

**ATTACHMENT 5-4**

**Ørsted Annual Report 2018**



Ørsted  
Annual report  
2018



**Our vision**  
Let's create  
a world that  
runs entirely  
on green  
energy

# Content

## Management's review

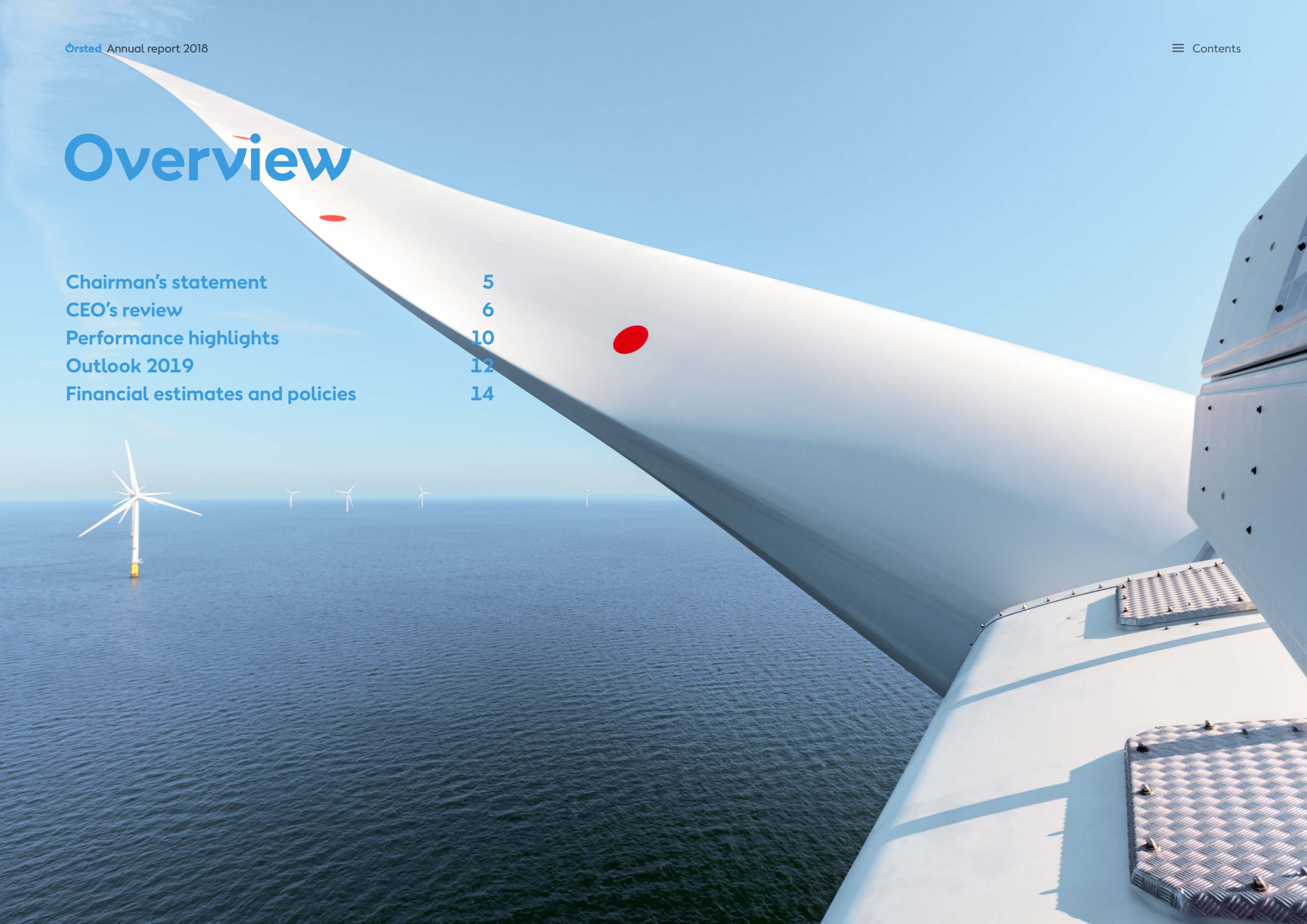
<b>Overview</b>	<b>4</b>
Chairman's statement	5
CEO's review	6
Performance highlights	10
Outlook 2019	12
Financial estimates and policies	14
<b>Our business</b>	<b>15</b>
The green transformation	16
Our strategic playing field	18
Our markets	19
Our strategy	22
Our business model	25
Strategic targets	26
Our geographic footprints	28
<b>Results</b>	<b>30</b>
Results	31
Five-year summary	35
Fourth quarter	36
Quarterly summary, 2017-18	38
<b>Business units</b>	<b>39</b>
Our business units	40
Offshore	41
Onshore	46
Bioenergy	49
Customer Solutions	52
<b>Governance</b>	<b>55</b>
Board of Directors	56
Group Executive Management	58
Corporate governance	59
Remuneration report	63
Risk and risk management	66
Shareholder information	70

## Financial statements

<b>Consolidated financial statements</b>	<b>72</b>
Income statement	73
Statement of comprehensive income	74
Balance sheet	75
Statement of changes in equity	76
Statement of cash flows	77
Note summary	78
Notes	79
<b>Consolidated ESG statements (additional information)</b>	<b>167</b>
Basis of reporting	168
Environment	169
Social	171
Governance	172
<b>Parent company financial statements</b>	<b>175</b>
Income statement	176
Balance sheet	176
Statement of changes in equity	177
Notes	178
<b>Management statement, auditor's reports and glossary</b>	<b>185</b>
Statement by the Executive Board and the Board of Directors	186
Independent Auditors' report	187
Limited assurance report of the independent auditor	191
Glossary	192

# Overview

Chairman's statement	5
CEO's review	6
Performance highlights	10
Outlook 2019	12
Financial estimates and policies	14



# Chairman's statement

## Green light ahead

The UN's 2030 Agenda for Sustainable Development calls for making significant progress on some of the world's greatest challenges. Global climate change caused by man-made carbon emissions is one of the key threats to human societies and the planet, and urgent action is needed. Human activity has already caused an increase of approx 1.1°C above pre-industrial levels. If emissions continue at the current rate, global warming is likely to reach 1.5°C above pre-industrial levels at the earliest in 2030, crossing a key threshold set by climate science to avoid irreversible climate change.

The challenge of global warming requires a profound transformation of our global energy systems – from black to green energy. At Ørsted, our vision is a world that runs entirely on green energy. As one of the global leaders

in green energy, we are committed to providing tangible and scalable solutions to transform global energy systems from black to green.

In 2018, we continued our successful deployment of green energy, reaching 8.3GW of renewable energy capacity built by Ørsted. Over the past decade, Ørsted and our partners have invested approx DKK 165 billion in deploying green energy. For the next seven years, we plan to further accelerate our build-out. By 2025, more than 99% of our energy generation will come from renewable sources, and by 2030, our ambition is to reach more than 30GW of green energy deployed, allowing more than 50 million people to be powered by green energy built by Ørsted. The ambitious decarbonisation of our power and heat generation puts the carbon reduction from our own operations 27 years ahead of the decarbonisation trajectory for the energy industry

that is recommended by climate scientists to stay below the 2°C-threshold defined in the Paris Agreement. We further commit ourselves to reduce our carbon emissions in line with the recent scientific recommendation to limit global temperature increases to no more than 1.5°C above pre-industrial levels.

In 2018, we took important steps in shaping our portfolio towards becoming one of the world's leading renewable energy companies. We announced our intention to exit our power distribution and residential customer businesses, which will allow us to focus entirely on renewable energy generation and market access. We also announced the acquisition of Lincoln Clean Energy, which will serve as our platform for creating a leading North American onshore renewables business, spanning onshore wind, solar energy and storage. Finally, we announced the acquisition of Deepwater Wind, creating a leading offshore wind platform in the US together with our existing US organisation.

Our commitment to people remain strong. Particularly, safety is a focus area for us, and in 2018, we once again improved workplace safety with a total recordable injury rate per million working hours (TRIR) at a record low level of 4.7. Furthermore, we reaffirmed our commitment to being an inclusive workplace for all employees regardless of personal characteristics by joining the UN LGBTI Standards of Conduct for Business. To further support gender diversity

in management, we implemented the 'Female Spotlight' programme that prepares talented women for senior leadership positions.

Profit for the year amounted to DKK 19.5 billion, Ørsted's best result ever. The Board of Directors recommends paying a dividend of DKK 9.75 per share.

On behalf of the Board of Directors, I would like to thank the employees and management of Ørsted for their spirited commitment to turning the vision of green energy into reality, and for bringing green solutions to existing and new markets that share our vision of a world that runs entirely on green energy.



A handwritten signature in black ink, reading 'T. Thune Andersen'.

**Thomas Thune Andersen**  
Chairman

//

**As one of the global leaders in green energy, we are committed to providing tangible and scalable solutions to transform global energy systems from black to green.**

# CEO's review

Strong operational and financial results and strategic acquisitions have strengthened our position as a world leader in green energy:

- Operating profit (EBITDA) increased by 33% and totalled DKK 30.0 billion.
- Operating profit from offshore wind farms in operation increased by 29% to DKK 11.0 billion.
- Farm-down of 50% of Hornsea 1 was one of the largest renewable energy M&A transactions ever and contributed DKK 15.1 billion to EBITDA.
- Green share of generation increased from 64% to 75%.
- Strong progress in the construction of our new wind projects.
- New offshore wind projects awarded in the US, Germany and Taiwan.
- Acquisition of the US-based onshore wind developer Lincoln Clean Energy.
- Acquisition of the leading US-based offshore wind developer Deepwater Wind.
- Decision to exit our Danish power distribution and residential customer businesses.
- New ambitious targets for the Group's long-term strategic and financial development.

## Financial results

In 2018, we achieved a strong operating profit (EBITDA) which significantly exceeded our expectations at the beginning of the year.

EBITDA (excluding new partnerships) increased by 18% to DKK 15.0 billion. The good results were driven by an increase in generation from our offshore wind farms in operation, which led to an increase of 29% in EBITDA from these activities. Including new partnerships, EBITDA increased by 33% to DKK 30.0 billion, of which DKK 15.1 billion came from the 50% farm-down of Hornsea 1.

Return on capital employed (ROCE) was 32% compared to 25% in 2017.

Net profit amounted to DKK 19.5 billion, which was DKK 6.2 billion higher than last year.

Following the bioconversions of our CHP plants and the continued ramp-up of our offshore wind capacity, the green share of our heat and power generation increased from 64% to 75% in 2018.

## Strategic development

Our vision is to create a world that runs entirely on green energy. We expect the global market for renewable energy to more than triple towards 2030. As one of the leading companies within renewable energy, Ørsted has a strong platform to take part in this build-out. In November, we launched new, ambitious targets for our long-term strategic and financial development.



**Towards 2030, it is our strategic ambition to reach an installed capacity of more than 30GW renewable energy, provided that the build-out creates value for our shareholders.**

By the end of 2018, our portfolio consisted of 12GW of offshore and onshore wind farms and biomass-fired combined heat and power plants that are either in production, under construction or have obtained final investment decision (FID). We also have projects with a capacity of 4.8GW for which we have been awarded the construction concessions or entered into offtake agreements, but are yet to make FID. In addition, we have a strong pipeline of projects under development. Towards 2030, it is our strategic ambition to reach an installed capacity of more than 30GW renewable energy, provided that the build-out creates value for our shareholders. Contributing to this ambition, we raised our 2025 ambition for offshore wind from 11-12GW to 15GW.

Our strategic ambition will be supported by an extensive investment programme. From 2019 to 2025, we currently expect total gross investments of approx DKK 200 billion. Investments in offshore wind farms are expected to constitute 75-85% of this programme. Onshore investments are expected to constitute 15-20%, while our investments in Bioenergy and Customer Solutions combined are expected to constitute 0-5%. The allocation reflects the changes we made to our asset portfolio in 2018, including the two acquisitions in the US and the decision to exit our power distribution and residential customer businesses.

The strategic plan is subject to our four capital allocation priorities. Firstly, we maintain our strong commitment to our credit rating target (BBB+/Baa1). Secondly, we intend to increase our annual dividends by a high single-digit percentage. The horizon of this dividend commitment is extended from 2020 to 2025. Thirdly, we will invest in value-creating growth. Finally, potential excess capital will be returned to our shareholders in the form of additional dividends and/or share buy-backs.

### Offshore

In 2018, we reached significant milestones in our ambitious green strategy. In the UK, we commissioned Race Bank in January and Walney Extension, the world's largest wind farm, in May, and in Germany, we commissioned Borkum Riffgrund 2 in December. All were

commissioned ahead of schedule, underpinning our experience and efficiency within the construction of offshore wind farms. Together with the rest of the portfolio, the three commissioned offshore wind farms contributed to the continued growth in earnings.

In addition, our current offshore wind construction projects continue to progress according to plan. We have installed most of the foundations at Hornsea 1 in the UK, which will be the world's largest wind farm when completed, expected in the second half of this year.

The build-out of our portfolio also includes Borssele 1 & 2 in the Netherlands and Hornsea 2 in the UK. In February, we selected Siemens Gamesa Renewable Energy's 8MW wind turbines with a 167-metre rotor for Hornsea 2.

We continued our partnership model in 2018 with the 50% farm-down of Hornsea 1 to Global Infrastructure Partners. As part of the agreement, we will provide long-term operations and maintenance services (O&M) as well as a route to market for the power generated through our Customer Solutions business. The farm-down was one of the largest renewable energy M&A transactions ever and included the largest single-project renewable energy financing scheme to date. The valuation underpins the attractiveness of our offshore wind assets.

In April, we were awarded 900MW capacity in the first Taiwanese grid allocation as Greater Changhua 1 & 2a were awarded 605MW and 295MW, respectively. In the price auction in June, we were awarded an additional 920MW. With a total capacity of 1,820MW, we are as such able to fully utilise our Greater Changhua 1, 2 and 4 sites.

On 30 January 2019, the 2019 feed-in tariff was announced. We take note of the 6% tariff reduction compared to the 2018 tariff as well as the introduction of a cap on annual full-load hours, and we will now collaborate closely with the supply chain to mitigate the adverse impact of these PPA changes with the objective of making the projects investable.

Greater Changhua 1 & 2a are facing extraordinarily high costs related to creating a local supply chain at scale, reinforcing the onshore grid infrastructure and building, operating and maintaining offshore wind farms in challenging site and weather conditions.

We continue to work with the Taiwanese authorities and local stakeholders to reach

key outstanding project milestones, such as obtaining the establishment permit, completing the supply chain plan and signing the power purchase agreement.

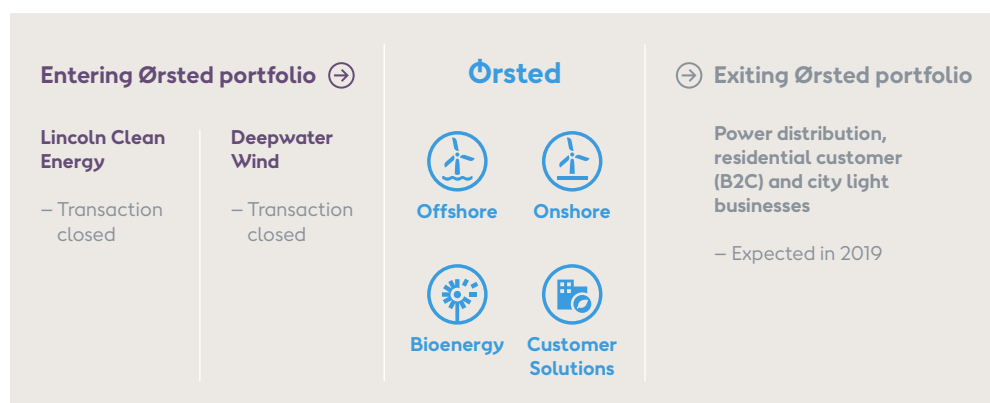
Once we have clarity on the outcome of supply contract renegotiations and have achieved all key project milestones, Ørsted's Board of Directors will review and decide on the final investment case.

In Germany, we were awarded the right to build Borkum Riffgrund West 1 and Gode Wind 4 with a capacity of 420MW and 132MW, respectively. Combined with the awards from the auction in 2017, we have secured the full capacity of 900MW in the Borkum Riffgrund cluster (Cluster 1) without subsidies. In addition, we have secured a total capacity of 242MW for Gode Wind 3 and 4 at a weighted average feed-in tariff of EUR 81 per MWh. Subject to FID, the wind farms are expected to be operational in 2024/25, respectively.

In October, The Crown Estate in the UK confirmed that we have satisfied the application criteria for the development of our Race Bank Extension offshore wind farm, which expectedly will now be subject to a plan-level Habitats Regulations Assessment (HRA). Subject to all necessary consents being granted, Race Bank Extension will be able to participate in future auctions under the contracts for difference (CfD) scheme.

Early October, we entered into an agreement to acquire Deepwater Wind. The acquisition was completed in November at an enterprise value of DKK 4.7 billion. Deepwater Wind is the leading US-based offshore wind developer

### Portfolio changes support focus on renewable generation



with an attractive and geographically diverse portfolio of projects along the US East Coast.

In the US, we were awarded an additional 104MW in December in the clean energy auction in Connecticut. Our Revolution Wind project has now secured a total capacity of 704MW connecting into New England, including previously awarded capacity in Rhode Island and Connecticut, which we will construct as one joint project, and thus unlock significant procurement, construction and operational synergies.

By end 2018, the Deepwater Wind portfolio totals a capacity of approx 2.6GW, consisting of 30MW in operation, 954MW of development projects with long-term revenue contracts in place or under negotiation and approx 1.6GW which potentially may be developed in three awarded lease areas.

In October, we bid into Rhode Island's auction for up to 400MW of renewable energy. Further, in December 2018, we bid into the 1,100MW New Jersey auction with our Ocean Wind project, and we expect to bid into the announced 800MW auction in New York in February 2019.

In January 2019, we furthermore announced that we have signed a memorandum of understanding to work jointly with Tokyo Electric Power Company (TEPCO) on the Choshi offshore wind project near Tokyo, and towards a broader strategic partnership.

We look forward to expanding our footprint in both Europe, the US and Asia-Pacific and working together with our new partners.

### Onshore

In August, we entered into an agreement to acquire Lincoln Clean Energy (LCE), a US-based developer, owner and operator of onshore wind farms. The acquisition was completed on 1 October 2018 at an enterprise value of DKK 5.6 billion. Through LCE, our onshore business will be a growth platform and provide strategic diversification to Ørsted's portfolio.

Our aim is to create a leading North American company within renewable energy, including onshore wind, solar energy and energy storage.

Lincoln Clean Energy has an operating portfolio of 813MW and a near-term portfolio of 714MW of onshore capacity in advanced stages of development.

In December, we commissioned the 300MW onshore wind farm Tahoka in Texas. Furthermore, we took FID on the onshore wind farm Lockett. The wind farm is under construction and is expected to be commissioned in Q3 2019.

In addition, we announced a 500MW wind and solar power purchase agreement (PPA) with ExxonMobil, distributed evenly between the Sage Draw onshore wind farm and the Permian solar PV project.



From our Capital Markets Day in Gentofte on 28 November.



# //

## 2018 was a year with many changes, and with the acquisitions of Lincoln Clean Energy and Deepwater Wind, we welcome more highly skilled employees to our company.

### Utility business

In June, we announced our plans to divest our Danish power distribution, residential customer and city light businesses. The process came to a stop in January when our majority shareholder, the Danish State, informed us that there was no longer the necessary political support. It is still the Board of Directors assessment that Ørsted is not the best long-term owner of these businesses. Consequently, we have classified the businesses as assets held for sale and continue to investigate the different options for exiting them. We expect an exit from all of these businesses during 2019.

In June, we divested our 50% ownership share in the gas-fired power plant Enecogen in the Netherlands. The divestment reinforces our focus on green energy.

In June, we commissioned our new biogas plant in Kalundborg, Denmark, together with our partner Bigadan. The plant will recycle

waste from the local production facilities of our corporate customers Novozymes and Novo Nordisk and convert it into biogas. We are looking to expand our portfolio of biogas plants in the future.

The development of our first Renaissance plant in the UK is still in progress. By means of enzymes, the technology efficiently converts household waste into biogas and recyclable materials. While the enzymatic process is working satisfactory, we have experienced mechanical challenges in the sorting process and have had to undertake a programme to enhance flexibility and redundancy in the sorting hall. We are currently finalising this optimisation. Final commissioning is expected during the first half of this year.

In May, the High Court of Western Denmark ruled that Elsam, one of the six companies that merged into DONG Energy, now Ørsted, back in 2006, had not abused its dominant

market position in 2005 and the first half of 2006. In October, the Danish Appeals Permission Board ruled in favour of Ørsted and decided that the Danish competition authorities would not be given permission to try the ruling before the Supreme Court. Consequently, the ruling of the High Court stands. We are pleased that we can put this court case behind us and move forward. However, we are still awaiting the development in the Elsam competition case for the period 2003 to 2004 and the related compensation case.

At the end of December, 679,000 smart meters installed by Radius and Kamstrup had been taken into use by our power distribution customers. This is a significant milestone, marking that we are well on our way to replacing meters for all our 1 million customers by the end of this year.

Finally, our Customer Solutions business has signed a 15-year agreement with Innogy to balance the power generation from their 860MW offshore wind farm Triton Knoll in the UK. Under the agreement, Ørsted will sell the expected generation from the wind farm on the power market on a day-ahead basis, thus handling deviations from the expected generation the following day.

### Employees

We have a strong focus on the safety and well-being of our employees. In 2018, we achieved a positive development in the total recordable injury rate (TRIR) and saw yet another year with no life-changing accidents. The 2018 employee survey showed a continued high score on satisfaction and motivation – in line with the 2017 results. It positions

Ørsted in the top 10% compared to external benchmarks in all major markets.

Once again, 2018 was a year with many changes, and with the acquisitions of Lincoln Clean Energy and Deepwater Wind, we welcome more highly skilled employees to our company. The integration of the organisations is already well under way. All our employees deserve credit and acknowledgement for their dedicated performance during the past year. Their strong competences and entrepreneurial spirit – fuelled by the passion for what Ørsted stands for and the work we do – constitute the very foundation of our company.

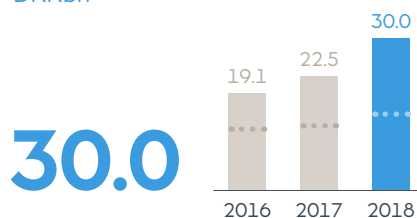


**Henrik Poulsen**  
CEO and President

# Performance highlights

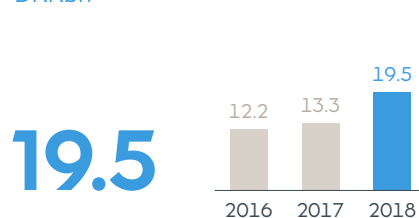
## Profits and returns

### Operating profit (EBITDA) DKKbn



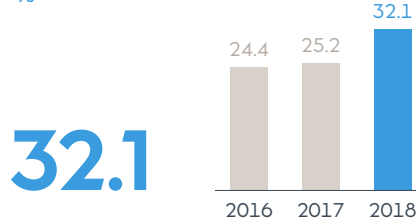
In 2018, we achieved a strong EBITDA which significantly exceeded our expectations at the beginning of the year. It was the highest to date and was driven by an increase in generation from our offshore wind farms and profit from the 50% farm-down of Hornsea 1. The amount above the dotted lines represent profits from new partnerships.

### Net profit (continuing operations) DKKbn



Profit for the year amounted to DKK 19.5 billion, Ørsted's best result ever driven by the strong operating profit.

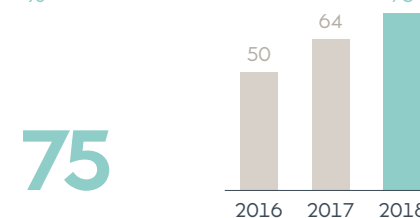
### Return on capital employed (ROCE) %



ROCE was also significantly impacted by the Hornsea 1 farm-down gain in 2018. Our target is an average ROCE of around 10% for the Group in the 2019-2025 period.

## Sustainability

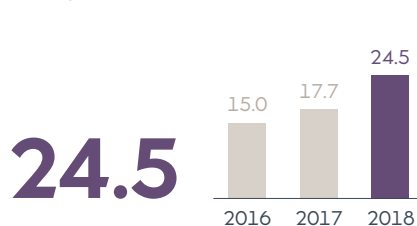
### Green share of generation %



The green share of heat and power generation continued to increase to a new high of 75%, following continued ramp-up of our offshore wind capacity, and full-year effect from our most recent biomass-converted CHP plants.

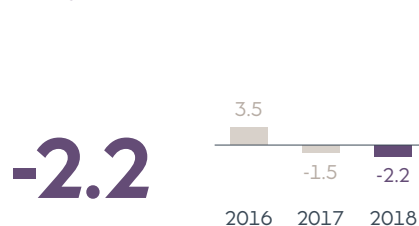
## Cash flow and balance sheet

### Gross investments DKKbn



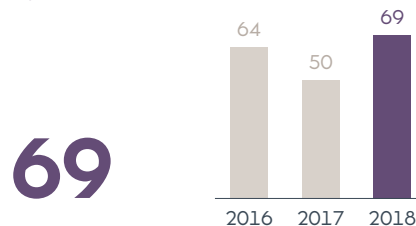
The gross investment level was high in 2018 due to the acquisitions of Deepwater Wind (DKK 4.0 billion) and Lincoln Clean Energy (DKK 5.6 billion) in addition to high construction activity in our project portfolio.

### Interest-bearing net debt DKKbn



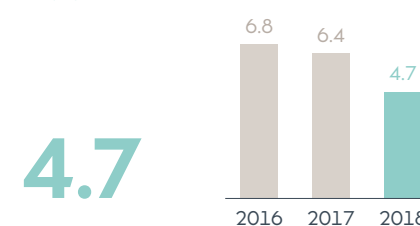
We had a net cash position of DKK 2.2 billion at the end of 2018.

### Credit metric (FFO/adjusted net debt<sup>1)</sup> %



The credit metric 'funds from operations' (FFO) relative to adjusted net debt amounted to 69% in 2018, positively affected by our strong operating profit and low adjusted net debt.

### Safety TRIR



We have a strong focus on the safety and well-being of our employees. In 2018, we achieved a record-low total recordable injury rate (TRIR).

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

## Follow-up on outlook announced for 2018

In the outlook announced in our annual report for 2017, we expected EBITDA without new partnerships of DKK 12-13 billion and gross investments of DKK 16-18 billion for 2018.

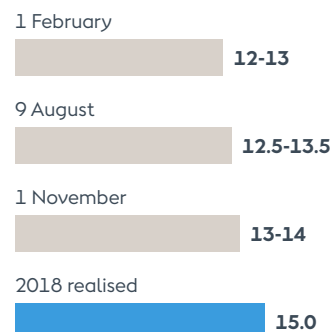
With EBITDA, excluding new partnerships, of DKK 15.0 billion, our expectations were exceeded. The main reasons were good progress on the construction of our new offshore wind farms Walney Extension and Borkum Riffgrund 2 during the year, including higher earnings from construction agreements, as well as faster ramp-up than expected. Furthermore, we had a positive outcome of an arbitration related to a gas purchase contract, positive effect in our gas portfolio business from increasing gas prices in 2018 (which all other things equal will have a reverting negative effect in 2019) and better than expected performance in our LNG business from strong market fundamentals.

EBITDA, including the profit from the Hornsea 1 partnership, amounted to DKK 30.0 billion, which was significantly higher than the 2017 EBITDA level of DKK 22.5 billion, in line with our guidance.

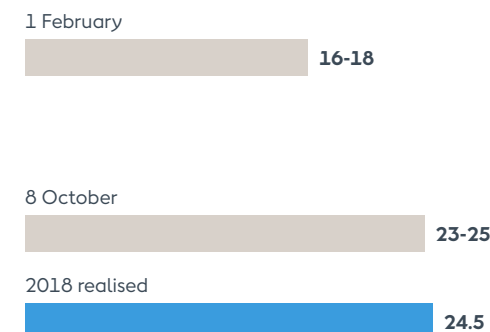
Gross investments amounted to DKK 24.5 billion. The main reasons for the increase were the acquisitions of Lincoln Clean Energy and Deepwater Wind and early investments in the US offshore and onshore portfolio in Q4 2018 to qualify for future tax credits. In addition, gross investments related to construction of offshore wind farms were lower than expected due to shifts in spending across years and the Race Bank and Walney Extension construction projects being finalised at a lower capex spend than expected.

In Bioenergy, the focus has been on realising positive free cash flows from 2018. The free cash flows was positive and amounted to DKK 518 million of which the divestment of Enecogen contributed with DKK 383 million.

### EBITDA excl. new partnerships, realised vs guidance DKKbn



### Investments, realised vs guidance, DKKbn



# Outlook 2019

## EBITDA guidance method

As in 2018, our guidance is based on our existing activities and thus only include the effect of existing partnership agreements. Earnings from new partnerships in 2018 concerned Hornsea 1 and amounted to DKK 15.1 billion. We do not expect new partnerships in 2019.

## EBITDA

EBITDA (business performance), excluding new partnership agreements, is expected to be DKK 15.5-16.5 billion in 2019, corresponding to an increase of 4-10%. The outlook is based on the expected development in the business units (compared to 2018), as described below.

### Offshore – higher

- Earnings from offshore wind farms in operation are expected to increase as a result of the full commissioning of Hornsea 1 in H2 2019 as well as higher earnings from Borkum Riffgrund 2 and Walney Extension, which were fully commissioned during 2018.
- Earnings from existing partnership agreements, which amounted to DKK 3.7 billion in 2018, are expected to decline. In 2019, earnings from existing partnerships will primarily come from the remaining part of the Hornsea 1 farm-down (approx 15%).
- Expensed project development costs are expected to increase as a result of efforts

to drive global expansions. Other, including project development costs, are expected to make up approx DKK 2.4 billion.

### Onshore – significantly higher

- As we acquired Lincoln Clean Energy on 1 October 2018, 2019 will be the first full year of operation from this business unit.
- Earnings from onshore wind farms in operation are expected to increase as a result of ramp-up from our new wind farms. In December 2018, we commissioned Tahoka, and we expect to commission Lockett in Q3 2019.

### Bioenergy – higher

- Total EBITDA from our heat and power generation activities is expected to increase, primarily as a result of expected increased generation on biomass and expected increase in Danish wood pellet spreads and green dark spreads.
- Earnings from our ancillary services were high in 2018, driven by higher demand during the summer and increased demand from Germany (DK/DE connection). We expect 2019 earnings from our ancillary services to be in line with 2017.

### Customer Solutions – significantly lower

- We expect a significant decline in Markets due to gains from increasing gas prices in 2018 reverting with negative impact in 2019.

## Outlook 2019, DKKbn

	2018 realised	2019 guidance
EBITDA (without new partnerships)	15.0	15.5-16.5
Offshore (without new partnerships)	12.7	Higher
Onshore	0.0	Significantly higher
Bioenergy	0.4	Higher
Customer Solutions	2.0	Significantly lower
Gross investments	24.5	21-23



Our EBITDA guidance for the Group is the prevailing guidance, whereas the directional earnings development per business unit serve as a means to support this. Higher/lower indicates the direction of the business unit's earnings relative to the results for 2018.

- Earnings from the gas portfolio were furthermore positively affected by a positive outcome of an arbitration case in 2018, which is not expected to be repeated in 2019.
- In 2018, earnings from our LNG business was positively affected by strong market fundamentals. We expect lower earnings from these activities in 2019.
- We plan to exit our Danish power distribution and residential customer businesses during 2019, but have included them throughout the year in our outlook. We do not expect any significant changes in earnings from these compared to 2018.

### IFRS 16 impact

EBITDA in 2019 is expected to be positively affected by DKK 0.6 billion from the

implementation of IFRS 16, compared to a continued expensing of operational lease costs. The majority of the impact is in Offshore.

### Gross investments

Gross investments for 2019 are expected to amount to DKK 21-23 billion. The outlook reflects a high level of activity in Offshore (Hornsea 1, Borssele 1 & 2, Hornsea 2 and Greater Changhua 1 & 2a (assuming FID)), Onshore (Lockett, Sage Draw and Plum Creek), biomass conversion of Asnæs Power Station and installation of smart meters.

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

At the end of 2018, funds tied up in work in progress totalled DKK 9.7 billion. During 2019, we expect to divest the Walney Extension and Race Bank offshore transmission assets, but we still expect to see high level of funds tied up in work in progress in 2019 as a result of the construction of transmission assets at Hornsea 1 and 2. The construction of Hornsea 1 for partners is expected to be operating cash flow neutral, as we will receive milestone payments continuously from our partner during the construction phase.

#### 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 2019, the ROCs are expected to account for 62% of the total income from these wind farms. In 2019, 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 2019. The same applies to our currency risks. The market value of financial hedging instruments and US power purchase agreements relating to our operations and divestment of assets deferred for recognition in business performance EBITDA in 2019 amounted to DKK -1.5 billion at the end of

2018. This effect is included in the outlook for 2019 (see note 1.6).

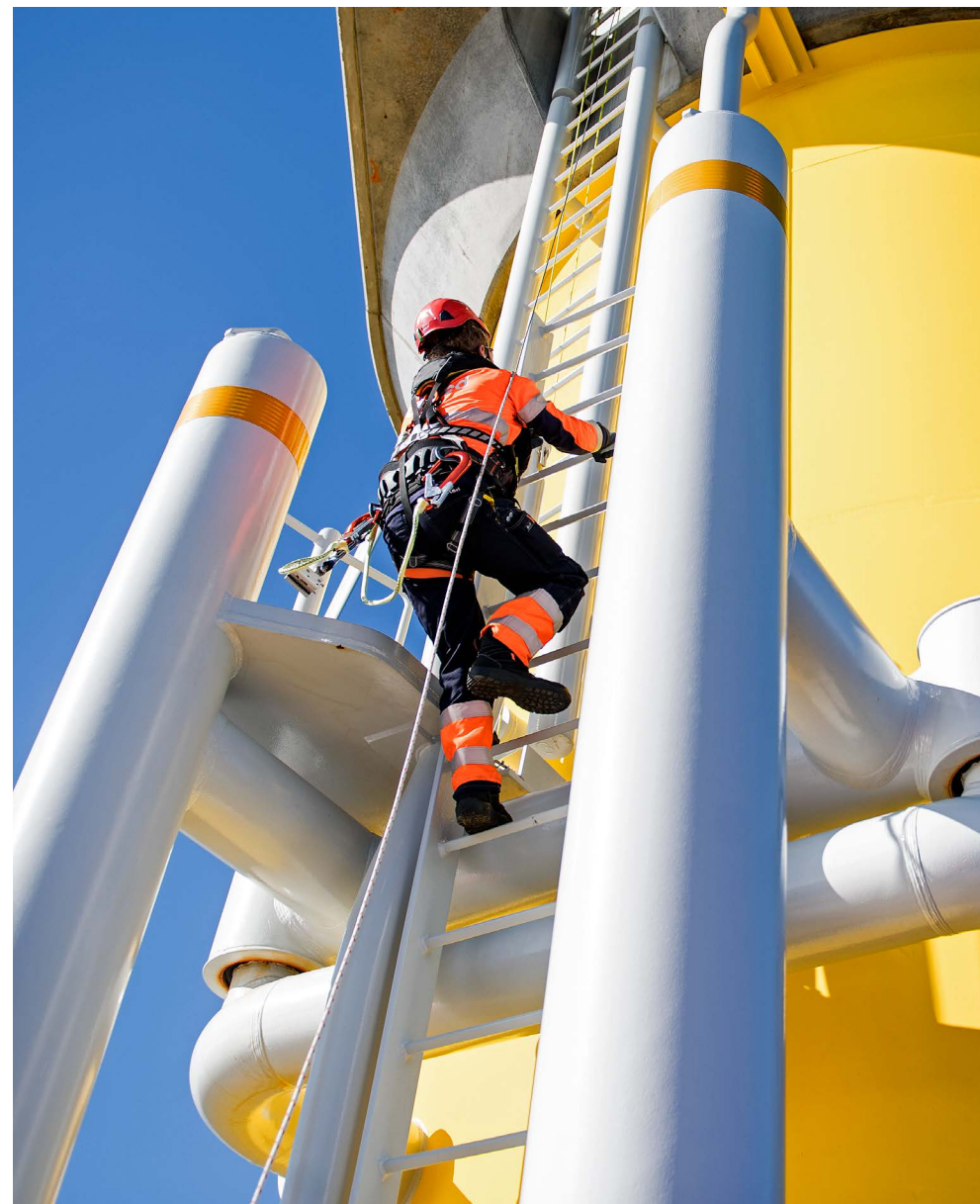
The most significant uncertainty surrounding the operating profit from existing activities in 2019 relates to the size of our power generation, which depends on wind conditions, the ramp-up of new wind farms and potential break-downs, and to a lesser extent our earnings from existing partnership agreements, timing in value adjustments related to gas at storages, heat and market trading activities. In addition, we are subject to litigation cases that potentially are concluded in 2019.

If a financially viable way forward is not found for our Greater Changhua projects, and we consequently decide not to progress with the projects during 2019, we have made certain commitments, which we will need to provide for.

#### Forward-looking statements

The annual report contains forward-looking statements which include projections of our short and long-term financial performance and targets as well as our financial policies. These statements are by nature uncertain and associated with risk. Many factors may cause the actual development to differ materially from our expectations.

These factors include, but are not limited to, changes in temperature, wind conditions and precipitation levels, the development in power, coal, carbon, gas, oil, currency and interest rate markets, changes in legislation, regulation or standards, the renegotiation of contracts, changes in the competitive environment in our markets and reliability of supply. Read more about the risks in the chapter 'Risk and risk management' and in note 7.



# Financial estimates and policies

## Financial estimates

In connection with our Capital Markets Day in November 2018, we introduced new strategic estimates towards 2025.

From 2019-2025, we expect total gross investments of approx DKK 200 billion. Investments in offshore wind farms are expected to constitute 75-85% of the investment programme. Onshore investments are expected to constitute 15-20%, while our combined investments in Bioenergy and Customer Solutions are expected to constitute 0-5%.

Towards 2023, we expect an average increase in operating profit (EBITDA) from offshore and onshore wind farms in operation (including O&M agreements and power purchase contracts) of 20% a year, reaching an estimated level of DKK 25-26 billion in 2023.

The largest share of Ørsted's operating profit (EBITDA) will still be generated by contract-based or regulated activities. We expect an average of around 90% of EBITDA in 2019-2025 to come from contract-based or regulated activities.

Our target is an average return on capital employed (ROCE) of around 10% for the Group in the 2019-2025 period. The reduction compared to our earlier target of 12-14% for 2018-2023 is a result of earnings from the partial divestment of Hornsea 1 in 2018 being outside the new period and the acquisitions of Lincoln

Clean Energy and Deepwater Wind, which will increase the capital expenditure in these years, but contribute to earnings with some delay.

## Financial policies

The Board of Directors recommends to the annual general meeting that dividends of DKK 9.75 per share be paid for 2018, equating an increase of 8% and a total of DKK 4.1 billion.

Supported by the expected increased cash flows from future offshore and onshore wind farms, we still intend to increase annual dividends by a high single-digit percentage compared to the previous year's dividends. This policy has been extended to cover the period until 2025 (previously 2020).

Our dividend policy and other expected capital allocations are subject to our commitment to our BBB+/Baa1 rating profile.

## Financial estimates

	Target	Year
Total CAPEX spend	DKK 200bn	2019-2025
Average return on capital employed (ROCE)	~10%	2019-2025
Average share of EBITDA from regulated and contracted activities	~90%	2019-2025
Average yearly increase in EBITDA from offshore and onshore wind farms in operation	~20%	2017-2023

## Financial policies

Rating	Min. Baa1/BBB+/BBB+ (Moody's/S&P/Fitch)
Capital structure	~30% (FFO/adjusted net debt)
Dividend policy	Ambition to increase the dividend paid by a high single-digit rate compared to the dividends for the previous year up until 2025



We have a ROCE target of 10% on average for the period 2019-2025. Read more about our key metrics, financial targets and policies in the presentation from our Capital Markets Day in November 2018 on [orsted.com/en/capital-markets-day](https://orsted.com/en/capital-markets-day)



Our current rating is in accordance with the policy.

# Our business

The green transformation	16
Our strategic playing field	18
Our markets	19
Our strategy and capital allocation	22
Our business model	25
Strategic targets	26
Our geographic footprints	28



# The green transformation

One third of all global carbon emissions come from the production of energy. To avoid an irreversible change in the global climate and ensure a habitable planet for future generations, we need to transform the world's energy systems from black to green.

The Sustainable Development Goals (SDGs) were adopted by all United Nations' member states in 2015. The goals cover the world's greatest challenges that must be addressed towards 2030 to improve conditions for people and the planet. The defining challenge of our generation, impacting all other SDGs, is to decelerate climate change – addressed in SDG 13.

The latest report by the UN's IPCC confirms that human activity has already caused temperatures on our planet to increase by approx 1.1°C above pre-industrial levels. Staying below 1.5°C warming necessitates a 45% reduction of emissions by 2030 (from 2010-levels) and 'net-zero' emissions by 2050. This requires an almost completely decarbonised power sector.

Carbon emissions originate from a range of sectors that all need to be decarbonised to effectively avoid severe climate change: electricity and heat generation (25%), other energy generation (10%), industry (21%), transportation (14%), land use (24%) and buildings (6%).

So far, global decarbonisation has mainly taken place in power generation, driven by the deployment of renewable energy at scale, reducing cost to a level which is now competitive to fossil fuels and nuclear power in many markets. This is good news for the continued decarbonisation of global energy production and for other sectors benefitting from increased electrification.

The continued deployment of renewable energy systems will create significant business opportunities for green energy solutions. From 2018 to 2030, Bloomberg New Energy Finance (BNEF) expects global investments in renewable energy to amount to approx USD 3.5 trillion.

## Living up to the Paris Agreement

The Paris Agreement, signed by 195 countries in 2016, is the most ambitious and comprehensive global political framework advancing SDG 13 on climate action. The agreement demonstrates the global commitment among a vast majority of the world's countries to combat climate change. According to the Paris Agreement, the countries commit to keeping the global temperature increase well below 2°C and to pursue efforts to limit the temperature increase even further to 1.5°C.

