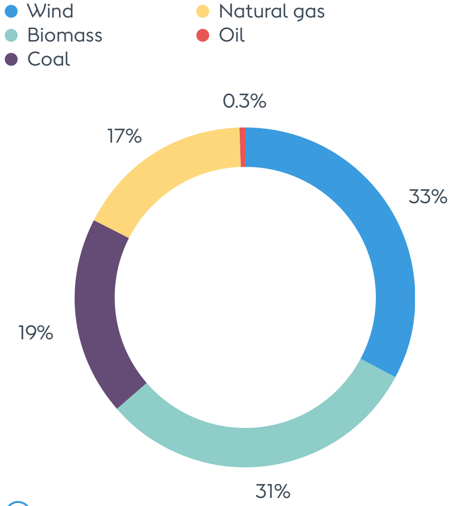
Greenhouse gas intensity,
CO_2e/kWh



In 2017, our CO_2e/kWh target was approved as a science-based target. Through this target, we are contributing to keeping the temperature increase below 2°C, which is the objective of the Paris Agreement from 2015.

Our goal is to reduce greenhouse gas emissions from heat and power generation by 96% by 2023 relative to 2006.

Total power and heat generation 2017 by energy source



The green share of the generation increased from 50% in 2016 to 64% in 2017.

The increase was due to higher generation from offshore wind combined with increased use of biomass and reduced use of coal for thermal generation.

TRIR of 6.4

Total Recordable Injury Rate (TRIR) has been reduced from 6.8 in 2016 to 6.4 in 2017. The target is a TRIR of 5.7 or less by the end of 2020.

LTIF of 1.6

The Lost-Time Injury Frequency (LTIF) has been reduced from 1.8 in 2016 to 1.6 in 2017.

0 fatal accidents

Our last fatal accident was in 2012.

Environment

Strategic target	Business driver	Title	Unit	Target	2017	2016
		Capacity				
	●	Decided (FID) capacity, offshore wind	GW		8.9	7.4
●	●	Installed capacity, offshore wind	GW	11-12 (ambition in 2025)	3.9	3.6
	●	Generation capacity, offshore wind	GW		2.5	2.0
	●	Wind speed	m/s		9.3	8.9
	●	Wind energy content	%		95	93
	●	Load factor	%		44	41
	●	Availability	%		93	92
		Generation				
	●	Power generation	TWh		16.7	14.4
	●	– Power generation, wind	TWh		8.5	6.0
	●	– Power generation, thermal	TWh		8.2	8.4
	●	Heat generation	TWh		9.0	9.2
	●	Degree days	Number		2,705	2,715
		Coal and biomass in thermal heat and power generation				
		Coal share of fuels used for thermal heat and power generation	%	0 (2023)	30	46
		Biomass share of thermal heat and power generation	%		47	32
		Sourcing of certified biomass	%	100% (2020)	72	61
		Greenhouse gases				
●		Greenhouse gas intensity	g CO_2e/kWh	≤ 100 (2020) ≤ 20 (2023)	151	224
		Renewable energy				
●		Green share of heat and power generation	%	≥ 95 (2023)	64	50

Decided offshore wind capacity rose by 1.5GW from 2016 to 2017. The increase was mainly due to the investment decision on Hornsea 2, which contributed 1.4GW.

Installed offshore wind capacity increased by 0.3GW to a total of 3.9GW after the opening of Burbo Bank Extension in 2017. Our 2025 ambition is to construct 11-12GW of offshore wind capacity.

The generation capacity of offshore wind increased by 0.5GW from 2016 to 2017. The increase can be attributed to Burbo Bank Extension as well as generation from the first offshore wind turbines at Race Bank and Walney Extension.

The combination of higher offshore wind capacity and better wind conditions contributed to 42% higher wind-based generation in 2017 than in 2016.

In 2017, thermal heat and power generation was 2% lower than in 2016. In 2017, we inaugurated the converted Skærbæk Power Station, which can now use biomass instead of natural gas. We will continue the transition from fossil fuels to biomass, and we will stop the use of coal by 2023.

As a result of the above, the green share of our generation increased from 50% in 2016 to 64% in 2017.

At the same time, we reduced our greenhouse gas intensity (mainly CO_2) by 33% from 2016 to 2017.

Accounting policies

Decided (FID) capacity, offshore wind
Decided (FID) capacity is the cumulative installed offshore wind capacity, including capacity for offshore wind farms where a final investment decision (FID) has been made.

Installed capacity, offshore wind
Installed offshore wind capacity is calculated as the cumulative offshore wind capacity installed by Ørsted. The capacity is calculated as installed gross capacity before divestments.

Generation capacity, offshore wind
Generation capacity is calculated as the power generation capacity which Ørsted produces and reports. The same scope and consolidation as for power generation are used.

Generation capacity is calculated and included from the time when individual offshore wind turbines pass the 240-hour test. Generation capacity, offshore wind has been calculated at 31 December. The Gunfleet Sands and Walney 1 and 2 offshore wind farms have been consolidated according to ownership interest. The other wind farms are financially consolidated.

Availability, load factor, wind speed and wind energy content for offshore wind
Availability, load factor, wind speed and wind energy content are calculated only for offshore wind farms. The time-based availability factor (availability) is calculated as the ratio of the number of hours the offshore wind farms are available for power generation to the total number of hours in a given period. Total availability is determined by weighting the individual offshore wind farms' availability by the capacity of the offshore wind farm. Availability is commercially adjusted.

The load factor is calculated as the ratio between actual generation over a period relative to potential generation which is possible by continuously exploiting the maximum capacity over the same period. The load factor is commercially adjusted.

Commercially adjusted means that, for Danish and German offshore wind farms, availability and load factor, respectively, are adjusted if the offshore wind farm has been financially compensated by the transmission system operators in situations where the offshore wind farm is available for generation, but the output cannot be supplied to the grid due to maintenance or grid interruptions. Offshore wind farms in the UK are not compensated for non-access to the grid.

New offshore wind turbines are included in the calculation of availability and load factor once they have passed the 240-hour test.

Wind speed shows the wind speeds of Ørsted's offshore wind farms. The wind speed is delivered for a number of areas where the individual offshore wind farms are located. Wind speed measurements are weighted on the basis of the capacity of the individual offshore wind farms and consolidated into an Ørsted total in the same way as generation. The wind speed of the period can be compared to a historical average. The wind speed measurements are provided by an external supplier.

Wind energy content is calculated as the ratio between actual gross generation in a given period and generation in a 'normal wind year'. Actual generation is calculated as actual net generation adjusted for availability. The wind energy content for new offshore wind farms is included from the beginning of the first calendar year in which the entire offshore wind farm is in operation.

Generation
Power generation from wind is calculated as sold generation. The Gunfleet Sands and Walney 1 and 2 offshore wind farms have been consolidated according to ownership interest. The other wind farms are financially consolidated.