However, actions and decisions taken so far by the countries under the Paris Agreement currently put the world on a path towards

a global warming of more than 3°C. Hence, there is a need for more ambitious national action plans to channel investments towards a greener and more climate-resilient economy.

## Climate-related financial disclosures

Capital allocation decisions are one of the key levers for decarbonising the global economy. In 2017, the industry-led Task Force on Climate-Related Financial Disclosures (TCFD) launched its recommendations on how to improve the way climate-related risks and opportunities are factored into investment decisions. The initiative was launched by the G20 and illustrates how political and private sector leaders can unite in facilitating progress towards the climate-related SDGs.

The TCFD recommendations aim to improve understanding and disclosure of companies' climate-related risks and opportunities. These include physical factors, such as the sea level rising or storms that can affect assets, and transitional factors, such as carbon prices or technology shifts that can affect business strategies. By adopting the recommendations, companies signal that they are considering and acting on the impacts of climate change on their business. Ultimately, this will help fight climate change and drive the transition towards a sustainable, low-carbon economy.

## Top three SDGs that we help promote



Adopted by all United Nations member states in 2015, the 17 Sustainable Development Goals (SDGs) constitute the most pressing economic, social and environmental challenges that the world needs to solve. In Ørsted, we focus particularly on advancing two of the SDGs, namely 7 (clean and affordable energy) and 13 (fighting climate change), and by consequence we also contribute significantly to SDG 8 (economic growth).



SDG 7 aims to ensure access to clean and affordable energy for all. Today, 81% of global energy consumption is based on fossil fuels. To achieve the goal, societies need to accelerate the transformation of our energy systems from black to green.



SDG 8 aims to promote sustainable economic growth and decent work for all. Converting the world's energy systems from black to green requires significant investments that create economic growth and employment.



SDG 13 calls for urgent action to fight climate change and its impacts. Approx 75% of global carbon emissions come from the use of fossil-based energy. This energy is used for power, heat, industrial processes and for transportation. The remaining 25% of global emissions come from agriculture, forestry and other land use. Creating a world on green energy will be necessary to limit climate change.

### Ørsted's response to the global climate challenge

Society's need to phase out fossil fuels and deploy renewable energy at scale has been the key driver in Ørsted's decade-long strategic transformation from black to green energy. From being one of the most coal-intensive utilities in Europe a decade ago, we are today among the global leaders in renewable energy, driven by a vision of creating a world that runs entirely on green energy.

We are keenly committed to being among the leading companies that help make societies progress towards the SDGs.

We contribute to the achievement of SDG 7 by deploying renewable energy at scale. Our strategic target is to increase the green energy share of our heat and power generation to 99% by 2025. By 2025, our installed offshore wind capacity alone will be able to power more than 30 million people.

Through our green energy investments, we also contribute to SDG 8. We have invested DKK 120 billion in deploying green energy in the past 10 years. Including our partners' share of Ørsted-led offshore wind build-outs, investments amount to DKK 165 billion in this period. In a lifecycle perspective, our and our partners' investments in deploying green offshore energy have created approx 180,000 jobs from the installed capacity and FID projects. Towards 2025, we plan to invest DKK 200 billion within renewables, adding significantly to further local economic growth and job creation, not least in our new markets.

The decarbonisation of our heat and power generation also helps contribute significantly to SDG 13. So far, we have reduced our carbon intensity by 72% from 462g CO<sub>2</sub>e/kWh in 2006 to 131g CO<sub>2</sub>e/kWh in 2018. In absolute terms, we have reduced our carbon emissions from 18 million tonnes in 2006 to 3.4 million tonnes in 2018. This has been realised by reducing our coal consumption by 81%, replacing it with sustainable biomass. Adding to this, we have contributed to avoiding more than 31 million tonnes of carbon emissions by deploying offshore wind farms.

As we deploy green energy and plan to phase out coal entirely by 2023, our carbon intensity will be reduced by 96% in 2023 compared to 2006. Our target puts us 27 years ahead of the 2°C trajectory projected by the International Energy Agency. This places our strategy well ahead of the Paris Agreement.

By pursuing our green vision and strategy, we are aligned with the TCFD recommendations to a large extent, and we decided to endorse the recommendations in 2018. The Board of Directors is directly or indirectly addressing climate-related risks and opportunities when assessing and deciding on new investments in assets or activities or on discontinuation of activities. In addition, climate-related risks are assessed as an integral part of our risk management processes. Still, however, the TCFD recommendations help us improve our understanding of climate-related financial risks and opportunities and disclose it in a useful way to our investors and other stakeholders. Our vision is aligned with investors who

are still more observant of climate-related risks as well as business opportunities offered to companies positioned to benefit from the important transformation from black to green.

Ørsted's response to the global climate challenge and our full range of sustainability programmes and SDG contributions are documented in our sustainability report.

### Corporate social responsibility reporting

Our sustainability strategy and results are reported on in our sustainability and ESG performance reports which constitute 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 these reports, 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/sustainability2018](https://orsted.com/sustainability2018)  
[orsted.com/ESGperformance2018](https://orsted.com/ESGperformance2018)

# Our strategic playing field

The renewable energy value chain is made up of various components. These range from generation of green power, through storage, transmission and distribution to the consumption side. Within this energy system, we have taken the following strategic positions.

Offshore wind is our core focus and has been since we decided to transform Ørsted to a green energy company. It is a rapidly growing market in the global energy system with attractive value-creating opportunities. We have been successful in leveraging our capabilities to become the leading global player in the offshore wind market, representing a 30% share of the total capacity in operation or under construction.

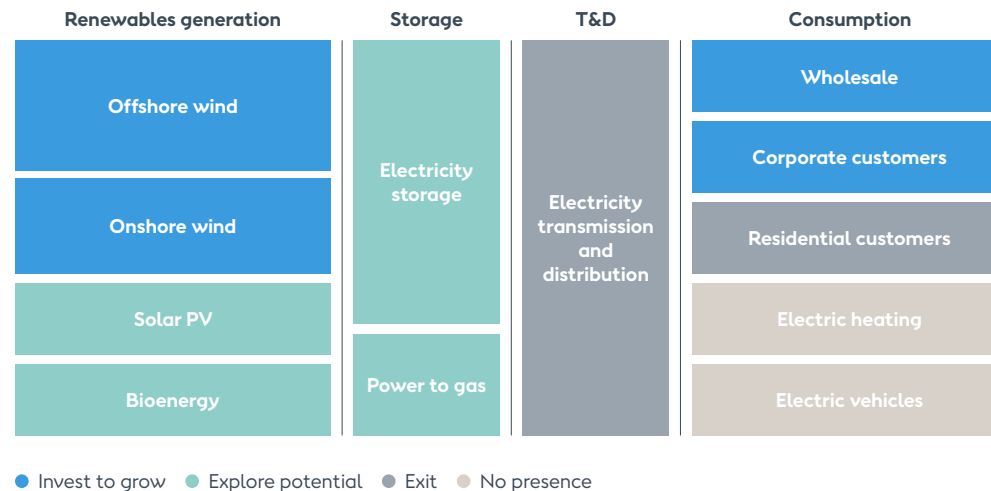
Onshore wind is our second growth platform where we now have a strong regional position, with the acquisition of Lincoln Clean Energy in the US. The US onshore market offers attractive value-creating opportunities and has significant long-term growth potential. The transaction provides technology and market diversification and enables us to serve the future energy demand through a multi-technology business platform. In addition, the US market will add to our scale and critical mass.

To secure market access, our strategic focus is on wholesale and corporate customers which account for the largest share of energy consumption. This position enables a route to market for our green energy generation.

Besides existing market positions, we explore the strategic and financial potential of additional green growth opportunities. Both solar PV, bioenergy and storage offer significant growth opportunities on the back of significant cost reductions.

Considering our rapidly growing global portfolio of renewable energy assets, we decided to initiate a structured divestment process of our Danish power distribution, residential customer and city light businesses in June 2018. Although the political support for continuing this structured process ceased on 13 January this year, we are continuing to investigate different options for exiting the businesses during 2019. In addition, following the political agreement in support of our IPO, we are conducting a structured divestment process of our offshore gas pipeline (including the Nybro Gas Treatment Plant) and oil pipeline (including the Frederica stabilisation plant). The transactions are expected to be signed in 2019.

Although we acknowledge electric heating and electric vehicles as key components in the renewable energy value chain, we have no actual plans to enter these markets.



# Our markets

## The market share of renewables is increasing

The renewable energy share of global power generation is increasing. Excluding hydro, it grew from less than 2% in 2000 to 12% in 2018. This share is expected to continue to grow and to reach 26% by 2030. With renewable energy representing 27% of Europe's total power generation in 2018 (excl. hydro), Europe is leading the transformation. By 2030, renewable energy is expected to account for more than half of the European power generation (55%).

The global installed capacity of renewables (excluding Middle East, Africa and hydro) was 1,153GW in 2018 and is forecast to more than triple by 2030, reaching 3,678GW according to Bloomberg New Energy Finance (BNEF).

In 2018, China and Europe were the regions with most renewable capacity installed, each accounting for approx 30%. The global installed capacity is expected to continue to grow 10% annually, with China and Europe remaining the major regions followed by North America.

The technologies that constituted the largest share of installed renewable capacity in the world in 2018 were onshore wind and solar photovoltaics (PV). Onshore wind accounted for almost half of the renewable capacity, 46%, while solar PV accounted for 41%. Both technologies will remain the primary sources, accounting for 88% of the total renewable

capacity. However, offshore wind is expected to grow the fastest towards 2030 at an annual rate of 16%.

A key driver behind the growth in renewable energy is the rapidly declining costs. Onshore wind has become the most cost-competitive energy technology due to its rapidly expanding global capacity, which has contributed to economies of scale, higher learning effects and more technological innovation. On the other hand, conventional non-renewable technologies, such as coal, are facing increased costs due to reduced capacity factors, as they face increasing competition from renewable technologies.

## Offshore wind

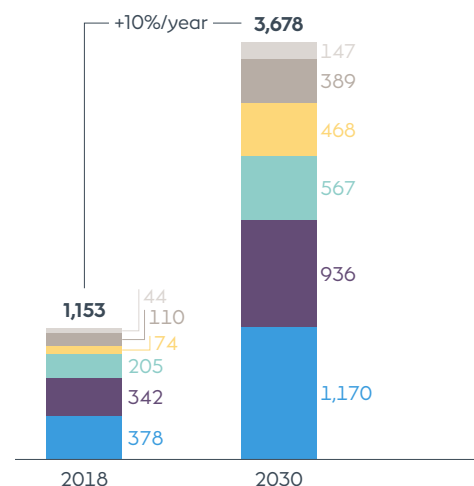
Installed global offshore wind capacity reached 21GW in 2018. In just three years, it has almost doubled, with an annual growth rate of 22%. According to BNEF, the offshore wind market is expected to continue this strong growth trajectory.

With an annual addition of more than 6GW, the capacity is expected to reach 34GW by 2020. Thereafter, it is expected to grow by 15% on average, bringing the global installed capacity to 132GW in 2030.

Currently, most offshore wind farms are located in Europe, which makes up approx 80%

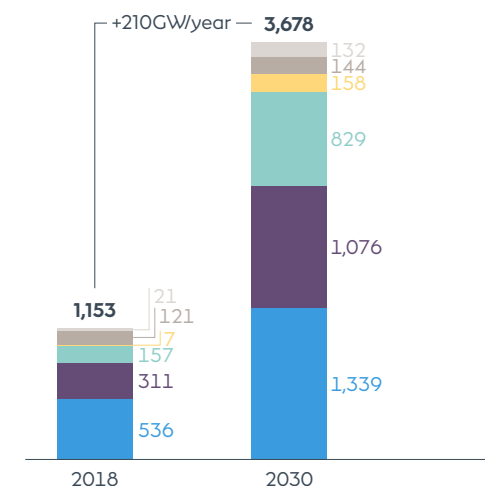
## Global<sup>1</sup> renewable capacity by geography, GW installed

- China
- Europe
- North America
- India
- Rest of Asia Pacific
- Latin America



## Global<sup>1</sup> renewable capacity by technology<sup>2</sup>, GW installed

- Onshore wind
- Large-scale PV
- Small-scale PV
- Storage
- Biomass
- Offshore wind



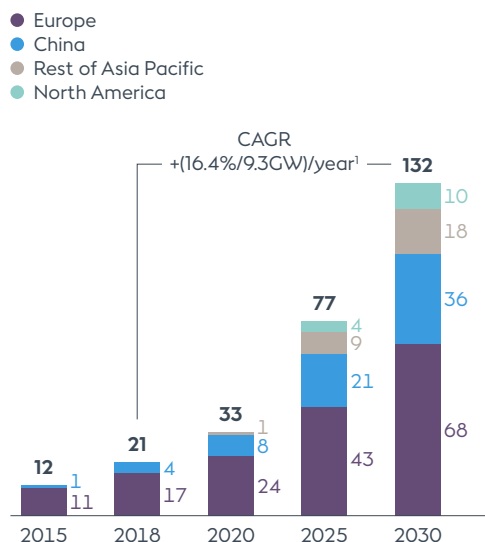
Source: Bloomberg New Energy Finance (BNEF), H1 2018 offshore wind market outlook. US includes the latest BNEF US offshore wind forecast from September 2018 (3GW higher than H1 2018 offshore wind market outlook from July 2018).

<sup>1</sup> Excludes Middle East and North Africa

<sup>2</sup> Excludes 'Other' (solar, thermal and geothermal), accounting for less than 2%

of the total market. Europe is expected to continue growing at strong double-digit rates towards 2030, thus upholding the position as the largest offshore wind market in the world with an expected share of the global installed capacity of 50% in 2030.

#### Installed offshore wind capacity, GW



Source: Bloomberg New Energy Finance (BNEF), 1H 2018 offshore wind market outlook. US includes the latest BNEF US offshore wind forecast from September 2018 (3GW higher than the H1 2018 offshore wind market outlook from July 2018)

<sup>1)</sup> Global CAGR

However, new markets in Asia Pacific (APAC) and North America are expected to follow with booming growth. Asia Pacific, excluding China, is expected to grow at an average annual growth rate of 58% towards 2030. North America is also expected to grow significantly after 2020, with installed capacity expected to increase from 30MW in 2018 to 10GW by 2030 according to BNEF. This expectation does not fully take the recent 9GW by 2035 ambition from the New York Governor into account.

The strong growth in offshore wind can be attributed to the significant reduction in costs. In 2018, the levelised cost of electricity for newly commissioned generation capacity in North-western Europe was reduced by approx 45% compared to the level four years earlier, and it is expected to decrease further.

Newly built offshore wind has become more competitive than conventional generation technologies using gas and coal. The continuous reductions in offshore wind costs are evident in recent auctions in Germany and the Netherlands where some developers bid for zero subsidy projects.

## Onshore renewables

### Onshore wind

The global onshore wind market, excluding Middle East and Africa, shows strong growth as the installed capacity reached 536GW in 2018, up from 395GW in 2015, growing at 11% annually. The global market is forecasted to almost triple by 2030.

Among key markets, Asia Pacific represents 43% of the global onshore capacity, driven by China. Europe reached 164GW installed capacity in 2018, representing 31% of the market. Another key market is North America with 121GW, representing 23% of the global capacity.

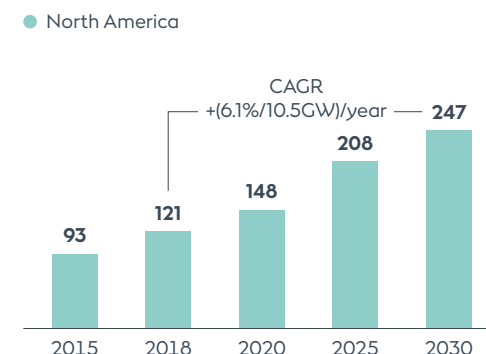
Onshore wind is the most cost-competitive renewable energy resource, with the lowest levelised cost of electricity in the US in 2018. North America is expected to continue installing onshore wind with an annual average growth rate of 11% towards 2020 and to double its capacity by 2030. In the short term, the market will continue to be driven by projects that have secured production tax credits (PTCs), but once all PTC-backed projects have been built in 2024, the low cost of onshore wind will be the main driver for further capacity build-outs.

### Solar photovoltaic (PV)

Among the new renewable technologies, solar PV witnessed the fastest growth, as the global capacity grew by 31% from 2015 to 2018. The global capacity, excluding Middle East and Africa, reached 468GW in 2018. This strong growth is expected to continue towards 2030, reaching 1,905GW installed capacity at an annual growth rate of 12%. Large-scale PV, with a power capacity greater than 1MW, represented 66% of the total capacity in 2018, while small-scale PV, typically for residential use with a 5kW power capacity, is expected to catch up towards 2030, reaching a share of 43% of cumulative solar PV installations.

North America reached 65GW in 2018 and was one of the fastest growing regions. It is expected to continue this growth trajectory with an

#### Installed onshore wind capacity, GW



Source: Bloomberg New Energy Finance (BNEF), New Energy outlook 2018

annual growth rate of 23% towards 2020 and is to quadruple its installed capacity, reaching 261GW by 2030.

Towards 2023, the levelised cost of electricity for solar PV is expected to be cheapest in North America, barely overtaking onshore wind. Key drivers supporting cost reductions are scale, material savings due to less waste, and more incentives for technological innovations.

### Energy storage

As the share of intermittent renewable sources is increasing in the global energy mix, the need for more dynamic dispatchable units to store energy and support rapid load-shifting

is also growing. Battery storage solutions can balance electricity supply and demand and may also provide ancillary services.

Global energy storage, excluding Middle East and Africa, is expected to rise significantly over the next decade. In 2018, it had grown by 58% from 2015, reaching 6GW, and it is expected to continue this strong growth path to reach 158GW by 2030.

Today, most of the capacity (73%) is developed for large-scale and only 27% for small-scale storage. Large-scale storage systems (+1MW) primarily provide services directly to the grid, while small-scale storage systems typically provide end-customer services.

A key driver for the strong outlook is the decreasing cost of lithium-ion battery packs. Between 2010 and 2017, prices fell by 80% and going forward, BNEF forecasts further cost reductions, supported by economies of scale from increasing battery manufacturing capacity.

## Bioenergy

Global waste volumes are rapidly increasing. In 2004, the municipal solid waste (MSW) generated globally amounted to 680 million tonnes per year. By 2016, volume had tripled to 2.0 billion tonnes per year, and it is expected to continue growing. In 2016, only 17% of MSW was recycled, while the majority was sent to landfilling, which can potentially have significant negative effects on the environment. Regulation is attempting to boost the recycling share. The EU has set targets to

increase the recycling share of MSW to 65% by 2030 and reduce landfilling to less than 10%.

Alternatives to landfilling, such as incineration and full-source separation, contribute to high carbon emission levels and only marginally to recycling. Hence, it is increasingly important to find alternative solutions.

In addition to MSW, industries produce waste from their production activities, e.g. organic residues and by-products, that need to be handled. In 2014, bio-based waste from industrial processes and agriculture, forestry, fishing and water treatment in the EU accounted for 157 million tonnes per year. For companies that depend on natural gas and are looking for greener processes, the conversion of organic waste into bio-methane is an appealing solution.

## Customer Solutions

In 2018, the downstream electricity market size in Europe was 3.3PWh. Of this, the business segment accounted for the largest share with 60-70%, while residential customers accounted for 30-40%.

In 2018, 42% of the European power demand was met by renewable energy (incl. hydro), and the share is forecasted to reach 69% by 2030. Considering the growth in renewables, the consequent increase in intermittent power generation will lead to continuous discrepancies between forecasted and actual production. There is value in efficiently managing this gap for wholesale customers by providing balancing services.

With subsidies for renewable power generation trending lower and eventually reaching zero, it becomes increasingly important to find ways to manage the increasing merchant power price exposure. This entails development of new products and solutions for the wholesale and retail markets.

In the business segment, many corporate customers demand greener and more innovative energy solutions that are also sustainable and cost efficient. To address this demand, the market for corporate power purchase agreements (cPPA) has experienced considerable growth. Despite remaining a smaller share of the total downstream power market, the global market size for cPPAs is expected to reach 28GW in 2018, up from only 9GW in 2015. As customers pursue sustainable and greener solutions, 74% of the cPPAs are sourced from wind and 24% from solar energy.

# Our strategy and capital allocation

## Strategic direction and growth

Our strategic shift from black to green energy is reflected in our capital base. In 2007, only 16% of our total capital employed was invested in renewables. In 2018, the share of renewables had increased to 87%.

In addition, our strategic transformation to become a green energy company has positioned Ørsted as one of the largest commercial renewable energy companies in the world, measured by the capacity of renewable energy that is installed and under construction. By the end of 2018, we had 12GW of renewable energy capacity installed, under construction, or where a FID has been taken, with the vast majority being in offshore wind. In addition, we have been awarded or contracted projects with a capacity of 4.8GW where investment decisions are yet to be taken. Furthermore, we have a strong pipeline of projects under development.

Towards 2030, we expect that the global market for renewable energy will more than triple to 3,600GW. As one of the leading companies in renewable energy, Ørsted is strongly positioned to take part in this growth.

We have increased our ambition for offshore wind from a capacity of 11-12GW to a capacity of 15GW by 2025. By 2030, our strategic ambition is to achieve an installed renewable capacity of more than 30GW, provided that the development creates value for our shareholders.

## Strategic growth platform

	Europe	Americas	Asia
<b>Offshore</b> <ul style="list-style-type: none"><li>— Wind</li><li>— Transmission</li><li>— Storage</li></ul>	<b>Global leader in offshore wind</b> <ul style="list-style-type: none"><li>— Strategic core</li><li>— Growth and value creation</li><li>— Scale</li><li>— Keep pioneering and innovating</li></ul>		
<b>Onshore</b> <ul style="list-style-type: none"><li>— Wind</li><li>— Solar PV</li><li>— Storage</li></ul>	<b>Leading US renewable company</b> <ul style="list-style-type: none"><li>— Strategic diversification</li><li>— Scale</li><li>— Technology integration</li><li>— New value-creating growth platform</li></ul>		
<b>Bioenergy</b> <ul style="list-style-type: none"><li>— Biomass</li><li>— Renescience</li><li>— Biogas</li></ul>	<ul style="list-style-type: none"><li>— Explore growth and value creation potential of Bioenergy</li></ul>		
<b>Customer Solutions</b>	<ul style="list-style-type: none"><li>— Route to market for Ørsted's product portfolio</li><li>— Risk management</li><li>— Incremental value creation</li></ul>		

We have a strong growth platform to support our strategic ambition, comprising our four business units: Offshore, Onshore, Bioenergy and Customer Solutions.

Our Offshore business unit includes offshore wind, transmission and storage. We strive to maintain our global market leadership in offshore wind and will continue to expand

in Europe, North America, and Asia. We will keep pioneering and innovating the industry. Offshore wind will remain the strategic core of our company.

The second growth avenue is our Onshore business unit, where the aim is to create a leading North American company within renewable energy, with a main emphasis on

onshore wind, but also including solar energy and energy storage.

Bioenergy includes our biomass-converted combined heat and power plants in Denmark and our waste-to-energy and biogas technologies. We will continue to explore the growth and value creation potential within bioenergy.

Customer Solutions provides route-to-market services for our product portfolio as it brings our power, gas and green certificates to market, while also managing the risk profile of our portfolio.

Our key milestones for 2019 are shown in the figure to the right.

Towards 2025, we plan to invest substantially in green energy, thereby contributing to the conversion of the global energy system and creating value for our shareholders and the communities within our footprint.

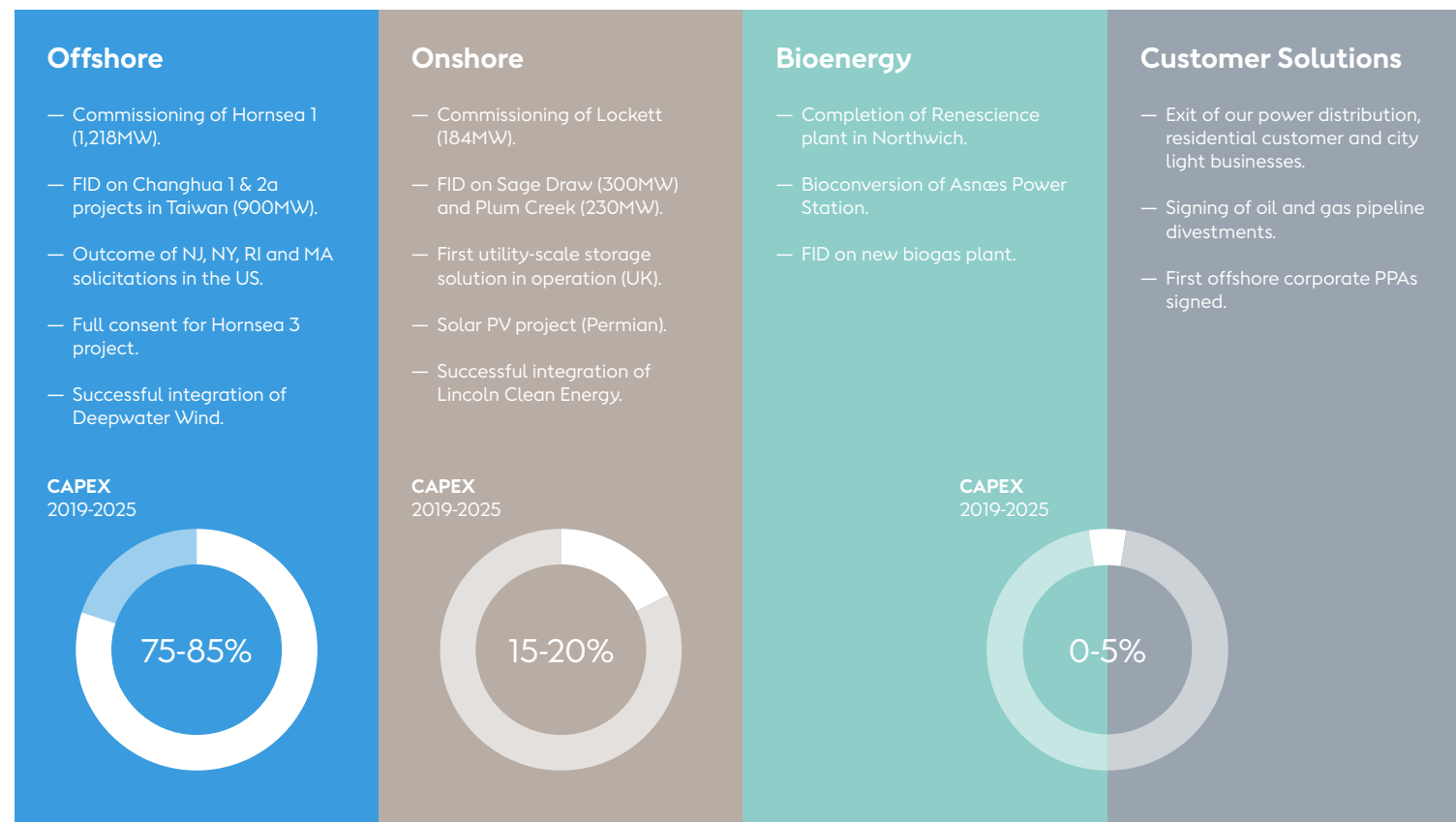
### Capital allocation

Subject to continued value creation, we expect to invest DKK 200 billion in the period 2019-2025 to continue our growth towards an installed renewables capacity of +30GW by 2030. Our capital will be allocated to the best risk-return project opportunities in our portfolio. We have already committed gross investments of DKK 40-45 billion in the period, assuming no further partial divestments of offshore wind farms in Europe after the recent Hornsea 1 farm-down. Additional investments will primarily be allocated to our awarded 3.9GW offshore wind projects, our offshore pipeline as well as our contracted 0.9GW on-shore wind and solar projects and our onshore pipeline.

In the period discussed, we expect to allocate 75-85% of our gross investments to Offshore, 15-20% to Onshore, and 0-5% to Bioenergy and Customer Solutions together.

Based on the above anticipated build-out of offshore and onshore wind, including the

## Key milestones for 2019 for our four business units



acquisitions of Lincoln Clean Energy and Deepwater Wind, we expect our current financial headroom, relative to our rating commitment, to be deployed within a few years. Thus, our leverage, based on market value, is expected to increase from 8% at the end of 2018 to 25% in the early 2020's.

We expect our average return on capital employed (ROCE) for the years 2019-2025 to be around 10%.

In addition to our ambitious investment plan, we aim at maintaining a high single-digit annual growth in dividends until 2025.

### Enablers of the strategy

To support our ambitious strategy and enable our businesses to perform effectively and profitably, we continue to invest significantly in talent, digitalisation, operational excellence and innovation.

### Talent

As one of the global leaders in renewable energy, Ørsted offers a strong environment for professional growth and career development. With our global growth ambition, we will need gifted, ambitious and world-class talent to drive our business forward. Our aim is to hire the best people and to offer unparalleled opportunities for professional development through attractive learning opportunities for all employees and through dynamic and mobile careers. To support our ambition, we are strengthening our employer branding and talent acquisition efforts, our people development and performance management approaches and our talent development activities. As we expand our global business, we will also increase workforce diversity to create a truly international culture. To drive more structured talent acquisition, development and deployment of high potentials, we are establishing cross-business 'talent pipeline forums' led by senior business executives.

### Digitalisation

Our digital strategy focuses on keeping us at the forefront of our industry. The key focus areas lie within offshore wind power operations, customer solutions, market trading and risk management, combined heat and power plant operations and shared services. Across these areas, we have defined financial targets and established rigorous processes for delivering and tracking value. The key drivers for increased digital value creation are increasing deployment of advanced analytics and artificial intelligence, strengthening interfaces and mobility by augmenting our employees' or customers' experiences through human-machine interfaces, as well as a raised

level of automation. In 2018, we significantly scaled up our digitalisation efforts, increasing external recruitment and further leveraging our in-house capabilities.

### Operational effectiveness

We continuously drive asset productivity, cost efficiency and quality across all major operational areas. In particular, we run operational excellence programmes within O&M and EPC in offshore wind, our CHP plants, shared services and our sales operations. Across our businesses, all operational excellence programmes are driven rigorously, based on clear target setting, well-defined initiatives and clear follow-up processes for delivering and tracking value creation.

### Innovation

To maintain our competitive edge and stay at the forefront of a rapidly evolving renewable energy industry, innovation is a key priority. Across our business units, we invest significantly in innovating and strengthening our existing product offerings and in bringing new solutions into our portfolio. To reinforce our strategic radar for emerging technologies and business models, we established Ørsted Ventures in Silicon Valley, California, in 2017. In 2018, we expanded our venture engagements to also include our European markets. To nurture internal innovation, we run cross-organisational Innovation Games, where internal teams from across the company present innovative business ideas aimed at promoting growth and strengthening our competitive edge.



# Our business model

## Key resources

### Financial capital

We finance our investments through cash flows from operations, debt and divestment of ownership interests.

### Energy assets

We invest in scalable, innovative green technologies and solutions.

### Natural resources

We rely on natural resources, such as construction materials, 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.

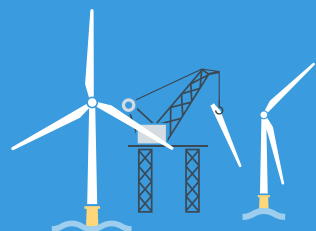
### Innovative culture

We continuously innovate our energy solutions to drive competitiveness.

### Stakeholder engagement

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

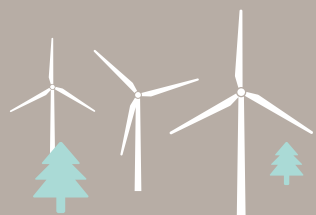
## Core activities



Capital employed 79%

### Offshore

- Develop, build, own and operate offshore wind farms (three wind farms are under construction).
- Own 26 offshore wind farms of which we operate 22.
- Development projects in progress in the UK, Germany, Taiwan and the US.
- Additional new markets being developed in Asia and Europe.



Capital employed 6%

### Onshore

- Develop, build, own and operate onshore wind farms.
- Three wind farms are in operation, one wind farm is under construction, and two wind farms are under development.
- Explore opportunities within solar PV and storage.



Capital employed 2%

### Bioenergy

- Convert our CHP plants to biomass.
- Own and operate ten CHP plants in Denmark.
- Enter into long-term contracts with our heat customers and sell power to the market.
- Explore opportunities within biogas and waste recycling.



### Customer Solutions

- Route-to-market services for our own and partners' power, gas and certificates.
- Manage the Group's energy portfolio risks.

Capital employed 13% of which assets we plan to exit 10%

## Value created

### Society

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

### Customers

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

### Employees

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.

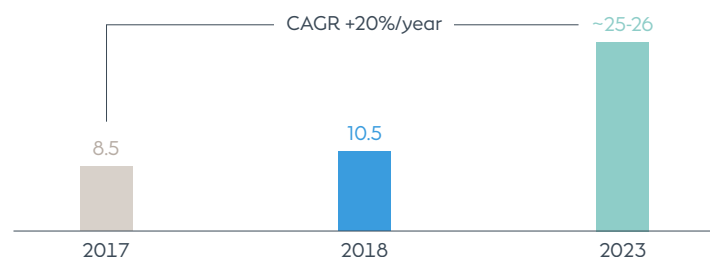
### Shareholder return

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

# Strategic targets

## 1. EBITDA from operating wind farms, %

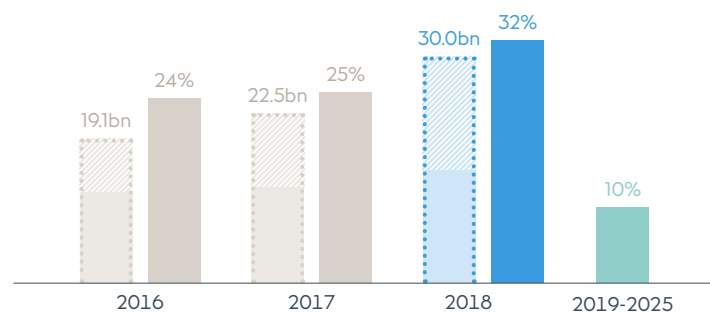
EBITDA from our wind farms in operation is on average expected to increase by 20% per year from 2017 to 2023.



## 2. ROCE, %

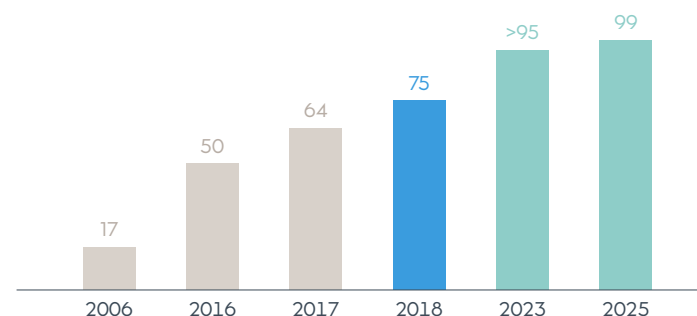
Our target is an average return on capital employed (ROCE) of around 10% for the Group in the 2019-2025 period. EBITDA in 2016-2018 has been positively impacted by significant profits from new partnership agreements, particularly divestment gains, which are not expected to be repeated going forward.

● ROCE ● EBITDA ● of which EBITDA from new partnerships



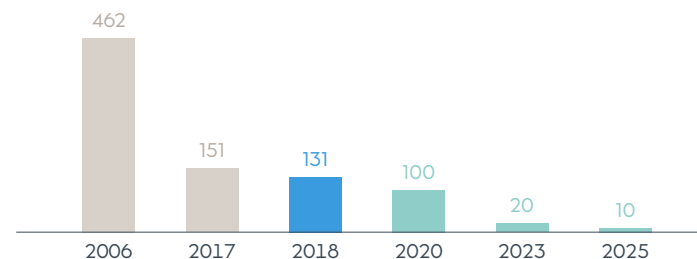
## 3. Green share of generation, %

In 2018, we increased the green share of generation by 11%-points compared to the previous year. We are on track to meet our objective of exceeding 95% by 2023 and reaching 99% by 2025.



## 4. Carbon emissions, g CO<sub>2</sub>e/kWh

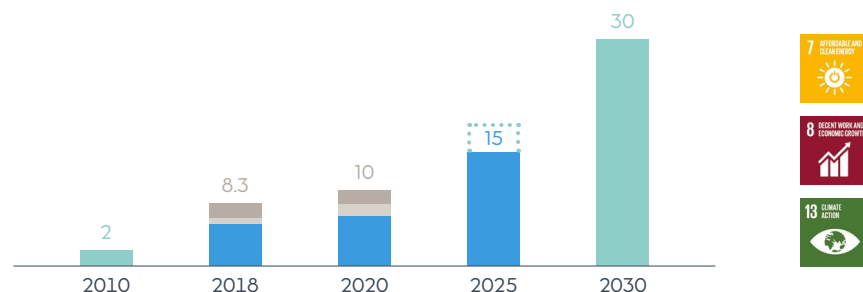
The conversion of our heat and power stations to sustainable biomass, together with our build-out of offshore wind, has reduced our carbon emissions intensity by 72% since 2006. We are well on track to meet our target of an emission intensity of no more than 20g CO<sub>2</sub>e per kWh in 2023 and 10g CO<sub>2</sub>e in 2025.



## 5. Installed renewable capacity, GW

In 2018, we defined an ambition of installing more than 30GW of green capacity by 2030 through offshore wind, onshore wind, bioenergy and solar PV technologies. In addition, our ambition is to have installed 15GW of offshore wind by 2025, up from our previous target of 11-12GW. The upward revision is based on strong progress since we set the ambition in 2016, with 5.6GW installed by 2018, 3.4GW under construction towards 2022 and 3.9GW of capacity awarded.

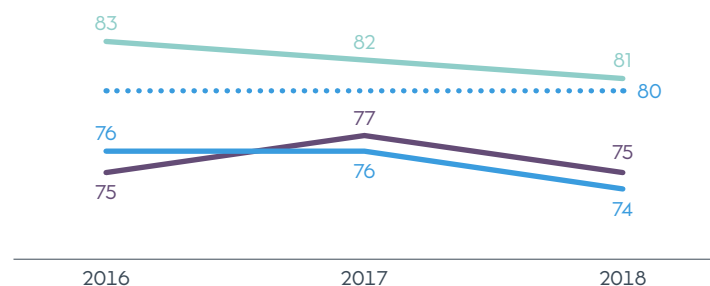
● Offshore wind ● Onshore wind ● Bioenergy ..... Other renewables ● Total renewables



## 6. Customer satisfaction, scale 1-100

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

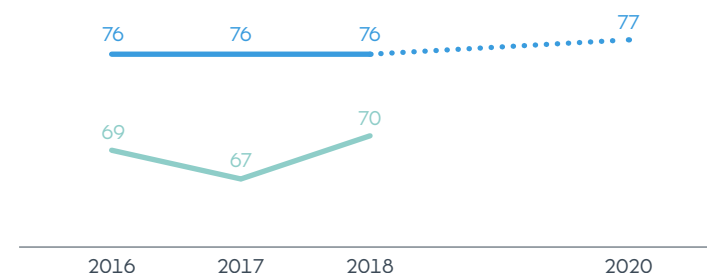
— B2C — B2B — Distribution ..... Target 2020



## 7. Employee satisfaction, scale 1-100

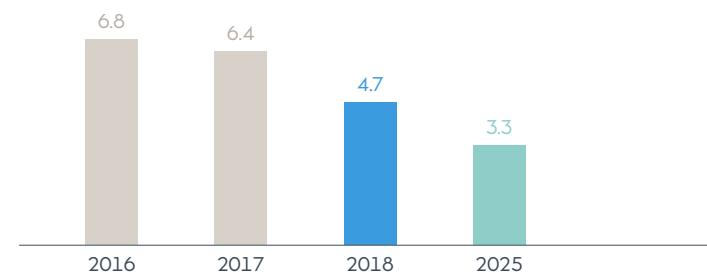
We believe that well-being and positive results go hand in hand. Therefore, we are continuously working to maintain and increase employee satisfaction. The employee satisfaction in Ørsted is above comparable companies.

— Ørsted — Ennova benchmark



## 8. Safety, TRIR

From 2018, we introduced a new safety target – total recordable injury rate (TRIR). In 2018, TRIR significantly improved and outperformed the target of 5.7 we had set for 2020. We have therefore raised our ambition and set a target of reducing TRIR to 3.3 by 2025. In 2019, we expect a TRIR of 5.2. The increase compared to 2018 is due to future activities in new markets with immature offshore wind supply chains.



# Our global footprint

## USA

-  Amazon (253MW)  
Tahoka (300MW)  
Willow Springs (250MW)
-  Lockett (184MW)
-  Plum Creek (230MW)  
Sage Draw (300MW)
-  Block Island (30MW)
-  Coastal Virginia Offshore Wind (12MW) (EPC contract)
-  South Fork (130MW)  
Skipjack (120MW)  
Revolution Wind (704MW)
-  Bay State Wind (up to 2,000MW)  
Garden State (up to 800MW)  
Ocean Wind (up to 3,500MW)  
Revolution Wind (up to 1,200MW)
-  Oak solar
-  Permian solar

### Symbols

    In operation

   Under construction

 Awarded

   Under development


(MW) Total gross wind farm capacity

 Sale of power and/or gas

## Sweden

## Denmark

-  Anholt (400MW)  
Horns Rev 1 (160MW)  
Horns Rev 2 (209MW)  
Nysted (166MW)

-  Asnæs  
Avedøre 1 & 2  
Esbjerg  
H.C. Ørsted  
Herning  
Kalundborg Bioenergi  
Kyndby  
Skærbæk  
Studstrup  
Svanemølle

## UK

-  Barrow (90MW)  
Burbo Bank (90MW)  
Burbo Bank Extension (258MW)  
Gunfleet Sands 1 & 2 (173MW)  
Lincs (270MW)  
London Array 1 (630MW)  
Race Bank (573MW)  
Walney 1 & 2 (367MW)  
Walney Extension (659MW)  
Westermest Rough (210MW)  
West of Duddon Sands (389MW)

-  Hornsea 1 (1,218MW)  
Hornsea 2 (1,386MW)

-  Hornsea 3 (up to 2,400MW)  
Hornsea 4 (up to 1,200MW)  
Race Bank Extension (573MW)

-  Renescience Northwich

## Germany and the Netherlands

-  Code Wind 1 (345MW)  
Code Wind 2 (263MW)  
Borkum Riffgrund 1 (312MW)  
Borkum Riffgrund 2 (465MW)

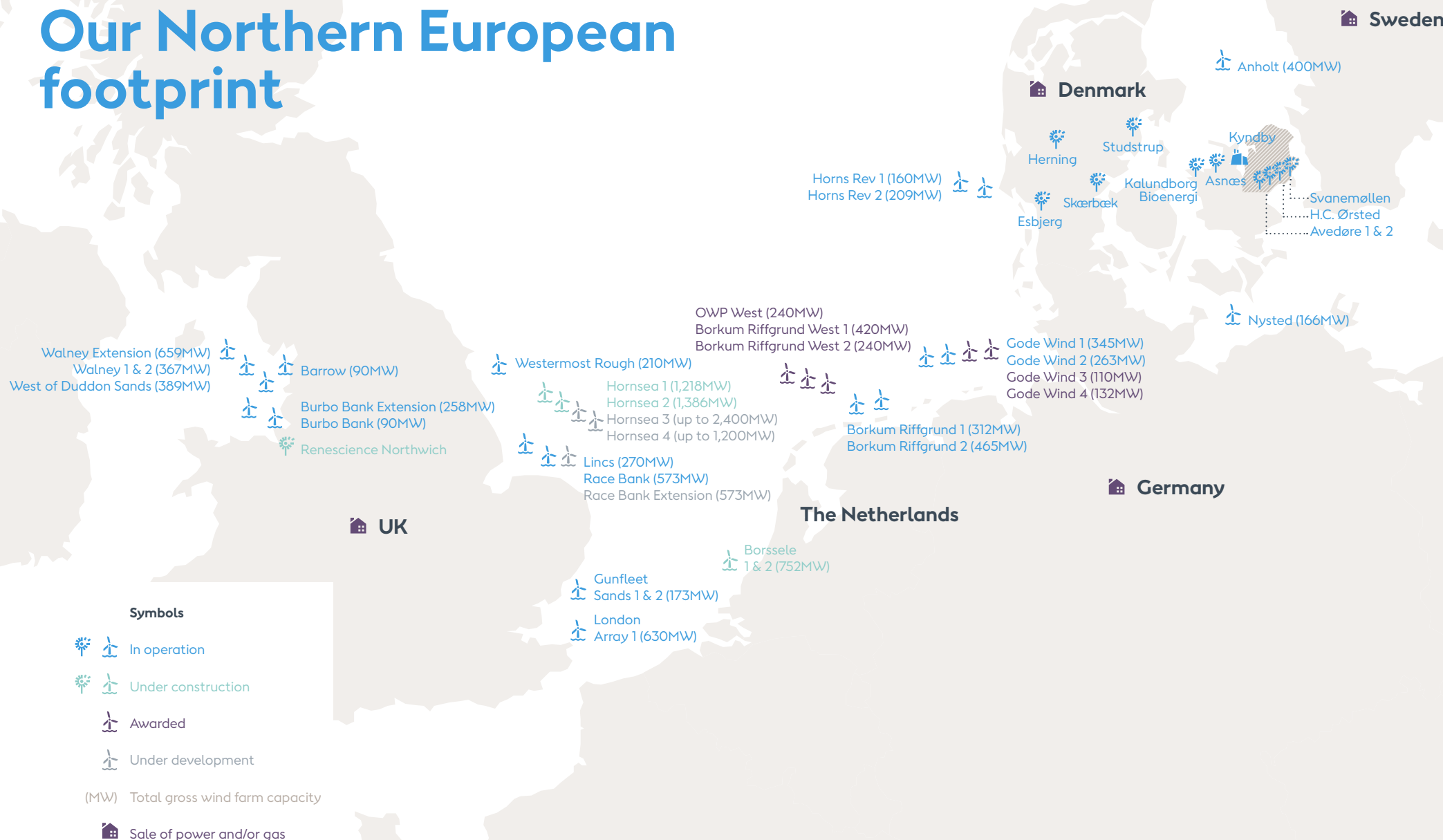
-  Borssele 1 & 2 (752MW)

-  Borkum Riffgrund West 1 (420MW)  
Borkum Riffgrund West 2 (240MW)  
Code Wind 3 (110MW)  
Code Wind 4 (132MW)  
OWP West (240MW)

## Taiwan

-  Formosa 1 (128MW)
-  Greater Changhua Projects (1,820MW)

# Our Northern European footprint



# Results

Results	31
Five-year summary	35
Fourth quarter	36
Quarterly summary, 2017-18	38



# Results

## Assets held for sale

We have classified our power distribution, residential customer and city light businesses as assets held for sale at the end of 2018, as we expect to exit these activities within the next 12 months. Contrary to the classification of our upstream oil and gas activities as assets held for sale in 2016, these activities are not presented as discontinued operations due to their more limited relative size for the Group. This means that the results and cash flows are still presented together with the rest of the Group. EBITDA from the power distribution, residential customer and city light businesses amounted to DKK 1.1 billion in 2018 (4% of total EBITDA), while capital employed amounted to DKK 8.3 billion (10% of total capital employed).

## Financial results

### Revenue

Power generation from offshore wind farms increased by 18% to 10.0TWh in 2018 due to the ramp-up of generation from Race Bank, Walney Extension and Borkum Riffgrund 2. Power generation from onshore wind farms amounted to 0.6TWh in 2018. Thermal power generation was 18% lower than in 2017, driven by the divestment of our Dutch power plant in June, and amounted to 6.7TWh. Power generation from our Danish CHP plants increased by 4%, while heat generation decreased by 2% to 8.8TWh in 2018. Offshore and onshore wind farms accounted for 62% of our total power generation, an increase of 11 percentage points compared to last year. The renewable energy share of our total heat and power generation accounted for 75% of total generation in 2018 compared with 64% in 2017.

Revenue amounted to DKK 76.9 billion. The increase of 29% relative to 2017 was primarily due to higher revenue from construction agreements due to high activity on construction of offshore wind farms for partners and divestment of transmission assets, higher revenue from wind farms in operation and higher gas and power prices in 2018.

### EBITDA

Operating profit (EBITDA) totalled DKK 30.0 billion compared with DKK 22.5 billion in 2017. Earnings from Offshore increased by 35% to

## 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 28.5 billion in 2018 against DKK 22.6 billion in 2017. Calculated in accordance with the business performance principle, EBITDA was DKK 30.0 billion and DKK 22.5 billion, respectively. The difference between the two principles was thus DKK 1.5 billion in 2018 compared with DKK 0.1 billion in 2017 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 based on the business performance principles only, unless otherwise specified. Reference is also made to note 1.6.

Business performance vs. IFRS, DKKm	2018	2017
<b>EBITDA – business performance</b>	<b>30,029</b>	<b>22,519</b>
Market value adjustments for the year of financial and physical hedging contracts relating to a future period	(1,734)	(138)
Reversal of deferred gains (losses) relating to hedging contracts from previous periods, where the hedged production or trade is recognised in business performance EBITDA in this period	196	193
<b>EBITDA – IFRS</b>	<b>28,491</b>	<b>22,574</b>

DKK 27.8 billion, of which the farm-down of Hornsea 1 represented more than half (DKK 15.1 billion). Higher power generation due to ramp-up and commissioning of new offshore wind farms contributed to a 29% increase in earnings from offshore wind farms in operation.

Earnings from Onshore contributed marginally, while Bioenergy earnings more than doubled and amounted to DKK 0.4 billion due to higher spreads as well as full-year impact from the bioconversion of Skærbæk Power Station, which was inaugurated in Q4 2017.

Earnings from Customer Solutions were almost flat year-on-year and amounted to DKK 2.0 billion.

### EBIT

EBIT increased by DKK 8.4 billion to DKK 24.7 billion in 2018, primarily as a result of the higher EBITDA.

Depreciation increased by DKK 0.2 billion to DKK 6.0 billion in 2018. The increase was due to a higher number of wind farms in operation.

In connection with the classification of the power distribution activities as assets held for sale, we have reversed a previous impairment loss of DKK 0.6 billion.

Financial results, DKKm	2018	2017	%
Revenue	76,946	59,504	29%
EBITDA	30,029	22,519	33%
Depreciation	(5,978)	(5,739)	4%
Impairment reversals (losses)	603	(545)	n.a.
Operating profit (loss) (EBIT)	24,654	16,235	52%
Gain (loss) on divestment of enterprises	127	(139)	n.a.
Profit (loss) from associates and JVs	1	(10)	n.a.
Net financial income and expenses	(1,278)	(1,042)	23%
Tax	(4,018)	(1,765)	128%
Tax rate	17%	12%	5%p
Profit for the year from continuing operations	19,486	13,279	47%
Profit for the year from discontinued operations	10	6,920	(100%)
Profit (loss) for the year	19,496	20,199	(3%)



In 2018, regulated and quasi-regulated activities and contract- ed activities accounted for 31% and 64% of our EBITDA, respectively, whereas market exposed activities accounted for 5%.

Read more about profit for the year from discontinued operations in note 3.7.

### Gain (loss) on divestment of enterprises

Gain (loss) on divestment of enterprises primarily concerned the divestment of our 50% share of the Dutch gas-fired power plant Enecogen in 2018.

### Financial income and expenses

Net financial income and expenses amounted to DKK -1.3 billion and were DKK 0.2 billion higher than last year. The increase was mainly due to a lower level of capitalised interests, mainly related to Walney Extension and Race Bank, due to the progress of the projects.

### Tax and tax rate

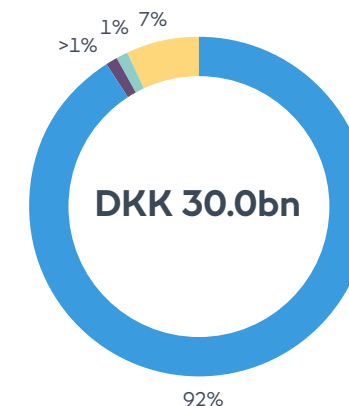
Tax on profit for the year amounted to DKK 4.0 billion, which was DKK 2.3 billion higher than in 2017. The effective tax rate was 17% against 12% in 2017. In both years, the tax rate was affected by non-taxable divestment gains. Gain on the 50% farm-down of Hornsea 1 impacted the effective tax rate in 2018, while gains on the farm-downs of Walney Extension, Borkum Riffgrund 2 and Race Bank impacted the tax rate in 2017.

### Profit for the year from continuing operations

Profit for the year from continuing operations totalled DKK 19.5 billion, DKK 6.2 billion higher than in 2017. The increase was primarily due to the higher EBIT, partly offset by higher net finance costs and higher taxes.

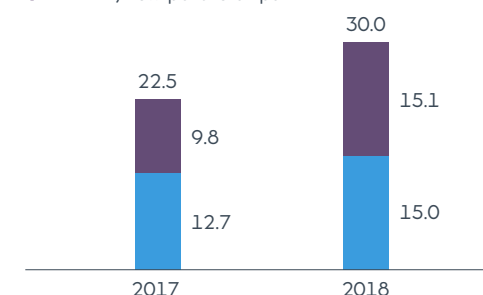
### EBITDA

- Offshore
- Onshore
- Bioenergy
- Customer Solutions



### EBITDA, DKKbn

- EBITDA, excl. new partnerships
- EBITDA, new partnerships



EBITDA, excluding new partnerships increased by 18%.

## Cash flows and net debt

### Cash flows from operating activities

Cash flows from operating activities totalled DKK 10.3 billion in 2018 compared with DKK 1.0 billion in 2017. The increase of DKK 9.3 billion was due to the higher EBITDA (excluding gains from divestments which are not recognised in cash flows from operating activities), settlement of intra-group hedges related to the now divested oil and gas business having a negative effect in 2017, a lower increase of funds tied up in work in progress and other working capital as well as a positive contribution from tax equity partners related to the Tahoka onshore wind farm.

This was partly offset by higher net interest, etc., due to a lower level of capitalised interests, lower accrued interest and exchange rate losses as well as higher paid taxes.

In 2018, funds tied up in work in progress increased by DKK 2.3 billion and primarily related to the construction of Borkum Riffgrund 2 and Walney Extension as well as offshore transmission assets at Hornsea 1 and Hornsea 2 in the UK. This was partly offset by milestone payments from partners related to the construction of Race Bank, Borkum Riffgrund 2, Walney Extension and Hornsea 1 as well as the divestment of the Burbo Bank Extension transmission assets.

Less funds were tied up in other working capital due to funds being tied up in clearing accounts in 2017 and less funds tied up in receivables in 2018. This was partly offset by the repayment of a VAT export credit loan to the Danish tax authorities in 2018.

### Investments and divestments

Gross investments amounted to DKK 24.5 billion against DKK 17.7 billion in 2017. The main investments in 2018 were:

- offshore wind farms (DKK 11.1 billion), including Hornsea 1 and Walney Extension in the UK, Borkum Riffgrund 2 in Germany, Borssele 1 & 2 in the Netherlands and early investments in the US to qualify for future tax credits
- onshore wind farms (DKK 1.1 billion), including Lockett and Tahoka in the US
- the acquisitions of Deepwater Wind (DKK 4.0 billion) and Lincoln Clean Energy (DKK 5.6 billion)
- power stations (DKK 1.4 billion), mainly the bioconversion of Asnæs Power Station.

Cash flow from divestments in 2018 related to the 50% farm-down of Hornsea 1, receipt of deferred proceeds from the farm-down of 50% of Walney Extension in 2017 and proceeds from the divestment of our 50% ownership share in Enecogen.

### Interest-bearing net debt

Interest-bearing net debt totalled DKK -2.2 billion (net cash position) at the end of 2018. The free cash flow of DKK 5.8 billion more than offset the payment of dividends to shareholders (DKK 3.8 billion) and non-controlling interests (DKK 0.4 billion) and interests on hybrid capital (DKK 0.5 billion).

Cash flows and net debt, DKKm	2018	2017	%
Cash flows from operating activities	10,343	1,023	911%
EBITDA	30,029	22,519	33%
Financial instruments	369	(528)	n.a.
Change in provisions	(278)	98	n.a.
Reversal of gain (loss) on sale of assets	(14,995)	(10,835)	38%
Other items	203	297	(32%)
Interest paid and similar items, net	(700)	36	n.a.
Paid tax	(3,367)	(2,660)	27%
Change in work in progress	(2,326)	(3,674)	(37%)
Change in tax equity liabilities	1,835	-	n.a.
Change in other working capital	(427)	(4,230)	(90%)
Gross investments	(24,481)	(17,744)	38%
Divestments	19,950	16,982	17%
Free cash flow	5,812	261	n.a.
Net debt at 1 January	(1,517)	3,461	n.a.
Free cash flow from continuing operations	(5,812)	(261)	n.a.
Free cash flow from discontinued operations	(209)	(9,025)	(98%)
Interest-bearing receivables re Oil & Gas divestment	292	(1,014)	n.a.
Dividends and hybrid coupons paid	4,700	3,523	33%
Exchange rate adjustments, etc.	327	1,799	(82%)
Net debt at 31 December	(2,219)	(1,517)	46%
<b>Key ratios, DKKm, %</b>	<b>2018</b>	<b>2017</b>	<b>%</b>
ROCE	32.1%	25.2%	6.9%p
Adjusted net debt	15,516	15,900	(2%)
FFO/adjusted net debt	69.0%	50.3%	18.7%p



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 flows from operating activities.



ROCE and FFO/adjusted net debt is specified in notes 2.1 and 6.6.

## Equity and capital employed

### Equity

Equity was DKK 85.1 billion at the end of 2018 against DKK 71.8 billion at the end of 2017. The increase was primarily due to the positive result for the year less dividends paid.

### Capital employed

Capital employed was DKK 82.9 billion at the end of 2018 against DKK 70.3 billion at the end of 2017. Offshore's share of capital employed was 79% at the end of 2018.

## Financial ratios

### Return on capital employed (ROCE)

Return on capital employed was 32% in 2018, up 7 percentage points compared to 2017. The increase was mainly attributable to the higher EBIT. Both years were significantly positively impacted by farm-downs – Hornsea 1 in 2018 and Walney Extension and Borkum Riffgrund 2 in 2017.

### Credit metric (FFO/adjusted net debt)

The credit metric 'funds from operations' (FFO) relative to adjusted net debt was 69% in 2018 relative to 50% in 2017. The increase was due to a higher FFO together with lower adjusted net debt in 2018.

## Non-financial results

### Green share of heat and power generation

The green share of our heat and power generation amounted to 75% in 2018, up 11 percentage points relative to 2017. The increase was due to higher generation from offshore wind farms, a larger share of biomass-based generation as a result of the bioconversion of Skærbæk Power Station as well as a decrease in the use of gas following the divestment of the Enecogen power plant.

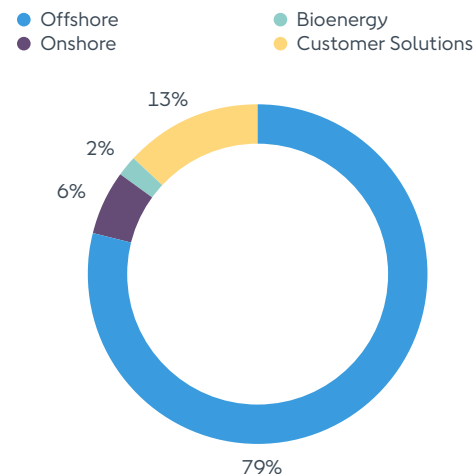
### Carbon emissions

Carbon emissions from our heat and power generation decreased by 13% to 131g CO<sub>2</sub>e/kWh in 2018 against 151g CO<sub>2</sub>e/kWh in 2017. Carbon emissions per kWh decreased for the same reasons as mentioned above.

### Safety

In 2018, we registered 98 total recordable injuries (TRIs), 61 of which involved employees working for our suppliers. Over the past 12 months, our total recordable injury rate (TRIR) has declined from 6.4 in 2017 to 4.7 in 2018.

### Capital employed, %



# Five-year summary

Income statement (business performance), DKKm	2018	2017	2016	2015	2014
Revenue	76,946	59,504	61,201	65,444	61,280
EBITDA	30,029	22,519	19,109	8,730	7,798
Offshore	27,809	20,595	11,867	6,151	6,057
Onshore	44	-	-	-	-
Bioenergy	367	152	100	283	422
Customer Solutions	1,970	2,082	7,108	2,173	1,404
Other activities	(161)	(310)	34	123	(85)
Depreciation and amortisation	(5,978)	(5,739)	(5,232)	(5,673)	(5,319)
Impairment losses	603	(545)	-	(1,184)	(216)
Operating profit (loss) (EBIT)	24,654	16,235	13,877	1,873	2,263
Gain (loss) on divestment of enterprises	127	(139)	1,250	56	1,258
Net financial income and expenses	(1,278)	(1,042)	(767)	(1,409)	(838)
Profit (loss) from associates and joint ventures	1	(10)	(8)	(8)	(484)
Profit (loss) before tax	23,504	15,044	14,352	512	2,199
Tax	(4,018)	(1,765)	(2,191)	455	(298)
Profit (loss) for the year from continuing operations	19,486	13,279	12,161	967	1,901
Profit (loss) for the year from discontinued operations	10	6,920	1,052	(13,051)	(7,185)
Profit (loss) for the year	19,496	20,199	13,213	(12,084)	(5,284)
<b>Balance sheet</b>					
Assets	174,575	146,521	136,489	147,457	149,914
Total equity	85,115	71,837	57,500	51,736	61,533
Shareholders of Ørsted A/S	68,488	54,791	39,106	32,090	41,736
Non-controlling interests	3,388	3,807	5,146	6,398	6,561
Hybrid capital	13,239	13,239	13,248	13,248	13,236
Interest bearing net debt	(2,219)	(1,517)	3,461	9,193	3,978
Capital employed	82,896	70,320	60,961	60,930	65,511
Additions to property, plant and equipment	14,436	20,022	17,750	19,843	15,350
<b>Cash flows</b>					
Cash flows from operating activities	10,343	1,023	11,272	7,521	9,568
Gross investments	(24,481)	(17,744)	(14,960)	(12,709)	(10,327)
Divestments	19,950	16,982	9,055	1,982	10,559
Free cash flow	5,812	261	5,367	(3,206)	9,800
<b>Financial ratios</b>					
Return on capital employed (ROCE) <sup>1</sup> , %	32.1	25.2	24.4	3.6	4.3
FFO/adjusted net debt <sup>2</sup> , %	69.0	50.3	64.2	28.8	31.6
Number of outstanding shares, 31 December, '000	420,045	420,155	420,155	417,726	417,726
Share price, 31 December, DKK	435.7	338.7	267.6	-	-
Market capitalisation, 31 December, DKKbn	183.0	142.3	112.5	-	-
Earnings per share (EPS) (BP), DKK	45.3	46.4	30.6	(30.7)	(14.9)
Dividend yield, %	2.2	2.7	2.2	-	-
<b>Income statement (IFRS)</b>					
Revenue	75,520	59,709	57,393	66,708	61,866
EBITDA	28,491	22,574	16,939	9,888	7,546
Profit (loss) for the year from continuing operations	18,266	13,321	10,467	1,854	1,708

Business drivers	2018	2017	2016	2015	2014
<b>Offshore</b>					
Decided (FID) and installed capacity <sup>3</sup> , offshore wind, GW	9.0	8.9	7.4	5.1	3.8
Installed capacity, offshore wind <sup>3</sup> , GW	5.6	3.9	3.6	3.0	2.5
Generation capacity, offshore wind <sup>3</sup> , GW	3.0	2.5	2.0	1.7	1.4
Wind speed <sup>3</sup> , m/s	9.1	9.3	8.9	9.7	9.2
Load factor <sup>3</sup> , %	42	44	41	45	44
Availability <sup>3</sup> , %	93	93	92	93	94
Power generation, TWh	10.0	8.5	6.0	5.8	5.0
<b>Onshore</b>					
Installed capacity, GW	0.8	-	-	-	-
Wind speed, m/s	7.3	-	-	-	-
Load factor, %	41	-	-	-	-
Availability <sup>3</sup> , %	92	-	-	-	-
Power generation, TWh	0.6	-	-	-	-
<b>Bioenergy</b>					
Degree days <sup>3</sup> , number	2,526	2,705	2,715	2,621	2,462
Heat generation, TWh	8.8	9.0	9.2	9.3	8.7
Power generation, TWh	6.7	8.2	8.4	7.1	8.7
<b>Customer Solutions</b>					
Regulatory value of power distribution assets <sup>4</sup>	10,957	10,623	10,648	10,778	10,373
Power distribution, TWh	8.4	8.4	8.5	8.4	8.4
Power sales, TWh	35.3	37.7	36.7	35.5	34.5
Gas sales, TWh	134.1	136.1	150.4	159.1	151.3
<b>People and environment</b>					
Employees (FTE), end of year, number	6,080	5,638	5,775	5,947	5,751
Total recordable injury rate (TRIR)	4.7	6.4	6.8	9.7	10.9
Fatalities, number	0	0	0	0	0
Green share of heat and power generation, %	75	64	50	49	44
Carbon emissions, g CO <sub>2</sub> e/kWh	131	151	224	220	280



## 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 1.6.

ROCE is calculated for continuing operations.

<sup>1)</sup> EBIT/average capital employed.

<sup>2)</sup> 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.

<sup>3)</sup> See definition on page 192 and in the ESG statements.

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

# Fourth quarter

## Financial performance – Group

### Revenue

Revenue in Q4 2018 increased by 51% relative to Q4 2017 and amounted to DKK 23.5 billion. The increase was mainly driven by construction agreements where revenue increased by DKK 4.6 billion to DKK 6.3 billion due to the partial divestment of the Hornsea 1 transmission assets as part of the 50% farm-down of Hornsea 1. In addition, revenue increased due to higher gas and UK power prices and higher generation from offshore wind farms.

### EBITDA

Operating profit (EBITDA) totalled DKK 19.2 billion in Q4 2018 compared with DKK 13.0 billion in Q4 2017. The 47% increase was mainly due to the 50% farm-down of Hornsea 1 in Q4 2018, which was only partly offset by the 50% farm down gains from Walney Extension and Borkum Riffgrund 2 in Q4 2017. Earnings from offshore wind farms in operation increased by 26% as a result of ramp-up at Walney Extension, Race Bank and Borkum Riffgrund 2.

Earnings from our Bioenergy and Customer Solutions businesses were in line with Q4 2017. Earnings from Onshore had a limited impact.

### Profit from continuing operations

Profit for the period from continuing operations increased by DKK 5.8 billion to DKK 15.2 billion. The increase was mainly due to the higher EBITDA.

### Cash flows from operating activities

Cash flows from operating activities totalled DKK 7.6 billion in Q4 2018 compared with DKK 3.1 billion in Q4 2017.

The increase of DKK 4.5 billion was due to lower paid Danish taxes (taxes were paid on account in March in 2018 and in November in 2017), a tax equity contribution received from our partner at the Tahoka onshore wind farm and lower receivables.

This was partly offset by a lower release of funds tied up in work in progress, mainly due to prepayments and milestone payments received from partners in Q4 2017 at Walney Extension and Borkum Riffgrund 2 and high construction activity at Hornsea 1 in Q4 2018.

### Gross investments and divestments

Gross investments amounted to DKK 14.9 billion in Q4 2018, of which DKK 9.6 billion related to the acquisitions of Deepwater Wind and Lincoln Clean Energy. The other main investments related to Hornsea 1, Borssele 1 & 2, Lockett and early investments in the US to qualify for future tax credits.

Divestments amounted to DKK 18.7 billion in Q4 2018 and related mainly to the 50% farm-down of Hornsea 1.

Financial performance, DKKm	Q4 2018	Q4 2017	%
Revenue	23,527	15,598	51%
EBITDA	19,206	13,032	47%
EBIT	18,112	10,970	65%
Profit (loss) before tax	18,038	10,349	74%
Tax	(2,878)	(999)	188%
Profit (loss) for the period from continuing operations	15,160	9,350	62%
Profit (loss) for the period from discontinued operations	34	79	(57%)
Profit (loss) for the period	15,194	9,429	61%

Cash flows and net debt, DKKm	Q4 2018	Q4 2017	%
Cash flows from operating activities	7,565	3,078	146%
EBITDA	19,206	13,032	47%
Financial instruments	(658)	470	n.a.
Change in provisions	(122)	461	n.a.
Reversal of gain (loss) on sale of assets	(15,085)	(9,468)	59%
Other items	209	333	(37%)
Interest expenses, net	244	(136)	n.a.
Paid tax	(264)	(2,652)	(90%)
Change in work in progress	723	2,262	(68%)
Change in tax equity liabilities	1,835	-	n.a.
Change in other working capital	1,477	(1,224)	n.a.
Gross investments	(14,916)	(5,805)	157%
Divestments	18,749	14,875	26%
Free cash flow	11,398	12,148	(6%)
Net debt, beginning of period	8,957	10,260	(13%)
Free cash flow from continuing operations	(11,398)	(12,148)	(6%)
Free cash flow from discontinued operations	(337)	(289)	17%
Interest-bearing receivables re Oil & Gas divestment	316	(1,014)	n.a.
Dividends and hybrid coupon paid	238	211	13%
Exchange rate adjustments, etc.	5	1,463	(100%)
Net debt, end of period	(2,219)	(1,517)	46%

## Financial performance – business units

### Offshore

Power generation was up 14% in Q4 2017 due to ramp-up of generation at Walney Extension and Borkum Riffgrund 2.

Revenue totalled DKK 10.7 billion in Q4 2018 against DKK 5.6 billion in Q4 2017. The increase was driven by revenue from wind farms in operation, which was up 15% as a result of increased power generation, and an increase in revenue from construction agreements due to the partial divestment of the Hornsea 1 transmission assets.

EBITDA was up 49%, totalling DKK 18.8 billion in Q4 2018 compared with DKK 12.6 billion in Q4 2017.

Earnings from offshore wind farms in operation increased by 26% as a result of the commissioning of new offshore wind farms. Earnings from partnership agreements increased by DKK 5.4 billion and related primarily to the farm-down of Hornsea 1 in Q4 2018 compared to the farm-downs of 50% of Walney Extension and Borkum Riffgrund 2 in Q4 2017.

EBITDA from other activities totalled DKK -0.7 billion in Q4 2018, which was in line with the same period last year, and related primarily to project development costs.

Cash flows from operating activities totalled DKK 3.6 billion in Q4 2018 in line with Q4 2017. Release of funds tied up in work in progress contributed more positively in Q4 2017, where prepayments and milestone payments were received from partners at Walney Extension and Borkum Riffgrund 2. This was partially offset by lower paid taxes in Q4 2018.

### Onshore

For Onshore, the quarterly and full-year results are identical. See page 46.

### Bioenergy

Revenue was DKK 1.9 billion in Q4 2018 against DKK 1.8 billion in Q4 2017. The increase was due to higher power prices which led to higher income despite lower power generation in Q4 2018. Revenue from heat generation remained unchanged.

EBITDA was at the same level as the year before and amounted to DKK 0.2 billion.

### Customer Solutions

Revenue amounted to DKK 12.9 billion in Q4 2018 compared with 10.4 billion in Q4 2017. The increase was mainly due to higher gas and UK power prices.

EBITDA was at the same level as Q4 2017 and amounted to DKK 0.2 billion.

EBITDA from Markets decreased by DKK 0.5 billion, primarily due to an increase in the value of gas at storages in Q4 2017 compared to a loss in Q4 2018, where the gas prices decreased during December.

EBITDA from our LNG activities increased by DKK 0.5 billion, mainly as a result of 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 0.7 billion in Q4 2018, DKK 0.5 billion higher than in Q4 2017. The positive effect was mainly due to lower receivables in Q4 2018 and lower paid taxes.



For more details on quarterly figures for our business units, please go to [orsted.com/financial-reports](https://orsted.com/financial-reports)

Offshore's results, DKKm	Q4 2018	Q4 2017	%
Revenue	10,716	5,558	93%
Sites, O&M and PPA	4,415	3,848	15%
Construction agreements	6,271	1,678	274%
Other	30	32	(6%)
EBITDA	18,791	12,591	49%
Sites, O&M and PPA	4,053	3,226	26%
Construction agreements and divestment gains	15,413	10,033	54%
Other, incl. project development	(675)	(668)	1%
Cash flows from operating activities	3,572	3,590	(1%)
Free cash flow	15,253	13,417	14%

Bioenergy's results, DKKm	Q4 2018	Q4 2017	%
Revenue	1,926	1,788	8%
Heat	892	850	5%
Power incl. ancillary services	1,034	938	10%
EBITDA	203	240	(15%)
Heat	245	235	4%
Ancillary services	133	122	9%
Power	(175)	(117)	50%
Cash flows from operating activities	982	600	64%
Free cash flow	579	147	294%

Customer Solutions' results, DKKm	Q4 2018	Q4 2017	%
Revenue	12,917	10,396	24%
EBITDA	156	179	(13%)
Distribution	299	172	74%
Sales	(72)	21	n.a.
Markets	57	575	(90%)
LNG	(128)	(589)	(78%)
Cash flows from operating activities	745	214	248%
Free cash flow	146	(71)	n.a.

# Quarterly summary, 2017-2018

## Income statement

(business performance), DKKm

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenue	23,527	15,018	18,593	19,808	15,598	11,869	15,540	16,497
EBITDA	19,206	2,225	3,079	5,519	13,032	1,757	4,442	3,288
Offshore	18,791	1,972	3,090	3,956	12,591	1,674	4,191	2,139
Onshore	44	-	-	-	-	-	-	-
Bioenergy	203	(204)	(71)	439	240	(142)	(153)	207
Customer Solutions	156	478	122	1,214	179	202	516	1,185
Other activities	12	(21)	(62)	(90)	22	23	(112)	(243)
Depreciation and amortisation	(1,697)	(1,437)	(1,462)	(1,382)	(1,517)	(1,385)	(1,541)	(1,296)
Impairment losses	603	-	-	-	(545)	-	-	-
Operating profit (loss) (EBIT)	18,112	788	1,617	4,137	10,970	372	2,901	1,992
Gain (loss) on divestment of enterprises	(28)	181	(16)	(10)	(14)	(108)	(6)	(11)
Net financial income and expenses	(43)	(436)	(504)	(295)	(649)	22	(81)	(334)
Profit (loss) from associates and joint ventures	(3)	2	4	(2)	42	(7)	(2)	(43)
Profit (loss) before tax	18,038	535	1,101	3,830	10,349	279	2,812	1,604
Tax	(2,878)	(117)	(225)	(798)	(999)	(70)	(306)	(390)
Profit (loss) for the period from continuing operations	15,160	418	876	3,032	9,350	209	2,506	1,214
Profit (loss) for the period from discontinued operations	34	(13)	(19)	8	79	2,931	2,484	1,426
Profit (loss) for the period	15,194	405	857	3,040	9,429	3,140	4,990	2,640

## Balance sheet

Assets	174,575	150,909	149,149	147,739	146,521	126,190	133,550	132,030
Total equity	85,115	68,701	69,744	70,823	71,837	64,203	62,160	58,112
Shareholders of Ørsted A/S	68,488	52,029	52,884	53,861	54,791	47,050	43,990	39,828
Non-controlling interests	3,388	3,433	3,621	3,723	3,807	3,905	4,922	5,036
Hybrid capital	13,239	13,239	13,239	13,239	13,239	13,248	13,248	13,248
Interest-bearing net debt	(2,219)	8,957	4,603	4,331	(1,517)	10,260	10,332	6,523
Capital employed	82,896	77,658	74,347	75,154	70,320	74,462	72,491	64,635
Additions to property, plant and equipment	4,575	2,942	3,137	3,782	7,137	4,795	5,475	2,615

## Cash flows

Cash flows from operating activities	7,565	(117)	3,293	(398)	3,078	(1,095)	(1,848)	888
Gross investments	(14,916)	(4,385)	(3,109)	(2,071)	(5,805)	(5,150)	(4,287)	(2,502)
Divestments	18,749	380	(14)	835	14,875	1,882	160	65
Free cash flow	11,398	(4,122)	170	(1,634)	12,148	(4,363)	(5,975)	(1,549)

## Financial ratios

Return on capital employed (ROCE) <sup>1,5</sup> , %	32.1	23.0	23.5	26.7	25.2	15.0	18.4	17.4
FFO/Adjusted net debt <sup>2,5</sup> , %	69.0	41.7	44.3	45.6	50.3	26.5	32.0	34.2
Number of outstanding shares, end of period, '000	420,045	420,155	420,155	420,155	420,155	420,155	420,155	420,155
Share price, end of period, DKK	435.7	436.3	386.0	392.0	338.7	360.4	293.9	268.9
Market capitalisation, end of period, DKKbn	183.0	183.3	162.3	164.7	142.3	151.5	123.5	113.0
Earnings per share (EPS) (BP), DKK	35.6	1.1	1.4	7.2	21.7	7.1	11.2	6.4

## Income statement (IFRS)

Revenue	26,165	12,798	16,859	19,698	14,711	11,647	15,925	17,426
EBITDA	20,914	567	1,725	5,285	12,311	1,643	4,777	3,843
Profit (loss) for the period from continuing operations	16,472	(875)	(180)	2,849	8,787	120	2,765	1,649

## Business drivers

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
<b>Offshore</b>								
Decided (FID) and installed capacity <sup>3</sup> , GW	9.0	8.9	8.9	8.9	8.9	8.9	7.5	7.4
Installed capacity <sup>3</sup> , GW	5.6	5.1	5.1	4.4	3.9	3.8	3.8	3.6
Generation capacity <sup>3</sup> , GW	3.0	2.9	2.8	2.7	2.5	2.3	2.2	2.1
Wind speed <sup>3</sup> , m/s	10.3	7.7	7.9	10.3	11.0	7.9	8.5	9.9
Load factor <sup>3</sup> , %	53	32	31	55	54	34	38	50
Availability <sup>3</sup> , %	93	92	93	94	92	92	93	93
Power generation, TWh	3.3	1.9	1.8	3.0	2.9	1.7	1.8	2.1
<b>Onshore</b>								
Installed capacity, onshore wind, GW	0.8	-	-	-	-	-	-	-
Wind speed <sup>3</sup> , m/s	7.3	-	-	-	-	-	-	-
Load factor <sup>3</sup> , %	41	-	-	-	-	-	-	-
Availability <sup>3</sup> , %	92	-	-	-	-	-	-	-
Power generation, TWh	0.6	-	-	-	-	-	-	-
<b>Bioenergy</b>								
Degree days <sup>3</sup> , number	884	76	149	1,417	895	115	451	1,244
Heat generation, TWh	2.8	0.3	0.9	4.8	2.8	0.7	1.3	4.2
Power generation, TWh	1.8	0.7	0.9	3.3	2.3	1.2	1.5	3.2
<b>Customer Solutions</b>								
Regulatory value of power distribution assets <sup>4</sup>	10,957	10,957	10,957	10,623	10,623	10,623	10,623	10,648
Power distribution, TWh	2.3	1.8	1.9	2.4	2.2	1.9	2.0	2.3
Power sales, TWh	10.4	6.6	6.8	11.5	10.6	8.2	8.8	10.1
Gas sales, TWh	26.0	31.5	34.1	42.5	36.9	29.4	28.3	41.5
<b>People and environment</b>								
Employees, end of period, number	6,080	5,882	5,741	5,662	5,638	5,641	5,802	5,787
Total recordable injury rate (TRIR) <sup>5</sup>	4.7	5.0	6.2	6.7	6.4	6.7	6.5	6.4
Fatalities, number	0	0	0	0	0	0	0	0
Green share of heat and power generation, %	83	71	80	68	76	60	64	56
Carbon emissions, g CO <sub>2</sub> e/kWh	87	212	123	147	106	203	150	170



## 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 1.6.

ROCE is calculated for continuing operations.

<sup>1)</sup> EBIT/average capital employed.

<sup>2)</sup> 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.

<sup>3)</sup> See definition on page 192 and in the ESG statements.

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

<sup>5)</sup> Last 12 months.

# Business units

Our business units	40
Offshore	41
Onshore	46
Bioenergy	49
Customer Solutions	52



# Our business units



<sup>1)</sup> The sum of the business units' key figures for 2018 does not equal the consolidated key figures due to other activities and eliminations. Read more in note 2.1.

# Offshore

## Highlights 2018


- We inaugurated the Race Bank and Walney Extension offshore wind farms.
- Borkum Riffgrund 2 was commissioned by the end of 2018, ahead of schedule.
- We divested 50% of the 1,218MW Hornsea 1 offshore wind farm in the UK to Global Infrastructure Partners.
- We were awarded two offshore wind farm projects in Germany with a total capacity of 552MW, one of which was won with a zero-subsidy bid.
- We were awarded 900MW grid capacity in Taiwan's first offshore wind grid allocation process and an additional 920MW in the country's first offshore wind auction, resulting in a total build-out pipeline in Changhua of 1,820MW.
- We acquired Deepwater Wind and created a leading US offshore wind platform.
- In the US, we were awarded an additional 104MW in December in the clean energy auction in Connecticut.
- Application criteria were fulfilled for further development of the Race Bank Extension offshore wind farm.

## Financial performance

Power generation increased by 20% relative to 2017, primarily due to the ramp-up of generation from Race Bank, Walney Extension and Borkum Riffgrund 2. We commissioned Race Bank in January, Walney Extension in May and Borkum Riffgrund 2 in December 2018.

Wind speeds were 2% lower than in 2017 and amounted to a portfolio average of 9.1m/s, which was in line with a normal wind year. The availability of 93% was at the same level as the year before.

Revenue increased by 50% to DKK 30.6 billion. Revenue from offshore wind farms in operation increased by 23% due to the above-mentioned ramp-up from new offshore wind farms. Revenue from construction agreements increased by DKK 7.8 billion due to high activity on construction of the Borkum Riffgrund 2 and Walney Extension offshore wind farms for partners as well as the divestment of the Burbo Bank Extension transmission asset and a partial divestment of the Hornsea 1 transmission assets as part of the 50% farm-down of Hornsea 1. Following the implementation of IFRS 15, revenue from construction of transmission assets are recognised at the time of divestment.

 Performance highlights		2018	2017	%	
EBITDA increased by 35%.	Business drivers				
	Decided (FID) and installed capacity	GW	9.0	8.9	1%
	Installed capacity	GW	5.6	3.9	44%
	Generation capacity	GW	3.0	2.5	20%
	Wind speed	m/s	9.1	9.3	(2%)
	Load factor	%	42	44	(2%p)
	Availability	%	93	93	0%p
	Power generation	TWh	10.0	8.5	18%
	Denmark		2.2	2.5	(12%)
	United Kingdom		6.1	4.5	36%
	Germany		1.7	1.5	13%
Power price, LEBA UK	GBP/MWh	57.9	46.0	26%	
British pounds	DKK/GBP	8.4	8.5	(1%)	
Financial performance					
Revenue	DKKm	30,566	20,352	50%	
Sites, O&M and PPA		13,918	11,319	23%	
Construction agreements		16,560	8,734	90%	
Other		88	299	(71%)	
EBITDA	DKKm	27,809	20,595	35%	
Sites, O&M and PPA		11,042	8,529	29%	
Construction agreements and divestment gains		18,765	13,667	37%	
Other, incl. project development		(1,998)	(1,601)	25%	
Depreciation	DKKm	(4,456)	(4,080)	9%	
Impairment losses	DKKm	0	(545)	n.a.	
EBIT	DKKm	23,353	15,970	46%	
Cash flows from operating activities	DKKm	5,814	3,353	73%	
Gross investments	DKKm	(15,081)	(15,462)	(2%)	
Divestments	DKKm	19,676	16,737	18%	
Free cash flow	DKKm	10,409	4,628	125%	
Capital employed	DKKm	65,846	59,652	10%	
ROCE	%	37.2	28.4	8.8%p	

EBITDA increased by 35% relative to 2017.

EBITDA from sites, O&Ms and PPAs amounted to DKK 11.0 billion, up DKK 2.5 billion compared to 2017. The increase was driven by the factors mentioned above.

EBITDA from construction agreements was DKK 5.1 billion higher than in 2017, amounting to DKK 18.8 billion in 2018. The total gain from the farm-down of Hornsea 1 (DKK 15.1 billion) as well as a high level of activity related to the construction of Walney Extension and Borkum Riffgrund 2 for partners contributed positively in 2018. In 2017, EBITDA was positively affected

by the farm-down of Walney Extension (DKK 7.5 billion) and Borkum Riffgrund 2 (DKK 2.2 billion), construction progress on Race Bank and completion of Burbo Bank Extension and Gode Wind 1 & 2 as well as the recognition of a deferred farm-down gain on Race Bank.