Thermal power generation is determined as net generation sold based on settlements from the official Danish production database. Data for generation from foreign facilities are provided by the operators.

Thermal heat and steam generation is measured as net output sold to heat customers.

Degree days are a measure of how cold it has been and thus indicate the amount of energy needed to heat a building. The number of degree days helps to compare the heat demand for a given year with a normal year. A degree day is an expression of a difference of 1°C between the inside daily mean temperature of 17°C and the outside daily mean temperature over a period of 24 hours. The number of degree days in a day is therefore calculated as the difference between 17°C and the outside daily mean temperature. The source of degree days is the Danish Technological Institute, Energy and Climate.

Coal share of fuels used for thermal heat and power generation
The fuel consumption for heat and power generation at the individual power plants is stated in GJ. The coal share is calculated as the coal consumption in GJ relative to the total fuel volume in GJ.

Biomass share of thermal heat and power generation
This is calculated as the green share of heat and power generation, but is only shown for thermal generation, i.e. for the business unit Bioenergy & Thermal Power.

Sourcing of certified biomass
Certified biomass is defined as wood-based biomass; wood pellets and wood chips.

Certified biomass must be certified within at least one of the categories defined in the Danish industry agreement on sustainable biomass.

Certified biomass is calculated as the share of sourced certified wooden biomass out of the total sourcing of wooden biomass delivered to the CHP plants.

The reporting of certified biomass began in August 2016 on the start date of the Danish industry agreement on certification and reporting of certified biomass.

Greenhouse gas emissions
Greenhouse gas intensity is defined as the greenhouse gas emissions divided by the total heat, power and steam generation.

Greenhouse gases comprise greenhouse gas emissions in accordance with the GHG Protocol from the combustion of fuels in thermal heat and power generation. Greenhouse gases thus comprise CO_2 (carbon dioxide), N_2O (dinitrogen oxide) and CH_4 (methane).

In practice, waste is considered a partially carbon-neutral fuel, as it consists of both fossil fuels and biomass-based fuels. We use a conversion factor to calculate the carbon emissions from the incineration of waste. The conversion factor (37kg CO_2/GJ waste) has been used by the Danish Centre for Environment and Energy since 1990 and until today.

Green share of heat and power generation
The green (renewable energy) share of our heat and power generation and the distribution of the generation on the individual energy sources and fuels are calculated on the basis of the generation from the plants.

Wind-based generation is calculated as a total, as there is only one source of power.

For the CHP plants which can use several different fuels the calculation is as follows:
For the individual CHP plant unit in the given period, the share of the specific fired fuel (e.g. biomass) is calculated relative to the total fired fuel quantity. The fired fuel share is then multiplied by the total heat and power generation (including steam) for the specific unit in the specific period.

This results in the fuel-based generation for the individual unit – for example the biomass-based generation of heat and power in the CHP plant unit.

All the calculated fuel-based generation and the wind power generation are then added up to a total, which tallies with the total generation.

The percentage share of the individual energy sources is calculated by dividing the generation from the individual energy source by the total generation.

In practice, waste consists of a mixture of biomass and fossil fuel-based parts. When calculating the renewable energy share, waste fuel is therefore divided into a biodegradable and a non-biodegradable part. Key figures from the Danish Centre for Environment and Energy are used for this purpose.

The following energy sources and fuels are considered renewable energy: wind, biomass, waste (biodegradable). The following energy sources are considered fossil energy sources: coal, natural gas, oil and waste (non-biodegradable).

Social

Strategic target	Business driver	Title	Unit	Target	2017	2016
		Employees				
		Total number of employees at 31 December	Number of FTEs		5,638	5,775
		Average number of employees for the year	Number of FTEs		5,738	5,894
		Loyalty	Scale 0-100		84	83
●		Employee satisfaction	Scale 0-100	≥ 77 (2020)	76	76
		Safety				
		Fatal accidents	Number	0	0	0
		LTIF (lost-time injury frequency)	Per million working hours		1.6	1.8
●		TRIR (total recordable injury rate)	Per million working hours	≤ 5,7 (2020)	6.4	6.8
		Sales and distribution				
	●	Gas sales	TWh		129.0	143.4
	●	Power sales	TWh		37.5	36.5
	●	Power distribution	TWh		8.4	8.5
		Reliability of supply				
●		Reliability of supply (power cuts per customer, SAIFI)	Number	≤ DK average	0.42	0.39
		Customer satisfaction				
●		Customer satisfaction, B2C in Denmark	Scale 1-100	≥ 80 (2020)	76	76
●		Customer satisfaction, B2B	Scale 1-100	≥ 80 (2020)	77	75
●		Customer satisfaction, distribution customers in Denmark	Scale 1-100	≥ 80 (2020)	82	83

The number of employees fell by 2% from 2016 to 2017. The decrease was due to the divestment of the company A2SEA and staff reductions in the business units Bioenergy & Thermal Power and Distribution & Customer Solutions. On the other hand, the number of employees increased in Wind Power.

Loyalty and satisfaction are both high. With an employee satisfaction score of 76 in this year's employee satisfaction survey, we are close to achieving our target of 77 in 2020.

Safety KPIs showed good progress again in 2017.

In 2017, we introduced a new safety target, TRIR. TRIR decreased from 6.8 in 2016 to 6.4 in 2017. The aim is for a TRIR of less than 5.7 in 2020.

LTIF decreased from 1.8 in 2016 to 1.6 in 2017.

There were no fatal accidents in 2017.

We have increased our satisfaction target for business customers (B2B) to at least 80 in 2020 (previously 75).

Accounting policies

Employees
The reporting covers contractually employed employees in Danish and foreign Ørsted companies in which Ørsted holds an ownership interest of more than 50%. Employees in associates are not included.

Employee data are recognised based on records from the Group's ordinary registration systems. The number of employees is determined as the number of employees at the end of each month converted to full-time equivalents (FTEs).

Employees who have been made redundant are recognised until the expiry of their notice period, regardless of whether they have been released from all or some of their duties during their notice period.

Employee satisfaction and loyalty
Ørsted conducts a comprehensive employee satisfaction survey once a year. All Ørsted employees are invited to participate in the survey. In the survey, a number of questions are asked, for example, about employee satisfaction and loyalty. The answers are given on a scale from 1 to 10 and are subsequently converted to index figures on a scale from 0 to 100.

Safety
Occupational injuries are calculated according to operational scope. Data from companies wholly or partly owned by Ørsted and where Ørsted is responsible for safety are included. Occupational injuries and lost-time injuries are calculated for both our own employees and suppliers. Data from Danish and foreign locations are recognised.

The lost-time injury frequency (LTIF) is calculated as the number of lost-time injuries per one million hours worked. The number of hours worked is based on 1,667 working hours annually per full-time employee and monthly records of the number of employees converted into full-time employees. For suppliers, the actual number of hours worked is recognised on the basis of data provided by the supplier, access control systems at locations or estimates.