EBITDA from other activities amounted to DKK -2.0 billion against DKK -1.6 billion in 2017. The decrease of DKK 0.4 billion was mainly due to higher project development costs.

Depreciation increased by 9% due to the commissioning of new offshore wind farms in the UK and Germany.

Cash flows from operating activities amounted to DKK 5.8 billion in 2018 compared to DKK 3.4 billion in 2017. The increase was due to the higher EBITDA (adjusted for farm-down gains), a lower increase in funds tied up in construction of offshore wind farms for partners and a VAT refund. This was partly offset by higher paid taxes. Paid taxes in 2018 were significantly higher than in 2017, mainly due to taxation of construction agreement gains in the year of commissioning (Race Bank, Walney Extension and Borkum Riffgrund 2 in 2018 compared to Burbo Bank Extension in 2017) as well as higher earnings from offshore wind farms in operation.

In 2018, funds tied up in work in progress increased by DKK 2.3 billion and primarily related to the construction of Borkum Riffgrund 2 and Walney Extension as well as the offshore transmission assets at Hornsea 1 and Hornsea 2. This was partly offset by milestone payments from partners related to the construction of Race Bank, Walney Extension, Borkum Riffgrund 2 and Hornsea 1 and the divestment of the Burbo Bank Extension transmission asset.

## Introduction to Offshore

- We are active in all parts of the value chain and develop, construct, own and operate offshore wind farms in Denmark, the UK, Germany, the Netherlands, the US and Taiwan.
- We have been pioneers in the industry since we built the world's first offshore wind farm in 1991, and we have established ourselves as the market leader within global offshore wind power generation with 25+ years of experience, 26 offshore wind farms in operation and presently three offshore wind farms under construction.
- Worldwide, we are the company that has constructed most offshore wind farms with a total installed capacity of 5.6GW, which has provided us with an unparalleled experience. Our integrated EPC organisation has a strong

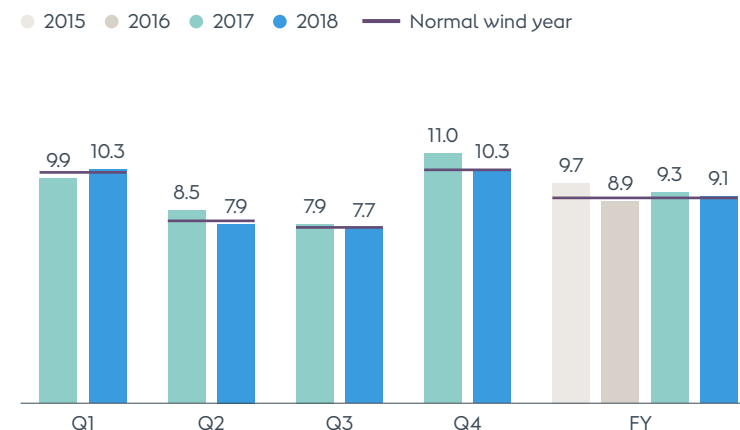
track record of delivering projects on time and on budget and can construct multiple large-scale wind farms in parallel across regions.

- With 3.4GW currently under construction, we have the largest market share with approx 30% of the total global capacity.
- Our total installed capacity of 5.6GW covers more than 12 million people's annual power consumption with carbon-free electricity.
- By 2020, we will have expanded our installed offshore wind capacity to 7.6GW, and we aim for a capacity of 15GW in 2025.



### Quarterly and annual 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.



Gross investments amounted to DKK 15.1 billion in 2018, of which the acquisition of Deepwater Wind amounted to DKK 4.0 billion (including acquired debt and excluding DKK 0.7 to be paid in 2019). The largest investments related to the construction of Hornsea 1, Borkum Riffgrund 2, Borssele 1 & 2, Walney Extension and early investments in the US to qualify for future tax credits.

Cash flows from divestments in 2018 related to the 50% farm-down of Hornsea 1 and receipt of deferred proceeds from the farm-down of 50% of Walney Extension in 2017.

ROCE increased by 9 percentage points to 37% and was in both periods impacted by gains from farm-downs – Hornsea 1 in 2018 and Walney Extension and Borkum Riffgrund 2 in 2017.

## Strategy follow-up

Offshore wind is our core business, and we will continue pioneering and innovating the industry. It is a rapidly growing market in the global energy system with attractive value creation opportunities, and we will maintain our global market leadership in offshore wind and continue the expansion in Europe, North America and Asia Pacific.

### Offshore's strategic focus is to:

- maintain our market leadership in offshore wind with a targeted capacity of 15GW in 2025
- continue to pioneer new markets and develop a global business
- continue to reduce the cost of electricity
- implement operational excellence and innovation and digitalisation initiatives across the business
- leverage our market-leading partnership model.

### Maintain our market leadership in offshore wind with a targeted capacity of 15GW in 2025

In 2018, we commissioned Race Bank and Walney Extension in the UK and Borkum Riffgrund 2 in Germany. Walney Extension is currently the world's largest offshore wind farm and was delivered well ahead of schedule and below budget before summer. Together, the three wind farms added approx 1.7GW to our installed capacity, and we have now installed 5.6GW of offshore wind capacity.

All of our current construction projects are progressing according to plan. In January 2018, offshore construction began at Hornsea 1, and

we expect commissioning in late 2019. At Borssele 1 & 2, the procurement phase is completed with main contracts well within budget, and construction work for the O&M building started in December 2018. For the Hornsea 2 project, we have selected Siemens Gamesa Renewable Energy as exclusive supplier of wind turbines, and recently we passed the first 12-month milestone delivery requirement under the contracts for difference (CfD) scheme. When Hornsea 2 is commissioned in 2022, we will have 9.0GW of capacity installed.

In addition to these three wind farms, we are also constructing the 12MW Coastal Virginia demonstration project in the US on behalf of our partner Dominion Energy. Further, a final investment decision has been taken on phase 2 of the Formosa 1 project in Taiwan, in which we have a 35% ownership share. After receiving the construction permit in September, manufacturing and preparation for the construction phase of the 120MW wind farm have commenced.

In April, the results of the second German transitional auction for offshore wind were announced, and we were awarded the right to build Borkum Riffgrund West 1 and Code Wind 4 in the German North Sea. Borkum Riffgrund West 1 was won with a zero-subsidy bid, while Code Wind 4 was won at a price of EUR 98.3 per MWh. The two offshore wind farms have a total capacity of 552MW, which, together with the three projects awarded in April 2017, gives us an option of 1,142MW new offshore wind capacity in Germany for commissioning in 2024/2025, subject to us taking final investment decision, expectedly in 2021.

Also in April, following a thorough and comprehensive grid allocation process, Taiwan's Ministry of Economic Affairs awarded us 900MW grid capacity for our Greater Changhua offshore wind farms. In June, following Taiwan's first and highly competitive auction process, we were awarded an additional 920MW of grid capacity for our Greater Changhua projects. Overall, we now have a total offshore wind pipeline in Changhua of 1,820MW.

On 30 January 2019, the 2019 feed-in tariff was announced. We take note of the 6% tariff reduction compared to the 2018 tariff as well as the introduction of a cap on annual full-load hours, and we will now collaborate closely with the supply chain to mitigate the adverse impact of these PPA changes with the objective of making the projects investable.

Greater Changhua 1 & 2a are facing extraordinarily high costs related to creating a local supply chain at scale, reinforcing the onshore grid infrastructure and building, operating and maintaining offshore wind farms in challenging site and weather conditions.

We continue to work with the Taiwanese authorities and local stakeholders to reach key outstanding project milestones, such as obtaining the establishment permit, completing the supply chain plan and signing the power purchase agreement.

Once we have clarity on the outcome of supply contract renegotiations and have achieved all key project milestones, Ørsted's Board of Directors will review and decide on the final investment case.

In 2018, we continued to establish ourselves in the US market. The merger of our existing US organisation with Deepwater Wind at the end of 2018 added an attractive and geographically diverse US East Coast portfolio of projects at varying degrees of development with significant synergy potential, both in terms of geography and project timing. As part of the Deepwater Wind portfolio, we have secured offshore wind development projects with a combined capacity of 954MW with long-term revenue contracts in place or under negotiation with expected completion of the projects in 2022/2023, subject to final investment decisions in the early 2020s. Of the awarded 954MW capacity, 104MW was won in Connecticut's clean energy auction in December.

Our ambition, as set out in 2016, was to drive profitable growth and have 11-12GW installed offshore wind capacity worldwide by 2025. With the awarded capacity in Germany and Taiwan and the addition of Deepwater Wind's 954MW secured capacity in the US, our total secured capacity has increased to 12.9GW. Having reached our 2025 ambition well ahead of time, we have increased our ambition to approx 15GW by 2025.

#### Continue to pioneer new markets and develop a global business

The US is a key market to us. With favourable wind and seabed conditions off the East Coast, and the federal states' growing interest in developing clean energy, we continue to see the US as a significant, long-term growth opportunity. With New York Governor Cuomo's recent commitment to 9GW offshore wind by 2035, the states along the US East Coast have

set out accumulated targets of close to 20GW of offshore wind capacity towards 2035. With the integration of Deepwater Wind, we now have the largest project pipeline in the US with a gross capacity of 7.5GW to bid in future auctions in the North East and Mid-Atlantic regions.

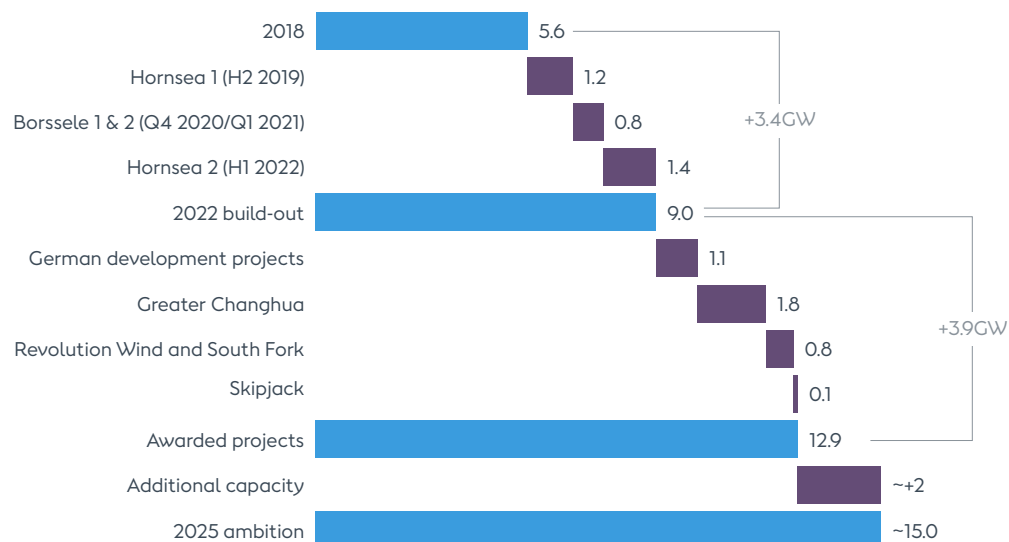
In October 2018, we bid in Rhode Island's auction for up to 400MW of renewable energy. Further, in December 2018, we bid in the New Jersey Board of Public Utilities' auction to build our Ocean Wind project. Outcomes of both auctions are expected in Q2 2019.

In the UK, The Crown Estate has confirmed that we have satisfied the application criteria for the development of our Race Bank Extension offshore wind farm with a capacity of 573MW. Together with Hornsea 3's 2,400MW capacity and Hornsea 4's 1,200MW capacity, we have a total pipeline of opportunities of up to 4.2GW, which underlines our continued commitment to the UK's energy transition. Subject to all necessary consents being granted, the three projects will be able to participate in future auctions under the contracts for difference (CfD) scheme.

Further, we announced that we have signed a memorandum of understanding to work jointly with Tokyo Electric Power Company (TEPCO) on the Choshi offshore wind project near Tokyo and towards a strategic partnership for broader collaborations in Japan. In addition, we see potential in selected next-horizon markets for offshore wind in the APAC region, such as South Korea.

In addition to the opportunities in the US, the UK and Japan, 2019 will see two 760MW tenders in the Netherlands. They will be followed

#### Build-out towards 2025, installed GW



The figure shows our current build-out plan towards 2025.

by additional 760MW tenders in 2020 and 2021, respectively. In 2020-2021, we will see the first of three 800MW tenders in Denmark, and in 2021, we expect a tender of approx 700MW in Belgium and the first central tender in Germany.

### Continue to reduce the cost of electricity

Levelised cost of electricity (LCoE) has decreased substantially since the first large-scale wind farms were constructed, and costs are continuously being reduced across the industry by means of increasing levels of industrialisation, economies of scale and innovation. At Ørsted, we strive to deliver continuous reductions in LCoE through a systematic, institutionalised approach.

### Implement operational excellence and innovation and digitalisation initiatives across the business

Since its infancy, we have played a key role in developing offshore wind energy into a fully matured industry and globally, we are the company that has constructed most offshore wind farms. Our integrated EPC organisation possesses a complete set of strong inhouse engineering, procurement and construction capabilities which set us apart from our peers. An example of our approach to innovation is how we continue to work with turbine suppliers to be first movers in bringing new technology to the offshore wind market. Another example is foundations, where we continue to optimise steel design and design tools. At Borkum Riffgrund 2 and Hornsea 1, grouted connections between the monopile and the transition piece were replaced by bolted connections, leading to large cost reductions on supply and the possibility for all-year installation.

We are the largest offshore wind operator globally with approx 1,100 wind turbines in operation. Our operational portfolio is growing which provides substantial scale benefits, but at the same time fleet complexity remains low, currently with five different turbine platforms from two original equipment manufacturers only, which allows for deep technical insights.

The share of turbines we operate ourselves is increasing, improving our ability to drive standardisation and performance improvements as well as implement digital solutions, reduce service hours and increase power generation from turbines. An example of our approach to innovation and digitalisation is how we utilise the vast amounts of data captured from each turbine we have in operation. Through state-of-the-art data analytics, we are able to continuously improve processes leading to an uplift in power generation and reduced lifetime maintenance costs.

In terms of operational excellence, we have implemented regional hub structures across the portfolio to reap full-scale and synergy benefits from clusters. Today, we operate two hubs in the UK and one hub in Germany, each with a capacity of 1-2GW. An example of hub benefits includes having a regional support organisation, allowing for standardisation of processes and activities leading to performance optimisation across a region instead of a single-site focus.

Also, a growing cluster capacity allows for investment in better logistics, e.g. in the form of joint facilities and vessel operations.

### Leverage our market-leading partnership model

In 2018, our market-leading partnership model yet again proved its value through the 50% farm-down of the 1,218MW offshore wind farm Hornsea 1 to Global Infrastructure Partners (GIP). This is our third partnership with GIP, which also owns 50% of our German offshore wind farms Gode Wind 1 and Borkum Riffgrund 2. Hornsea 1 is under construction and will by far be the world's largest offshore wind farm when commissioned by the end of 2019.

In the Taiwanese market, which is still new to the offshore wind industry, we see an advantage in establishing partnerships, particularly with local investor involvement, to combine our international experience with local expertise. Subject to a FID, we will look into the possibility of farming down a 50% interest in the 605MW Greater Changhua 1 project to local and international partners.

In the US, we will also consider diversifying risks by either partnering with domestic utilities or potentially farming down on projects to reduce single-asset exposure.

# Onshore

## Highlights 2018

- We acquired Lincoln Clean Energy (LCE) in October.
- We commissioned the 300MW Tahoka wind farm in Texas in December.
- We took FID on the 184MW Lockett wind farm.
- We secured PPAs for our near-term onshore portfolio projects Sage Draw (250MW) and Plum Creek (additional 104MW) and our first large-scale solar PV project Permian Solar (250MW).
- Our first 20MW battery storage project, Carnegie Road, in the UK is now in operation.

## Introduction to Onshore

- The acquisition of Lincoln Clean Energy has provided a strong onshore renewables growth platform in the US, which is one of our strategic growth markets.
- We are active in the value chain as a developer, owner and operator, with a lean execution and asset management business model.
- We are able to deliver wind, solar PV and battery solutions and thereby shape the generation profile to customer demand.
- Our total installed capacity of 813MW comprises three operating wind farms in Texas and a small solar project in New Jersey. In addition, our near-term portfolio includes three onshore wind farms with a total capacity of 714MW to be constructed by 2020.
- It is our ambition to realise an additional 1GW through 2022 in the US onshore renewable market. We are pursuing a portfolio of regionally diversified projects across the ERCOT, SPP and MISO markets.

## Financial performance

This section covers Q4 2018, as we acquired LCE and established the Onshore business unit on 1 October.

Power generation amounted to 552GWh in 2018, of which our Amazon and Willow Springs wind farms accounted for most of the generation. Power generation from newly commissioned Tahoka had a limited impact in 2018. Wind speed averaged 7.3m/s, which was slightly lower than in a normal wind year in Texas.

Revenue from wind farms in operation amounted to DKK 80 million, of which the majority came from Amazon and Willow Springs.



There are no comparable figures as the Onshore business unit was established in 2018.

## Performance highlights

2018

### Business drivers

Decided (FID) and installed capacity	MW	997
Installed capacity	MW	813
Wind speed	m/s	7.3
Load factor	%	41
Availability	%	92
Power generation	GWh	552
Net realised price	USD/MWh	17.4
US dollars	DKK/USD	6.5

### Financial performance

Revenue	DKKm	80
EBITDA	DKKm	44
Sites		40
Production tax credits and tax attributes		85
Other, including project development		(81)
Depreciation	DKKm	(51)
EBIT	DKKm	(7)
Cash flows from operating activities	DKKm	1,868
Gross investments	DKKm	(1,143)
Acquisitions	DKKm	(5,636)
Divestments	DKKm	1
Free cash flow	DKKm	(4,910)
Capital employed	DKKm	4,779
ROCE	%	(0.3)

EBITDA from onshore wind farms in operation amounted to DKK 40 million, and production tax credits (PTCs) contributed with DKK 85 million.

Project development and other costs amounted to DKK -81 million.

Cash flows from operating activities amounted to DKK 1.9 billion, which primarily comprised a tax equity contribution from our partner at the Tahoka wind farm in Texas in December.

Gross investments amounted to DKK 6.8 billion, of which DKK 5.6 billion was the acquisition price paid for Lincoln Clean Energy (including acquired debt). The largest investments related to the Tahoka and Lockett wind farms.

## Strategy follow-up

By acquiring Lincoln Clean Energy (LCE) in October 2018, we established a strong and scalable platform for the US onshore market, which is expected to grow significantly in the coming years. Our aim is to create a leading North American company within renewable energy, including onshore wind, solar energy, and energy storage. Onshore wind is expected to be the key growth platform and provide strategic diversification to Ørsted's portfolio.

As Onshore is a new business unit, an overall introduction is provided in the following sections:

- onshore wind farms, from development to owning and operating
- operational and near-term portfolio
- pipeline, ambition and strategy
- tax credits and tax equity partnerships.

### Onshore wind farms, from development to owning and operating

Large-scale onshore wind projects have certain similarities with the offshore wind development business, especially within EPC (e.g. turbine supply agreements and park layout) and O&M (e.g. performance analytics and predictive maintenance), however, the project risk profile is different. The development of an onshore wind farm takes two to three years and construction another 9 to 12 months compared to offshore wind projects which typically have significantly longer development and construction cycles.

We are present in the value chain as a developer, owner and operator. As the US onshore

market has matured, industry standardisation has developed. We act as facilitator between project functions and select experienced industry partners with proven track records to perform construction activities. This model provides the ability to scale quickly and efficiently.

Typical development activities include preliminary site selection, assessment of wind resources and environmental impact, securing real estate, transmission and congestion analyses, securing interconnection rights as well as local, state and federal permissions, offtake, etc.

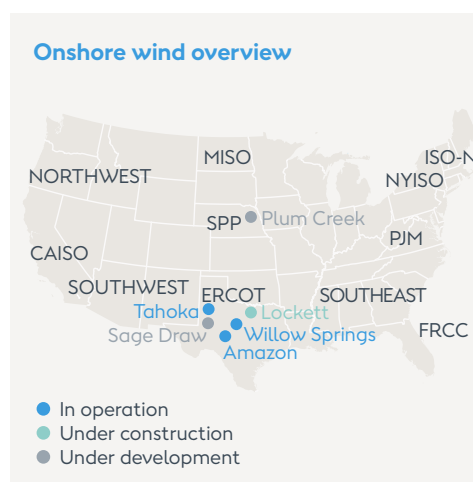
Turbine selection is based on project-specific levelised cost of electricity (LCoE) analysis, taking into account installation cost, power generation and long-term O&M costs.

We seek to capitalise on continued technological advancement and increasing size of swept wind area.

### Operational and near-term portfolio

The geographic focus has been Texas, where all of our onshore wind farms in operation are situated. A small operational solar project is located in New Jersey.

Our current portfolio comprises three operating wind farms, Willow Springs (250MW), Amazon (253MW) and Tahoka (300MW) as well as a solar PV asset (Oak, 10MW) with a total capacity of 813MW. The operational wind portfolio is recently commissioned, supported by power offtake agreements for more than 650MW through long-term contracts with solid corporate and blue-chip partners.



Our near-term pipeline (2020 projects) includes three onshore wind farms (Lockett, Sage Draw and Plum Creek) with a total capacity of 714MW. We made final investment decision (FID) on Lockett in late 2018, and we expect it to reach commercial operation date (COD) in Q3 2019. At Plum Creek, we have secured more than 70% offtake and expect COD in 2020.

In November, we announced 500MW of wind and solar PPAs with ExxonMobil, equally divided between Sage Draw and the solar PV project Permian Solar, with expected COD dates of 2020 and 2021, respectively.

### Pipeline, ambition and strategy

We expect to build on our solid operational and near-term portfolio and add up to 1GW of additional capacity by 2022, taking our total US capacity to 2.5GW. We are pursuing a portfolio of regionally diversified projects across the ERCOT, SPP and MISO markets, including:

- Greenfield onshore wind projects with an average size of 250-300MW and eligible for at least 60% PTC
- Greenfield solar PV opportunities (including Permian Solar), where opportunities arise via corporate and utility PPA partnerships.

Beyond the production tax credit (PTC) era, we are in a favourable position to meet demands for onshore wind power in the US by leveraging our value chain experience. Our growth will thus be driven by our ability to remain a significant market developer, providing competitive LCoE levels. Our onshore development activities are focused on areas where large-scale opportunities with a high likelihood of success have been available, and where onshore wind LCoE is competitive with the alternatives on a pure LCoE basis.

### Tax credits and tax equity partnerships

Federal support for renewable energy is provided in the form of tax incentives, of which production tax credits (PTCs) dominate within onshore wind. PTCs are inflation-adjusted per kilowatt-hour (kWh) tax credits for power generated by eligible energy resources for the first ten years of operation. Projects eligible for 100% PTCs must have started construction by the end of 2016 and must be completed before the end of 2020, four years from qualifying.

Federal tax attributes constitute a significant component of overall project economics and have led to projects being able to offer long-term offtake prices to customers (e.g. PPAs with utilities or C&I customers) at a discount to merchant power price projections.

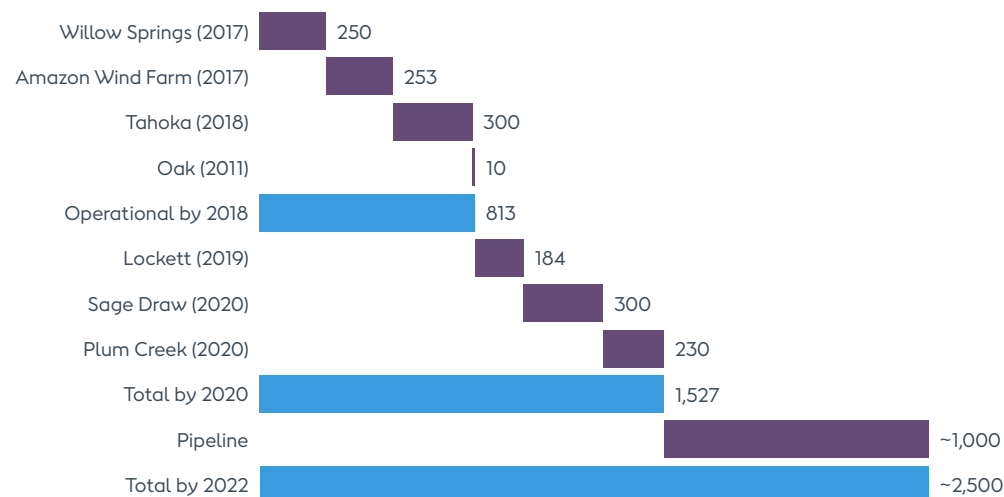
PTCs are currently being phased out with a linear decline by 20% per year until 2019, after which it expires. However, competitive LCoE projections of new built onshore wind and consumer demand drive significant growth expectations from the mid-2020s onward.

Our three operational wind farms and three near-term development projects are all eligible for 100% PTCs, and they are expected to be commissioned before the end of 2019 and 2020, respectively. In addition, our pipeline of 1GW by 2022 is eligible for 60% PTCs.

Solar investment tax credits (ITCs) provide a direct credit based on a percentage of the eligible capital expenditures. Projects starting construction in 2019 receive the full ITC of 30%. During the next few years, the ITC percentage will gradually decline and end at 10% from 2021.

The tax attributes can only be utilised by a tax-paying entity. Since we are currently not in a tax-paying position in the US due to significant investments, we partner with investors who contribute capital to efficiently monetise the tax attributes. Upon achievement of commercial operations, these tax equity investors contribute a substantial portion of the total project investment.

### Build-out plan, installed MW



# Bioenergy

## Highlights 2018

- The High Court of Western Denmark and the Danish Appeals Permission Board ruled in favour of Ørsted in the case concerning the former Elsam.
- We commissioned the green gas facility 'Kalundborg Bioenergi', which transforms the organic waste of long-time corporate customers Novo Nordisk and Novozymes into green gas that is utilised in Novo Nordisk's production.
- We divested our 50% ownership share in the Dutch gas-fired power plant Enecogen.

## Introduction to Bioenergy

Bioenergy consists of our combined heat and power generation business (CHP) in Denmark and our growth platform within green biogas and waste, Green Waste Solutions (GWS).

- Our CHP business is a leading generator of district heating in Denmark through our large combined heat and power plants and dedicated heat plants. We provide around one quarter of Denmark's district heating and around one third of Denmark's thermal power.
- GWS offers innovative green waste solutions in Denmark and the UK through our patented enzyme technology, Renescience, and our biogas production and upgrading facilities.

## Financial performance

Revenue increased by DKK 0.5 billion to DKK 6.4 billion in 2018.

Power generation was 18% lower than in 2017, driven by the divestment of our Dutch power plant, and amounted to 6.7TWh. Power generation from our Danish plants increased by 4% driven by higher spreads, while heat generation decreased slightly by 2% to 8.8TWh in 2018 due to warmer weather.

Revenue from heat sales increased by 11% despite a decrease in heat generation. This was due to the bioconversion of the Skærbæk Power Station as well as higher revenue from the Avedøre Power Station due to ramp-up in Q1 2017 following the bioconversion in December 2016. Revenue from power and ancillary services increased by 6% to DKK 3.5 billion, driven by an increase of 45% in power prices compared to last year. This more than offset the 18% decrease in generation due to the divestment of the Enecogen power plant.

EBITDA increased by DKK 0.2 billion and amounted to DKK 0.4 billion in 2018. The increase was due to higher spreads in 2018 as well as the bioconversion of Skærbæk Power Station, partly offset by higher project development costs related to new activities.

		2018	2017	%
<b>Performance highlights</b>				
<b>Business drivers</b>				
Degree days	number	2,526	2,705	(7%)
Heat generation	TWh	8.8	9.0	(2%)
Power generation	TWh	6.7	8.2	(18%)
Power price, DK	EUR/MWh	45.1	31.0	45%
Green dark spread, DK	EUR/MWh	2.5	(1.6)	n.a.
Green spark spread, DK	EUR/MWh	(6.3)	(6.2)	2%
<b>Financial results</b>				
Revenue	DKKkm	6,353	5,864	8%
Heat		2,903	2,607	11%
Power, incl. ancillary services		3,450	3,257	6%
EBITDA	DKKkm	367	152	141%
Heat		765	695	10%
Ancillary services		404	321	26%
Power		(802)	(864)	(7%)
Depreciation	DKKkm	(657)	(690)	(5%)
EBIT	DKKkm	(290)	(538)	(46%)
Cash flows from operating activities	DKKkm	1,491	592	152%
Gross investments	DKKkm	(1,356)	(1,390)	(2%)
Divestments	DKKkm	383	2	n.a.
Free cash flow	DKKkm	518	(796)	n.a.
Capital employed	DKKkm	1,943	2,554	(24%)
ROCE	%	(12.9)	(22.2)	9.3pp

EBITDA from ancillary services was DKK 0.1 billion higher than in 2017 driven by higher demand during the summer and increased demand from Germany (DK1/DE connection).

Cash flows from operating activities amounted to DKK 1.5 billion and was thus DKK 0.9 billion higher than in 2017. The increase was due to the higher EBITDA, prepayments related to the bioconversion of Asnæs Power Station, and lower receivables.

Gross investments amounted to DKK 1.4 billion in 2018. The largest investments related to the bioconversion of Asnæs Power Station.

Bioenergy achieved positive free cash flows of DKK 0.5 billion, of which the divestment of Enecogen contributed with DKK 0.4 billion.

## Strategy follow-up

In Bioenergy, we are completing the conversions of our Danish combined heat and power (CHP) plants to sustainable biomass, and we continue to explore the potential for growth and value creation within waste-to-energy and biogas technologies.

### Bioenergy's strategic focus is to:

- complete the conversion of our Danish CHP plants to sustainable biomass and phase out coal by 2023
- operate our plants smartly and safely and prepare for a transition towards a more electrified green district heating system
- establish a leading growth platform within biogas and waste recycling.

### Complete the conversion to sustainable biomass and phase out coal by 2023

For several years, we have been committed to converting our heat and power plants to using sustainable wood pellets and wood chips instead of fossil fuels. We will phase out coal entirely towards 2023, thereby reducing our annual carbon emissions in Denmark significantly. 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.

Along with other European energy companies, we remain committed to the Sustainable Biomass Programme (SBP) which promotes a robust and independent system for the certification of sustainable biomass. In 2018, all our biomass came from sustainable sources, mostly in the form of residues from timber production such as sawdust, branches

and thinnings, and 83% was certified by third parties. We expect that 100% of our biomass will be third party certified by 2020.

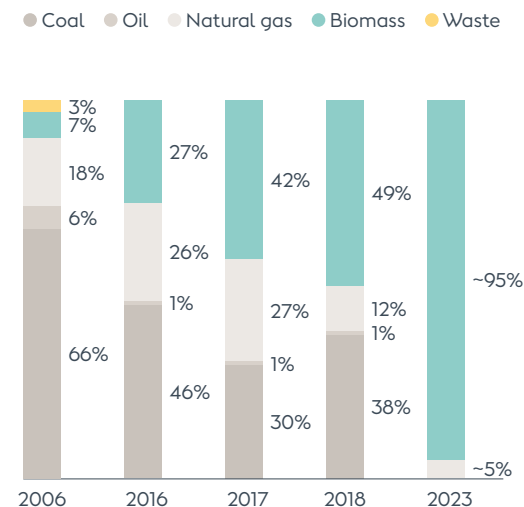
In 2018, we experienced an increase in the use of coal, reflecting improved power market conditions and a demand for our power stations to supplement the intermittent generation from wind and solar PV, also at times when no heat generation was required.

In collaboration with our heat customers, we have reached important milestones in 2018. Our conversion of the Asnæs Power Station is progressing on schedule, implying that we will be supplying green district heating to the general Kalundborg area from 2020 onwards, while providing green steam to Novo Nordisk's and Novozymes' production facilities. We are also progressing our flue gas condensation project in Herning, enabling us to substantially increase the heat and power output of the biomass used from mid-2019 onwards.

The Esbjerg Power Station is our last remaining unconverted CHP plant. The heat customers in the Esbjerg and Varde areas have been granted an exemption from the regulatory requirement to apply CHP solutions for providing district heating. This means that there is no longer a viable business case for Ørsted for a new CHP plant. We have consequently informed the heat customers that we will cease providing districting heat to the area by the end of 2022.

As part of our green transition, we divested our 50% share in Enecogen, a gas-fired power plant in the Netherlands, to Castleton Commodities International LLC in July 2018.

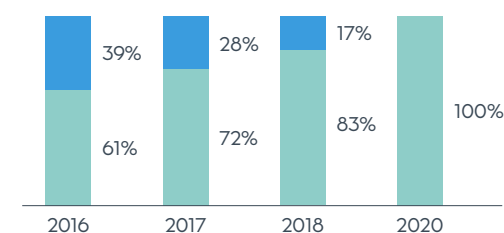
### Share of fuels in the thermal heat and power generation, %



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

### Certified biomass, %

● Uncertified biomass ● Certified biomass



Further, we have entered into a conditional agreement to transfer our Svanemølle Power Station to CPH City & Port Development by 2023. The transfer is made to allow for an extensive assessment of the feasibility of transforming the iconic buildings into a state-of-the-art Science & Technology Museum. The power station currently provides district heating during peak hours to two utility companies in Copenhagen.

#### **Operate our plants smartly and safely and prepare for a transition towards a more electrified green district heating system**

Our portfolio of large bio-converted CHP plants in Denmark will continue to be a key component in the green transition of the heat and power sector in Denmark, while also supporting the power grid during times of low wind and solar generation.

To operate them efficiently, we are rolling out a comprehensive digitalisation programme at our power stations, allowing us to further optimise generation and reduce costs. In parallel, we are taking initial steps to investigate opportunities in electrified district heating, for instance in the form of large-scale heat pumps and heat storage.

#### **Establishing a leading growth platform within biogas and waste recycling**

During 2018, we continued to test and improve our Renescence facility in Northwich in the UK. The Renescence technology efficiently converts household waste into biogas and recyclable materials through enzymes and mechanical sorting technologies. The Northwich plant has confirmed that the core enzymatic sorting process works as expected,

also when applied in large scale. We are currently finalising the optimisation of the plant's mechanical operations, which has been more challenging and taken longer than expected. Final commissioning is expected during the first half of 2019.

In April 2018, we commissioned our first industrial Danish biogas plant together with Bigadan – Kalundborg Bioenergi. The facility transforms 300,000 tonnes of organic waste from Novo Nordisk and Novozymes in Kalundborg into biogas for approx 5,000 Danish homes and utilises the remaining products as fertiliser for farmland. In addition, we finalised the construction of the extension of the Danish Linkogas biogas-upgrading facility in December. We are now operating four major biogas-upgrading facilities in Denmark. We are investigating similar opportunities in collaboration with industrial partners, collectively promoting conversion of organic industrial waste into green energy.



# Customer Solutions

## Highlights 2018

- We signed a 15-year route-to-market agreement for the 860MW UK wind farm Triton Knoll.
- We decided to exit the Danish power distribution, residential customer, and city light businesses.
- At the end of December, the customers in our power distribution company, Radius, had taken 679,000 smart meters in use.

### Financial performance

Revenue was up 19% at DKK 48.0 billion in 2018, driven primarily by an average increase in gas and UK power prices of 32% and 26%, respectively, relative to 2017. This was only partly offset by a 1% decline in gas and a 6% decline in power volumes sold.

EBITDA amounted to DKK 2.0 billion compared to DKK 2.1 billion in 2017.

EBITDA from Distribution amounted to DKK 1.2 billion, which was in line with 2017.

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

EBITDA from Markets decreased by DKK 0.5 billion and amounted to DKK 0.9 billion. The decrease was mainly due to high earnings related to trading of our financial energy exposures in 2017, and a negative impact from changes in the value of our gas at storages due to a decline in gas prices in December 2018 (versus a positive effect in 2017). This was partially offset by a one-off compensation awarded following the completion of an arbitration relating to a gas purchase contract in 2018.

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

Previous impairment losses of DKK 0.6 billion regarding the power distribution grid were reversed in connection with the classification as assets held for sale at the end of the year.

Cash flows from operating activities amounted to DKK 2.3 billion in 2018. The increase of DKK 2.9 billion was primarily due to settlement of intra-group hedges related to the negative effect in 2017 of the now divested oil and gas business, less funds tied up in clearing accounts toward trading partners, and less

		2018	2017	%
<b>Performance highlights</b>				
<b>Business drivers</b>				
Regulatory asset base (power)	DKK/m	10,957	10,623	3%
Gas sales	TWh	134.1	136.1	(1%)
Sales		39.6	40.8	(3%)
Markets (excl. volumes to Sales)		94.5	95.3	(1%)
Power sales	TWh	35.3	37.7	(6%)
Sales		15.3	11.8	30%
Markets (excl. volumes to Sales)		20.0	26.0	(23%)
Power distribution	TWh	8.4	8.4	0%
Gas price, TTF	EUR/MWh	22.8	17.3	32%
Oil price, Brent	USD/boe	71.0	54.3	31%
UK power, LEBA, UK	GBP/MWh	57.9	46.0	26%
US dollar	DKK/USD	6.3	6.6	(5%)
British pound	DKK/GBP	8.4	8.5	(1%)
<b>Financial results</b>				
Revenue	DKK/m	47,999	40,195	19%
EBITDA	DKK/m	1,970	2,082	(5%)
Distribution		1,198	1,199	(0%)
Sales		(113)	32	n.a.
Markets		925	1,422	(35%)
LNG		(40)	(571)	(93%)
Depreciation	DKK/m	(773)	(933)	(17%)
Impairment losses, reversed	DKK/m	603	-	n.a.
EBIT	DKK/m	1,800	1,149	57%
Cash flows from operating activities	DKK/m	2,279	(628)	n.a.
Gross investments	DKK/m	(1,166)	(857)	36%
Divestments	DKK/m	(63)	196	n.a.
Free cash flow	DKK/m	1,050	(1,289)	n.a.
Capital employed	DKK/m	10,699	9,780	9%
ROCE	%	17.6	13.1	4.5%p

funds tied up in receivables due to lower gas sales at the end of 2018 compared to 2017. This was partly offset by more funds tied up in ROC inventories due to higher offshore wind power generation.

Gross investments totalled DKK 1.2 billion in 2018, relating mainly to maintenance of the power distribution grid and the installation of new smart meters.

ROCE increased by 5 percentage points to 18%, mainly due to the higher EBIT.

## Strategy follow-up

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

### Introduction to Customer Solutions

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

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

contracts by trading commodities, and we mitigate risks and create value through time-to-market decisions, proxy hedging and netting.

We plan to exit our power distribution, residential customer and city light businesses which comprise:

- Radius, which owns and operates Denmark's largest power distribution grid measured by number of connection points with approx one million customers.
- Our residential customer business with sale of power to approx 725,000 customers and gas to approx 102,000 customers.
- Our city light business which is the largest Danish street light operator, covering 17 municipalities across Zealand.

We will investigate different options for exiting our power distribution, residential customer and city light businesses.

### Customer Solutions' strategic focus is to:

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

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

During 2018, the power portfolio grew by 1.4GW to more than 4.5GW, as we added long-term route-to-market contracts for the newly commissioned Walney Extension and Borkum Riffgrund 2 offshore wind farms and extended contracts for existing offshore wind farms. Furthermore, we entered into a contract to balance the British offshore wind farm Triton Knoll (860MW) for a 15-year period, starting from the planned commissioning in 2021. These additions add to the diversification and flexibility of our portfolio of power and green certificates.

Ørsted was granted approx 13% of all renewable obligation certificates (ROCs) presented to the UK's Office of Gas and Electricity Markets (Ofgem) for the April 2017-March 2018 ROC period. When selling power to UK corporate customers, we present the required number of ROCs to Ofgem. However, our offshore wind generation in the UK significantly outweighs our UK power sales, and once a year, we therefore auction out parts of our excess ROCs from the latest and the three upcoming ROC periods to UK utilities with ROC imbalances. This ROC

regime will continue until 2037, when the 20-year ROC subsidies will expire for the last renewable assets that were entitled to ROCs.

### Mitigate merchant risk through trading and green energy corporate PPAs

In 2018, we increased our focus on offering corporate power purchase agreements (cPPAs) with fixed power prices and long tenures to our wholesale and corporate customers. The aim of this is twofold. Our customers achieve certainty about their power price for a long period of time and add to their green profile. For Ørsted, these cPPAs reduce the exposure to merchant risk by limiting the power volumes that we will have to sell at prevailing market prices. Today, we have merchant power exposure from our UK wind farms under the ROC regime. Going forward, merchant risk mitigation will also be needed for existing wind farms as subsidies expire and for potential new wind farms without subsidies.

Within our market trading activities, we benefited from proactive trading e.g. by reducing our exposure to the event risk from the UK Government's changes in the carbon price support scheme, and by successfully managing the price volatility during the cold spell in early spring.

In 2018, our energy efficiency advisory services helped our Danish corporate customers achieve aggregated energy savings of approx 133GWh.

Customer satisfaction among our corporate customers remained high at 75, although down from 77 in 2017 (on a scale from 1-100).

### Optimise our portfolio of legacy gas-sourcing contracts and LNG positions

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

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

### Key focus areas within the businesses held for sale (power distribution, B2C and city light)

During 2018, our power distribution customers experienced a decrease in the security of supply as on average they had 0.65 disconnections, excluding faults in the primary transmission grid owned by the Danish transmission system owner, Energinet. This was an increase of 0.23 disconnections compared to 2017 and worse than our target of 0.50. The increase was influenced by a combination of two unintentional incidents on the 50kV grid in early 2018 as well as damage to the 30kV grid during third-party construction works, which led to repeated disconnections of a large number of customers in Central Copenhagen. The roll-out of smart meters to all customers by 2020 is progressing according to plan and reached a significant milestone in September, where the project was half-way through instalment. By the end of 2018, 679,000 smart meters had been taken into use.

Radius' customer satisfaction remained high at 81, down from 82 in 2017 (on a scale from 1-100) despite the increase in grid disconnections and the replacement of smart meters.