LTIF includes lost-time injuries defined as injuries that result in incapacity for work for one or more calendar days in addition to the day of the incident.

In addition to lost-time injuries, TRIR also includes injuries where the injured person is able to perform restricted work the day after the accident as well as accidents where the injured person has received medical treatment.

Power and gas sales
Sales of power and natural gas are calculated as physical sales to retail and wholesale customers and exchanges. Sales of power and gas are based on readings from Ørsted's trading systems. Internal sales to Bioenergy & Thermal Power are not included in the statement.

Power distribution
Power distribution is determined on the basis of data from the official system in Denmark, which measures and calculates total area consumption.

Reliability of supply
The frequency of announced and unannounced power cuts for customers is expressed in terms of SAIFI (system average interruption frequency index), which is calculated as the average number of power cuts per customer per year.

In 2017, we adjusted SAIFI to only include the distribution networks for which Radius is responsible. This means that SAIFI is shown exclusive of transmission grids. Comparative figures are adjusted accordingly. In the ESG performance report 2017, SAIFI is shown both with and without transmission grids.

Customer satisfaction
Customer satisfaction for residential customers (B2C) in Denmark is measured according to interaction between the customer and Ørsted. The score is therefore not an expression of customers' overall satisfaction with Ørsted, but is rather related to a given situation. The score is calculated as a weighted score based on a number of different types of touch points. The current touch points are customer service for gas and power, outbound sales and web. An external supplier conducts interviews.

Customer satisfaction for business customers (B2B) is determined on the basis of customer satisfaction surveys among Ørsted's business customers in Denmark, the UK and Sweden. Customer satisfaction is determined on the basis of interviews about customers' satisfaction with Ørsted as a whole. The survey only comprises active customers with whom Ørsted has been in touch in connection with contracts for the supply of power or gas in the previous or next month. So-called sleeping customers are therefore not included in the statement. The method follows the ACSI model based on the EPSI scale. External agencies conduct the interviews and report absolute and weighted results. As of 2017, B2B customer satisfaction is extended from comprising Danish customers only to also include customers from other markets.

Customer satisfaction for distribution customers in Denmark is determined on the basis of different types of interactions with distribution customers: Disruption of supply, replacement of meters as well as customer and market support. Customer satisfaction is measured as the customer's satisfaction in a specific context. Respondents are randomly selected, and the survey is carried out by an external supplier.

Customer satisfaction for residential and distribution customers thus relates to a specific situation, whereas customer satisfaction for business customers is an expression of customers' satisfaction with Ørsted as a whole. We have a number of very large business customers. In respect of these, it is important for us to assess the customer relationship in general and not just the experience of a specific situation.

Governance

Strategic target	Business driver	Title	Unit	Target	2017	2016
		Board members				
		Women on the Board of Directors of Ørsted A/S	%		50	38
		Good business conduct				
		Substantiated whistleblower cases	Number		3	3
		– Cases transferred to the police	Number		0	0

In 2017, there was equal gender representation on the Board of Directors, as the share of women was 50%.

In 2017, three substantiated cases of inappropriate or unlawful behaviour were reported through our whistleblower scheme. Two cases concerned violation of employement policies, and one case concerned a conflict of interest.

The cases have had consequences for the employees involved.

None of the cases reported were critical to the business or affected Ørsted's financial results.

We take all cases seriously and do what we can to prevent recurrences.

Accounting policies

Women on the Board of Directors of Ørsted A/S
The employee representatives on the Board of Directors are not included in the data and the targets for women on the Board of Directors.

Substantiated whistleblower cases
Ørsted's whistleblower hotline is available to both internal and external business partners so that they can report suspected or actual cases of inappropriate or illegal business conduct.

Whistleblower cases are received and handled by Internal Audit, which also receives similar reports through the management system and from compliance officers.

All cases are handled in accordance with the guidelines for the handling of whistleblower reports approved by the Audit and Risk Committee which is ultimately responsible for the whistleblower scheme.

Only cases which are closed during the financial year, and which have been reported to the Audit and Risk Committee as fully or partially substantiated, are included.

Cases transferred to the police
Cases transferred to the police are the number of whistleblower cases reported in accordance with the accounting policies mentioned above which are transferred to the police.

Basis of reporting

Accounting policies

This section describes the accounting policies applied to the ESG statements for the Group as a whole, while the specific accounting policies for the individual items are described in the previous sections.

Requirements, standards and guidelines

Pursuant to section 99a of the Danish Financial Statements Act, Ørsted is obliged to account for the company's CSR activities and report on business strategies and activities with regard to human rights, labour rights, anti-corruption as well as the environment and the climate.

Ørsted is a signatory to the UN Global Compact. The UN Global Compact provides enterprises with a strategic framework for incorporating ten principles on human rights, labour rights, anti-corruption measures as well as the environment and the climate into their strategy and business processes. The ten principles form the basis of Ørsted's sustainability efforts. Ørsted is consistently working to promote the principles.

Companies which are signatories to the UN Global Compact are under an obligation to submit and publish their annual communication on progress (COP) report, in which they must detail the progress made in implementing the ten UN Global Compact principles.

By publishing its COP report, Ørsted complies with section 99a of the Danish Financial Statements Act, provided that the annual report includes a reference to where the information is publicly available.

Ørsted's Sustainability Report (Orsted.com/baeredygtighed2017) is the Group's COP report and is available on the Global Compact website at https://www.unglobalcompact.org/what-is-gc/participants/2968#cop.

Under section 99b of the Danish Financial Statements Act, Ørsted must account for the company's objectives and policies which over time will ensure greater diversity in relation to gender representation at management level. This account can be found in our report 'ESG performance report 2017', but information about gender distribution is also included in Ørsted's COP report and consolidated ESG statements.

Consolidation of ESG data

Unless otherwise stated, ESG data are consolidated according to the same principles as the financial statements – financial scope.

Thus, the consolidated ESG statements include the parent company Ørsted A/S and subsidiaries controlled by Ørsted A/S. Data from associates and joint ventures are not included in the consolidated ESG statements.

Data for accident statistics are calculated according to operational scope, which means that data are included for operations where Ørsted is responsible for safety, including the safety of external suppliers.

In 2017, we divested our Oil & Gas business unit. Data for Oil & Gas are therefore not included in the consolidated ESG statements, neither for 2017 nor for previous years, as it is a discontinued activity.

Materiality assessment

In 2017, we focused the contents of the ESG statements on areas which are strategic focus areas for Group Executive Management. These are areas which are either included in the Group's strategic targets, or which are categorised as business drivers. We also include the other ESG data described in the Group's annual report.

In 2017, this has resulted in a number of – primarily supplementary sustainability indicators – being omitted from the consolidated ESG statements compared to 2016.

In 2017, the following indicators are not included compared to 2016

- Biomass share of Danish CHP generation capacity
- EU ETS carbon emissions
- Gas distribution
- Customer complaints
- Reputation
- Employee turnover rate
- Gender diversity in management (organisational levels)
- Lost-time injuries (number)
- Environmental accidents
- Share of employees who have completed a course in good business conduct
- Business partner screenings

In 2017, the following indicators were added compared to 2016

- Wind speed
- TRIR

Parent company financial statements

Income statement

1 January - 31 December

Note	**Income statement,** DKK million	2017	2016
	Revenue	232	229
	Other operating income	-	1
2	Employee costs	(31)	(28)
	External expenses	(315)	(453)
	Operating profit (loss) (EBIT)	**(114)**	**(251)**
	Gain on divestment of enterprises	(4,210)	1,527
3	Financial income	13,667	20,221
3	Financial expenses	(10,486)	(21,645)
	Profit (loss) before tax	**(1,143)**	**(148)**
4	Tax on profit (loss) for the year	(76)	623
5	**Profit (loss) for the year**	**(1,219)**	**475**

Balance sheet

31 December

Note	**Assets,** DKK million	2017	2016
6	Investments in subsidiaries	41,762	54,755
7	Receivables from subsidiaries	48,706	50,402
	Other receivables	1,325	-
	Financial assets	**91,793**	**105,157**
	Non-current assets	**91,793**	**105,157**
	Receivables from subsidiaries	15,664	7,628
8	Derivatives	3,596	19,980
	Other receivables	524	209
	Receivables	**19,784**	**27,817**
9	Securities	24,806	16,061
	Cash	862	438
	Current assets	**45,452**	**44,316**
	Assets	**137,245**	**149,473**

Note	**Equity and liabilities,** DKK million	2017	2016
	Share capital	4,204	4,204
	Reserves	(467)	20,782
	Retained earnings	27,522	11,958
	Proposed dividends	3,783	2,522
	Equity attributable to shareholders in Ørsted A/S	**35,042**	**39,466**
10	Hybrid capital	13,239	13,248
	Equity	**48,281**	**52,714**
4	Deferred tax	81	1,744
11	Other provisions	775	-
10	Bank loans and issued bonds	25,715	22,164
10	Other payables	27	1,516
	Non-current liabilities	**26,598**	**25,424**
	Bank loans and issued bonds	6,509	2,015
8	Derivatives	4,020	19,171
	Trade payables	159	173
	Payables to subsidiaries	48,638	48,461
	Other payables	2,433	886
	Income tax	607	629
	Current liabilities	**62,366**	**71,335**
	Liabilities	**88,964**	**96,759**
	Equity and liabilities	**137,245**	**149,473**

Statement of changes in equity

1 January - 31 December

Statement of changes in equity, DKK million	Share capital	Hedging reserve	Share premium reserve	Retained earnings	Proposed dividends	Shareholders in Ørsted A/S	Hybrid capital	Total
Equity at 1 January 2017	4,204	(497)	21,279	11,958	2,522	39,466	13,248	52,714
Transferred to retained earnings	-	-	(21,279)	21,279	-	-	-	-
Profit (loss) for the year	-	-	-	(1,935)	-	(1,935)	716	(1,219)
Ordinary dividends distributed	-	-	-	1	(2,522)	(2,521)	-	(2,521)
Proposed dividends for the financial year	-	-	-	(3,783)	3,783	-	-	-
Value adjustments of hedging instruments	-	254	-	-	-	254	-	254
Value adjustment transferred to gain on divestment of enterprises	-	(444)	-	-	-	(444)	-	(444)
Value adjustments transferred to financial income and expenses	-	229	-	-	-	229	-	229
Tax on changes in equity	-	(9)	-	-	-	(9)	-	(9)
Coupon payments, hybrid capital	-	-	-	-	-	-	(640)	(640)
Tax on coupon payments and costs, hybrid capital	-	-	-	-	-	-	141	141
Additions of issued hybrid capital	-	-	-	-	-	-	3,668	3,668
Hybrid capital transferred to payables	-	-	-	-	-	-	(3,894)	(3,894)
Share-based payment	-	-	-	2	-	2	-	2
Changes in equity in 2017	**-**	**30**	**(21,279)**	**15,564**	**1,261**	**(4,424)**	**(9)**	**(4,433)**
Equity at 31 December 2017	**4,204**	**(467)**	**-**	**27,522**	**3,783**	**35,042**	**13,239**	**48,281**
Equity at 1 January 2016	4,177	(399)	21,279	14,581	-	39,638	13,248	52,886
Issuance of bonus shares	27	-	-	(27)	-	-	-	-
Profit (loss) for the year	-	-	-	(24)	-	(24)	499	475
Proposed dividends for the financial year	-	-	-	(2,522)	2,522	-	-	-
Value adjustments of hedging instruments	-	(358)	-	-	-	(358)	-	(358)
Value adjustments transferred to financial income and expenses	-	232	-	-	-	232	-	232
Tax on changes in equity	-	28	-	-	-	28	-	28
Coupon payments, hybrid capital	-	-	-	-	-	-	(640)	(640)
Tax on coupon payments and costs, hybrid capital	-	-	-	-	-	-	141	141
Purchases of treasury shares	-	-	-	(53)	-	(53)	-	(53)
Share-based payment	-	-	-	3	-	3	-	3
Changes in equity in 2016	**27**	**(98)**	**-**	**(2,633)**	**2,522**	**(172)**	**-**	**(172)**
Equity at 31 December 2016	**4,204**	**(497)**	**21,279**	**11,958**	**2,522**	**39,466**	**13,248**	**52,714**

Share capital composition and dividends are disclosed in note 6.2 to the consolidated financial statements. You can also find information on treasury shares.

1. Basis of reporting

Accounting policies

The parent company financial statements have been prepared in accordance with the provisions of the Danish Financial Statements Act (reporting class D).

The accounting policies remain unchanged from the previous year.

Unless otherwise stated, the financial statements are presented in Danish kroner (DKK) rounded to the nearest million.

The parent company accounting policies are consistent with the accounting policies described for the consolidated financial statements, with the following exceptions:

Foreign currency translation

We recognise exchange rate adjustments of receivables from and payables to subsidiaries as financial income and expenses in the income statement when the balances are accounted for as part of the total net investment in foreign enterprises. Likewise, we recognise foreign exchange gains and losses on loans and derivatives in the income statement as financial income and expenses when they have been entered into to hedge the net investment in the foreign enterprises.

Revenue

Rental income comprises income from commercial leases and is recognised over the term of the lease. Income from services is recognised when delivery has taken place.

Dividends from investments

Dividends from subsidiaries and associates are recognised in the income statement for the financial year in which the dividends are approved at the annual general meeting. If the dividends exceed the total income after the time of takeover, the dividends are recognised as a reduction of the cost of the investment under assets.

Investments

We measure our investments in subsidiaries and associates at cost. If there is any indication that the value of a company is lower than our future earnings in the company, impairment testing of the company is carried out as described in the consolidated financial statements. The carrying amount is written down to the recoverable amount whenever the carrying amount exceeds the future earnings in the company (recoverable amount).