Our residential customer business is pioneering the transition to time-of-day based power prices which have been offered where possible since late 2017. By the end of 2018, 94% of our customers with this option had transitioned. Customer satisfaction among residential customers who had been in contact with us was 74 in 2018, down from 76 in 2017 (on a scale from 1-100). Contrary to this decrease, our loyalty increased to 72 from 71 and our net promotor score turned 0 (on a scale from -100 to +100), following negative scores ranging from -22 to -2 from 2013 to 2017.



# Governance

Board of Directors	56
Group Executive Management	58
Corporate governance	59
Remuneration report	63
Risk and risk management	66
Shareholder information	70



# Board of Directors



**Thomas Thune Andersen**

Chairman since 2014.  
Born 1955.  
Independent.  
Joined/re-elected: 2014/2018.  
Term of office expires: 2019.

Extensive Danish managerial experience from leading positions in A.P. Møller-Mærsk and global managerial experience from non-executive directorships in listed and privately held companies within the energy and other sectors.

**Other positions<sup>1</sup>:**

Chairman: Lloyds Register Group and Foundation  
Deputy Chairman: VKR Holding A/S  
Member: Arcon-Sunmark A/S, BW Offshore Ltd, IMI plc., the Danish Committee on Corporate Governance.



**Lene Skole**

Deputy Chairman since 2015.  
Born 1959.  
Independent.  
Joined/re-elected: 2015/2018.  
Term of office expires: 2019.

Highly experienced with managing listed companies from her previous position as CFO of Coloplast and current position as CEO of Lundbeckfonden where she serves as a non-executive director of the portfolio companies of Lundbeckfonden.

**Other positions<sup>2</sup>:**

CEO: Lundbeckfonden, Lundbeckfond Invest A/S  
Chairman: LFI Equity A/S  
Deputy Chairman: ALK-Abelló A/S, H. Lundbeck A/S, Falck A/S.  
Member: Tryg A/S, Tryg Forsikring A/S.



**Hanne Sten Andersen**

Employee representative.  
Born 1960.  
Not independent.  
Joined/re-elected: 2007/2018.  
Term of office expires: 2022.

Hanne Sten Andersen has worked in Ørsted as an HR partner in Customer Solutions since 2003.

**Position:**

Lead HR Business Partner, Customer Solutions.



**Lynda Armstrong**

Born 1950.  
Independent.  
Joined/re-elected: 2015/2018.  
Term of office expires: 2019.

Strong global managerial experience from more than 30 years in leading positions in Shell, including as VP in Shell International, and from non-executive directorships in international companies and large organisations.

**Other positions<sup>3</sup>:**

Chairman: The Engineering Construction Industry Training Board (ECITB)  
Member: KAZ Minerals plc, Central Europe Oil Company.



**Poul Dreyer**

Employee representative.  
Born 1964.  
Not independent.  
Joined/re-elected: 2014/2018.  
Term of office expires: 2022.

Poul Dreyer has worked in Ørsted as a technician in Customer Solutions since 1987.

**Position:**

Technician, Customer Solutions.



**Pia Gjellerup**

Born 1959.  
Independent.  
Joined/re-elected: 2012/2018.  
Term of office expires: 2019.

Extensive experience from a comprehensive political career in Denmark, including as Minister of Finance, Minister of Trade and Industry and Minister of Justice.

**Other positions:**

Centerdirector: National Centre for Public Innovation.  
Chairman: Vanførefonden, Fondet Dansk-Norsk Samarbejde.

<sup>1</sup>) Board Committees: Remuneration Committee of Lloyds Register Group, Nomination Committee of Lloyds Register Foundation, Nomination Committee and Remuneration Committee of IMI plc, Audit Committee of BW Offshore Ltd., Nomination Committee of VKR Holding A/S.

<sup>2</sup>) Member of the Audit, Nomination and Scientific Committee of ALK-Abelló A/S, member of the Remuneration and Scientific Committee of H. Lundbeck A/S, member of the Audit and Risk Committee of Tryg A/S, member of the Remuneration Committee of Falck A/S.

<sup>3</sup>) Chairman of the Remuneration Committee, member of the HSE Committee and member of the Project Assurance Committee of KAZ Minerals plc. Resigned as non-executive director of Central Europe Oil Company as of 31 December 2018.

# Board of Directors



**Benny Gøbel**

Employee representative.  
Born 1967.  
Not independent.  
Joined/re-elected: 2011/2018.  
Term of office expires: 2022.

Benny Gøbel has worked in Ørsted as an engineer in Bioenergy since 2005.

**Position:**  
Engineer, Bioenergy.



**Jørgen Kildahl**

Born 1963.  
Independent.  
Joined: 2018.  
Term of office expires: 2019.

Strong international background in renewable energy and a profound knowledge of how the energy ecosystems work from positions as Executive Vice President of Statkraft and member of the board of management of E.ON.

**Other positions<sup>1</sup>:**  
Chairman: eSmart Systems, Nysäter Wind AB.  
Deputy Chairman: Telenor ASA.  
Member: Hoegh LNG Holding Ltd<sup>1</sup>.  
Other: Senior advisor, Credit Suisse Energy Infrastructure Partners



**Peter Korsholm**

Born 1971.  
Independent.  
Joined/re-elected: 2017/2018.  
Term of office expires: 2019.

Extensive M&A experience from his time as Partner and Head of EQT Partners Denmark and from private investments. Also experience with financial reporting, risk management and capital markets from CFO position at AAK AB.

**Other positions<sup>2</sup>:**  
CEO: DSVM Invest A/S, DSV Miljø Group A/S, Day et Invest ApS, Togu ApS.  
Chairman: ForwardTopCo A/S (FitnessWorld), Nymølle Stenindustri A/S, GDL Transport Holding AB, Lion Danmark I ApS.  
Member: DSVM Invest A/S, A/S United Shipping and Trading Company, DANX Holding I ApS, Day et A/S.



**Benny D. Loft**

Born 1965.  
Independent.  
Joined/re-elected: 2012/2018.  
Term of office expires: 2019.

Highly experienced within financial reporting, risk management and capital markets from more than 20 years of operational experience with listed companies, including as CFO and Executive Vice President of Novozymes.

**Other positions<sup>3</sup>:**  
Chairman: EFD Investment A/S and its subsidiaries European Freeze Dry ApS and European Freeze Dry Ltd.  
Member: New Xellia Group A/S.



**Dieter Wemmer**

Born 1957.  
Independent.  
Joined: 2018.  
Term of office expires: 2019.

Highly experienced within capital markets, investments and risk management from leading positions within the finance sector. Before focusing solely on non-executive directorships, he was the CFO of Allianz.

**Other positions<sup>4</sup>:**  
Member: UBS Group AG, UBS AG.

<sup>1</sup> Member of the Audit Committee and the Sustainability and Compliance Committee of Telenor ASA, member of Audit Committee of Hoegh LNG Holding Ltd.

<sup>2</sup> Chairman of the Investment Committee of Zoscales Partners, Chairman of the Board of Directors of two wholly-owned subsidiaries of Lion Danmark I ApS (Lomax Group). He is also a member of the Board of Directors of three wholly-owned subsidiaries of A/S United Shipping and Trading Company, three wholly-owned subsidiaries of DANX Holding I ApS, and four wholly-owned subsidiaries of DSVM Invest A/S.

<sup>3</sup> CEO of Poelhoe Holding ApS, Chairman of the Finance and Audit Committee of New Xellia Group A/S.

<sup>4</sup> Member of the Audit and Risk Committee of UBS Group AG.

# Group Executive Management



Group Executive Management consists of seven members.

From the left (bottom): **Morten Hultberg Buchgreitz** (Customer Solutions), **Marianne Wiinholt** (CFO), **Anders Lindberg** (Offshore) and **Thomas Dalsgaard** (Bioenergy)

From the left (top): **Ole Kjems Sørensen** (Onshore), **Henrik Poulsen** (CEO and President) and **Martin Neubert** (Offshore)

## Henrik Poulsen

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

Born 1967  
Remuneration: DKK 17,344 thousand  
Read more in the remuneration report.

### Career and posts

2012-	Ørsted A/S, CEO and President
2008-2012	TDC A/S, CEO and President
2006-2008	Capstone/KKR. Operating Executive
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)
1996-1999	McKinsey & Co., Senior Engagement Manager
1995-1996	Aarsø Nielsen & Partners, Senior Consultant
1994-1995	Novo Nordisk A/S, Controller

### Other 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: Adviser

## 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 9,653 thousand  
Read more in the remuneration report.

### Career and posts

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

### Other positions:

Hempel A/S: Member of the Board of Directors and Chairman of the Audit Committee  
Norsk Hydro ASA: Member of the Board of Directors and Audit Committee

# Corporate governance

Our governance model has its offspring in our Scandinavian roots and our listing on the Nasdaq Copenhagen Stock Exchange.

The overall and strategic management of the company is anchored in a board of non-executive directors appointed by the shareholders. The Board of Directors has appointed an Executive Board for handling the day-to-day management. None of the members of the Executive Board are members of the Board of Directors.

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

## Shareholders and general meeting

Our shareholders exercise their rights at the general meeting. The general meeting adopts decisions, such as the appointment of the Board of Directors and the auditor, in accordance with the standard Danish rules. However, the approval of a proposal to amend the Articles of Association or dissolve the company requires that the Danish State as majority shareholder participate in the general meeting and vote in favour of the proposal.

## Board of Directors

### Members and duties

Each year at the annual general meeting, the shareholders elect six to eight board members. In addition, our employees may elect members corresponding to half of the board members elected by the general meeting pursuant to Danish mandatory rules. Employee elections are typically held every four years.

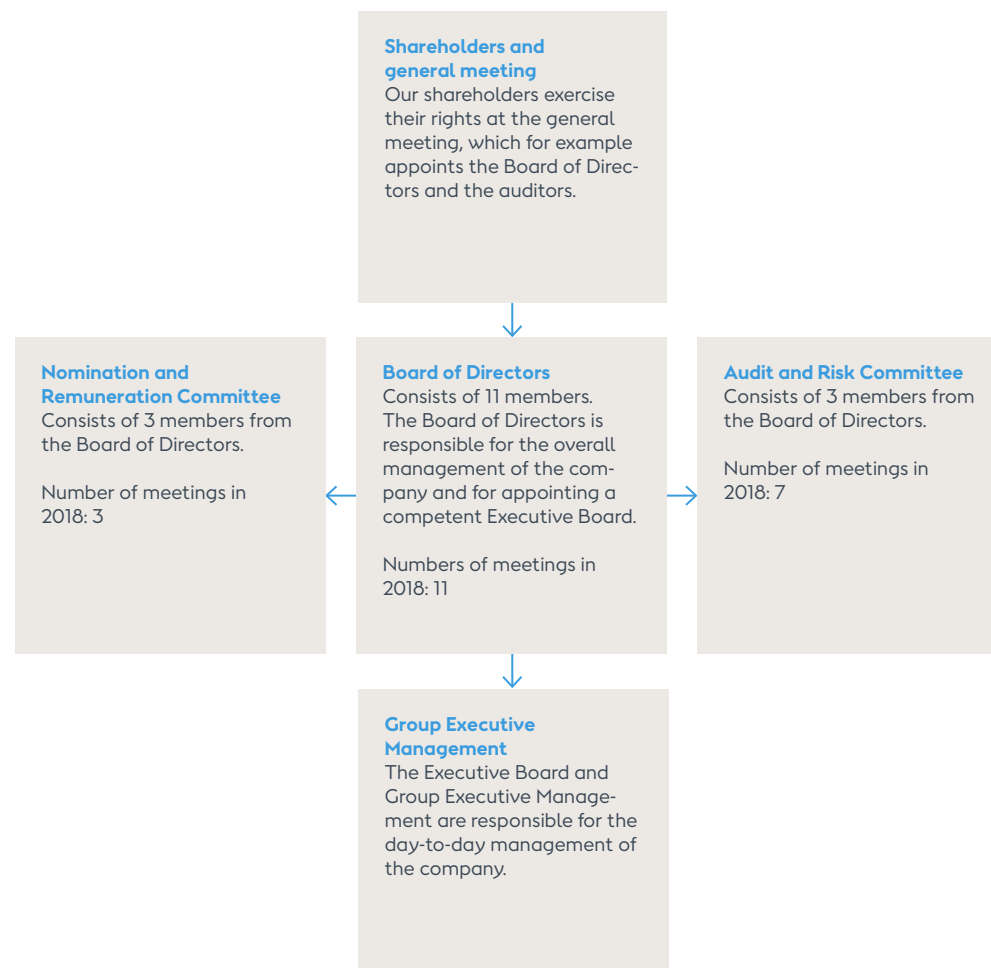
Our Board of Directors currently comprises eleven members, eight members elected by the general meeting and three members elected by the employees.

In 2018, Dieter Wemmer and Jørgen Kildahl joined the Board of Directors as new members elected by the general meeting.

The Board of Directors has prepared an overview of the competences required on the board. The list of required competences can be found on [orsted.com/competences-overview](https://orsted.com/competences-overview). In the table on the next page, we have illustrated how the current board members compare against the required competences.

The Board of Directors is responsible for the overall management of the company and appoints the Executive Board. The Board of Directors lays down the company's strategy

## Our governance model



## Competences

Member of the board	Energy sector	General management	Safety management	Financial management	Risk management	Project management	Stakeholder management	Human resources management	IT, technology and digitalisation	Investor and capital markets relationships
Thomas Thune Andersen	✓	✓	✓		✓	✓	✓			
Lene Skole		✓		✓	✓		✓	✓		✓
Lynda Armstrong	✓	✓	✓		✓	✓	✓	✓		
Pia Gjellerup		✓					✓	✓		
Jørgen Kildahl	✓	✓	✓		✓	✓	✓		✓	✓
Peter Korsholm		✓		✓	✓		✓			✓
Benny D. Loft	✓	✓	✓	✓	✓		✓	✓	✓	✓
Dieter Wemmer		✓		✓	✓		✓		✓	✓
Hanne Sten Andersen <sup>1</sup>	✓	✓						✓		
Poul Dreyer <sup>1</sup>	✓									
Benny Gøbel <sup>1</sup>	✓									
Jens Nybo Stilling Sørensen <sup>1, 2</sup>										

<sup>1)</sup> Employee representative<sup>2)</sup> Resigned in March 2018

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 has appointed two committees from among its members: an Audit and Risk Committee and a Nomination and Remuneration Committee.

The rules of procedure of the Board of Directors describe the work and duties of the Board of Directors. Terms of reference are also in place for the two committees.

Information about the members of the Board of Directors, their other supervisory and executive positions and independence can be found on pages 56-57.

### The green transformation is on the board agenda

Since climate change is fundamental to Ørsted's business strategy and all our investments, climate-related issues are directly or indirectly an agenda item at all board meetings. As such, climate-related issues are integrated in reviewing and guiding our strategy, in setting performance objectives, and in overseeing major

investments, acquisitions and divestments. The Board of Directors monitors and oversees progress related to Ørsted's strategic ambitions and targets for addressing climate-related issues.

### Special tasks in 2018

Key tasks for the Board of Directors have been the build-out of our offshore wind project portfolio after 2020, the establishment of a new onshore wind platform in the US through the acquisition of Lincoln Clean Energy, the acquisition of the US wind developer Deepwater Wind, the farm-down of Hornsea 1 in the UK and the initiation of a structured divestment

## Meeting attendance

Board of Directors		Audit and Risk Committee		Nomination and Remuneration Committee
●	●	●	●	
7/0	4/0			3/0
7/0	4/0	2/0	0/1	3/0
7/0	3/1			
6/1	4/0			3/0
6/0	2/2			
7/0	2/2	5/1	1/0	
7/0	4/0	6/0	1/0	
5/1	4/0	5/0	0/0	
7/0	4/0			
7/0	4/0			
7/0	4/0			
1/0	n.a.			

↑ ● Ordinary ● Extraordinary

The numbers indicate how many meetings in 2018 the members have attended and not attended, respectively, during the year.

process for our Danish power distribution, residential customer and city light businesses.

The Board of Directors conducted its annual board effectiveness assessment in December 2018. The assessment was conducted with assistance from an external adviser, who conducted a survey and interviewed all board members. The input from the survey and interviews was processed and analysed with international benchmarking. The external adviser also acted as an observer during a board meeting.

## Important tasks for the Board of Directors in 2018

### Investments, acquisitions and divestments

- Acquisition of the US onshore wind developer Lincoln Clean Energy.
- Acquisition of the US offshore wind developer Deepwater Wind.
- Farm-down of the offshore wind farm Hornsea 1 in the UK.
- Initiation of divestment of our Danish power distribution and residential customer and city light businesses.

### Other tasks

- Preparation of new ambitious targets for our long-term strategic and financial development with an ambition to lead the green transformation.
- Appointment of new CEO for Offshore.
- Establishment and appointment of CEO for Onshore.
- Development of our offshore wind project portfolio in the UK, Germany, the Netherlands, Taiwan and the US.
- Development of our onshore wind project portfolio in the US.
- Review of overall IT security.
- Preparation of a Global Diversity & Inclusion Policy.

The external adviser concluded that the Board of Directors has evolved in many dimensions and was in good shape for the challenges ahead. The Board of Directors has a strong and relevant composition with a breadth of skills, competences and perspectives and solid financial knowledge. Although many board members are relatively new, the Board of Directors is well aligned in relation to strategic priorities and its modus operandi, which is steered effectively by the Chairmanship.

### 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 65, you can read more about the remuneration of the Board of Directors.

## Nomination and Remuneration Committee

### Members and duties

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

The committee assists the Board of Directors in matters regarding the composition, remuneration and performance of the Board of Directors and Group Executive Management.

You can read more about the Nomination and Remuneration Committee and the terms of reference for the committee at [orsted.com/nomination-remuneration-committee](https://orsted.com/nomination-remuneration-committee).

## Special tasks in 2018

In 2018, the committee discussed, among other matters, payment of retention bonuses granted in connection with the planned divestment of our Danish power distribution, residential customer and city light businesses as well as retention bonuses to individual business-critical employees in companies acquired during the year.

Additionally, the committee discussed a share-based retention tool which was introduced in 2018 and targeted at a limited number of employees responsible for critical long-term projects.

The committee also reviewed an update of the compensation model and governance for our top 100 employees.

## Audit and Risk Committee

### Members and duties

Benny D. Loft (Chairman), Dieter Wemmer and Peter Korsholm are the members of the Audit and Risk Committee.

The committee assists the Board of Directors in overseeing the financial and ESG reporting process, the capital structure development, financial and business-related risks, compliance with statutory and other requirements from public authorities as well as 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 monitors the company's whistleblower scheme.

Our Internal Audit function reports to the Audit and Risk Committee and is independent of our administrative management structures. Internal Audit enhances and protects the organisational value by providing risk-based and objective assurance, advice and insight. Further, Internal Audit is primarily involved in auditing and advising on our core processes, governance, risk management, control processes and IT security.

The Chairman of the Audit and Risk Committee is responsible for managing our whistleblower scheme. Internal Audit receives and handles reports submitted. Our employees and other associates may report serious offences, such as cases of bribery, fraud and other inappropriate or illegal conduct, to our whistleblower scheme or through our management system. In 2018, two substantiated cases of inappropriate or unlawful behaviour were reported through our whistleblower scheme. One case concerned violation of procure-to-pay policies, and one case concerned misappropriation of assets. The cases had consequences for the individuals involved. None of the reported cases were critical to our business or impacted our financial results. Whistleblower cases are taken very seriously, and an awareness campaign was conducted to avoid similar cases.

You can read more about the Audit and Risk Committee and the terms of reference for the committee at [orsted.com/audit-risk-committee](https://orsted.com/audit-risk-committee).

### Important tasks for the Audit and Risk Committee in 2018

#### Audit and accounting

- Review of the accounting policy applied for US subsidies and tax attributes.
- Review of the principles and disclosures related to the two acquisitions (business combinations) and divestments.
- Review of the implementation of IFRS 15 as well as supervising the preparation for IFRS 16 implementation in 2019.
- Review of expectations for market prices, exchange rates, discount rates and risk-free interest rates.
- Review of significant provisions and warranties in the Group.
- Monitoring of capital structure development.
- Monitoring of the voluntary limit for non-audit services as well as preliminary approval thereof.

#### Risk

- Monitoring of business and emerging risks.
- Review and assessment of the principles applied for the adopted inflation exposure management policy.
- Review of IT security in operational and administrative areas as well as cybersecurity.
- Assessment of liquidity reserve and capital structure.
- Monitoring of currency and energy hedging mandates.
- Supervision of the work involved in ensuring compliance with the requirements of the General Data Protection Regulation.

### Special tasks in 2018

In 2018, the Audit and Risk Committee focused on the two acquisitions of Lincoln Clean Energy and Deepwater Wind in the US, IT/cybersecurity together with the implementation of the new General Data Protection Regulation (GDPR) and the inflation exposure management policy adopted in 2018.

Internal Audit undertook special audit and consultancy tasks within the following areas: prevention of cybercrime, GDPR, compliance, internationalisation, asset management, commodity and currency hedging, compliance monitoring and business conduct.

### Executive Board and Group Executive Management

#### Members and duties

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

The Executive Board undertakes the day-to-day management through Group Executive Management, which consists of seven members. In addition to Henrik Poulsen and Marianne Wiinholt, Group Executive Management comprises the executive vice presidents of our four business units: Martin Neubert (Offshore), Ole Kjems Sørensen (Onshore), Thomas Dalsgaard (Bioenergy) and Morten H. Buchgreitz (Customer Solutions) together with Anders Lindberg, Executive Vice President of Offshore EPC and QHSE.

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 58. We describe the remuneration of the Executive Board in the section on remuneration on pages 63-65.

### Our corporate governance positions

We comply or partly comply with all 47 recommendations prepared by the Danish Committee on Corporate Governance as last updated in November 2017 (please see [corporategovernance.dk](http://corporategovernance.dk)).

Our only deviation is that the first grant under the share programme for the Executive Board has a slightly shorter vesting period than the recommended three years. Upon vesting of the first grant in May 2019, we will comply with all 47 recommendations.

Our statutory report on corporate governance can be found at [orsted.com/statutory-reports](http://orsted.com/statutory-reports). The report describes in more detail whether and how we comply with or deviate from the recommendations.

# Remuneration report

## Remuneration policy

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

In addition, the policy aims to strike the right balance between the Executive Board's fixed and incentive-based remuneration with the target of remunerating the members in relation to the results achieved at company and individual levels. This ensures a tightly aligned interest between the Executive Board and the shareholders.

The remuneration policy is available at [orsted.com/Remuneration-policy-2018](https://orsted.com/Remuneration-policy-2018).

## Remuneration of the Executive Board

### Remuneration structure

In February 2018, the Board of Directors decided to keep the remuneration structure unchanged for 2018 compared to 2017. The remuneration structure and the remuneration for the Executive Board are shown in the table to the right. 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 salary and may not exceed 30%. The Nomination and Remuneration Committee sets the targets

### Remuneration structure and remuneration for the Executive Board

Element	Henrik Poulsen			Marianne Wiinholt			Objective	Remuneration level	Performance measure
	2018	2017	2016	2018	2017	2016			
Fixed salary	10,500	9,700	9,238	5,900	5,061	4,820	Attract and retain qualified managers.	Competitive, but not market leading, compared to the level in similar major listed Danish companies with international activities.	
Cash-based incentive schemes (STI)	2,993	2,656	2,135	1,637	1,348	1,239	Ensure shared ownership of the entire company's performance and a clear link between value creation and pay-out.	Target of 15% of the fixed salary. The maximum bonus amounts to 30% and will be paid-out in case of full achievement of all performance targets.	The performance reward agreement consists of three targets: – specific individual business targets and leadership (60%) – financial target (30%) – safety target (10%).
Share-based incentive scheme (LTI)	2,306	1,367	1,427	1,231	713	889	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% of the number of PSUs granted, depending on Ørsted's total shareholder 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.
IPO Executive Retention Bonus	1,232	1,848	616	643	964	321	Retain the Executive Board after the IPO. Phasing into a share based long-term incentive scheme.	20% of the fixed annual salary at 1 July 2016.	Employment at 1 September 2017 and 1 September 2018, respectively.
Pension, incl. social security and benefits	313	326	187	242	196	244		The members of the Executive Board are not entitled to pension contributions, only social security.	
Severance pay								If a member of the Executive Board is terminated by the company, the person is entitled to 24 months' salary, composed of full remuneration during the 12 month notice period and 12 months of severance pay (fixed salary only).	
<b>Total, DKK '000</b>	<b>17,344</b>	<b>15,897</b>	<b>13,605</b>	<b>9,653</b>	<b>8,282</b>	<b>7,513</b>			
<b>STI in % of maximum bonus</b>	<b>95%</b>	<b>91%</b>	<b>91%</b>	<b>93%</b>	<b>88%</b>	<b>94%</b>			

for and assesses the performance of the CEO. The Chairman of the Board of Directors and the CEO set the targets for and assess the performance of the CFO.

The Executive Board's specific individual business targets are tied directly to Ørsted's green growth strategy to build out renewable energy. The specific individual business targets comprise a number of items which are defined at the beginning of the year and updated during the year if new targets become relevant to ensure continuous alignment with shareholder interests. See table to the right for a more detailed description of the targets.

#### Share-based incentive scheme (LTI)

The Executive Board is covered by a share programme. It is a condition for being granted performance share units (PSUs) that the participant holds a number of Ørsted shares, representing a value equal to a share of each participant's fixed salary. For the CEO, this share is 75% of the fixed salary, and for the CFO it is 50%.

If the participants fulfil the shareholding requirement at the time of the annual grant, they will receive a number of PSUs, representing a value equal to 20% of their fixed salary on the date of granting.

The PSUs granted 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 PSUs granted. Assuming no share price development since the grant, this would correspond to 0-40% of the fixed salary on the date of grant. 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, i.e. 200% if Ørsted ranks first, 100% if sixth, and no shares if we rank last. At the end of 2018, Ørsted ranked first, second and fourth, respectively, in the three outstanding share-programmes against the ten peers.

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

The IPO Executive Retention Programme, which purpose was to phase into a long-term share based incentive scheme, expired in 2018, as the LTI programme will start to vest from 2019.

The table is a non-exhaustive summary of the individual business targets for our CEO and CFO as well as shared Group targets. They must deliver fully on all their individual targets in order to achieve the maximum cash bonus (STI).

The other members of the Group Executive Management have their own individual business targets and are remunerated according to the same model as described to the right.

#### Number of PSUs and shares owned by the Executive Board

	Henrik Poulsen	Marianne Wiinholt
<b>Share-programme</b>		
Maximum number of PSUs at 31 December 2018	41,368	22,062
Maximum fair value of PSUs at 31 December 2018	DKK 18 million	DKK 10 million
<b>Current holding of Ørsted shares</b>		
Number of Ørsted shares owned	130,500	83,916
<b>Fair value of Ørsted shares at 31 December 2018 in percentage of fixed salary for 2018</b>	<b>542%</b>	<b>620%</b>



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

#### Overview of targets and performance in the cash bonus (STI)

Objectives and performance 2018	Henrik Poulsen		Marianne Wiinholt	
	Objectives	Score	Objectives	Score
Safety target (10%)	– TRIR compared to target	100%	– TRIR compared to target	100%
Financial target (30%)	– EBITDA compared to guidance	100%	– EBITDA compared to guidance	100%
Specific individual business targets and leadership (60%)	<ul style="list-style-type: none"> <li>– First-class safety culture and standards</li> <li>– ROCE in line with plan</li> <li>– Deliver major construction projects on budget and time</li> <li>– Winning auctions and/or securing key access rights/permits in Offshore's existing and new strategic markets, e.g. the US and Taiwan, with a sustained focus on value creation</li> <li>– Investigate and pursue additional value-creating growth opportunities within renewable energy, incl. potential acquisitions</li> <li>– Continue to reduce the cost of electricity in offshore wind</li> <li>– Farm-down of Hornsea 1</li> <li>– Develop potential new markets for offshore wind</li> </ul>	92%	<ul style="list-style-type: none"> <li>– First-class safety culture and standards</li> <li>– ROCE in line with plan</li> <li>– Manage capital structure within current rating commitments</li> <li>– Support green growth by providing high-quality decision input related to financial analysis, tax, risk management, funding, etc.</li> <li>– Proactively manage risks related to currencies, interest rates and inflation</li> <li>– Increase quality and cost effectiveness in IT and exploit digital opportunities</li> <li>– Develop plan and implement initiatives to raise IT security level</li> <li>– Lead the implementation of the GDPR project</li> <li>– Update the tax strategy</li> </ul>	88%



### Clawback clause

The Executive Board's incentive schemes are subject to a clawback clause whereby any paid-out bonus must be repaid if:

- the circumstances and data that the bonus was based on are erroneous
- the Executive Board member knew or should have known about this circumstance.

The Executive Board member must repay any amount of the incentive pay received in excess of the incentive pay calculated, applying the correct data.

### Remuneration 2018

The remuneration paid to our CEO totalled DKK 17.3 million in 2018, representing an increase of 9.1% compared to 2017. The cash bonus (STI) made up DKK 3.0 million, corresponding to 92% of the maximum bonus. The bonus percentage reflects a performance exceeding the targets for the Group's financial and safety results. The score for the CEO's specific individual business targets and leadership is also at the high end of the range. See table on page 64 for an overview of the specific individual business targets.

The remuneration paid to our CFO totalled DKK 9.7 million, representing an increase of 16.6% compared to 2017. The cash bonus (STI) made up DKK 1.6 million, corresponding to 88% of the maximum bonus. The bonus percentage reflects a performance exceeding the targets for the Group's financial and safety results. The score for the CFO's specific individual business targets and leadership is also at the high end of the range.

In 2018, 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, April 2017 and April 2018. The IPO retention bonuses for 2017 and 2018 constitute the phase-in to the vesting of the first share programme in May 2019. The decreases in the IPO retention bonuses in 2018 are attributable to the fact that the scheme covered only eight months of 2018 after which it expired.

### Comparison to development in the Group's average salary

In 2018, the fixed salary for the CEO and CFO increased by 8.2% and 16.6%, respectively, which was more than the average salary increase in the Group of 2.9%<sup>1</sup> (2.8% in Denmark). The higher increases for the CEO and CFO were given to narrow the gap in total remuneration compared to the market median levels for similar roles in large Danish peer companies.

## Remuneration of the Board of Directors

### Remuneration structure

The members of the Board of Directors 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 receive separate fees for consultancy work for Ørsted. The members' travel costs are covered by the company. The members are not entitled to severance payments.

### Remuneration multiple 2018, Board of Directors and committees

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



The remuneration multiples are unchanged from 2017.

### Remuneration of the Board of Directors

DKK '000	Annual fee	Audit and Risk Committee	Nomination and Remuneration Committee	2018	2017
Thomas Thune Andersen <sup>1</sup>	960	-	128	1,088	1,088
Lene Skole <sup>1</sup>	640	24	80	744	803
Hanne Steen Andersen <sup>1</sup>	320	-	-	320	320
Lynda Armstrong	320	-	-	320	320
Poul Dreyer <sup>1</sup>	320	-	-	320	320
Pia Gjellerup	320	-	80	400	400
Benny Gøbel <sup>1</sup>	320	-	-	320	320
Benny D. Loft	320	192	-	512	512
Peter Korsholm (joined in March 2017) <sup>1</sup>	320	96	-	416	347
Dieter Wemmer (joined in March 2018)	267	80	-	347	-
Jørgen Kildahl (joined in March 2018)	267	-	-	267	-
Jens Nybo Stilling Sørensen (resigned in March 2018)	80	-	-	80	320
Poul Arne Nielsen (resigned in March 2017)	-	-	-	-	80
Claus Wiinblad (resigned in March 2017)	-	-	-	-	104
<b>Total</b>	<b>4,454</b>	<b>392</b>	<b>288</b>	<b>5,134</b>	<b>4,934</b>



The table shows the remuneration paid to the members of the Board of Directors and committees. The remuneration of the Board of Directors comprises a fixed fee only, and the fee remains unchanged at DKK 320,000 as last year.

<sup>1)</sup> At 31 December 2018, the board members own the following number of shares in Ørsted A/S: Thomas Thune Andersen 550 (2017: 0), Lene Skole 1,160 (2017: 0), Peter Korsholm 4,500 (2017: 4,500), Hanne Steen Andersen 2,394 (2017: 3,187), Poul Dreyer 837 (2017: 837), Benny Gøbel 1,087 (2017: 837). No other board members own shares in Ørsted A/S.

<sup>1)</sup> Calculated based on the salary after the yearly salary adjustment for all employees who remained employed at the time of the yearly salary adjustment.

# Risk and risk management

Risks are a natural and integral part of our business activities. Our aim is to mitigate our risks and reduce them to an acceptable level through risk management.

We are exposed to several risks. In addition to operational, business and environmental risks, we are exposed to fluctuations in exchange rates, interest rates, inflation and commodity prices, as well as credit and insurance risks. The purpose of our risk management is to identify all risks we are exposed to and decide how best to manage and mitigate 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.

To a large extent, our earnings are centred within offshore wind and other green energy technologies. Although, Denmark and the UK are key contributors to our current earnings, our future earnings will increasingly be spread across different geographical regions and technologies. Therefore, political and other macroeconomic factors play an important role in our risk management. When we invest in new assets and activities or divest 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 business risks. An assessment is made of the potential financial impact of individual risks, and whether they are of a short-term (0-2 years), medium-term (2-5 years), long-term (5+ years) or recurring nature. All of our risks are then consolidated and evaluated at Group level. The ultimate responsibility for all the individual risks rests with a member of the Group Executive Committee. As for business risks, similar processes are in place for identifying and prioritising risks related to sustainability, cybersecurity and legal compliance.

The top five business risks identified during 2018 are shown to the right, where they are illustrated based on their potential impact (post-risk mitigation) on our value and credit metrics over the next years. You can read more about these risks on the following pages.

Brexit is not in itself part of our top five business risks, as the UK's decision to leave the EU will not, in our opinion, result in fundamental changes in the UK's energy policy. Recent announcements by the UK Government show that the UK is committed to a clean, green energy future, and offshore wind can be the backbone of this green vision. We have analysed a number of Brexit scenarios and believe that even if a deal is not reached between the UK and the EU, and there is a disruption to the

flow of goods between the UK and the EU, trade and customs facilities will still function in the medium term. Our most significant risk related to Brexit is assessed to be a long-term depreciation of the GBP, which is a part of our top 1 business risks.

The risks related to sustainability, cybersecurity and legal compliance are assessed using different parameters, which is why we are unable to show a consolidated picture of our combined risks. A description of the most significant sustainability risks can be found in our sustainability report and for each of the other two areas on page 69.

We are also exposed to risks which have a very small probability of occurring, but which could potentially impact our finances and/or reputation substantially. These risks include, but are not limited to:

- 1,000-year storms, hurricanes, typhoons or earthquakes, which may lead to the loss of offshore and onshore wind farms
- broken pipes at the Nybro Gas Treatment Plant in Denmark, which may lead to personal injury and damage to the environment
- breakdowns at power stations that may lead to personal injury and loss of assets.

After risk-reducing measures are implemented, the Group Executive Management assesses whether the level of each risk is appropriate or

**Top 5 business risks**  
Effect on our value and credit metric

High	2 3 4	1	Impact on value
Low			
Impact on FFO/adjusted net debt			



Quantification of risks is based on a scenario where the risk occurs with 10% probability (P90). Our Internal Audit function has examined the process for identifying and measuring the accompanying portfolio risks.

1 (#1 2017)

Currency, inflation and interest rates

2 (#1 2017)

Commodity prices

3 (#2 2017)

Development and construction of production assets

4 (#3 2017)

Operation of offshore wind farms

5 (#4 2017)

Regulatory risks within offshore wind

slightly or significantly higher than the desired level. If the risk level is still too high, further risk-reducing measures are initiated to the extent possible.

### Climate-related risks

We address climate-related risks and opportunities as an integral part of our daily business, as these are directly linked to our green vision and strategy. We seek to exploit climate-related opportunities through our development and construction of renewable heat and power generation capacity and adjacent sustainable activities. At the same time, we seek to reduce both our transitional and physical climate-related risks in the short, medium and long term. We do that by, among other things:

- influencing regulators and other public authorities toward ambitious targets for the build-out of renewable capacity and regulatory frameworks that support this
- continuously working to improve the future competitiveness of green technologies, i.e. lowering the levelised cost of electricity
- assessing acute and chronic weather development; in particular wind speeds and patterns, but also the temperature and precipitation levels in general
- taking extreme weather conditions and other relevant factors into account when we design and construct our assets.

In that way, we seek to avoid ending up with stranded assets or assets and activities with a significantly lower value than originally expected, which we potentially need to write down or provide for.

When we prepare business cases for investments in new assets or activities, we take

climate-related risks and opportunities into account by assessing the expected changes in the technology mix that will be delivering heat and power in the future. On this basis, we assess the expected derived impact on input and output prices of energy, including the price development of components and services to be used for the construction of these assets as part of our LCoE analysis.

Our planning scenario until 2040 for the power systems in North Western Europe is in accordance with a carbon emission reduction trajectory for these countries leading to a 2-degree temperature increase.

We track the impact of undertaking these new investments on our carbon footprint to enable us to disclose our own direct greenhouse gas emissions from heat and power generation and the derived avoided emissions from displacing fossil-based generation. We have also recently started to track and assess the total impact on greenhouse gas emissions across our entire business portfolio as well as across the full value chain from our procurement through to the final consumption at our end-users.

### Development in risks in 2018

The acquisitions of US-based Deepwater Wind and Lincoln Clean Energy in 2018 have significantly increased our exposure to the US market, and the allocation of grid capacity in Taiwan will significantly increase our exposure to this market if we continue with our projects. These developments have had an impact on the ranking of our top five business risks.

Due to our increased international activities, we have divided our market risks into currency, inflation and interest rate risks, and commodity price risks. Our exposure to exchange rate fluctuations, primarily GBP, USD and potentially New Taiwan dollar (NTD), has increased due to significant investments in offshore wind in these areas. Currency and interest rate risks are deemed to be our most significant business risk, whereas commodity prices are rated our second largest risk.

Our third largest risk now includes the development and construction of production assets in new markets, where there are higher risks associated with construction, among other things, due to the need for developing the value chain in these immature markets.

Risks associated with the operation of offshore wind farms is our fourth largest risk.

Regulatory risks within offshore wind is our fifth largest risk and has renewed focus due to the expansion into new markets.

A continued reduction of the levelised cost of electricity (LCoE) remains a key focus area, but has moved out of our top five risks.

## 1 Currency, inflation and interest rates

### Description

Our main currency exposure relates to GBP due to our substantial investments in offshore wind farms in the UK. However, our recent expansion has increased our USD exposure and will increase our NTD exposure if we continue with the projects.

To a large extent, our medium- to long-term earnings can be expected to follow the development in consumer and market prices, thereby protecting the real value of our assets and equity. Fixed nominal subsidies from wind assets in Denmark, Germany and the Netherlands, fixed-price power purchase agreements (PPAs) from assets in the US and potentially Taiwan, as well as fixed nominal cash flows related to debt are exceptions. We are exposed to inflation risk in these markets, where an increase in inflation will adversely impact the expected real value of the revenue.

### Potential impact

Fluctuations in exchange rates, interest rates and inflation may adversely impact our earnings.

### Mitigation initiatives

Currency risks are generally hedged for up to five years when cash flows in foreign currency are deemed relatively certain. However, for cash flows related to fixed tariffs and guaranteed minimum prices from offshore wind farms in the UK, we apply a decreasing degree of hedging over the risk management horizon.

Consequently, we are well protected against exchange rate fluctuations in the short-term, but only partly hedged in the medium-term. Our inflation and interest rate exposure is managed by matching assets and liabilities in the same currency and with similar payment structure. Hence, our European fixed nominal subsidies are offset by EUR-denominated fixed-rate debt. The close relationship between inflation and interest rates also protects the equity value of Ørsted against changes in interest rates to some extent.

## 2 Commodity prices

### Description

We are primarily exposed to power price risks from the sale of our wind-based power generation. In addition, we typically enter into agreements to buy our partners' share of the power from our jointly owned offshore wind farms. These investor power purchase agreements (iPPAs) entail further exposure as they include floors and caps related to a pre-determined power price level.

To a lesser extent, we are exposed to oil and gas price risks related to sourcing contracts for gas and LNG on oil-indexed prices as well as the sale of gas at fixed prices. Finally, power generation from our CHP plants entails a spread exposure between the difference in the power price and the fuel price (i.e. biomass, coal, gas and carbon quotas).

### Potential impact

Fluctuations in commodity prices may adversely impact our earnings.

### Mitigation initiatives

We hedge commodity prices for up to five years, and in some cases longer, to reduce cash flow fluctuations. We hedge based on minimum hedging requirements for each of the business units, with a high hedge level in the first two years. The degree of hedging is lower in the subsequent years. This is due to declining certainty about generated volumes and increasing costs due to the declining liquidity of the hedge instruments.

As an alternative to hedging, we seek to enter into long-term corporate power purchase agreements (cPPAs), under which we sell power from our renewable assets. Corporate PPAs or hedges with a duration of 12-15 years are often a prerequisite for obtaining tax equity partnerships in the US. In addition, cPPAs will be a means to reducing business case uncertainty for offshore wind farms to be built without subsidies.

## 3 Development and construction of production assets

### Description

Our strategy includes the construction of large-scale investment projects. Value creation from new projects heavily depends on choosing the right technical and commercial solutions, on the design and construction phase progressing as planned, on our suppliers living up to their obligations, on maturing the value chain in new markets, on avoiding investment budget overruns and on timely start-up of generation.

The majority of our new investments are made in offshore assets, which naturally increases the risks in the construction phase. Some of these are the nature of sea beds, weather conditions and dependence on installation and transit vessels.

Our entry into the US and potentially Taiwan entails some further risks due to the immaturity of offshore wind in these markets. These risks include, local legislation, such as the Jones Act in the US, and the inability to fulfil local content requirements without unappropriated costs and delays due to limited experience among local manufacturers.

### Potential impact

If we fail to take any of the conditions mentioned above into account, we may experience delays and budget overruns. Delays can lead to failure to meet deadlines and possibly partial loss of subsidies, grid connection and/or project rights.

### Mitigation initiatives

We are continuously working on standardising processes based on our vast experience from previous complex investment projects. This has led to, and will continue to lead to, industrialisation of the installation activities. In recent years, this has led to successful completion of several large investment projects, many of which have been completed ahead of schedule and below budget.