If we have a legal or constructive obligation to cover a deficit in subsidiaries and associates, we recognise a provision for this.

Tax

In 2005, we chose Danish international joint taxation. We have continuously assessed when it will be the most appropriate time to withdraw from the international joint taxation scheme, and we currently expect that this will be for the 2017 income year, which is reflected in the annual report. We will make the final decision in 2018 when preparing the tax returns for 2017. Therefore, the retaxation liability has been transferred to tax payable in 2017.

Ørsted A/S is taxed jointly with its Danish subsidiaries. The jointly taxed companies are part of joint taxation with the parent company as the management company.

Subsidiaries are included in the joint taxation from the date they are consolidated in the consolidated financial statements and up to the date on which they are no longer consolidated.

Current tax for 2017 is recognised by the individual jointly taxed companies.

Statement of cash flows

We do not prepare a separate statement of cash flows for the parent company. Reference is made to the consolidated statement of cash flows on page 68.

Key accounting estimates

In connection with the preparation of the financial statements, a number of accounting estimates have been made that affect the profit (loss) and balance sheet. Estimates are regularly reassessed by management on the basis of historical experience and other relevant factors.

Impairment test
If there is any indication that the carrying amount is lower than our future earnings in a company, we test for impairment as described in the consolidated financial statements. The future earnings of the company (recoverable amount) are calculated based on assumptions concerning significant estimates.

2. Employee costs

Employee costs, DKK million	2017	2016
Wages and salaries	24	20
Share-based payment	2	3
Remuneration for the Board of Directors	5	5
Total employee costs	**31**	**28**

Remuneration for the Executive Board, DKK '000	Henrik Poulsen		Marianne Wiinholt		Executive Board, total	
	2017	2016	2017	2016	2017	2016
Fixed salary	10,024	9,425	5,255	5,062	15,279	14,487
Variable salary	4,504	2,751	2,312	1,560	6,816	4,311
Share-based payment	1,367	1,427	713	889	2,080	2,316
Social security	2	2	2	2	4	4
Total	**15,897**	**13,605**	**8,282**	**7,513**	**24,179**	**21,118**

The remuneration report in the management's review and notes 2.6 and 2.7 to the consolidated financial statements describe the remuneration of the Executive Board and the Board of Directors, share-based payment, termination and bonus scheme for the Executive Board and details on the remuneration of the Board of Directors.

The parent company had an average of five employees in 2017 (2016: five employees).

3. Financial income and expenses

Financial income and expenses, DKK million	2017	2016
Interest income from cash, etc.	14	18
Interest income from subsidiaries	1,432	1,842
Interest income from securities at market value	211	417
Capital gains on securities at market value	55	141
Foreign exchange gains	664	1,715
Value adjustments of derivatives	8,751	14,363
Dividends received	2,513	1,630
Other financial income	27	95
Total financial income	**13,667**	**20,221**
Interest expenses relating to loans and borrowings	(1,584)	(1,685)
Interest expenses to subsidiaries	(9)	(50)
Capital losses on securities at market value	(217)	(252)
Foreign exchange losses	(1,549)	(4,282)
Value adjustments of derivatives	(7,106)	(15,349)
Other financial expenses	(21)	(27)
Total financial expenses	**(10,486)**	**(21,645)**
Net financial income and expenses	**3,181**	**(1,424)**

4. Tax on profit (loss) for the year and deferred tax

Income tax, DKK million	2017	2016
Tax on profit (loss) for the year	(76)	623
Tax on changes in equity	132	169
Total tax for the year	**56**	**792**
Tax on profit (loss) for the year can be broken down as follows:		
Current tax	(1,379)	(231)
Adjustments to deferred tax	1,298	803
Adjustments to current tax in respect of prior years	(360)	670
Adjustments to deferred tax in respect of prior years	365	(619)
Tax on profit (loss) for the year	**(76)**	**623**

Development in deferred tax, DKK million	2017	2016
Deferred tax at 1 January	1,744	1,928
Adjustment for the year recognised in profit (loss) for the year	(1,298)	(803)
Adjustments to deferred tax in respect of prior years	(365)	619
Deferred tax at 31 December	**81**	**1,744**

Specification of deferred tax, DKK million	2017	2016
Non-current liabilities	81	(3)
Current liabilities	-	17
Retaxation	-	1,730
Deferred tax	**81**	**1,744**

5. Distribution of net profit

Distribution of net profit, DKK million	2017	2016
Profit (loss) for the year is attributable to:		
Shareholders of Ørsted A/S, proposed dividends for the financial year	3,783	2,522
Shareholders of Ørsted A/S, retained earnings	(5,718)	(2,546)
Coupon and bond discount after tax, hybrid capital owners of Ørsted A/S	716	499
Profit (loss) for the year	**(1,219)**	**475**

6. Investments in subsidiaries

Investments in subsidiaries, DKK million	2017	2016
Cost at 1 January	70,436	54,291
Additions	2,333	16,500
Disposals	(31,007)	(355)
Cost at 31 December	**41,762**	**70,436**
Value adjustments at 1 January	(15,681)	(12,175)
Impairment losses	-	(3,506)
Disposals	15,681	-
Value adjustments at 31 December	**-**	**(15,681)**
Carrying amount at 31 December	**41,762**	**54,755**

Note 8.5 of the consolidated financial statements contains a complete overview of subsidiaries, etc.

We have tested investments in subsidiaries for impairment by comparing the expected future income from the individual subsidiaries with their carrying amounts.

Disposal for the year concern primarily the divestment of our Oil & Gas business, which was closed on 29 September 2017. The divestment resulted in a loss of DKK 4,179 million in the parent company financial statements. See also the description in note 3.6 to the consolidated financial statements.

The sale resulted in a gain of DKK 2,179 million in the consolidated financial statements. The difference occur due to different accounting policies.

Our impairment test in 2017 did not give rise to any impairment of investments in subsidiaries.

In 2016, we impaired the carrying amount of our subsidiaries by DKK 3,506 million. At the same time, a write-down of receivables from subsidiaries from 2015 of DKK 3,506 million was reversed.

7. Receivables from subsidiaries

Non-current receivables from subsidiaries, DKK million	2017	2016
Cost at 1 January	50,402	64,435
Additions	18,552	21,667
Disposals	(20,248)	(35,700)
Cost at 31 December	**48,706**	**50,402**

8. Derivatives

Ørsted A/S has assumed the subsidiaries' currency risks via forward exchange contracts, which have subsequently been hedged in the market. Furthermore, hedging contracts have been concluded to hedge the currency risk associated with investments in subsidiaries in foreign currencies.

We have also entered into a number of interest rate swaps to manage our interest rate risk.

The company has fair value hedged loans in GBP and EUR. The value of the fair value hedge offset in the income statement amounted to DKK 289 million (2016: DKK 1,793 million).