## 4 Operation of offshore wind farms

### Description

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. Faults like this may result in breakdowns and loss of generation from parts of or an entire offshore wind farm over an extended period of time. Such losses are not compensated in the UK, whereas they are fully compensated in Denmark and partly compensated in Germany and Holland.

### Potential impact

Our forecasts for availability and operating expenses are based on several assumptions received from suppliers and on historical data. There is a risk that these assumptions do not hold, and that fault rates and costs are higher than expected. This may lead to deviations between actual generation and forecasts. Faults in transmission assets and substations may have a negative effect on our earnings in case of a lack of compensation thereof.

### Mitigation initiatives

We are implementing an operational excellence programme on all wind farms with the aim of increasing the availability and power generation and reducing operational costs. We have put in place various contingency plans to cater for unforeseeable events, including critical repair services to handle cable faults, monitoring signs of damage and initiating repair campaigns where deemed necessary. In addition, we are working continuously to reduce the risk of faults in the operation of offshore wind farms, e.g. by monitoring and applying advanced analytics to operational data collected and by carrying out preventive remedial work on emerging damage.

## 5 Regulatory risks within offshore wind

### Description

The risk associated with regulatory regimes is twofold. First, it is associated with the possibilities for obtaining subsidies or in other ways support for offshore build-out. Secondly, it is associated with the possibilities for obtaining the needed consents, grid connections and relevant approvals from local authorities, including permits or other agreements needed to secure a viable project.

Although the EU countries have increased their 2030 renewable energy targets, the implementation rests with the member states, which means that some uncertainty still prevails. In the US, several East Coast states have committed themselves to offshore build-out, and Taiwan is also expected to continue the build-out of offshore wind towards 2030.

Most markets have tender or auction-based subsidy regimes, where the only or most important factor is the bid price. However, in some countries, a certain level of local content is required.

### Potential impact

We do not expect changes to be made to the subsidy schemes with retrospective effect for existing offshore wind projects. The greatest risks are associated with the need to obtain relevant consents and approvals from local authorities and to be connected to the grid. Delays in these areas may lead to 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.

### Mitigation initiatives

We mitigate the risk by monitoring political and regulatory developments in all relevant countries and by engaging in an active dialogue with relevant authorities about environmental approvals, regulatory milestones and the economic regimes. We also engage in the development of local capabilities to increase local content in the projects.

## Cybersecurity

### Description

In recent years, several major cyberattacks have been 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.

### Potential impact

Minor digital risk events like viruses and attempted break-ins are everyday risks without significant impact. However, major cyberattacks or events may impact all or part of our shared infrastructure for administrative systems or industrial control systems. For the latter, the impact could range from a single asset to potentially all assets and activities in the company. Cyberattacks of a certain size can be costly if it forces us to shut down operations for a period of time.

### Mitigation initiatives

We have launched a significant resourced programme with the aim to improve resilience against cyberattacks and other threats across Ørsted. In addition, we are running cyber risk awareness campaigns throughout the organisation in order to decrease threats from phishing campaigns, etc.

Furthermore, we are participating in relevant forums across the energy sector to harvest and contribute with information and experience. One example is the Systems & Cyber Resilience working group organised by the World Economic Forum. We are also part of the Danish Network Security Service under the Danish Ministry of Defence to enhance resilience.

## Legal compliance

### Description

Risks associated with legal compliance are assessed based on financial and reputational significance and probability. Our most significant risks are financial regulation, the EU General Data Protection Regulation (GDPR) and tender law.

We are subject to several financial regulations, such as REMIT, MAR, EMIR, Dodd Frank, MiFID, SFTR and AML. The financial regulations are relevant for a large part of our activities. In relation to GDPR, we are primarily processing personal data regarding our Danish residential customers and our employees. Most of our contracts for goods, services and works are subject to EU and local tender law rules.

### Potential impact

Failure to comply with the above-mentioned rules and regulations may result in severe legal sanctions, such as imprisonment, fines and damage claims.

### Mitigation initiatives

We have implemented comprehensive policies, procedures, training and controls for relevant parts of our business to ensure compliance with financial regulations.

To ensure that we process personal data in compliance with GDPR, we have mapped and analysed our personal data processing and developed a Group-wide compliance programme. The compliance programme includes various organisational and technical measures and mandatory training of employees in risk-exposed positions.

To counter the tender law risk, our procurement department is involved in almost all procurement activities, and our legal department carries out courses on tender law and review of documents for larger tenders.

# Shareholder information

The Ørsted share yielded a total return of 32% in 2018, an increase in the share price of 29%, and dividends of DKK 9 per share.

## Price development for the Ørsted share in 2018

The Ørsted share started the year at a price of DKK 339 and closed the year at DKK 436. Prices of comparable European utility companies decreased by 1%, and the OMX C25 cap decreased by 13% in 2018. The market value

of Ørsted was DKK 183 billion at the end of the year. Since the IPO in June 2016, the Ørsted share has generated an aggregate return from share price appreciation and dividends of 92%.

The year's highest traded price of 474 was on 28 November. The year's lowest traded price of 332 was on 3 January.

The average daily turnover on Nasdaq Copenhagen was 447,000 shares. The trading volume showed a decrease of 38% compared to 2017. 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.

## 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 2018. At the end of 2018, the company held a total of 335 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 5,175 to 29,727. Although the geographical spread of the share capital was greater, most of it (66%) is still with Danish owners. The figure on the next page shows the composition of our shareholders by country, specifying the three shareholders each holding more than 5% of the share capital. Around 1% of the share capital is owned by private investors.

## Annual general meeting and dividends

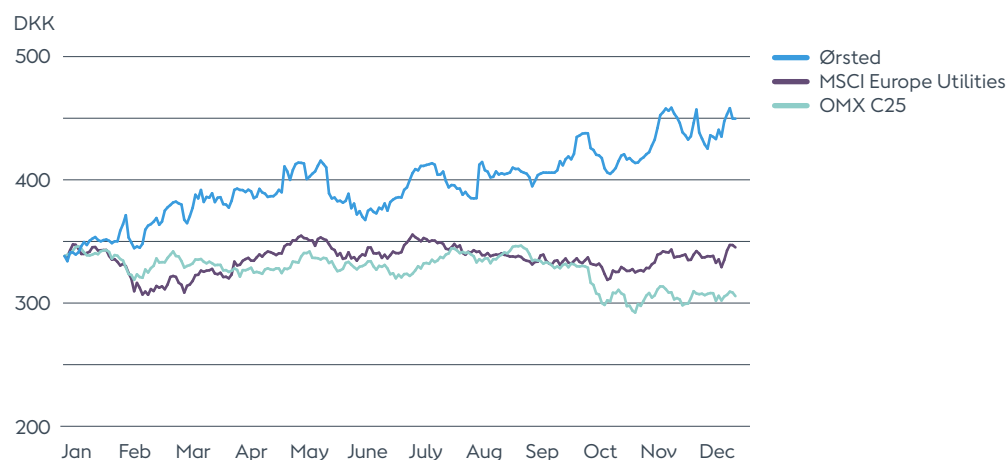
The annual general meeting will be held on 5 March 2019 in Copenhagen. Dividends for the year are expected to amount to DKK 9.75 per share, corresponding to DKK 4.1 billion. In 2018, dividends of DKK 9.00 per share were paid for the 2017 financial year, corresponding to a return of 2.2% relative to a share price of DKK 436 at 31 December 2018.

## Selected company announcements in 2018

27 Apr.	Ørsted wins 552MW in German offshore wind auction
30 Apr.	Taiwan awards Ørsted 900MW grid capacity for offshore wind
24 May	The High Court of Western Denmark rules in favour of Ørsted in case concerning the former Elsam
22 June	Ørsted wins 920MW offshore wind projects in Taiwan
26 June	Ørsted initiates a structured divestment process for its Danish power distribution and residential customer businesses
9 Aug.	Ørsted agrees to acquire Lincoln Clean Energy, a US onshore wind developer
18 Sep.	Ørsted agrees to divest 50% of Hornsea 1 Offshore Wind Farm
8 Oct.	Ørsted agrees to acquire Deepwater Wind and creates leading US offshore wind platform
2 Jan. 2019	Establishment permit and power purchase agreement delayed on Taiwanese offshore wind projects

## Share price development in 2018

Ørsted share price compared to peers.

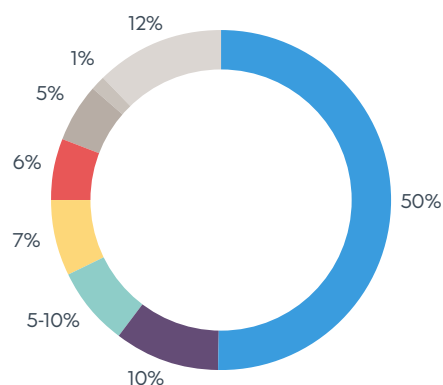


## Financial calendar 2019

31 Jan.	Annual report 2018
5 Mar.	Annual general meeting
1 May	Interim report for the first quarter of 2019
8 Aug.	Interim report for the first half-year of 2019
30 Oct.	Interim report for the first nine months of 2019

### Shareholders at 31 December 2018, voting share %\*

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



\* See note 16 in the parent company financial statements.

### Share information

ISIN	DK 0060094928220
Share classes	1
Nominal value	DKK 10 per share
Average daily volume	447,103
Exchange	Nasdaq OMX Copenhagen
Ticker	ORSTED
Year high	DKK 474 (28 Nov.)
Year low	DKK 332 (3 Jan.)
Registered share	99.6%
Number of shares	420,381,080 shares
Number of treasury shares	335,904 shares

### 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, roadshows, conferences, capital markets 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.

On 28 November 2018, Ørsted hosted a Capital Markets Day in Gentofte with more than 150 participants, mainly equity and institutional investors. CEO Henrik Poulsen presented Ørsted's new ambitious targets for the Group's long-term strategy and financial development, followed by breakout sessions hosted by the management team. The full Capital Market Day material is available at [orsted.com/en/capital-markets-day](https://orsted.com/en/capital-markets-day).

The Group is covered by 22 equity analysts and 12 bond analysts. Their recommendations and consensus estimates for Ørsted's future financial performance are available at [orsted.com/en/investors](https://orsted.com/en/investors). On this site, you can also download our financial reports, investor presentations and a wide range of other data.



# Financial statements 2018

1 January – 31 December

# Income statement

1 January - 31 December

Note	DKK m	2018			2017		
		Business performance	Adjustments	IFRS	Business performance	Adjustments	IFRS
2.2, 2.4	Revenue	76,946	(1,426)	75,520	59,504	205	59,709
2.3	Cost of sales	(53,906)	(112)	(54,018)	(40,544)	(150)	(40,694)
	Other external expenses	(5,865)	-	(5,865)	(4,241)	-	(4,241)
2.6, 2.7	Employee costs	(3,126)	-	(3,126)	(3,197)	-	(3,197)
	Share of profit (loss) in associates and joint ventures	(6)	-	(6)	(119)	-	(119)
2.5	Other operating income	16,275	-	16,275	11,665	-	11,665
2.5	Other operating expenses	(289)	-	(289)	(549)	-	(549)
	<b>Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA)</b>	<b>30,029</b>	<b>(1,538)</b>	<b>28,491</b>	<b>22,519</b>	<b>55</b>	<b>22,574</b>
3.1	Amortisation, depreciation and impairment losses on intangible assets and property, plant and equipment	(5,375)	-	(5,375)	(6,284)	-	(6,284)
	<b>Operating profit (loss) (EBIT)</b>	<b>24,654</b>	<b>(1,538)</b>	<b>23,116</b>	<b>16,235</b>	<b>55</b>	<b>16,290</b>
3.4	Gain on divestment of enterprises	127	-	127	(139)	-	(139)
	Share of profit (loss) in associates and joint ventures	1	-	1	(10)	-	(10)
6.5	Financial income	3,179	-	3,179	4,253	-	4,253
6.5	Financial expenses	(4,457)	-	(4,457)	(5,295)	-	(5,295)
	<b>Profit (loss) before tax</b>	<b>23,504</b>	<b>(1,538)</b>	<b>21,966</b>	<b>15,044</b>	<b>55</b>	<b>15,099</b>
5.2	Tax on profit (loss) for the year	(4,018)	318	(3,700)	(1,765)	(13)	(1,778)
	<b>Profit (loss) for the year from continuing operations</b>	<b>19,486</b>	<b>(1,220)</b>	<b>18,266</b>	<b>13,279</b>	<b>42</b>	<b>13,321</b>
3.7	<b>Profit (loss) for the year from discontinued operations</b>	<b>10</b>	<b>-</b>	<b>10</b>	<b>6,920</b>	<b>(816)</b>	<b>6,104</b>
	<b>Profit (loss) for the year</b>	<b>19,496</b>	<b>(1,220)</b>	<b>18,276</b>	<b>20,199</b>	<b>(774)</b>	<b>19,425</b>
	<b>Profit (loss) for the year is attributable to:</b>						
	Shareholders in Ørsted A/S	19,046	(1,220)	17,826	19,493	(774)	18,719
	Interests and costs after tax, hybrid capital owners of Ørsted A/S	425		425	716		716
	Non-controlling interests	25		25	(10)		(10)
6.2	<b>Profit (loss) per share, DKK:</b>						
	From continuing operations	45.3		42.4	29.9		30.0
	From discontinued operations	0.0		0.0	16.5		14.5
	<b>Total profit (loss) per share</b>	<b>45.3</b>		<b>42.4</b>	<b>46.4</b>		<b>44.5</b>



## Profit (loss) for the year from our continuing operations

Our former Oil & Gas business, which was divested on 29 September 2017, is presented as discontinued operations.

## Profit (loss) per share

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

## Accounting policies

### Business performance

The business performance principle is our alternative performance measure. According to IFRS, market value adjustments of energy contracts and related currency risks (including hedging) are recognised on an ongoing basis in the profit (loss) for the year, whereas under the business performance principle, they are deferred and recognised in the period in which the hedged exposure materialises. The difference between IFRS and business performance is specified in the 'Adjustments' column. Read more about the business performance principle in note 1.6 'Business performance'.

# Statement of comprehensive income

1 January - 31 December

Note	DKK m	2018			2017		
		Business performance	Adjustments	IFRS	Business performance	Adjustments	IFRS
		<b>19,496</b>	<b>(1,220)</b>	<b>18,276</b>	<b>20,199</b>	<b>(774)</b>	<b>19,425</b>
	<b>Profit (loss) for the year</b>						
	<b>Other comprehensive income:</b>						
	<b>Cash flow hedging:</b>						
1.6, 7.2	Value adjustments for the year	(2,841)	1,734	(1,107)	652	138	790
6.2	Value adjustments transferred to income statement	961	(196)	765	(2,464)	853	(1,611)
	<b>Exchange rate adjustments:</b>						
	Exchange rate adjustments relating to net investment in foreign enterprises	(417)	-	(417)	(1,513)	-	(1,513)
7.2	Value adjustment of net investment hedges	401	-	401	565	-	565
6.2	Value adjustments and hedges transferred to income statement	(67)	-	(67)	892	-	892
	<b>Tax:</b>						
	Tax on hedging instruments	380	(318)	62	410	(217)	193
	Tax on exchange rate adjustments	31	-	31	62	-	62
	<b>Other:</b>						
	Share of other comprehensive income of associated companies, after tax	(28)	-	(28)			
	<b>Other comprehensive income</b>	<b>(1,580)</b>	<b>1,220</b>	<b>(360)</b>	<b>(1,396)</b>	<b>774</b>	<b>(622)</b>
	<b>Total comprehensive income</b>	<b>17,916</b>	<b>-</b>	<b>17,916</b>	<b>18,803</b>	<b>-</b>	<b>18,803</b>
	<b>Comprehensive income for the year is attributable to:</b>						
	Shareholders in Ørsted A/S	-	-	17,495	-	-	18,256
	Interest payments and costs after tax, hybrid capital owners of Ørsted A/S	-	-	425	-	-	716
	Non-controlling interests	-	-	(4)	-	-	(169)
	<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>17,916</b>	<b>-</b>	<b>-</b>	<b>18,803</b>



## Statement of comprehensive income

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

Value adjustments for the year for cash flow hedging according to IFRS of DKK -1,107 million mainly consist of losses related to the divestments of Hornsea 1. The loss is transferred to the income statement.

Value adjustments for the year for cash flow hedging according to the adjustment column of DKK 1,734 million mainly consist of losses on power hedges that are recognised in the income statement under IFRS, but under business performance, the losses are deferred to the period where the hedged exposure relates.

Foreign exchange losses relating to net investments in foreign enterprises of DKK 417 million were in 2018 primarily attributable to a drop of 1% in the GBP exchange rate. 2017, foreign exchange losses relating to net investments in foreign enterprises amounted to DKK 1,513 million and were primarily attributable to a drop of 4% in the GBP exchange rate.

# Balance sheet

31 December

Note	Assets, DKKm	2018	2017
3.1	<b>Intangible assets</b>	<b>777</b>	<b>689</b>
3.1	Land and buildings	969	1,501
3.1	Production assets	66,310	60,603
3.1	Fixtures and fittings, tools and equipment	342	413
3.1	Property, plant and equipment under construction	16,434	13,328
	<b>Property, plant and equipment</b>	<b>84,055</b>	<b>75,845</b>
	Investments in associates and joint ventures	457	339
	Receivables from associates and joint ventures	60	48
	Other securities and equity investments	211	130
5.4	Deferred tax	4,588	2,865
4.4	Other receivables	2,670	1,955
	<b>Other non-current assets</b>	<b>7,986</b>	<b>5,337</b>
	<b>Non-current assets</b>	<b>92,818</b>	<b>81,871</b>
4.1	Inventories	13,943	3,853
7	Derivatives	5,468	4,870
4.2	Contract assets	1,451	10,817
4.3	Trade receivables	10,741	9,170
4.4	Other receivables	4,390	3,519
	Income tax	1,525	296
6.4	Securities	25,501	25,280
6.4	Cash	3,515	4,203
	<b>Current assets</b>	<b>66,534</b>	<b>62,008</b>
3.6	<b>Assets classified as held for sale</b>	<b>15,223</b>	<b>2,642</b>
	<b>Assets</b>	<b>174,575</b>	<b>146,521</b>



## Contract assets and contract liabilities

The adoption of IFRS 15 has changed our presentation, as we have introduced contract assets and contract liabilities. As we have implemented IFRS 15 after the modified retrospective method, we have not restated comparative figures. The comparative figures we have shown for 'Contract assets' and 'Contract liabilities' were presented as 'Construction contracts' in the 2017 annual report.

The effects of change in accounting policy are identical for business performance profit (loss). Read more about the impact in note 1.4 'Implementation of new or changed accounting standards and interpretations'.

Note	Equity and liabilities, DKKm	2018	2017
6.2	Share capital	4,204	4,204
6.2	Reserves	(1,827)	(1,524)
	Retained earnings	66,111	52,111
	<b>Equity attributable to shareholders in Ørsted A/S</b>	<b>68,488</b>	<b>54,791</b>
6.3	Hybrid capital	13,239	13,239
3.8	Non-controlling interests	3,388	3,807
	<b>Equity</b>	<b>85,115</b>	<b>71,837</b>
5.4	Deferred tax	4,025	2,128
3.2	Provisions	12,774	10,840
6.1	Bond and bank debt	25,095	25,715
4.2	Contract liabilities	3,642	-
4.5	Tax equity liabilities	3,728	-
4.6	Other payables	409	5,714
	<b>Non-current liabilities</b>	<b>49,673</b>	<b>44,397</b>
3.2	Provisions	680	680
6.1	Bond and bank debt	2,201	3,921
7	Derivatives	8,094	4,374
4.2	Contract liabilities	924	1,317
	Trade payables	13,082	11,499
4.5	Tax equity liabilities	445	-
4.6	Other payables	4,793	6,368
	Income tax	4,717	1,498
	<b>Current liabilities</b>	<b>34,936</b>	<b>29,657</b>
	<b>Liabilities</b>	<b>84,609</b>	<b>74,054</b>
3.6	<b>Liabilities relating to assets classified as held for sale</b>	<b>4,851</b>	<b>630</b>
	<b>Equity and liabilities</b>	<b>174,575</b>	<b>146,521</b>

# Statement of changes in equity

1 January - 31 December

	2018								2017							
DKKkm	Share capital	Reserves*	Retained earnings	Proposed dividends	Shareholders in Ørsted A/S	Hybrid capital	Non-controlling interests	Total Group	Share capital	Reserves*	Retained earnings	Proposed dividends	Shareholders in Ørsted A/S	Hybrid capital	Non-controlling interests	Total Group
Equity at 1 January	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
<b>Comprehensive income for the year:</b>																
Profit (loss) for the year	-	-	17,826	-	17,826	425	25	18,276	-	-	18,719	-	18,719	716	(10)	19,425
<b>Other comprehensive income:</b>																
Cash flow hedging	-	(342)	-	-	(342)	-	-	(342)	-	(821)	-	-	(821)	-	-	(821)
Exchange rate adjustments	-	(54)	-	-	(54)	-	(29)	(83)	-	103	-	-	103	-	(159)	(56)
Tax on other comprehensive income	-	93	-	-	93	-	-	93	-	255	-	-	255	-	-	255
Share of other comprehensive income of associated companies, after tax	-	-	(28)	-	(28)	-	-	(28)	-	-	-	-	-	-	-	-
<b>Total comprehensive income</b>	-	<b>(303)</b>	<b>17,798</b>	-	<b>17,495</b>	<b>425</b>	<b>(4)</b>	<b>17,916</b>	-	<b>(463)</b>	<b>18,719</b>	-	<b>18,256</b>	<b>716</b>	<b>(169)</b>	<b>18,803</b>
<b>Transactions with owners:</b>																
Coupon payments, hybrid capital	-	-	-	-	-	(545)	-	(545)	-	-	-	-	-	(640)	-	(640)
Tax on coupon payments, hybrid capital	-	-	-	-	-	120	-	120	-	-	-	-	-	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	-	-	(4,099)	4,099	-	-	-	-	-	-	(3,783)	3,783	-	-	-	-
Dividends paid	-	-	2	(3,783)	(3,781)	-	(400)	(4,181)	-	-	1	(2,522)	(2,521)	-	(376)	(2,897)
Purchases of treasury shares	-	-	(48)	-	(48)	-	-	(48)	-	-	-	-	-	-	-	-
Share-based payment	-	-	24	-	24	-	-	24	-	-	15	-	15	-	-	15
Tax on share-based payment	-	-	(5)	-	(5)	-	-	(5)	-	-	(3)	-	(3)	-	-	(3)
Disposals, non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(794)	(794)
Other changes	-	-	12	-	12	-	(15)	(3)	-	-	(62)	-	(62)	-	-	(62)
<b>Total transactions with owners</b>	-	-	<b>(4,114)</b>	<b>316</b>	<b>(3,798)</b>	<b>(425)</b>	<b>(415)</b>	<b>(4,638)</b>	-	<b>(21,279)</b>	<b>17,447</b>	<b>1,261</b>	<b>(2,571)</b>	<b>(725)</b>	<b>(1,170)</b>	<b>(4,466)</b>
<b>Equity at 31 December</b>	<b>4,204</b>	<b>(1,827)</b>	<b>62,012</b>	<b>4,099</b>	<b>68,488</b>	<b>13,239</b>	<b>3,388</b>	<b>85,115</b>	<b>4,204</b>	<b>(1,524)</b>	<b>48,328</b>	<b>3,783</b>	<b>54,791</b>	<b>13,239</b>	<b>3,807</b>	<b>71,837</b>

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

# Statement of cash flows

1 January - 31 December

Note	DKKm	2018	2017
	Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA), IFRS	28,491	22,574
1.6	Change in derivatives, business performance adjustments	1,538	(55)
	Change in derivatives, other adjustments	369	(528)
	Change in provisions	(278)	98
	Reversal of gain (loss) on sale of assets	(14,995)	(10,835)
	Other items	203	297
4.7	Change in work in progress	(2,326)	(3,674)
4.7	Change in tax equity partner liabilities	1,835	-
4.7	Change in other working capital	(427)	(4,230)
	Interest received and similar items	6,648	3,508
	Interest paid and similar items	(7,348)	(3,472)
5.3	Income tax paid	(3,367)	(2,660)
	<b>Cash flows from operating activities</b>	<b>10,343</b>	<b>1,023</b>

## 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.

Change in work in progress consists of elements in contract assets, contract liabilities, construction management agreements related to construction of offshore wind farms, construction of offshore transmission assets (inventory) and related trade payables.

Change in tax equity partner liabilities relates to cash contributions from tax equity partners and distributions of PTCs and other tax attributes to tax equity partners. See also note 4.5 'Tax equity liabilities'.

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 as well as 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, including net proceeds from and to tax equity partners. 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	DKKm	2018	2017
	Purchase of intangible assets and property, plant and equipment	(14,655)	(17,592)
	Sale of intangible assets and property, plant and equipment	19,639	16,333
3.3	Acquisition of enterprises	(5,602)	(83)
3.4	Divestment of enterprises	363	588
	Purchase of other equity investments	(78)	-
	Divestment of other equity investments	-	28
	Purchase of securities	(40,444)	(21,162)
	Sale/maturation of securities	39,849	11,965
	Change in other non-current assets	(1)	(5)
	Transactions with associates and joint ventures	(122)	(139)
	Dividends received and capital reduction	25	13
	<b>Cash flows from investing activities</b>	<b>(1,026)</b>	<b>(10,054)</b>
	Proceeds from raising of loans	-	5,468
	Instalments on loans	(6,429)	(4,069)
	Coupon payments on hybrid capital	(545)	(640)
	Proceeds from issuance of hybrid capital	-	3,668
	Dividends paid to shareholders in Ørsted A/S	(3,781)	(2,521)
	Purchase of own shares	(48)	-
3.8	Transactions with non-controlling interests	(391)	(431)
	Net proceeds from tax equity partners	78	-
	Change in other liabilities	422	(11)
	<b>Cash flows from financing activities</b>	<b>(10,694)</b>	<b>1,464</b>
	Cash flows from continuing operations	(1,377)	(7,567)
3.7	Cash flows from discontinued operations	209	9,025
	<b>Total net change in cash and cash equivalents</b>	<b>(1,168)</b>	<b>1,458</b>
6.4	Cash and cash equivalents at 1 January	3,891	2,628
	Total net change in cash and cash equivalents	(1,168)	1,458
	Cash flows for the year from assets classified as held for sale	(27)	(140)
	Exchange rate adjustments of cash and cash equivalents	(33)	(55)
6.4	<b>Cash and cash equivalents at 31 December</b>	<b>2,663</b>	<b>3,891</b>



Our supplementary statements of gross and net investments appear from note 3.5 'Gross and net investments' and free cash flows (FCF) from note 2.1 'Segment information'.

# Note summary

## Consolidated financial statements

### 1. Basis of reporting ..... 79

- 1.1 Significant changes in the current reporting period ..... 80
- 1.2 Basis of preparation ..... 81
- 1.3 Key accounting estimates and judgements ..... 83
- 1.4 Implementation of new or changed accounting standards and interpretations ..... 84
- 1.5 Alternative performance measures ... 87
- 1.6 Business performance ..... 88

### 2. Return on capital employed..... 91

- 2.1 Segment information..... 93
- 2.2 Revenue..... 96
- 2.3 Cost of sales ..... 99
- 2.4 Government grants..... 100
- 2.5 Other operating income and expenses.....101
- 2.6 Employee costs ..... 102
- 2.7 Share-based payment..... 103

### 3. Capital employed..... 105

- 3.1 Intangible assets and property, plant and equipment..... 107
- 3.2 Provisions and contingent assets and liabilities..... 110
- 3.3 Acquisition of enterprises.....112
- 3.4 Divestment of enterprises ..... 113
- 3.5 Gross and net investments ..... 113
- 3.6 Assets classified as held for sale..... 114
- 3.7 Discontinued operations ..... 115
- 3.8 Non-controlling interests ..... 117

### 4. Working capital..... 118

- 4.1 Inventories ..... 120
- 4.2 Contract assets and liabilities ..... 121
- 4.3 Trade receivables..... 122
- 4.4 Other receivables ..... 122
- 4.5 Tax equity liabilities ..... 123
- 4.6 Other payables..... 124
- 4.7 Changes in net working capital..... 124

### 5. Tax ..... 125

- 5.1 Tax policy and tax regimes ..... 127
- 5.2 Tax on profit (loss) for the year ..... 128
- 5.3 Taxes paid ..... 130
- 5.4 Deferred tax..... 131
- 5.5 Total tax contribution ..... 133

### 6. Capital structure..... 134

- 6.1 Interest-bearing debt..... 136
- 6.2 Equity ..... 138
- 6.3 Hybrid capital..... 140
- 6.4 Financial resources ..... 141
- 6.5 Financial income and expenses..... 143
- 6.6 Funds from operations (FFO)/adjusted interest-bearing net debt .. 144

### 7. Risk management..... 145

- 7.1 Market risks ..... 147
- 7.2 Hedge accounting and economic hedging..... 150
- 7.3 Energy trading portfolio..... 152
- 7.4 Sensitivity analysis of financial instruments ..... 153
- 7.5 Credit risks ..... 154
- 7.6 Categories of financial instruments.. 155
- 7.7 Fair value measurement..... 156

### 8. Other notes..... 158

- 8.1 Related-party transactions..... 159
- 8.2 Operating lease obligations..... 160
- 8.3 Auditor's fees ..... 161
- 8.4 Contractual obligations..... 161
- 8.5 Company overview..... 162

### Consolidated ESG statements (additional information) .....167

- Basis of reporting..... 168
- Environment ..... 169
- Social..... 171
- Governance ..... 172

### Parent company financial statements ....175

- Income statement ..... 176
- Balance sheet ..... 176
- Statement of changes in equity..... 177

- 1. Basis of reporting..... 178
- 2. Employee costs ..... 179
- 3. Financial income and expenses..... 179
- 4. Tax on profit (loss) for the year and deferred tax..... 180
- 5. Distribution of net profit..... 180
- 6. Investments in subsidiaries ..... 181
- 7. Receivables from subsidiaries ..... 181
- 8. Derivatives ..... 182
- 9. Securities..... 182
- 10. Loans and borrowings..... 182
- 11. Other provisions..... 183
- 12. Contingent liabilities ..... 183
- 13. Related-party transactions..... 184
- 14. Operating lease obligations..... 184
- 15. Auditor's fees ..... 184
- 16. Ownership information..... 184

# 1. Basis of reporting

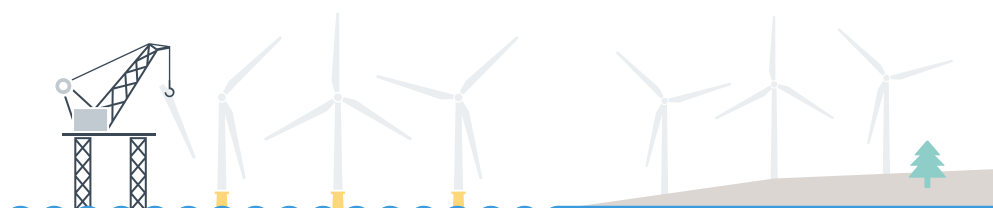
Significant changes in the current reporting period	80
Basis of preparation	81
Key accounting estimates and judgements	83
Implementation of new or changed accounting standards and interpretations	84
Alternative performance measures	87
Business performance	88



# 1.1 Significant changes in the current reporting period

The financial position and performance of the Ørsted Group was particularly affected by the following events and transactions during 2018.

For a detailed discussion about the Ørsted Group's performance and financial position, please refer to our management's review on pages 4 to 54.



## Acquisitions

### Lincoln Clean Energy

In October 2018, we acquired Lincoln Clean Energy, which forms the basis of our new Onshore business unit, see note 3.3 'Acquisition of enterprises'. The transaction has been recognised using the acquisition method whereby all identifiable assets and liabilities have been measured at fair value. The acquisition introduced new accounting concepts, such as tax equity liability, see note 4.5 'Tax equity liabilities', and power purchase agreements (PPAs) (derivatives), classified as financial products with significant elements of non-observable data, see note 7.7 'Fair value measurement'.

With the acquisition, we established a strong and scalable platform for the US onshore market, which will be a key growth platform and provide strategic diversification to our portfolio.

### Deepwater Wind

In November 2018, we acquired Deepwater Wind, which will be part of our existing Offshore business unit, see note 3.3 'Acquisition of enterprises'. The transaction has been recognised using the acquisition method whereby all identifiable assets and liabilities have been measured at fair value. Similar to Lincoln Clean Energy, the acquisition includes a tax equity liability, see note 4.5 'Tax equity liabilities'.

With this acquisition, we created a leading US offshore wind platform with a geographically diverse US East Coast portfolio of projects at varying degrees of development and with significant synergy potential both in terms of geography and project timing.



## Divestments/ assets held for sale

### Hornsea 1 offshore wind farm

In November 2018, we farmed-down 50% of Hornsea 1. The transaction is classified as a divestment of assets, see note 2.5 'Other operating income and expenses' and 3.1 'Intangible assets and property, plant and equipment'.

### Danish power distribution, residential customer and city light businesses

We plan to exit our Danish power distribution, residential customers and city light businesses during 2019 and have therefore classified them as assets held for sale, see note 3.6 'Assets classified as held for sale'.

### Enecogen gas-fired power plant

In July 2018, we divested our 50% ownership share in the Dutch gas-fired power plant Enecogen. The transaction is classified as a divestment of enterprises, see note 3.4 'Divestment of enterprises'.

IFRS

2018



## Accounting policy

### Adoption of IFRS 15

We have adopted the new IFRS standard on revenue from contracts with customers. The standard has an insignificant impact on profit (loss) for the year and diluted profit (loss) per share. The equity and the consolidated statement of cash flows are not affected. The impact on our consolidated financial statements is described in note 1.4 'Implementation of new or changed accounting standards and interpretations'. The disclosure requirements in IFRS 15 is included in note 2.2 'Revenue'.

### New operating segment

The Onshore business unit was established in connection with the acquisition of Lincoln Clean Energy, see note 2.1 'Segment information' and management's review on pages 46 to 48.

## 1.2 Basis of preparation

This section provides an overall description of the accounting policies applied in our consolidated financial statements. We provide a more detailed description of the accounting policies applied in the specific notes. Key estimates and judgements and new and amended IFRS standards and interpretations are discussed in detail in note 1.3 'Key accounting estimates and judgements' and 1.4 'Implementation of new or changed accounting standards and interpretations', respectively.

### Basis of preparation

The financial statements for the period 1 January - 31 December 2018 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 178 for the parent company's accounting policies.

The consolidated financial statements have been prepared in accordance with the 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, and carbon emissions allowances in trading portfolio that are measured at market value.

The accounting policies have been applied consistently to the financial year and for the comparative figures except for:

- the adoption of 'IFRS 15 – Revenue from Contracts with Customers'
- the adoption of IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance' with respect to subsidies received under the Renewable Obligation scheme in the UK and feed-in tariffs in Germany
- the adoption of IFRIC 22 'Foreign Currency Transactions and Advance Consideration'
- the adoption of IFRIC 23 'Uncertainty over Income Tax Treatments' (early adoption).

### Principles for consolidation

The consolidated financial statements include the parent company Ørsted A/S and subsidiaries controlled by Ørsted A/S. See more in note 8.5 'Company overview'.

The consolidated financial statements have been prepared as a consolidation of the parent company's and the individual subsidiaries' financial statements which have been 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, liabilities, income and expenses. The Group's share of joint income, expense, assets and liabilities is recognised afterwards. 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. Enterprises

that satisfy the criteria for joint control are 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 activities. The profit (loss) from investments in associates and joint ventures is presented after EBITDA when not deemed to pertain to the Group's principal activities.

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
- 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 or are assigned all output, for example the power generated, will lead to the structure being considered 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 on the transaction date. Exchange differences arising between the exchange rate on the transaction date and on 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 on the balance sheet date. The difference between the exchange rate on the balance sheet date and on 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 on 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 on 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 on 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.

# 1.3 Key accounting estimates and judgements

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

Given the uncertainties inherent in our business activities, we make a number of estimates regarding valuation and judgements. The estimates and judgements are based on assumptions concerning future developments which affect our application of accounting policies

and reported amounts of our assets, liabilities, sales, costs, cash flows and related disclosures. Actual amounts may differ from the amounts estimated and judgements made as more detailed information becomes available.

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

other relevant factors, ie. the expected effects of Brexit.

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

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

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

Note		Key accounting estimates and judgements	Estimate/ judgement	Extent of accounting estimates and judgements
1.2	Basis of preparation	Assessment of classification of partnerships	Judgement	● ● ● ○
2.2	Revenue	Assessment of assumptions for recognition of revenue from the construction of offshore wind farms over time Assumptions for the determination of the expected selling price and expected costs	Judgement Estimate	● ● ● ○ ● ● ● ○
2.5	Other operating income	Assessment of classification of divestment Assumptions for the accounting treatment of divestment gains related to the share purchase agreements and construction agreements	Judgement Estimate	● ● ● ○ ● ● ● ○
3.2	Provisions and contingent assets and liabilities	Assumptions for decommissioning obligations Estimate of onerous contracts Estimate of litigation outcomes	Estimate Estimate Estimate	● ● ○ ○ ● ● ○ ○ ● ● ○ ○
3.3	Acquisition of enterprises	Purchase price allocation in business combinations	Estimate	● ● ● ○
4.5	Tax equity liabilities	Assessment of recognition of tax equity partners	Judgement	● ● ● ○
5.2	Tax on profit (loss) for the year	Estimate regarding the recognition of income tax assets and provisions for uncertain tax positions	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

# 1.4 Implementation of new or changed accounting standards and interpretations

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

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

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

Besides the impact from IFRS 15, the adoption of the new and changed standards has not impacted the consolidated financial statements for 2018.

In the following section, you can read more about the impact on recognition and measurement from IFRS 15 'Revenue from Contracts with Customers'. The standard has an insignificant impact on profit (loss) for the year and diluted profit (loss) per share. The equity and the consolidated statement of cash flows are not affected.

## Implementation of IFRS 15

On 1 January 2018, we implemented IFRS 15, 'Revenue from Contracts with Customers', which replaces IAS 11, IAS 18 and associated interpretations.

We have implemented IFRS 15 with retrospective effect. However, we use the relief from restating comparative figures (modified retrospective method).

The most important changes resulting from our implementation can be summarised as follows:

- The model for recognition of revenue is changed from having been based on the transfer of the risks and rewards of ownership of a product or service to being based on the transfer of control of the goods or services transferred to the customer.
- More detailed guidelines for how elements in a contract of sale are identified, and how the individual components will be recognised and measured.
- More detailed guidance for recognition of revenue over time.

## Changes in our accounting policies resulting from IFRS 15

In the UK, we offer construction agreements for offshore transmission assets. When construction of the offshore transmission 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 IFRS 15, a customer relationship does not exist between Ørsted and the final buyer when the construction of the offshore transmission assets commences. Therefore, we have deferred revenue recognition on offshore transmission assets from commencement of construction to the date of entering into a contract with a customer.

In other words, the recognition of revenue begins when we sell a share of the offshore transmission asset under construction to a partner and takes place upon such partner joining the project. We recognise the remaining part of the offshore transmission asset when we find that control has passed to the OFTO.

## Impact on our consolidated financial statements from IFRS 15

In previous reporting periods, offshore transmission assets were recognised in step with the construction based on the completion degree of the asset (over time). Under IFRS 15, revenue from offshore transmission assets are recognised at a later point in time.

The change in policy does not affect the Group's cash flows or results, but only the timing of when income and costs are recognised in the consolidated financial statements.

Historically, we have not had, and we do not expect to have, a significant contribution margin relating to the sale of offshore transmission assets to partners and OFTOs. 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.

The implementation of the terminology in IFRS 15 had the following effects on the presentation of the construction contracts, receivables and other payables in the balance sheet:

	1 January 2018			31 December 2018		
	Previous accounting policy	Effect of change in accounting policy	New accounting policy	Previous accounting policy	Effect of change in accounting policy	New accounting policy
<b>Extract</b>						
<b>Impact of adoption, DKKm</b>						
<b>Assets</b>						
<b>Current assets</b>						
Inventories	3,853	10,468 <sup>1</sup>	14,321	4,058	9,885	13,943
Construction contracts	10,817	(10,817) <sup>1,2</sup>	-	11,336	(11,336)	-
Contract assets	-	1,693 <sup>2</sup>	1,693	-	1,451	1,451
Trade receivables	9,170	(1,344) <sup>2</sup>	7,826	10,741	-	10,741
<b>Assets</b>	<b>146,521</b>	<b>-</b>	<b>146,521</b>	<b>174,575</b>	<b>-</b>	<b>174,575</b>
<b>Equity and liabilities</b>						
Share capital	4,204	-	4,204	4,204	-	4,204
Reserves	(1,524)	-	(1,524)	(1,827)	-	(1,827)
Retained earnings	52,111	-	52,111	66,111	-	66,111
<b>Equity attributable to shareholders in Ørsted A/S</b>	<b>54,791</b>	<b>-</b>	<b>54,791</b>	<b>68,488</b>	<b>-</b>	<b>68,488</b>
<b>Liabilities</b>						
<b>Non-current liabilities</b>						
Contract liabilities	-	5,327 <sup>2</sup>	5,327	-	3,642	3,642
Other payables	5,714	(5,327) <sup>2</sup>	387	4,051	(3,642)	409
<b>Current liabilities</b>						
Construction contracts	1,317	(1,317) <sup>2</sup>	-	460	(460)	-
Contract liabilities	-	1,455 <sup>2</sup>	1,455	-	924	924
Other payables	6,368	(138) <sup>2</sup>	6,230	5,257	(464)	4,793
<b>Equity and liabilities</b>	<b>146,521</b>	<b>-</b>	<b>146,521</b>	<b>174,575</b>	<b>-</b>	<b>174,575</b>
<b>Income statement, IFRS</b>						
Revenue				80,554	(5,034)	75,520
Cost of sales				(59,052)	5,034	(54,018)
<b>Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA)</b>				<b>28,491</b>	<b>-</b>	<b>28,491</b>
<b>Profit (loss) for the year</b>				<b>18,276</b>	<b>-</b>	<b>18,276</b>

<sup>1</sup> Effect of change to timing of revenue recognition from transmission assets in profit (loss).