Derivatives at the end of December 2017 mature as follows: 2018: DKK -24 million, 2019: DKK -76 million, after 2019: DKK -324 million (2016: 2017: DKK 1,344 million, 2018: DKK -379 million, after 2018: DKK -156 million).

Overview of derivative positions, DKK million	2017 Contractual principal amount	2017 Market value	2016 Contractual principal amount	2016 Market value
Oil derivatives	-	-	6,016	1,300
Gas derivatives	-	-	4,834	257
Interest derivatives	550	-	2,022	50
Currency derivatives	4,817	(424)	26,364	(798)
Total	**5,367**	**(424)**	**39,236**	**809**
Assets		**3,596**		**19,980**
Equity and liabilities		**(4,020)**		**(19,171)**

See note 7.1 to the consolidated financial statements and the management's review on pages 47-50 for more details on risk and risk management.

9. Securities

Securities are primarily liquid AAA-rated Danish mortgage bonds that qualify for repo transactions in the Danish central bank 'Danmarks Nationalbank'. Repo transactions are transactions where securities are provided as collateral for a loan.

Securities, DKK million	2017	2016
Securities, available	24,766	15,864
Securities, not available for use	40	197
Total securities	**24,806**	**16,061**

Securities not available for use are used as collateral for repo loans and trading in financial instruments.

10. Loans and borrowings

At 31 December 2017, we had issued hybrid capital with a total notional amount of DKK 17,125 million (2016: DKK 13,371 million). In 2018, one hybrid bond with a notional amount of DKK 3,723 million is expected to be redeemed early and is therefore included in current liabilities. The other hybrid bonds have a 1,000-year term and expire as follows: DKK 5,212 million in 3013, DKK 4,467 million in 3015 and DKK 3,723 million in 3017, respectively.

The long-term portion of bank loans and issued bonds amounted to DKK 25,715 million at 31 December 2017 (2016: DKK 22,164 million), of which DKK 16,528 million (2016: DKK 16,901 million) falls due in more than five years.

The long-term portion of other payables amounted to DKK 27 million at 31 December 2017 (2016: DKK 1,516 million) and falls due in 1-5 years.

11. Other provisions

We have made provisions for non-current liabilities totalling DKK 775 million of which DKK 0 million falls due in more than five years. The liabilities concern the divestment of our Oil & Gas business, which was closed on 29 September 2017.

12. Contingent liabilities

Contingent liabilities

Guarantees

Ørsted A/S has provided guarantees in connection with participation by subsidiaries and subsidiaries' joint operations and joint ventures in the construction and operation of offshore wind farms and natural gas installations, and has provided guarantees in respect of leases, decommissioning obligations, and purchase, sale and supply agreements, etc.

Ørsted A/S also acts as guarantor with primary liability for bank balances in certain subsidiaries.

Indemnities

Ørsted is a member of the reinsurance company Oil Insurance Ltd. In the event of exit, an exit premium will be payable, which has been calculated at USD 6.8 million at 31 December 2017 (2016: USD 19.8 million).

Ørsted A/S is taxed jointly with other companies in the Ørsted Group. As management company, the company has unlimited and joint and several liability together with the other jointly taxed companies for Danish income taxes and withholding taxes on dividends, interest and royalties within the jointly taxed companies.

Litigation

Ørsted A/S is not a party to any litigation proceedings or legal disputes that could have an effect on the company's financial position, either individually or collectively.

13. Related-party transactions

Related parties are the Board of Directors, the Executive Board, Ørsted A/S's subsidiaries and the Danish State.

Remuneration of the Board of Directors and the Executive Board is disclosed in notes 2.6 and 2.7 and the remuneration report in the review in the consolidated financial statements.

Our related-party transactions are made on arm's length terms.

15. Auditor's fees

Auditor's fees, DKK million	2017	2016
Statutory audit	2	1
Other assurance engagements	1	12
Tax and VAT advice	-	8
Other services	1	7
Total fees to PwC	**4**	**28**

14. Operating lease obligations

We have entered into leases for office premises, primarily in Gentofte (expiring in 2028), Virum (expiring in 2027) and Esbjerg (expiring in 2035). In 2017, an amount of DKK 153 million was recognised (2016: DKK 173 million) in profit (loss) for the year in respect of operating lease payments.

We have entered into leases with subsidiaries for subleasing of office premises.

In 2017, an amount of DKK 123 million was recognised (2016: DKK 146 million) in profit (loss) for the year in respect of rental income.

We have minimum payments of DKK 1,816 million (2016: DKK 2,196 million), most of which concerns subleasing via subleasing agreements.

16. Ownership information

Ownership information	Registered office	Ownership interests	Voting share
The Danish State represented by the Danish Ministry of Finance	Copenhagen K, Denmark	50.12%	50.12%
EuroPacific Growth Fund	Los Angeles, USA	5.83%	0%
SEAS-NVE A.M.B.A.	Svinninge, Denmark	9.54%	9.54%
The Capital Group Companies, Inc.	Los Angeles, USA	<5%	9.77%

The table shows the shareholders with ownership interests and voting shares of at least 5%. Difference between ownership interests and voting share occur when issuing power of attorney.

Management statement, auditor's reports and glossary

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 A/S for the financial year 1 January - 31 December 2017.

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

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

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

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

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

* Employee representative

Skærbæk, 1 February 2018

Executive Board:

Henrik Poulsen
President and CEO

Marianne Wiinholt
CFO

Board of Directors:

Thomas Thune Andersen
Chairman

Lene Skole
Deputy chairman

Lynda Armstrong

Pia Gjellerup

Peter Korsholm

Benny D. Loft

Hanne Sten Andersen*

Poul Dreyer*

Benny Gøbel*

Jens Nybo Sørensen*

Independent Auditors' Report

To the shareholders of Ørsted A/S

Our opinion

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

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2017 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2017 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit and Risk Committee and the Board of Directors.

What we have audited

The Consolidated Financial Statements of Ørsted A/S for the financial year 1 January to 31 December 2017, pp 63-146 and 166, comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements, including summary of significant accounting policies.

The Parent Company Financial Statements of Ørsted A/S for the financial year 1 January to 31 December 2017, pp 155-166, comprise the income statement, the balance sheet, the statement of changes in equity and the notes to the parent company financial statements, including summary of significant accounting policies.

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

Independence

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 ethical requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment

We were first appointed auditors of Ørsted A/S on 19 April 2010 for the financial year 2010. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 8 years including the financial year 2017.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2017. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Divestment of the Oil & Gas-business In 2016, the Board of Directors initiated a process with the aim of ultimately exiting from the Group's Oil & gas-business. The divestment was completed On 29 September 2017. We focused on this area because the divestment is considered a non-routine transaction, with estimates and judgements in respect of the identification and measurement of guarantees, indemnities etc. given to the purchaser. Refer to note 3.6 in the Consolidated Financial Statements and note 11 in the Parent Company Financial Statements.	We evaluated whether Management had appropriately determined the divestment gain by for example: – Reading the share purchase agreement. – Testing the gain statement including the provisions recognised to cover guarantees, indemnities etc. in the share purchase agreement. – Consider whether the disclosures of the discontinued Oil & gas-business and divestment thereof was in compliance with IFRS.

Key Audit Matter	How our audit addressed the Key Audit Matter
Divestments of partnership interests In connection with divestments of partnership interests (often 50%) in offshore wind farms under construction, estimates and judgement are required in respect of the sales price for accounting purpose for the divestment and the subsequent construction contract, respectively, and in calculating the divestment gain. Furthermore, judgement is required in respect of classifying the divested interest as either divestment of assets (gain recognised as part of Other income) or divestment of an enterprise (gain recognised as part of Gain/loss from divestment of enterprises). Finally, judgement is required in respect of whether the Group's retained share in the partnership is a joint operation or a joint venture. We focused on this area because the calculation of the divestment gain is dependent on complex and subjective judgements by Management and because the presentation in the Income statement is dependent on judgement about the partnership interest disposed and whether the partnership interest retained is a joint operation or a joint venture. Refer to note 2.5 in the Consolidated Financial Statements.	We evaluated whether Management had appropriately determined the divestment gain, the presentation hereof and the subsequent treatment of the partnership interest by for example: – Reading the share purchase agreements. – Reading the shareholders agreements. – Reading the construction and other related agreements. – Consider the sales price for accounting purpose for the divestment and the construction contract, respectively. – Testing the gain statement on the divestment of the partnership interest including the provisions recognised to cover guarantees, indemnities etc. in the share purchase agreement. – Consider whether the disclosures of the divestment gain and the subsequent recognition and presentation of the partnership was in compliance with IFRS.
Construction contracts The accuracy of the revenue recognition related to work in progress of large construction contracts and its presentation in the consolidated income statement is dependent on complex estimation methodologies, including estimates such as the forecasted costs related to the constructions and the degree of completion for construction contracts. We focused on this area because the revenue recognised with reference to degree of completion both requires complex and subjective judgements by Management. Refer to note 2.2 and 4.2 in the Consolidated Financial Statements.	On a sample basis, we tested whether revenue is accurately recorded and challenged the forecasted costs related to the constructions, including the assumptions used, and by evaluating the outturn of previous estimates by agreeing the actual costs incurred post-year end to the forecasted costs for the period. We also assessed how the project managers determined that the degree of completion was correctly determined through obtaining their calculations and agreeing the inputs to documentary evidence or our independently formed expectation as appropriate.

Key Audit Matter	How our audit addressed the Key Audit Matter
Transactions with energy financial derivative contracts The Group enters into a number of energy contracts. Certain of these arrangements are accounted for as derivative financial instruments and are recorded at fair value. Judgement is required in valuing these derivative contracts, particularly where the life of the contract is beyond the liquid market period. In addition, Ørsted uses business performance as an alternative to profit (loss) for the year stated in accordance with IFRS. Business performance represents the underlying financial performance of the Group in the reporting period adjusted for temporary fluctuations in the market value of contracts (including hedging transactions) relating to other periods. We focused on this area because the valuation of financial instruments are dependent on complex and subjective judgements by Management and because the business performance reporting is dependent on consistent use and documentation of hedging rules. Refer to note 1.1 and 7.2 in the Consolidated Financial Statements.	We assessed the overall trading process for energy contracts, including internal risk management procedures and the system and controls around origination and maintenance of complete and accurate information relating to derivative contracts. We tested the valuation of derivative contracts at the year-end date. Our audit procedures focused on the integrity of these valuation models and the incorporation of the contract terms and the key assumptions, including future price assumptions and discount rates. We tested the prices in the models and recalculated valuations for a sample of derivatives, as well as performing sensitivity analyses for level 3 energy derivatives. We considered Management's use of business performance and tested the adjustments between IFRS and business performance. In this connection, we assessed the hedging rules applied under the business performance accounting policies and whether these are used consistently from period to period.

Key Audit Matter	How our audit addressed the Key Audit Matter
Onerous contracts and other contractual claims and obligations The Group's operations include exposures to the risk of litigation, contractual claims from and against third parties and contracts being onerous, particularly in relation to long-term contracts. We focused on this area because of the range of potential outcomes and the considerable uncertainty around (a) the resolution of various litigations, claims and contractual disputes, and (b) the determination of the amount, if any, to be recognised in the financial statements as a provision, and the related disclosures are inherently subjective. Refer to note 3.2 in the Consolidated Financial Statements.	We considered the provisions recognised to cover contractual obligations and claims raised against the Group by third parties, inspected relevant legal advice received by the Group in connection with such claims and obtained formal confirmations from the Group's lawyers on the status and potential outcomes of any legal claims with which the Group is dealing. Moreover, we considered the assets related to claims raised by the Group against third parties. We challenged the valuation of the onerous contract provisions by evaluating whether appropriate judgements and assumptions had been applied in determining the unavoidable costs of meeting the obligation and the estimate of the expected benefits to be received under the contract. Finally, we also considered the Group's disclosures relating to provisions and/or contingent liabilities and assets for legal and other contractual obligations and claims.

Statement on Management's Review

Management is responsible for the Management's Review, pp 4-62.

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 in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial 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 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 the preparation of parent company financial statements that give a true and fair view in accordance with 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 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 in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement 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 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 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 or the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

- 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Hellerup, 1 February 2018

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR-nr. 33 77 12 31

Lars Baungaard
State Authorised Public Accountant
mne23331

Rasmus Friis Jørgensen
State Authorised Public Accountant
mne28705

Limited assurance report of the independent auditor

To the Stakeholders of Ørsted A/S

Ørsted A/S engaged us to provide limited assurance on the data described below and set out in the Environment, Social and Governance (ESG) Statement of the Annual Report of Ørsted A/S for the year ended 31 December 2017.

Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that data in the 2017 ESG Statement on pages 147-154 of the Annual Report for the year ended 31 December 2017 has not been prepared, in all material respects, in accordance with the accounting policies.

This conclusion is to be read in the context of what we say in the remainder of our report.

What we are assuring

The scope of our work was limited to assurance over data in the ESG Statement on pages 147-154 of the Ørsted A/S Annual Report for the year ended 31 December 2017.

Professional standards applied and level of assurance

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information'. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks; consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our independence and quality control

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other ethical requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. Our work was carried out by an independent multidisciplinary team with experience in sustainability reporting and assurance.