<sup>2</sup> Effect of changed presentation of certain amounts in the balance sheet to reflect the terminology of IFRS 15.

- Construction of offshore transmission assets is classified as inventory.
- Construction agreements other than offshore transmission assets are presented as contract assets and liabilities.
- Construction agreements related to offshore transmission assets are presented as contract assets and liabilities.
- Receivables related to ongoing services or in other ways where the receivables are not unconditional are presented as contract assets.
- Other payables related to prepayments from heat customers are presented as contract liabilities.
- Other payables related to prepayments and deferred revenue as such are presented as contract liabilities.

In summary, the adjustments made to the amounts recognised in the balance sheet on the date of initial application (1 January 2018) are illustrated in the table to the left.



Comparatives for the 2017 financial year are not restated as we have applied the modified retrospective method. The effects of change in accounting policy are identical for business performance profit (loss).

### Change in accounting policy

On 1 January 2018, we changed our accounting policy with respect to subsidies received under the Renewable Obligation Scheme in the UK, known as green certificates or renewable obligation certificates (ROCs), and feed-in tariffs in Germany under the German Renewable Energy Sources Act (EEG2014).

We apply IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance', under which subsidies are recognised when there is a reasonable assurance that the grant will be received.

Prior to this change in policy, we applied IAS 18 'Revenue' to ROCs and feed-in tariffs in Germany, while we applied IAS 20 to feed-in tariffs in Denmark and contracts for difference (CfDs) in the UK.

We believe the new policy is preferable as it provides more relevant information about the received subsidies, aligns our accounting of all subsidies received for our renewable power generation and allows comparability between years.

This voluntary change in accounting policy did not result in any impact on the current year or any years included within these consolidated financial statements. The recognition, measurement, timing and presentation of ROCs and feed-in tariffs are unchanged.

The change in accounting policy only impacts the presentation of ROCs and feed-in tariffs in Germany.

Profit (loss), equity and the consolidated statement of cash flows are therefore not affected by the change in accounting policy.

### New standards and interpretations

IASB has issued a number of new or amended standards and interpretations which have not yet entered into force, and which have consequently not been incorporated into the consolidated financial statements for 2018.

In the tabel below, we have assessed how IFRS 16 'Leases' will be implemented and the consequences thereof. IFRS 16 is deemed to be the most relevant of the new or amended standards and interpretations for Ørsted.

Standard	Expected effect	Commencement	Transitional provision
IFRS 16 'Leases'	<p>We have completed our analysis of the impact of implementing IFRS 16 in Ørsted. The conclusion is that the implementation will have limited effect on our balance sheet, income statement and key credit ratios.</p> <p>When applying IFRS 16, our lease obligations amount to DKK 5,224 million on 1 January 2019, which is slightly higher than our operating lease obligations on 31 December 2018. This amounts to DKK 4,819 million at net present value. The difference between the obligations are primarily due to the fact that the weighted average incremental borrowing rates applied under IFRS 16 are lower than the 3.5%, which we apply for calculation of the net current value of our operating lease obligations in accordance with our present accounting policy for key credit metrics.</p>	<p>IFRS 16 requires that service elements which are incorporated into leases, and which do not entitle us to use an underlying asset, are dealt with separately and treated as current operating expenses. This requirement does not have an effect on our lease obligations as our current accounting policy is to separate the service elements in the leases from the leasing elements. In Ørsted, this matter is partially relevant to leases of office premises.</p> <p>IFRS 16 will be implemented on 1 January 2019.</p>	<p>The standard will be implemented with retrospective effect, and the comparative figures will not be restated. The requirements of the standard therefore only apply to ongoing and/or leases commencing on 1 January 2019.</p> <p>For all leases, we will measure the lease asset at the same amount as the lease debt, adjusted by the amount of prepayments and accrued lease payments on 1 January 2019.</p> <p>We apply the practical expedient regarding reassessment of whether a contract is, or contains, a lease on 1 January 2019. This means that we do not reassess whether a contract is, or contains, a lease when applying IFRS 16.</p> <p>We do also make use of the possibility to apply a single rate to a portfolio of leases with reasonable similar characteristics. In accordance with this, we apply incremental borrowing rates per class of underlying asset (nature) in similar economic environments (currency) and remaining lease term.</p>

# 1.5 Alternative performance measures

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

<b>Business performance</b>	Business performance is a supplement to our financial statements prepared in accordance with IFRS. Under the business performance principle, the value of the hedging transaction is deferred and recognised for the period in which the hedged risk materialises. Reference is made to note 1.6 'Business performance'.
<b>Gross investments</b>	Gross investments reflect our total investments in assets and enterprises. It comprises 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. To this is added acquired debt and restricted cash in connection with acquisitions.
<b>Net investments</b>	Gross investments less divestments of assets and enterprises, the selling price for non-controlling interests and subsequent capital injections from non-controlling interests. Furthermore, interest-bearing debt transferred in connection with a divestment is deducted.
<b>Funds from operations (FFO)</b>	Supplementary statement for cash flows from operating activities determined as business performance EBITDA less the effect of gains on the divestments 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.
<b>Adjusted interest-bearing net debt</b>	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.

<b>FFO to adjusted interest-bearing net debt</b>	$\frac{\text{FFO}}{\text{Adjusted interest-bearing net debt}}$
<b>Free cash flow (FCF)</b>	Cash flows from operating activities less gross investments and plus divestments.
<b>Capital employed</b>	All assets and liabilities except for equity and interest-bearing net debt.
<b>Average capital employed</b>	$\frac{\text{Capital employed beginning of year} + \text{capital employed year-end}}{2}$
<b>Return on capital employed (ROCE)</b>	$\frac{\text{EBIT}}{\text{Average capital employed}^1}$
<b>Proposed dividend per share (DPS) of DKK 10</b>	$\frac{\text{Total proposed dividend}}{\text{Number of shares year-end}}$
<b>Dividend yield</b>	$\frac{\text{Dividend per share (proposed)}}{\text{Share price on the last trading day of the year}}$
<b>Average number of shares</b>	$\frac{1}{\text{Number of days}} \times \text{Number of days} = X_1$ $\sum_{i=1}$
<b>Net working capital</b>	Inventories, trade receivables and other current operating assets less trade payables, deferred income (net), other current operating liabilities and working capital element of tax equity balances.
<b>Net working capital, excluding trade payables relating to capital expenditure</b>	Net working capital, excluding trade payables relating to purchases of intangible assets and property, plant and equipment.
<b>Profit (loss) per share</b>	$\frac{\text{Shareholders' share of the profit (loss) for the period}}{\text{Average number of shares}}$
<b>Diluted profit (loss) per share</b>	$\frac{\text{Shareholders' share of the profit (loss) for the period}}{\text{Average number of shares, including dilutive effect of free shares}}$

<sup>1</sup> ROCE (continuing operations) is based on average capital employed for the continuing operations. Capital employed related to the oil and gas activities divested on 29 September 2017 are not included.

# 1.6 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
- that there was a high risk that the hedging contracts were not consistent with the IFRS hedge accounting rules, requiring us to recognise the hedging contracts at market value with value adjustments via the income statement, whereas our commercial exposure is accrued.

Our risk management is described in note 7.1 'Market risks'.

## Business performance – background

We hedge market risks for up to five years with the aim of stabilising our cash flows and

create 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 there is no sufficiently liquid market 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 the European Energy Exchange (EEX) in Germany and Nord Pool in 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 'Energy trading portfolio'. 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 is 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 is the same as under IFRS
Trading portfolio	Market value adjustments in the income statement	Recognition is 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 2018, a loss of DKK 1,849 million has been deferred (2017: loss of DKK 812 million), which will affect business performance EBITDA in subsequent years. Of the total deferred loss, a loss of DKK 1,470 million is expected on business performance EBITDA in 2019 (2017: DKK 159 million loss in 2018).

Power prices rose in 2018, which means that the market value of the hedges has fallen as we are selling power. The decrease in the deferred gain on currency hedging is primarily attributable to the transfer of gains to the income statement in 2018 as a consequence of the hedged transactions having occurred.

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

	Deferred for subsequent recognition at 31 December 2018				Deferred for subsequent recognition at 31 December 2017			
	2019	2020	After 2020	Total	2018	2019	After 2019	Total
Power	(1,324)	(1,190)	(353)	(2,867)	(650)	(385)	(519)	(1,554)
Gas	(294)	(118)	-	(412)	(262)	(266)	(97)	(625)
Oil	(65)	(81)	(36)	(182)	174	137	63	374
Coal	6	1	-	7	34	6	1	41
Currency	(2)	254	239	491	545	139	268	952
Inflation	-	-	(69)	(69)	-	-	-	-
<b>Total hedges</b>	<b>(1,679)</b>	<b>(1,134)</b>	<b>(219)</b>	<b>(3,032)</b>	<b>(159)</b>	<b>(369)</b>	<b>(284)</b>	<b>(812)</b>
Deferred revenue from US power purchase agreements	209	183	791	1,183	-	-	-	-
<b>Total</b>	<b>(1,470)</b>	<b>(951)</b>	<b>572</b>	<b>(1,849)</b>	<b>(159)</b>	<b>(369)</b>	<b>(284)</b>	<b>(812)</b>



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. Gains are shown as '+' and losses are shown as '-'. Deferred revenue from US power purchase agreements is explained in more detail in note 7.7 'Fair value measurement'.

### Explanation of the business performance principle

In year 1, we enter into a contract hedging the price risk associated with Offshore'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 income 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 a 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)	Sale 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
<b>Total</b>		<b>45</b>		<b>7</b>	<b>7</b>	<b>52</b>	<b>52</b>



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, DKKm**

	2018	2017
EBITDA – business performance	30,029	22,519
Business performance adjustments in respect of revenue for the year	(1,426)	205
Business performance adjustments in respect of cost of sales for the year	(112)	(150)
<b>EBITDA – IFRS</b>	<b>28,491</b>	<b>22,574</b>
<b>Total business performance adjustments for the year comprise:</b>		
Market value adjustments for the year of financial and physical hedging contracts relating to a future period	(1,734)	(138)
Reversal of deferred gains (losses) relating to hedging contracts from previous periods, where the hedged production or trade is recognised in business performance EBITDA in this period	196	193
<b>Total adjustments</b>	<b>(1,538)</b>	<b>55</b>

**Market value adjustments for the year of financial and physical hedging contracts relating to a future period, DKKm**

	2018	2017
Currency	313	150
Power (commercial and hedge)	(1,617)	(836)
Gas (commercial and hedge)	(48)	106
Oil	(382)	404
Coal	-	38
<b>Total value adjustments</b>	<b>(1,734)</b>	<b>(138)</b>

**Reversal of deferred gains (losses) relating to hedging contracts from previous periods, where the hedged production or trade is recognised in business performance EBITDA in this period, DKKm**

	2018	2017
Currency	(165)	(12)
Power (commercial and hedge)	307	297
Gas (commercial and hedge)	262	(106)
Oil	(174)	46
Coal	(34)	(32)
<b>Total deferred gains (losses) from previous periods</b>	<b>196</b>	<b>193</b>

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

The value adjustment in respect of future periods totalled DKK -1,734 million (2017: DKK -138 million) and reversal of deferred gains (losses) recognised according to business performance in 2018 totalled DKK 196 million (2017: DKK 193 million).

**Market value adjustments for the year of hedging contracts**

2018 was mainly affected by losses on the hedging of power as a result of rising prices, due to a selling position and hedging of oil as a result of lower prices due to a purchase position.



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.



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.

**Deferred gains (losses) from previous periods**

In 2018, a loss of DKK 196 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 and gas, partly reduced by gains on hedging of oil and currency.

## 2. Return on capital employed

Return on capital employed	92
Segment information	93
Revenue	96
Cost of sales	99
Government grants	100
Other operating income and expenses	101
Employee costs	102
Share-based payment	103



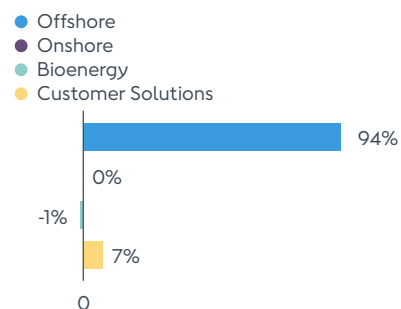
## 2. Return on capital employed

Return on capital employed is a key ratio showing how profitable our business activities are. Our target is an average ROCE of around 10% for the Group for the 2019-2025 period.

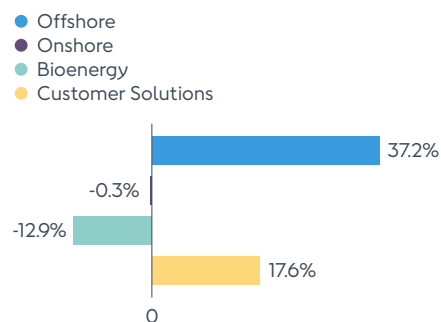
### Return on capital employed

Return on capital employed was 32.1% in 2018 compared to 25.2% in 2017. The increase was mainly due to higher EBIT, which in both years was significantly positively affected by farm-down gains. Reference is made to note 2.1 'Segment information'.

EBIT by segment,  
percentage of DKK 24,856 million in 2018

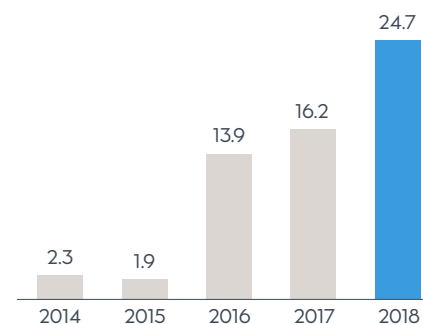


Return on capital employed (ROCE)  
% 2018

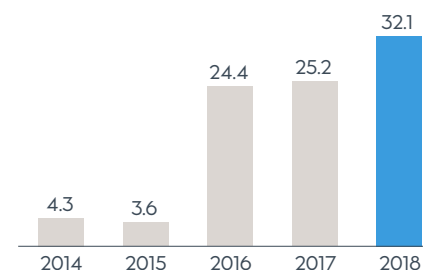


EBIT and return on capital employed are stated according to the business performance principle. EBIT of DKK 24,856 million is calculated as EBIT for reportable segments.

EBIT, business performance  
DKKm



Return on capital employed (ROCE)  
%



Return on capital employed (ROCE) was 32.1% against 25.2% in 2017. The increase was attributable to a higher EBIT.

# 30.0bn

EBITDA totalled DKK 30,029 million in 2018 against DKK 22,519 million in 2017.

# 24.7bn

Operating profit totalled DKK 24,654 million in 2018 against DKK 16,235 million in 2017.

# 32.1%

Return on capital employed (ROCE) totalled 32.1% in 2018 against 25.2% in 2017.

## 2.1 Segment information



### Offshore, DKKm

Revenue	30,566
EBITDA	27,809
Gross investments	15,081
Number of employees	2,431

#### Primary activity

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



### Onshore, DKKm

Revenue	80
EBITDA	44
Gross investments	6,779
Number of employees	40

#### Primary activity

Development, ownership and operation of onshore wind and solar farms in the US and a minor storage solution in the UK.



### Bioenergy, DKKm

Revenue	6,353
EBITDA	367
Gross investments	1,356
Number of employees	731

#### Primary activity

Generation of heat and power from CHP plants in Denmark, operation of a Renaissance plant in the UK, a few biogas upgrade facilities, and a biogas plant.



### Customer Solutions, DKKm

Revenue	47,999
EBITDA	1,970
Gross investments	1,166
Number of employees	1,254

#### Primary activity

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.

### 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.

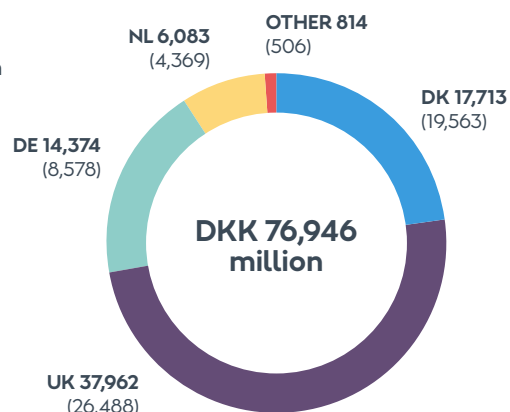
A significant part of our sales takes place via power exchanges and gas hubs in Europe, the physical locations of which do not reflect the geographical locations of our customers. When breaking down these sales by geographical location, we use the physical locations of the exchange or hub since we do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

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.

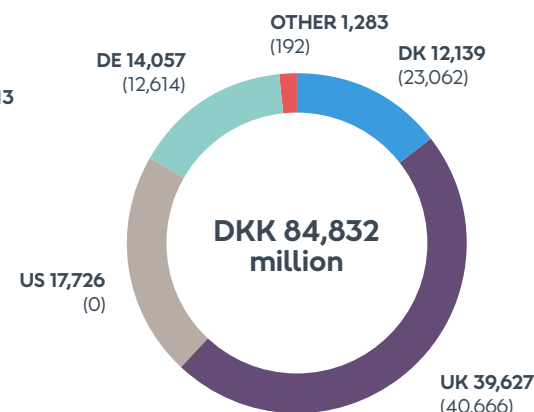
### Revenue, DKKm 2018<sup>1</sup>(2017)

- Denmark (DK)
- UK
- Germany (DE)
- The Netherlands (NL)
- Other



### Intangible assets and property, plant and equipment, DKKm 2018 (2017)

- Denmark (DK)
- UK
- The US
- Germany (DE)
- Other



### 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 1.6 'Business performance', in connection with our internal management.





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

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



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

<sup>1</sup> Revenue determined according to the business performance principle.

									
2018 Income statement, DKKm	Offshore	Onshore	Bioenergy	Customer Solutions	Reportable segments	Other activities/ eliminations	Business performance	Adjustments	IFRS
External revenue	23,585	80	7,117	46,298	77,080	(134)	76,946	(1,426)	75,520
Intra-group revenue	6,981	-	(764)	1,701	7,918	(7,918) <sup>1</sup>	-	-	-
<b>Revenue</b>	<b>30,566</b>	<b>80</b>	<b>6,353</b>	<b>47,999</b>	<b>84,998</b>	<b>(8,052)</b>	<b>76,946</b>	<b>(1,426)</b>	<b>75,520</b>
Cost of sales	(13,370)	-	(4,527)	(43,859)	(61,756)	7,850	(53,906)	(112)	(54,018)
Employee costs and other external expenses	(5,309)	(121)	(1,480)	(2,125)	(9,035)	44	(8,991)	-	(8,991)
Gain (loss) on disposal of non-current assets	15,076	-	-	(81)	14,995	-	14,995	-	14,995
Additional other operating income and expenses	851	85	22	36	994	(3)	991	-	991
Share of profit (loss) in associates and joint ventures	(5)	-	(1)	-	(6)	-	(6)	-	(6)
<b>EBITDA</b>	<b>27,809</b>	<b>44</b>	<b>367</b>	<b>1,970</b>	<b>30,190</b>	<b>(161)</b>	<b>30,029</b>	<b>(1,538)</b>	<b>28,491</b>
Depreciation and amortisation	(4,456)	(51)	(657)	(773)	(5,937)	(41)	(5,978)	-	(5,978)
Impairment losses	-	-	-	-	-	-	-	-	-
Impairment losses, reversed	-	-	-	603	603	-	603	-	603
<b>Operating profit (loss) (EBIT)</b>	<b>23,353</b>	<b>(7)</b>	<b>(290)</b>	<b>1,800</b>	<b>24,856</b>	<b>(202)</b>	<b>24,654</b>	<b>(1,538)</b>	<b>23,116</b>
<b>Key ratios</b>									
Intangible assets and property, plant and equipment	64,444	10,913	8,253	917	84,527	305	84,832	-	84,832
Equity investments and non-current receivables	269	5	41	295	610	835	1,445	-	1,445
Net working capital, work in progress	9,654	-	-	-	9,654	-	9,654	-	9,654
Net working capital, tax equity	-	(3,719)	-	-	(3,719)	-	(3,719)	-	(3,719)
Net working capital, capital expenditures	(2,612)	(167)	(199)	-	(2,978)	-	(2,978)	-	(2,978)
Net working capital, other items	3,471	(125)	(4,144)	1,918	1,120	369	1,489	-	1,489
Derivatives, net	(1,251)	(722)	(238)	(196)	(2,407)	(219)	(2,626)	-	(2,626)
Assets classified as held for sale, net	-	-	-	10,372	10,372	-	10,372	-	10,372
Decommissioning obligations	(4,010)	(217)	(710)	(535)	(5,472)	-	(5,472)	-	(5,472)
Other provisions	(3,106)	(130)	(906)	(2,982)	(7,124)	(858)	(7,982)	-	(7,982)
Tax, net	(2,123)	(1,059)	(154)	909	(2,427)	(202)	(2,629)	-	(2,629)
Other receivables and other payables, net	1,110	-	-	1	1,111	(601)	510	-	510
<b>Capital employed at 31 December</b>	<b>65,846</b>	<b>4,779</b>	<b>1,943</b>	<b>10,699</b>	<b>83,267</b>	<b>(371)</b>	<b>82,896</b>	<b>-</b>	<b>82,896</b>
Of which capital employed from discontinued operations							(143)		(143)
Of which capital employed from continuing operations							83,039		83,039
<b>Return on capital employed (ROCE) %</b>	<b>37.2</b>	<b>(0.3)</b>	<b>(12.9)</b>	<b>17.6</b>	<b>-</b>	<b>-</b>	<b>32.1</b>	<b>-</b>	<b>-</b>
Cash flows from operating activities	5,814	1,868	1,491	2,279	11,452	(1,109)	10,343	-	10,343
Gross investments	(15,081)	(6,779)	(1,356)	(1,166)	(24,382)	(99)	(24,481)	-	(24,481)
Divestments	19,676	1	383	(63)	19,997	(47)	19,950	-	19,950
<b>Free cash flow (FCF)</b>	<b>10,409</b>	<b>(4,910)</b>	<b>518</b>	<b>1,050</b>	<b>7,067</b>	<b>(1,255)</b>	<b>5,812</b>	<b>-</b>	<b>5,812</b>






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

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

<sup>1</sup> Including the elimination of other activities, the total elimination of intra-group revenue amounts to DKK -10,254 million.

**2017**  
**Income statement, DKKm**

								
	Offshore	Bioenergy	Customer Solutions	Reportable 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) <sup>1</sup>	-	-	-
<b>Revenue</b>	<b>20,352</b>	<b>5,864</b>	<b>40,195</b>	<b>66,411</b>	<b>(6,907)</b>	<b>59,504</b>	<b>205</b>	<b>59,709</b>
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)
<b>EBITDA</b>	<b>20,595</b>	<b>152</b>	<b>2,082</b>	<b>22,829</b>	<b>(310)</b>	<b>22,519</b>	<b>55</b>	<b>22,574</b>
Depreciation and amortisation	(4,080)	(690)	(933)	(5,703)	(36)	(5,739)	-	(5,739)
Impairment losses	(545)	-	-	(545)	-	(545)	-	(545)
<b>Operating profit (loss) (EBIT)</b>	<b>15,970</b>	<b>(538)</b>	<b>1,149</b>	<b>16,581</b>	<b>(346)</b>	<b>16,235</b>	<b>55</b>	<b>16,290</b>
<b>Key ratios</b>								
Intangible assets and property, plant and equipment	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
<b>Capital employed at 31 December</b>	<b>59,652</b>	<b>2,554</b>	<b>9,780</b>	<b>71,986</b>	<b>(1,666)</b>	<b>70,320</b>	<b>-</b>	<b>70,320</b>
Of which capital employed from discontinued operations						(236)		(236)
Of which capital employed from continuing operations						70,556		70,556
<b>Return on capital employed (ROCE) %</b>	<b>28.4</b>	<b>(22.2)</b>	<b>13.1</b>	<b>-</b>	<b>-</b>	<b>25.2</b>	<b>-</b>	<b>-</b>
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
<b>Free cash flow (FCF)</b>	<b>4,628</b>	<b>(796)</b>	<b>(1,289)</b>	<b>2,543</b>	<b>(2,282)</b>	<b>261</b>	<b>-</b>	<b>261</b>







Up until the divestment on 29 September 2017, the Oil & Gas business was included in assets classified as held for sale and in discontinued operations. Reference is made to note 3.7 'Discontinued operations'.

Our new reportable segment 'Onshore' is not included in 2017 figures as Lincoln Clean Energy was acquired in October 2018.

We have implemented IFRS 15 after the modified retrospective method. See note 1.4 'Implementation of new or changed accounting standards and interpretations' and note 2.2 'Revenue'.

<sup>1</sup> Including the elimination of other activities, the total elimination of intra-group revenue amounts to DKK -8,887 million.

## 2.2 Revenue

					Other activities/ eliminations	
Revenue 2018, DKKm	Offshore	Onshore	Bioenergy	Customer Solutions		Total
Sale of gas	-	-	48	23,300	(904)	22,444
Generation and sale of power	4,969	64	3,113	20,743	(7,010)	21,879
Revenue from construction of offshore wind farms	16,560	-	-	-	-	16,560
Generation and sale of heat and steam	-	-	2,903	-	-	2,903
Distribution and transmission	-	-	-	2,777	(32)	2,745
Other revenue	1,529	-	209	584	66	2,388
<b>Total revenue from customers, IFRS</b>	<b>23,058</b>	<b>64</b>	<b>6,273</b>	<b>47,404</b>	<b>(7,880)</b>	<b>68,919</b>
Government grants	7,917	5	560	-	(21)	8,461
Economic hedging	(2,149)	465	(633)	728	2	(1,587)
Other revenue	-	11	272	(805)	249	(273)
<b>Total revenue, IFRS</b>	<b>28,826</b>	<b>545</b>	<b>6,472</b>	<b>47,327</b>	<b>(7,650)</b>	<b>75,520</b>
Adjustments	1,740	(465)	(119)	672	(402)	1,426
<b>Total revenue, business performance</b>	<b>30,566</b>	<b>80</b>	<b>6,353</b>	<b>47,999</b>	<b>(8,052)</b>	<b>76,946</b>
<b>Timing of revenue recognition from customers, IFRS</b>						
At a point in time	6,282	64	3,216	30,201	(452)	39,311
Over time	16,776	-	3,057	17,203	(7,428)	29,608
<b>Total revenue from customers, IFRS</b>	<b>23,058</b>	<b>64</b>	<b>6,273</b>	<b>47,404</b>	<b>(7,880)</b>	<b>68,919</b>






<sup>1</sup> The elimination column includes elimination of the internal sale of ROCs between Offshore (included as government grants, see note 2.4 'Government grants') and Customer Solutions. The ROCs are recognised as inventory in Customer Solutions before being sold to external customers, which creates a mismatch in the timing of the internal purchase and the external sale of the ROCs in Customer Solutions. The amount to be eliminated may exceed the amount of ROCs recognised in Offshore for the period.

The timing of transfer of goods or services to customers is categorised as follows:

- 'At a point in time' mainly comprises:
- sale of gas or power in the market, e.g. North Pool, TTF, NBP
  - transmission assets for offshore wind farms.

'Over time' mainly comprises:

- construction agreements of offshore wind farms and transmission assets
- long-term contracts with customers to deliver gas, power or heat.

				Other activities/ eliminations	
Revenue 2017, DKKm	Offshore	Bioenergy	Customer Solutions		Total
Sale of gas	-	-	19,540	(1,556)	17,984
Generation and sale of power	10,052	3,223	17,492	(5,722)	25,045
Revenue from construction of offshore wind farms	8,773	-	-	-	8,773
Generation and sale of heat and steam	-	2,607	-	-	2,607
Distribution and transmission	-	-	2,520	(32)	2,488
Other revenue	1,520	129	534	629	2,812
<b>Total revenue, IFRS</b>	<b>20,345</b>	<b>5,959</b>	<b>40,086</b>	<b>(6,681)</b>	<b>59,709</b>
Adjustments	7	(95)	109	(226)	(205)
<b>Total revenue, business performance</b>	<b>20,352</b>	<b>5,864</b>	<b>40,195</b>	<b>(6,907)</b>	<b>59,504</b>



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

In 2017, we presented revenue from green certificates, mainly ROCs, as generation and sale of power. In 2018, revenue from green certificates is presented as government grants.

Revenue for the year (business performance) increased by 29% to DKK 76,946 million in 2018. The increase was mainly due to a high activity on construction of offshore wind farms for partners, higher revenue from wind farms in operation as well as higher gas and power prices.

implementation of IFRS 15, revenue from construction of transmission assets are recognised at the time of divestment.

Revenue for the year from the construction of offshore wind farms mainly related to the construction of the offshore wind farms Walney Extension, Borkum Riffgrund 2 and Hornsea 1 as well as the divestment of the Burbo Bank transmission asset and a partial divestment of the Hornsea 1 transmission asset as part of the 50% farm-down of Hornsea 1. Following the

In 2018, revenue totalled DKK 75,520 million according to IFRS, of which DKK 70,736 million was revenue from the sale of goods, and DKK 4,784 million was revenue from the sale of services.

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.

### Unsatisfied long-term contracts

Our remaining performance obligations expected to be recognised in more than one year relate to the construction of wind farms and offshore transmission assets. The constructions are expected to be finalised within two years.

Unsatisfied long-term contracts with customers, DKKm	31 December 2018	Expected to be recognised in		
		2019	2020	2020+
Aggregate amount of the transaction price allocated to long-term contracts	11,473	91%	9%	0%



The transaction price allocated to the remaining performance obligation (unsatisfied or partially satisfied) as at 31 December 2018.

In accordance with IFRS 15, the overview does not include revenue from contracts with customers to deliver power, gas and heat or our operation and maintenance agreements. For these types of goods and services, we recognise the revenue that correspond directly to the value transferred to the customer.

### 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 agreements. 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.

Therefore, our determination of profit and the recognition of revenue and related contract assets are subject to significant uncertainty. We believe that our estimates are the most likely outcomes of future events.

### Key accounting judgements

#### Assumptions for the recognition of revenue from the construction of offshore wind farms over time

We construct offshore wind farms with partners, where we construct our partner's share of the wind farm. We assess each construction agreement at the time of conclusion of the agreement.

In our view, our partner assumes control of the offshore wind farm in step with the construction. This is supported by:

- the regular approval of part deliveries
- approval or rejection of significant variations to the construction
- the partner's take-over of work from subcontractors, both concerning risk and legal title to the wind farm on an on-going basis
- milestone payments from the partner.

Revenue is therefore recognised over time during the construction of the offshore wind farms.

#### Accounting policies

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

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

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

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

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

#### Sale of gas

##### Timing of satisfaction of delivery obligations and significant estimates

Revenue is recognised when control of the gas is transferred to the buyer. Transfer of control occurs either when the gas is injected into the distribution system or physically delivered to the customer.

##### Significant terms of payment and associated estimates and judgements

Sales contracts for a fixed amount of gas at a variable price, or where we are exclusive suppliers to the customer at a variable price, are considered one

performance obligation with multiple deliveries to be satisfied over time. For such contracts, we recognise revenue in the amount up to which we have a right to invoice.

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

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

#### Generation and sale of power

##### Types of goods and services

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

##### Timing of satisfaction of delivery obligations, and significant estimates

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

### Significant terms of payment and associated estimates and assessments

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

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

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

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

### Revenue from construction of offshore wind farms Types of goods and services

Revenue from construction of offshore wind farms includes development and construction.

The construction agreements cover the construction from design to delivery of an operational asset. The agreement consists of two performance obligations:

- Offshore wind farms.
- Offshore transmission assets, if applicable.

The construction agreements cover our partners' shares of the construction of the wind farm and offshore transmission asset, if applicable.

If the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on the expected cost-plus margin.

### Timing of satisfaction of delivery obligations, and significant estimates

We recognise revenue from the construction agreements over time, using an input method to measure progress towards complete satisfaction of

the performance obligation because the customer gains control of the offshore wind farm during the construction process. The input method reflects our ongoing transfer of control to the customer.

When the outcome of the performance obligation in the contract can be measured reasonably, the construction agreement is measured at the transaction price of the work performed less progress billings, based on the percentage of completion of the contract at balance sheet date and the total expected revenues from the individual contracts.

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 costs expected related to the contract in question.

The transaction price is based on the total expected income from individual contracts. Estimates of revenues are based on the transaction price and the completion degree of the offshore wind farm or offshore transmission asset at the balance sheet date.

Estimates of revenues, costs and percentage of completion are revised if circumstances change. Any resulting increases or decreases in estimated revenue or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision come to our knowledge.

An expected loss is recognised when it is deemed probable that the total construction costs will exceed the total revenue from the individual contracts.

### Significant terms of payment and associated estimates and assessments

The consideration for the construction of an offshore wind farm consists of a fixed fee and a relatively minor variable fee, depending on when the wind farm can be put into operation.

The consideration for an offshore transmission asset is a fixed fee.

After signing of the construction agreement, we carry out an assessment determining when the wind farm is expected to be completed and calculate the size of the variable payment on this basis. We only recognise the variable fee when it is highly probable that a subsequent reversal will not take place.

At each balance sheet date, an assessment is made of the size of the variable payment which can be included in the transaction price. Revenue is adjusted accordingly.

The customer pays the fixed consideration based on a payment schedule. The payment schedule is determined and based on the expected progress of the construction and transfer of control to the customer.

If the work which we have performed exceeds invoicing on account, a contract asset is recognised. If the payments exceed the work we have performed, a contract liability is recognised.

### Generation and sale of heat

#### Timing of satisfaction of delivery obligations and significant estimates

Heat is sold under long-term heat contracts.

Revenue is recognised when control is transferred to the customer. Transfer of control occurs when the heat is physically delivered to the customer.

In connection with a biomass conversion of a CHP plant, the heat customer makes a prepayment to finance the majority of our CAPEX associated with the conversion. The prepayment is recognised as a contract liability. The contract liability is recognised as revenue in step with the transfer of heat to the customer.

### Significant terms of payment and associated estimates and assessments

Payment for the sale of heat consists of fixed costs associated with operation and maintenance of a CHP plant plus fuel costs for the generation of heat and a financial return.

The delivery of heat is invoiced on a monthly basis, and the payment is due within 10-30 days.

### Distribution and transmission

#### Timing of satisfaction of delivery obligations, and significant estimates

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

### Significant terms of payment and associated estimates and assessments

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

### Other revenue

#### Types of goods and services

Other revenue primarily includes operations and maintenance agreements and other services.

### Timing of satisfaction of delivery obligations and significant estimates

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

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

### Significant terms of payment and associated estimates and assessments

The consideration for operations and maintenance agreements consists of a fixed fee and a minor variable fee, e.g. bonuses or compensation for wind farm availability.








Availability bonuses will be recognised on an ongoing basis when it is highly probable that a subsequent reversal will not take place.

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

### Warranty obligations

We typically have a five-year responsibility to remedy defects that exists at the relevant taking-over date when we construct offshore wind farms. These types of warranties are accounted for under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. Reference is made to the accounting policy on warranty provisions in note 3.2 'Provisions and contingent assets and liabilities'.

## 2.3 Cost of sales

					Other activities/ eliminations	2018 total				Other activities/ eliminations	2017 total
Cost of sales, DKKm	Offshore	Onshore	Bioenergy	Customer Solutions			Offshore	Bioenergy	Customer Solutions		
Gas	-	-	529	20,428	(558)	20,399	-	976	16,391	(4,477)	12,890
Power	27	-	76	19,580	(7,159)	12,524	188	90	16,520	(5,510)	11,288
Biomass	-	-	2,468	-	-	2,468	-	2,091	-	-	2,091
Coal	-	-	960	2	-	962	-	829	-	-	829
Distribution and transmission costs	754	-	191	2,711	(88)	3,568	625	138	2,496	(102)	3,157
Costs for construction of offshore wind farms	12,590	-	-	38	-	12,628	5,720	-	14	17	5,751
Other cost of sales	(1)	-	334	1,013	123	1,469	32	280	975	3,401	4,688
<b>Total, IFRS</b>	<b>13,370</b>	<b>-</b>	<b>4,558</b>	<b>43,772</b>	<b>(7,682)</b>	<b>54,018</b>	<b>6,565</b>	<b>4,404</b>	<b>36,396</b>	<b>(6,671)</b>	<b>40,694</b>
Adjustments	-	-	(31)	87	(168)	(112)	-	(4)	(164)	18	(150)
<b>Total, business performance</b>	<b>13,370</b>	<b>-</b>	<b>4,527</b>	<b>43,859</b>	<b>(7,850)</b>	<b>53,906</b>	<b>6,565</b>	<b>4,400</b>	<b>36,232</b>	<b>(6,653)</b>	<b>40,544</b>

Cost of sales according to business performance increased from DKK 40,544 million in 2017 to DKK 53,906 million in 2018, up 33%.

The increase was mainly due to higher gas prices, higher sale of ROCs due to higher power generation from offshore wind farms and higher costs in connection with construction of offshore wind farms, including the

divestment of the Burbo Bank transmission asset and a partial divestment of the Hornsea 1 transmission asset as part of the 50% farm-down of the Hornsea 1.

Following the implementation of IFRS 15, cost of sales from construction of transmission assets are recognised at the time of divestment.

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 and offshore transmission assets.

## 2.4 Government grants

In Denmark, the Danish transmission system operator, Energinet, administers subsidies for environmentally sustainable power generation, including offshore wind farms. We regard the grant for environmentally sustainable power generation as a government grant as it is paid by the Danish State.

In 2013, the UK introduced a new contracts for difference (CfD) subsidy scheme as a replacement for the Renewable Obligations scheme for renewable energy projects. The Burbo Bank Extension and Walney Extension offshore wind farms were our first offshore wind farms under the CfD regime. In 2017, we received this subsidy for the first time. We treat the payments from the CfD scheme as a government grant.

On 1 January 2018, we changed our accounting policy with respect to subsidies under the Renewable Obligation scheme in the UK, known as green certificates or ROCs, and feed-in tariffs in Germany under the German Renewable Energy Sources Act (EEG2014). Consequently, we treat the payments from ROCs and feed-in tariffs as government grants. Reference is made to note 1.4 'Implementation of new or changed accounting standards and interpretations'.

### Government grants, DKKm

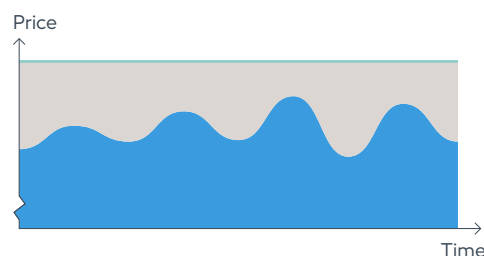
	2018	2017
Government grants recognised in profit (loss) for the year under revenue	8,461	4,527
Government grants recognised in profit (loss) for the year under other operating income	4	4
Government grants recognised in the balance sheet	(4)	(4)
<b>Government grants recognised for the year</b>	<b>8,461</b>	<b>4,527</b>



Following the changed accounting policy with respect to subsidies, ROCs and feed-in tariffs, we have restated comparatives for the 2017 financial year.

### 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 contracts)
- 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 environmentally sustainable 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 purchase 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.

## 2.5 Other operating income and expenses

Other operating income, DKKm	2018	2017
Gain on divestment of assets	15,086	11,142
Other compensation	594	369
US tax credits and tax equity income	85	-
Miscellaneous operating income	510	154
<b>Total other operating income</b>	<b>16,275</b>	<b>11,665</b>

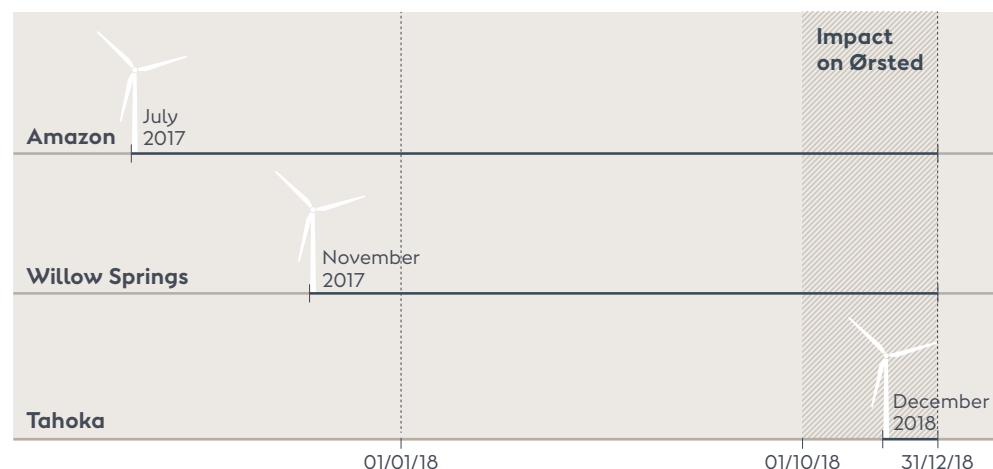


2018 is the first year of recognising US tax credits and tax equity income originating from our acquisitions and entry in the US market.

Other operating expenses, DKKm	2018	2017
Loss on divestment of assets	91	307
Miscellaneous operating expenses	198	242
<b>Total other operating expenses</b>	<b>289</b>	<b>549</b>



US tax credit and tax equity income are earned from the time of commissioning and only in Ørsted's ownership period.



### Other operating income

In 2018, other operating income amounted to DKK 16,275 million, which was 40% higher than in 2017. In 2018, gain on divestment of assets related to the divestment of 50% of the Hornsea 1 offshore wind farm, whereas the 50% farm down of Walney Extension and Borkum Riffgrund 2 and a contingent consideration relating to the divestment of Race Bank in 2016 contributed positively in 2017.

US tax credits and tax equity income originate from our acquisition of Lincoln Clean Energy in October 2018 and correspond to the tax credits and other tax attributes provided to tax equity partners for three months of generated power, as well as our own share.

### 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:

- Agreements on the sale of shares (divestment of assets) (SPA).
- Agreements on the future construction of the offshore wind farm (construction agreements).
- Agreements on the future operation of the offshore wind farm (O&M agreements).

### 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.

### Accounting policies

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/ expenses in the income statement.

The gain for the future construction of the partner's share of the offshore wind farm is recognised over time in the income statement in step with the construction. See notes 2.2 'Revenue' and 4.2 'Contract assets and liabilities'.

The accounting policies for US tax credits and tax equity income is described in note 4.5 'Tax equity liabilities'.