Understanding reporting and measurement methodologies

Data and information need to be read and understood together with the accounting principles (pages 147-154 of the 2017 Ørsted A/S Annual Report), which Management are solely responsible for selecting and applying. The absence of a significant body of established practice on which to draw to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Work performed

We are required to plan and perform our work in order to consider the risk of material misstatement of the data. In doing so and based on our professional judgement, we:

- Conducted interviews with Group functions to assess consolidation processes, use of company-wide systems and controls performed at Group level;
- Performed an assessment of materiality and the selection of topics for the 2017 Ørsted A/S ESG Statement;
- Conducted analytical review of the data and trend explanations submitted by all business units for consolidation at Group level;
- Evaluated internal and external documentation to determine whether information in the 2017 Ørsted A/S ESG Statement is supported by sufficient evidence.

Management's responsibilities

Management of Ørsted A/S is responsible for:

- Designing, implementing and maintaining internal control over information relevant to the preparation of data in the 2017 ESG Statement on pages 147-154 in the Annual Report that are free from material misstatement, whether due to fraud or error;
- Establishing objective accounting principles for preparing data;
- Measuring and reporting data in the 2017 ESG Statement based on the accounting principles; and
- The content of the 2017 ESG Statement.

Our responsibility

We are responsible for:

- Planning and performing the engagement to obtain limited assurance about whether data in the 2017 Ørsted A/S ESG Statement on pages 147-154 of the 2017 Annual Report are free from material misstatement, whether due to fraud or error;
- Forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- Reporting our conclusion to the Stakeholders of Ørsted A/S.

Hellerup, 1 February 2018

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR-no. 33 77 12 31

Lars Baungaard
State Authorised Public Accountant
mne23331

Rasmus Friis Jørgensen
State Authorised Public Accountant
mne28705

Glossary

Availability: Time-based availability is the ratio of the number of hours in a given period the offshore wind farms are available for power generation to the total number of hours in the same period. Total availability is weighted on the basis of the size of the individual wind farms. Availability is adjusted for breakdowns if compensation is received from the transmission owner.

Biomass conversion: When a CHP plant is converted from using fossil fuels to using biomass such as wood pellets, wood chips and straw. After the conversion, the CHP plant will typically be able to use biomass along with the original fuel types.

Carbon emissions allowances: Carbon dioxide emissions allowances subject to the European Union Emissions Trading Scheme (EU ETS).

CfD: A Contract for Difference is a subsidy that guarantees the difference between the market reference price and the exercise price won.

CHP plant: A Combined Heat and Power (CHP) plant generates both heat and power in the same process.

Commissioning/COD: When our assets are in operation, and the legal liability has been transferred from the supplier to us.

Cost of electricity: Average cost measured as present value per megawatt hour (MWh) generated from offshore wind power covering costs for development and construction as well as subsequent operation and maintenance of the offshore wind farm.

Decided (FID) capacity: Installed offshore wind capacity plus capacity for wind farms where a final investment decision has been made.

Degree days: Number of degrees in absolute figures in difference between the average temperature and the official Danish indoor temperature of 17 degrees Celsius.

EEX: European Energy Exchange, German power exchange.

EPC: Engineering, Procurement and Construction. The part of our business which handles the construction and installation of our offshore wind farms.

FTE: Employees (Full-Time Equivalent). The number of full-time employees during a fixed time period.

Generation capacity: Ørsted's ownership of the wind turbines. The wind turbines are included when each wind turbine has passed the 240-hour test.

Green certificates: Certificate awarded to producers of environment-friendly power as a supplement to the market price of power in the given price area.

Green dark spread (GDS): Green dark spread represents the contribution margin per MWh of power generated at a coal-fired CHP plant of a given efficiency. It is determined as the difference between the market price of power and the cost of the coal (including associated freight costs) and carbon emissions allowances used to generate the power.

Green spark spread (GSS): Green spark spread represents the contribution margin per MWh generated at a gas-fired power station of a given efficiency. It is determined as the difference between the market price of power and the costs of the gas and carbon emissions allowances used to generate the power.

Hedging instruments: Financial and physical instruments that can be used to guarantee a specific price for the purchase or sale of, for example, commodities and currency.

Installed capacity: Installed capacity where the offshore wind farm has been completed and has passed the 200-hour test.

LNG: Liquefied Natural Gas. Gas that has been liquefied by cooling to minus 161 degrees Celsius. LNG takes up 600 times less space than conventional gas.

Load factor: The ratio between the actual power generation in a given period relative to the potential generation which is possible by continuously exploiting the maximum capacity over the same period.

LTIF: Lost-Time Injury Frequency. Ørsted defines lost-time injuries as occupational injuries resulting in at least one day's absence from work in addition to the day of the injury.

NBP: National Balancing Points, UK gas hub.

Nord Pool: The Norwegian-based Nordic power exchange, which facilitates power trading in Norway, Sweden, Finland and Denmark.

Offshore transmission assets: Offshore transmission assets connect offshore generation to the onshore grid, and typically include the offshore power transmission infrastructure, an onshore substation and the electrical equipment relating to the operation of the substation.

O&M: Operation and Maintenance. The part of our business that operates and maintains our offshore wind farms after installation.

Partnership income: Income originating from our partners' purchase of ownership interests in the offshore wind farms. Includes both the gain in connection with the farm-down and the subsequent construction of the wind farm.

Power station: A power station generates power only.

PSO: Indirect taxes regarding the public service obligation (PSO) which are used to finance research and green energy and are charged to power customers along with other tariff elements.

Public obligation: A company with a public obligation is bound by law to deliver power or natural gas to a certain geographic area at prices approved by the Danish Energy Regulatory Authority.

QHSE: Quality, Health, Safety and Environment.

Ramp-up: Generation until an offshore wind farm has been completed and commissioned.

ROCs: Renewable Obligation Certificates issued by Ofgem in the UK to operators of accredited generating stations for the eligible renewable energy they generate. Operators can trade ROCs with other parties.

Stress: Method of measuring the market trading risk of loss on a portfolio from day to day, calculated on a fair-value basis.

Thermal generation: Power and heat generated through the combustion of fossil fuels, biomass or waste.

TRIR: In addition to lost-time injuries, TRIR also includes injuries where the injured person is able to perform restricted work the day after the accident as well as accidents where the injured person has received medical treatment.

TTF: Title Transfer Facility, Dutch gas hub.

TWh: Terawatt hour. The amount of energy generated in one hour with the effect of 1TW. 1TWh is equivalent to 1,000GWh or 1,000,000MWh.

Value at Risk (VaR): A financial term used for measuring the loss that may occur in connection with a risk position, assuming a certain volatility and that the position is held for a certain period of time

Wind energy content: The ratio between the actual reported generation in a given period, adjusted for availability losses, and the generation in a 'normal wind year', based on historical wind data for the individual areas where the offshore wind farms are located.

Wind speed: Shows the wind speed for Ørsted's offshore wind farms. The wind measurements are weighted on the basis of our generation capacity and can be compared to a normal wind period, based on 20 years' historical wind observations.

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e–Types

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Borkum Riffgrund 1 offshore wind farm
off the coast of Germany

This report has been prepared in
Danish and English.
In case of discrepancies,
the Danish version applies.