### Key accounting estimates

#### Assumptions for the accounting treatment of divestment gains related to share purchase agreements and construction agreements

Our accounting recognition of the gains in the divestment contracts is based on the individual accounting transaction 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.

## 2.6 Employee costs

Employee costs, DKKm	2018	2017
Wages, salaries and remuneration	3,768	3,650
Share-based payment	24	15
Pensions	317	310
Other social security costs	124	117
Other employee costs	24	61
<b>Employee costs before transfers to assets</b>	<b>4,257</b>	<b>4,153</b>
Transfers to assets	(1,131)	(956)
<b>Total employee costs</b>	<b>3,126</b>	<b>3,197</b>

### Employee costs

Employee costs before transfer to assets were 2.5% higher in 2018 compared with 2017, mainly reflecting salary increases and a higher average number of employees. 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 2018, our average number of employees was 5,796 (2017: 5,738).

### 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<sup>1</sup> also receive a pension. The Group Executive Management was expanded by one member in 2018.

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 63.

Salaries and remuneration for Group Executive Management and the Board of Directors, DKK '000	Executive Board		Other members of Group Executive Management <sup>1</sup>		Board of Directors		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Fixed salary	16,400	14,761	19,611	16,509	5,133	4,934	41,144	36,204
Cash-based incentive scheme	4,630	4,004	5,329	3,917	-	-	9,959	7,921
Retention bonus etc.	1,875	2,812	2,860	6,535	-	-	4,735	9,347
Share-based payment	3,537	2,080	3,142	949	-	-	6,679	3,029
Pension incl. social security and benefits	555	522	5,060	2,923	-	-	5,615	3,445
Termination payment	-	-	-	5,330 <sup>2</sup>	-	-	-	5,330
<b>Total</b>	<b>26,997</b>	<b>24,179</b>	<b>36,002</b>	<b>36,163</b>	<b>5,133</b>	<b>4,934</b>	<b>68,132</b>	<b>65,276</b>



<sup>1</sup> Other members of Group Executive Management in 2018 are: Thomas Dalsgaard, Morten Hultberg Buchgreitz, Martin Neubert, Ole Kjems Sørensen and Anders Lindberg.

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

## 2.7 Share-based payment

### Required 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 percent of the participants' fixed salary which, at the time of granting, must be locked up for the duration of the executive share programme.

Key assumptions in executive share programme for valuation of PSUs	Time of granting 2018	Time of granting 2017	Time of granting 2016
Share price	392	269	275
Average volatility, peers	24.5%	24.9%	25.6%
Volatility, Ørsted	19.7%	20.3%	24.1%
Risk-free interest rate	(0.3)%	(0.3)%	(0.5)%
Expected term at time of granting	3 years	3 years	2.5 years

### Executive share programme

Group Executive Management and a number of other senior executives participate in our share programme. 94 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 above 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. Assuming no share price development since the grant, this would correspond to 0-40% of the fixed salary on the date of grant. 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.

### Retention share programme

In 2018 we introduced share-based retention agreements as a replacement for cash-based settlement by using restricted share units (RSUs) when granting new retention agreements.

The target group for the share-based retention agreements will typically be employees responsible for vital, long-term projects. The use of these share-based retention agreements will be limited to 25 concurrent agreements with an individual time frame of up to five years. Members of the Executive Board (CEO and CFO) cannot be granted such retention agreements.

The number of RSUs to be granted will be determined on the basis of the price of Ørsted's shares at the time of the grant and will be limited to an amount corresponding to a maximum of six months' base pay for the employee in question. At vesting, each RSU will entitle the employee to one Ørsted share free of charge. However, the total value of the shares to be received at vesting will be capped at a maximum of twelve months' base pay for the employee in question.

### 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/RSUs 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/RSUs and the estimate of the number of PSUs/RSUs 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. The participants are compensated for any dividend payments by receiving additional PSUs.

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

Time of granting	Executive Board	Other members of Group Executive Management	Senior executives	Other employees	Total	% of share capital	Market value (at time of granting) DKK million	Years until expiry
1 September 2016	21	17	113	-	151	0.04%	24	0.3
1 April 2017	24	18	131	-	173	0.04%	28	1.3
1 April 2018	19	22	83	-	124	0.03%	29	2.3
Share retention programme	-	-	-	18	18	0.00%	4	-
<b>Maximum number of outstanding shares at 31 December 2018</b>	<b>64</b>	<b>57</b>	<b>327</b>	<b>18</b>	<b>466</b>	<b>0.11%</b>	<b>85</b>	

Development in maximum number of outstanding shares, '000	Executive Board	Other members of Group Executive Management	Senior executives	Other employees	2018	2017	2018 in % of share capital
Maximum number of outstanding shares at 1 January	44	34	249	-	327	158	0.08%
Compensation for dividends paid (2016 and 2017 programme)	1	1	5	-	7	3	0.00%
Granted (2018 programme)	19	22	83	-	124	-	0.03%
Granted (2017 programme)	-	-	-	-	-	179	
Cancelled (2017 programme)	-	-	(4)	-	(4)	(6)	0.00%
Cancelled (2016 programme)	-	-	(6)	-	(6)	(7)	0.00%
Share retention program	-	-	-	18	18	-	0.00%
<b>Maximum number of outstanding shares at 31 December</b>	<b>64</b>	<b>57</b>	<b>327</b>	<b>18</b>	<b>466</b>	<b>327</b>	<b>0.11%</b>
(DKKm)							
Market value of share programme at the time of granting	12	11	58	4	85	52	
Maximum market value of share programme on 31 December	28	25	142	8	203	111	



The maximum market value of the share programme at 31 December 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

Capital employed	106
Intangible assets and property, plant and equipment	107
Provisions and contingent assets and liabilities	110
Acquisition of enterprises	112
Divestment of enterprises	113
Gross and net investments	113
Assets classified as held for sale	114
Discontinued operations	115
Non-controlling interests	117



# 3. Capital employed

Our capital employed primarily relates to production assets, including assets under construction. We monitor investment projects closely, as a large part of our value is created in the development and construction phases.

## Investments and divestments in 2018

Our gross investments amounted to DKK 24.5 billion in 2018, of which Offshore accounted for 62%. In addition to offshore wind farms, our gross investments were related to the acquisitions of the onshore wind company Lincoln Clean Energy and the offshore wind company Deepwater Wind in the US, bioconversion of Asnæs Power Station and the replacement of smart meters at our residential power customers in Radius.

Divestments amounted to DKK 20.0 billion and was primarily related to the 50% farm-down of Hornsea 1, receipt of deferred proceeds from the farm-down of 50% of Walney Extension in 2017 and proceeds from the divestment of our 50% ownership share of Enecogen.

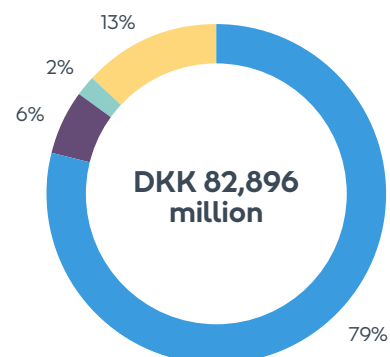
The most significant asset under construction at the end of 2018 was the offshore wind farm Hornsea 1 in the UK.

## Capital employed, DKKm

	2018	2017
Intangible assets and property, plant and equipment	84,832	76,534
Equity investments and non-current receivables	1,445	1,187
Net working capital, work in progress	9,654	7,526
Net working capital, tax equity	(3,719)	-
Net working capital, capital expenditures	(2,978)	(3,039)
Net working capital, other items	1,489	(2,581)
Derivatives, net	(2,626)	496
Assets classified as held for sale, net	10,372	2,012
Decommissioning obligations	(5,472)	(4,751)
Other provisions	(7,982)	(6,769)
Tax, net	(2,629)	(464)
Other receivables and other payables, net	510	169
<b>Total capital employed</b>	<b>82,896</b>	<b>70,320</b>
Of which discontinued operations	(143)	(236)
Of which continuing operations	83,039	70,556

## Capital employed by segment, % 2018

- Offshore
- Bioenergy
- Onshore
- Customer Solutions



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.



79% of the capital employed is tied up in Offshore.

Capital employed by segment is based on capital employed for reportable segments of DKK 83,267 million.

# 82.9bn

Capital employed totalled DKK 82,896 million on 31 December 2018 against DKK 70,320 million in 2017.

# 24.5bn

Gross investments amounted to DKK 24,481 million in 2018 against DKK 17,744 million in 2017.

# 20.0bn

Cash flows from divestments totalled DKK 19,950 million in 2018 against DKK 16,982 million in 2017.

# 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 2018	4,775	2,644	97,086	1,174	13,890	114,794
Exchange rate adjustments	-	-	(395)	(1)	(277)	(673)
Addition on acquisition of enterprises	-	11	7,672	-	7,805	15,488
Additions	422	9	5	16	14,406	14,436
Divestment of enterprises	-	(30)	(2,772)	(12)	(125)	(2,939)
Disposals	(171)	-	(1,242)	(2)	(4,809)	(6,053)
Adjustment of decommissioning obligations	-	-	101	-	512	613
Reclassified assets	53	76	14,358	11	(14,498)	(53)
Reclassified to assets classified as held for sale	(915)	(628)	(15,990)	(1)	(299)	(16,918)
<b>Cost at 31 December 2018</b>	<b>4,164</b>	<b>2,082</b>	<b>98,823</b>	<b>1,185</b>	<b>16,605</b>	<b>118,695</b>
Depreciation and amortisation at 1 January 2018	(3,299)	(1,079)	(32,114)	(761)	-	(33,954)
Exchange rate adjustments	-	-	103	1	-	104
Depreciation and amortisation	(158)	(76)	(5,653)	(91)	-	(5,820)
Divestment of enterprises	-	5	391	7	-	403
Disposals	-	-	1,125	1	-	1,126
Reclassified to assets classified as held for sale	712	76	4,727	-	-	4,803
<b>Depreciation and amortisation at 31 December 2018</b>	<b>(2,745)</b>	<b>(1,074)</b>	<b>(31,421)</b>	<b>(843)</b>	<b>-</b>	<b>(33,338)</b>
Impairment losses at 1 January 2018	(787)	(64)	(4,369)	-	(562)	(4,995)
Exchange rate adjustments	-	-	5	-	8	13
Impairment losses and reversals	-	-	603	-	-	603
Divestment of enterprises	-	25	2,379	-	-	2,404
Disposals	-	-	-	-	383	383
Reclassified to assets classified as held for sale	145	-	290	-	-	290
<b>Impairment losses at 31 December 2018</b>	<b>(642)</b>	<b>(39)</b>	<b>(1,092)</b>	<b>-</b>	<b>(171)</b>	<b>(1,302)</b>
<b>Carrying amount at 31 December 2018</b>	<b>777</b>	<b>969</b>	<b>66,310</b>	<b>342</b>	<b>16,434</b>	<b>84,055</b>

## Intangible assets

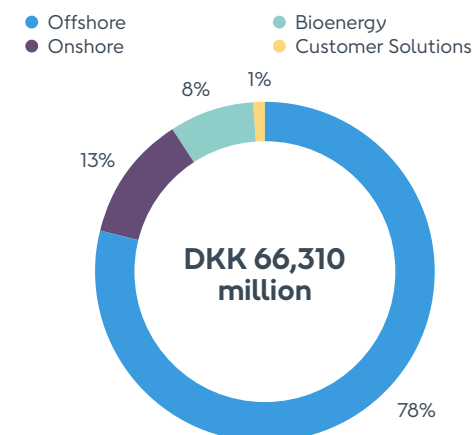
Intangible assets comprise goodwill of DKK 125 million (2017: DKK 125 million), carbon emissions allowances of DKK 330 million (2017: DKK 180 million), other rights of DKK 46 million (2017 DKK 33 million),

completed projects of DKK 142 million (2017: DKK 321 million) and development projects in progress of DKK 134 million (2017: DKK 30 million).

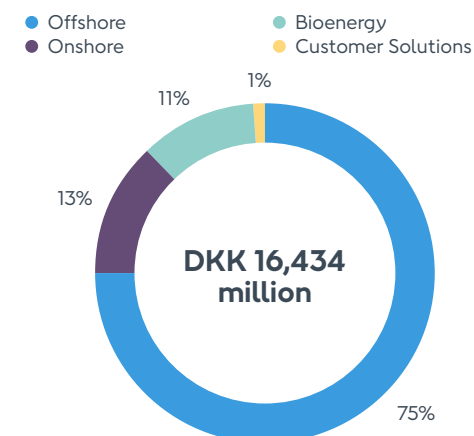
⬆  
Addition on acquisition of enterprises comprises property, plant and equipment related to the acquired enterprises Lincoln Clean Energy and Deepwater Wind.

➡  
Intangible assets and property, plant and equipment related to our Danish power distribution, residential customer and city light businesses are reclassified to assets held for sale.

## Production assets by segment, % 2018



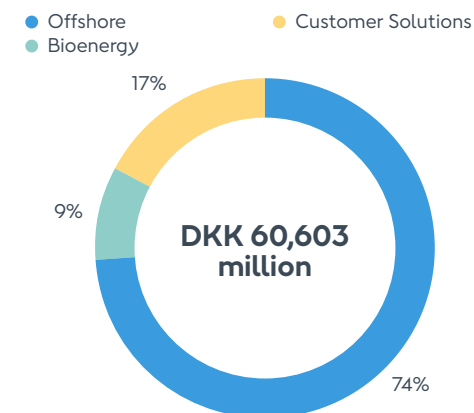
## Property, plant and equipment under construction by segment, % 2018



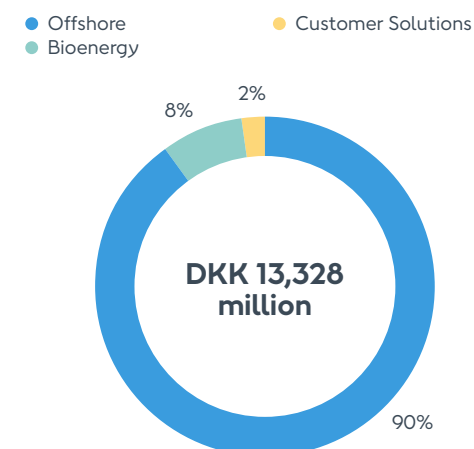
Intangible assets and property, plant and equipment DKKm	Intangible assets	Land and buildings	Production assets	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Property, plant and equipment
Cost at 1 January 2017	4,996	2,625	86,962	1,154	14,531	105,272
Exchange rate adjustments	99	(5)	(1,172)	(43)	(393)	(1,613)
Additions	133	-	2,172 <sup>1</sup>	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)	-
<b>Cost at 31 December 2017</b>	<b>4,775</b>	<b>2,644</b>	<b>97,086</b>	<b>1,174</b>	<b>13,890</b>	<b>114,794</b>
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) <sup>1</sup>	-	-	(385)
Depreciation and amortisation	(286)	(80)	(5,298)	(75)	-	(5,453)
Divestment of enterprises	9	-	467	-	-	467
Disposals	-	51	1,618	11	-	1,680
<b>Depreciation and amortisation at 31 December 2017</b>	<b>(3,299)</b>	<b>(1,079)</b>	<b>(32,114)</b>	<b>(761)</b>	<b>-</b>	<b>(33,954)</b>
Impairment losses at 1 January 2017	(1,042)	(64)	(4,382)	-	-	(4,446)
Exchange rate adjustments	23	-	(15)	-	(17)	(32)
Impairment losses and reversals	-	-	-	-	(545)	(545)
Divestment of enterprises	232	-	28	-	-	28
<b>Impairment losses at 31 December 2017</b>	<b>(787)</b>	<b>(64)</b>	<b>(4,369)</b>	<b>-</b>	<b>(562)</b>	<b>(4,995)</b>
<b>Carrying amount at 31 December 2017</b>	<b>689</b>	<b>1,501</b>	<b>60,603</b>	<b>413</b>	<b>13,328</b>	<b>75,845</b>

<sup>1</sup> 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 costs and DKK -385 million under depreciation and amortisation.

Production assets by segment, % 2017



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





### CGUs in Offshore

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  
 – Borssele 1&2 – Burbo Bank Extension –  
 Gode Wind 1 – Gode Wind 2 – Gunfleet Sands  
 – Hornsea 1 – London Array – Race Bank –  
 Westernmost Rough – Walney – Walney Extension  
 – West of Duddon Sands



### CGUs in Onshore

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

– Amazon – Lockett – Tahoka – Willow Springs



### CGUs in Bioenergy

The Danish power stations constitute a single CGU as overall production planning is for the entire Danish portfolio of CHP plants. The not yet commissioned waste-to-energy plant Rescendence in Northwich in the UK is deemed to constitute an independent CGU.

– Central CHP plants (including goodwill)  
 – Rescendence Northwich



### CGUs in 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 – City light

## Impairment losses

### Impairment losses relating to goodwill

We have not impaired goodwill or other intangible assets in 2018.

### Impairment losses relating to property, plant and equipment

We have not impaired any property, plant and equipment in 2018.

In connection with reclassification of our power distribution business to assets classified as held for sale, we have reversed an impairment loss from previous years of DKK 603 million as we expect to recover a higher amount than the carrying amounts of the assets after reversal of the impairment loss in previous years.

Certain development projects, which were impaired in previous years, were disposed of in 2018.

In 2017, impairment losses of DKK 545 million were recognised on projects in progress in Offshore.

### Useful lives

Buildings	20-50 years
Offshore wind farms	20-24 years
Onshore wind farms	24-30 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 the obligations 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, 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

Decommissioning obligations mainly comprise estimated expenses relating to decommissioning and disposal of our offshore and onshore wind farms, restoration of seabeds and the decommissioning 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 721 million from 2017 to 2018, primarily due to the construction of new offshore wind farms and the acquisition of Lincoln Clean Energy. The increase in other provisions compared to 2017 primarily relates to Hornsea 1.





Onerous contracts comprise:

- a contract for booked liquified natural gas (LNG) terminal capacity in the Netherlands amounting to DKK 1,235 million (2017: DKK 1,329 million)
- a contract for the lease of gas storage capacity in Germany amounting to DKK 949 million (2017: DKK 1,075 million)
- a contract for the lease of gas storage capacity in Denmark amounting to DKK 229 million (2017: DKK 290 million).

Provisions, DKKm	2018				2017			
	Decommissioning obligations	Onerous contracts	Other provisions	Total	Decommissioning obligations	Onerous contracts	Other provisions	Total
Provisions at 1 January	4,751	2,711	4,058	11,520	3,649	2,596	2,794	9,039
Exchange rate adjustments	(26)	-	(1)	(27)	(58)	-	(8)	(66)
Used during the year	(117)	(373)	(636)	(1,126)	(134)	(436)	(235)	(805)
Provisions reversed during the year	(1)	(8)	(484)	(493)	-	(22)	(28)	(50)
Provisions made during the year	547	-	2,459	3,006	320	464	1,584	2,368
Change in estimates of other factors	86	-	-	86	219	-	-	219
Transferred to assets classified as held for sale	(12)	-	-	(12)	(11)	-	-	(11)
Interest element of provisions	192	88	-	280	766	109	-	875
Additions on acquisition of enterprises	259	-	168	427	-	-	-	-
Disposal on divestment of enterprises	(12)	-	-	(12)	-	-	(49)	(49)
Disposal on sale of assets	(195)	-	-	(195)	-	-	-	-
<b>Total provisions</b>	<b>5,472</b>	<b>2,418</b>	<b>5,564</b>	<b>13,454</b>	<b>4,751</b>	<b>2,711</b>	<b>4,058</b>	<b>11,520</b>
<b>Falling due as follows:</b>								
0-1 year	-	271	409	680	23	335	322	680
1-5 years	193	967	4,508	5,668	43	1,025	3,080	4,148
After 5 years	5,279	1,180	647	7,106	4,685	1,351	656	6,692

Other provisions comprise primarily:

- warranty obligations for offshore wind farms
- possible repayments to power consumers in respect of previous years
- obligations in connection with divestments, primarily in relation to the divestment of our Oil & Gas business and wind farms
- obligations in respect of our own carbon emissions
- other contractual obligations.

Decommissioning obligations by segment, DKKm	   				Total
	Offshore	Onshore	Bioenergy	Customer Solutions	
0-5 years	159	-	34	-	193
5-10 years	630	-	92	-	722
10-20 years	1,938	-	443	-	2,381
After 20 years	1,283	217	141	535	2,176
<b>2018</b>	<b>4,010</b>	<b>217</b>	<b>710</b>	<b>535</b>	<b>5,472</b>
<b>2017</b>	<b>3,545</b>	<b>-</b>	<b>733</b>	<b>473</b>	<b>4,751</b>

## Contingent liabilities

This note primarily concerns our continuing operations – see also note 3.7 '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 the former Elsam A/S and Elsam Kraft A/S ('Elsam'), now part of Ørsted, charged excessive prices in the Danish wholesale power market in some periods.

In 2006 and 2008, respectively, the Danish Competition Appeals Tribunal concluded that Elsam abused its 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 disputed the rulings and appealed both rulings to the Copenhagen Maritime and Commercial Court, where the parties agreed to stay the case concerning the period 1 July 2003 to 31 December 2004 on the outcome of the case concerning the period 1 January 2005 to 30 June 2006. In the latter case, the Copenhagen Maritime and Commercial Court found Elsam guilty of violating the Danish Competition Act in 2016. Following an appeal,

this judgement was, however, overturned by the High Court of Western Denmark in 2018, and after an unsuccessful attempt from the Danish competition authorities to get permission to appeal the judgement, it also became final in 2018.

In connection with the above-mentioned cases, some energy companies, some of their customers and others have raised claims for damages. In 2007, one group chose to commence legal proceedings before the Copenhagen Maritime and Commercial Court with a claim for damages of approx. 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 'Interest-bearing debt'.

## 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 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.

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 2018, a discount rate of 3.5% is applied. 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 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 developments or developments 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 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 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
- our decision on how we are going to react to the litigation, claim or statement.

## 3.3 Acquisition of enterprises

Cash flows used for acquisitions in 2018, DKKm	Lincoln Clean Energy	Deepwater Wind	Total
<b>Fair value at time of acquisition:</b>			
Property, plant and equipment	9,707	5,781	15,488
Other assets	28	158	186
Cash	77	363	440
Interest-bearing debt	(2,337)	(1,702)	(4,039)
Tax equity liabilities	(2,126)	(90)	(2,216)
Provisions	(384)	(43)	(427)
Derivatives	(1,185)	57	(1,128)
Deferred tax, net	(486)	(1,239)	(1,725)
Other liabilities	(198)	(57)	(255)
<b>Net assets acquired</b>	<b>3,096</b>	<b>3,228</b>	<b>6,324</b>
Goodwill	-	-	-
<b>Purchase price</b>	<b>3,096</b>	<b>3,228</b>	<b>6,324</b>
Cash, available acquired	(28)	(37)	(65)
Contingent consideration	-	(657)	(657)
<b>Cash flow used for acquisition of enterprises</b>	<b>3,068</b>	<b>2,534</b>	<b>5,602</b>
Purchase price	3,096	3,228	6,324
Adjustments for cash	(77)	(363)	(440)
Adjustments for interest-bearing tax equity liability	280	90	370
Adjustments for interest-bearing debt	2,337	1,702	4,039
<b>Enterprise value</b>	<b>5,636</b>	<b>4,657</b>	<b>10,293</b>

In 2018, we have completed acquisitions of enterprises as detailed above. We made no acquisitions in 2017.

On 1 October 2018, we acquired all of the membership interests in Lincoln Clean Energy LLC, effectively gaining control of the company. The acquisition represents the first step into our new business area, Onshore.

On 8 November 2018, we acquired all of the membership interests in Deepwater Wind LLC, effectively gaining control of the company,

which will be incorporated in our offshore business unit.

Part of the purchase price of Deepwater Wind is a contingent consideration of DKK 657 million that we will pay upon the relevant regulator's approval of two specific power purchase agreements. The maximum payable consideration is DKK 657 million.

Since the date of the acquisition, Lincoln Clean Energy has contributed with a revenue according to business performance

principles of DKK 80 million and loss before tax of DKK 14 million. This revenue and profit corresponds to three months of operations for Lincoln Clean Energy and is scalable for what an estimated full-year effect would have been if the acquisition had been made on 1 January 2018. Since the date of the acquisition, Deepwater Wind has contributed with a revenue of DKK 38 million and a loss before tax of DKK 120 million. If the acquisition had been made on 1 January 2018, the full year revenue would have been DKK 187 million, and loss before tax would have been DKK 250 million. The loss was due to project development costs.

As part of the acquisition processes, we have incurred costs amounting to DKK 63 million which have been expensed in our income statement.

The fair values of the assets and liabilities acquired are not considered final until 12 months after acquisition.

### Accounting policies

Acquisition of enterprises are recognised using the acquisition method whereby assets and liabilities as well as contingent liabilities of the acquired enterprise are measured at fair value on the date of acquisition.

The fair value of production assets and assets under construction are normally determined using an income approach where they are valued at present value based on the expected cash flows they can generate, including any non-separable power purchase agreements, as well as income, such as production tax credits.

The fair value of derivatives is determined using our normal approach for such items, based on market prices or expectations for prices over the term of the derivatives, as described in note 7.7 'Fair value measurement'.

The fair values of other assets and liabilities are valued using the approach we find most relevant for the individual item, which can be either a market approach, an income approach or a cost approach.

An acquired enterprise is included in the consolidated financial statements from the date of acquisition, which is the date when we obtain control of the acquired enterprise.

When an acquired enterprise has entered into a power purchase agreement classified as a derivative, the fair value of the agreement will be included in the opening balance. Post-acquisition, this fair value is recognised as an adjustment to revenue over the duration of the contract, based on the fair value calculation at the time of the acquisition.

### Key accounting estimates

#### Purchase price allocations in business combinations

When we apply the acquisition method for business combinations, by nature this involves judgement in assessing the fair value of identifiable assets and liabilities.

#### Property, plant and equipment

Our assessment of fair value is based on a number of estimates regarding WACC and expected cash flows, which both have a large impact on the fair value.

#### Derivatives

Our assessment of fair value is dependent on expected future prices. See note 7.7 'Fair value measurement' for our valuation principles.

#### Deferred tax

Our expectation to the timing of repayment of tax equity liabilities, and thereby the expected 'flip' of the tax equity structure, impacts the fair value of deferred tax on the assets and liabilities that are part of wind farms with tax equity partners. The expected tax rate also significantly impacts deferred tax.

## 3.4 Divestment of enterprises

Selling price, DKKm	2018	2017
Payment	497	605
Working capital adjustment	(68)	(1)
<b>Selling price on divestment of enterprises</b>	<b>429</b>	<b>604</b>
Transaction costs	(66)	(20)
Of which selling price receivable	-	4
<b>Cash selling price on divestment of enterprises</b>	<b>363</b>	<b>588</b>

Gain (loss) on divestment of enterprises DKKm	2018	2017
Selling price on divestment of enterprises	429	604
Net assets sold	(240)	(725)
Provisions as a result of the transaction	4	2
Transaction costs	(66)	(20)
<b>Gain (loss) on divestment of enterprises</b>	<b>127</b>	<b>(139)</b>

Gain on divestment of enterprises amounted to DKK 127 million compared to DKK -139 million in 2017. In 2018, gain on divestment of enterprises related to the sale of our 50% ownership interest in Enecogen (Bioenergy). Transferred cash and cash equivalents totalled DKK 6 million. In 2017, gain on divestment of enterprises related to the sale of A2SEA. Transferred cash and cash equivalents totalled DKK 278 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, we deduct the fees of advisers, etc., in connection with the divestment, or discontinuation of the enterprise.



The divestment of our Oil & Gas business in 2017 is not included in the figures as it is presented as discontinued activities. See note 3.7 'Discontinued operations'.

## 3.5 Gross and net investments

Gross and net investments, DKKm	2018	2017
Cash flows from investing activities	(1,026)	(10,054)
Dividends received and capital reduction, reversed	(25)	(13)
Purchase and sale of securities, reversed	595	9,197
Loans to associates and joint ventures, reversed	12	47
Sale of non-current assets, reversed	(20,002)	(16,921)
Interest-bearing debt in acquired enterprises	(4,409)	-
Restricted cash in acquired enterprises	374	-
<b>Total gross investments</b>	<b>(24,481)</b>	<b>(17,744)</b>
Transactions with non-controlling interests in connection with divestments	(52)	61
Sale of non-current assets	20,002	16,921
<b>Total cash flows from divestments</b>	<b>19,950</b>	<b>16,982</b>
<b>Total net investments</b>	<b>(4,531)</b>	<b>(762)</b>

Gross investments amounted to DKK 24,481 million in 2018, which was 38% higher than in 2017.

Gross investments in Offshore amounted to DKK 15,081 million and was related to the construction of Hornsea 1 and Walney Extension in the UK, Borkum Riffgrund 2 in Germany, Borssele 1 & 2 in the Netherlands, early investments in the US to qualify for future tax credits as well as the acquisition of Deepwater Wind in the US. In 2017, gross investments primarily related to the construction of Walney Extension, Borkum Riffgrund 2 and Race Bank.

In Onshore, gross investments amounted to DKK 6,779 million and related to the acquisition of Lincoln Clean Energy and construction of the Tahoka and Lockett onshore wind farms in the US.

Divestments amounted to DKK 19,950 million in 2018 and related to the 50% farm-down of Hornsea 1, receipt of deferred proceeds from the farm-down of 50% of Walney Extension in 2017 and proceeds related to the divestment of our 50% ownership share in Enecogen.

In 2017, divestments amounted to DKK 16,982 million and were primarily related to the 50% farm-downs of the offshore wind farms Walney Extension and Borkum Riffgrund 2.

## 3.6 Assets classified as held for sale

At 31 December 2018, assets classified as held for sale comprised our Danish power distribution, residential customer and city light businesses as well as our oil pipe system in Denmark.

We are currently investigating the different options for exiting our Danish power distribution, residential customer and city light businesses. The oil pipe system is to be sold to the Danish transmission system operator, Energinet.

At 31 December 2017, assets classified as held for sale only comprised our oil pipe system in Denmark.

### Accounting policies

Assets classified as held for sale comprise assets and liabilities, the values of which are 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 intangible assets and property, plant and equipment from the time of classification as 'held for sale'.

Assets classified as held for sale, DKKm	2018	2017
Intangible assets	80	20
Property, plant and equipment	13,951	2,119
Inventories	16	16
Trade receivables	701	73
Other receivables	430	368
Income tax	45	46
<b>Total assets classified as held for sale</b>	<b>15,223</b>	<b>2,642</b>
Deferred tax	823	99
Provisions	372	359
Contract liabilities	2,737	-
Trade payables	92	80
Other payables	826	92
Income tax	1	-
<b>Total liabilities relating to assets classified as held for sale</b>	<b>4,851</b>	<b>630</b>
<b>Net assets classified as held for sale</b>	<b>10,372</b>	<b>2,012</b>



The table shows assets and liabilities which have been put up for sale, and which are therefore not expected to contribute to our future earnings.



## 3.7 Discontinued operations

Discontinued operations comprise our Oil & Gas business, which was sold to INEOS on 29 September 2017.

### Financial results

Profit (loss) in 2018 amounted to DKK 10 million (2017: DKK 6,920 million, including gain (loss) on disposal of discontinued operations).

Total cash flows in 2018 amounted to DKK 209 million (2017: DKK 9,025 million), of which DKK -53 million was from operating activities and mainly concerned the payment of fees for existing Oil & Gas insurance activities. The insurance fee was provided for at the time of the divestment in 2017. Cash flows from investing activities amounted to DKK 262 million and concerned primarily the receipt of a selling price receivable of USD 50 million. The receivable was interest-bearing and therefore had no impact on our interest-bearing net debt.

### Capital employed

Our capital employed in discontinued operations at 31 December 2018 mainly consisted of provisions relating to the sale (tax indemnifications and payments related to the Fredericia stabilisation plant) as well as a conditional payment (receivable selling price) which does not carry interest.

In addition, we have interest-bearing receivables of USD 100 million (not part of capital employed), which we expect to receive in the period 2019-2020.

### Divestment of Oil & Gas in 2017

The 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 was interest-bearing.

### 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.

Employee costs, DKKm	2018	2017
Wages, salaries and remuneration	-	365
Pensions	-	27
Other social security costs	-	11
Other employee costs	-	5
<b>Employee costs before transfers to assets</b>	<b>-</b>	<b>408</b>
Transfers to assets	-	(126)
<b>Total employee costs</b>	<b>-</b>	<b>282</b>

Cash flows, DKKm	2018	2017
Cash flows from operating activities	(53)	5,545
Proceeds from the divestment of Oil & Gas	-	3,677
Cash flows from other investing activities	262	(197)
Cash flows from financing activities	-	-
<b>Total cash flows</b>	<b>209</b>	<b>9,025</b>

Capital employed, DKKm	2018	2017
Equity investments and non-current receivables	746	691
Derivatives, net	(106)	-
Other provisions	(820)	(935)
Tax, net	29	(3)
Other receivables and other payables, net	8	11
<b>Total net assets</b>	<b>(143)</b>	<b>(236)</b>



The remaining net assets under discontinued operations consist of the selling price receivable and provisions as a result of the divestment of Oil & Gas.

	2018			2017		
	Business performance	Adjustments	IFRS	Business performance	Adjustments	IFRS
<b>Profit from discontinued operations, DKKm</b>						
External revenue	-	-	-	4,178	(1,047)	3,131
Intra-group revenue	-	-	-	3,821	-	3,821
<b>Revenue</b>	-	-	-	<b>7,999</b>	<b>(1,047)</b>	<b>6,952</b>
Cost of sales	-	-	-	(957)	-	(957)
Employee costs and other external expenses	-	-	-	(920)	-	(920)
Other operating income and expenses	-	-	-	252	-	252
Gain (loss) on disposal of non-current assets	-	-	-	62	-	62
<b>Operating profit (loss) before depreciation, amortisation and impairment losses (EBITDA)</b>	-	-	-	<b>6,436</b>	<b>(1,047)</b>	<b>5,389</b>
Impairment losses and reversals	-	-	-	713	-	713
<b>Operating profit (loss) (EBIT)</b>	-	-	-	<b>7,149</b>	<b>(1,047)</b>	<b>6,102</b>
Gain on divestment of enterprises	(44)	-	(44)	2,432	-	2,432
Financial income and expenses, net	(53)	-	(53)	(393)	-	(393)
<b>Profit (loss) before tax</b>	<b>(97)</b>	-	<b>(97)</b>	<b>9,188</b>	<b>(1,047)</b>	<b>8,141</b>
Tax on profit (loss) for the year	107	-	107	(2,268)	231	(2,037)
<b>Profit from discontinued operations</b>	<b>10</b>	-	<b>10</b>	<b>6,920</b>	<b>(816)</b>	<b>6,104</b>



The profit from discontinued operations relates to our divested Oil & Gas business.

	2018			2017		
	Profit (loss) before tax	Tax	Tax rate	Profit (loss) before tax	Tax	Tax rate
<b>Tax for the period, discontinued operations, DKKm</b>						
Adjustment related to prior years	-	79	-	-	-	-
Oil and gas activities in Norway (hydrocarbon income)	-	-	-	2,308	(1,765)	76%
Oil and gas exploration activities in the UK and the Faroe Islands	-	-	-	530	6	(1)%
Gains (losses) from divestments as well as other non-taxable income and non-deductible costs	(44)	16	36%	2,432	210	(9)%
Impairment losses and reversals	-	-	-	713	-	n.a.
Other activities in Oil & Gas	(53)	12	22%	3,205	(719)	22%
<b>Total, business performance</b>	<b>(97)</b>	<b>107</b>	<b>110%</b>	<b>9,188</b>	<b>(2,268)</b>	<b>25%</b>
<b>Total, IFRS</b>	<b>(97)</b>	<b>107</b>	<b>110%</b>	<b>8,141</b>	<b>(2,037)</b>	<b>33%</b>



Effective tax rate deviates from the statutory rate as a result of adjustments related to prior years of DKK 79 million and non-taxable income of DKK 33 million (tax value DKK 7 million).

## 3.8 Non-controlling interests

### Transactions with non-controlling interests, DKKm

	2018	2017
<b>Transactions with non-controlling interests</b>		
Dividends paid to non-controlling interests	(400)	(376)
Divestment of equity investments to non-controlling interests	13	(108)
Other capital transactions with non-controlling interests	(4)	53
<b>Total transactions, see statement of cash flows</b>	<b>(391)</b>	<b>(431)</b>
<b>Divestment of equity investments to non-controlling interests</b>		
Selling price	-	8
Of which changes in receivables relating to the acquisition and divestment of non-controlling interests	13	(116)
<b>Cash selling price, total</b>	<b>13</b>	<b>(108)</b>

	Gunfleet Sands Holding Ltd. group		Walney (UK) Offshore Windfarms Ltd.	
DKKm	2018	2017	2018	2017
<b>Statement of comprehensive income</b>				
Revenue	431	419	1,079	1,087
EBITDA	237	263	554	545
Profit (loss) for the year	26	48	66	46
Total comprehensive income	5	(21)	12	(90)
Profit (loss) for the year attributable to non-controlling interests	13	24	33	23
<b>Balance sheet</b>				
Non-current assets	2,153	2,371	5,656	6,159
Current assets	139	164	213	225
Non-current liabilities	311	318	795	776
Current liabilities	88	50	223	217
Carrying amount of non-controlling interests	944	1,081	2,433	2,697
<b>Statement of cash flows</b>				
Cash flows from operating activities	264	246	563	562
Cash flows from investing activities	0	0	(16)	(1)
Cash flows from financing activities	(283)	(227)	(566)	(577)
– of which dividends paid to non-controlling interests	(144)	(113)	(256)	(263)

### 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



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.

### 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.

# 4. Working capital

Working capital	119
Inventories	120
Contract assets and liabilities	121
Trade receivables	122
Other receivables	122
Tax equity liabilities	123
Other payables	124
Changes in net working capital	124



## 4. Working capital

Our key working capital items consist of inventories, net contract assets, trade receivables and payables, tax equity liabilities and other payables, including prepayments from heat customers. Connection charges in our power distribution business has been classified as assets held for sale at 31 December 2018.

Working capital items vary with the seasonal variations in our generation and sales activities during the year. Our net contract assets relate primarily to construction of offshore wind farms for partners and vary within and across years, depending on the portfolio of offshore construction assets. They also depend on when we reach certain milestones and trigger payments from our partners.

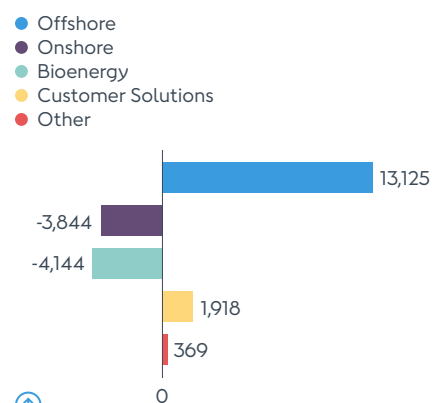
Contract assets, net also include prepayment from heat customers in connection with our bioconversions and therefore vary depending on the progress of these projects. Construction of offshore transmission assets in the UK, which are recognised as inventories, will continue to tie up cash until they are divested. Tax equity liabilities also vary within and across years. This is due to the fact that we receive cash contributions from tax equity partners at the point in time when a US onshore wind farm enters into operation.

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, DKKm

	2018	2017
Inventories	13,943	3,853
Contract assets, net	(3,115)	9,500
Trade receivables	10,741	9,170
Other receivables	2,968	2,082
Trade payables, excluding trade payables relating to capital expenditure	(10,099)	(8,460)
Tax equity liabilities	(3,719)	-
Other payables	(3,295)	(11,200)
<b>Net working capital, excluding trade payables relating to capital expenditure at 31 December</b>	<b>7,424</b>	<b>4,945</b>
Of which work in progress and related trade payables	9,654	7,526
Of which tax equity partner liabilities and other working capital	(2,230)	(2,581)

### Working capital, DKKm 2018



Offshore primarily has funds tied up in inventories, construction agreements and trade receivables. The most significant working capital item in Onshore consists of liabilities regarding tax equity contributions from our partners. Bioenergy has a negative working capital, mainly as a result of prepayments from heat customers. Customer Solutions has funds tied up mainly in inventories, receivables and clearing counterparties in connection with exchange trading.



The composition of our net working capital has changed relative to last year. In 2017, we recognised offshore transmission assets as construction agreements. Following the implementation of IFRS 15, we recognise offshore transmission assets as inventory. Furthermore, the introduction of tax equity elements in our Onshore business has impacted our working capital. Work in progress consists of inventories related to transmission assets, construction agreements and construction management agreements in connection with the construction of transmission assets and offshore wind farms for partners as well as related trade payables.

# 7.4bn

Our net working capital, excluding trade payables relating to capital expenditure amounted to DKK 7,424 million in 2018 against DKK 4,945 million in 2017.

# 2.5bn

We had an additional amount of DKK 2,479 million tied up in working capital relative to 2017, of which DKK 2,128 million pertained to work in progress and related trade payables in Offshore.

# 4.1 Inventories

Inventories, DKKm	2018	2017
Offshore transmission assets	9,885	-
Biomass	253	258
Gas	1,620	1,526
Coal	261	396
Oil	119	124
Green certificates	1,555	1,441
Carbon emissions allowances	172	52
Other inventories	78	56
<b>Total inventories</b>	<b>13,943</b>	<b>3,853</b>
Inventories recognised as an expense in 'Cost of sales' during the year	25,262	13,180



Following the implementation of IFRS 15, we recognise offshore transmission assets as inventory. In 2017, we recognised offshore transmission assets as construction contracts.

We use biomass, coal, gas and, to a limited extent, oil as fuel at our CHP plants. In 2019, the use of gas will

be very limited as a result of the biomass conversion of the Skærbæk Power Station in Denmark and the divestment of the Enecogen Power Station in the Netherlands. Green certificates are primarily renewable obligation certificates (ROCs) which are issued to power generators sourcing from renewable energy sources in the UK.

## Accounting policies

Offshore transmission assets are measured at cost. The cost comprises costs of materials used in construction, site labour costs, costs of renting equipment as well as indirect production costs, such as employee costs.

The cost of gas is determined as a weighted average of the previous month's purchase 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 first in, first out (FIFO) principle.

Other inventories are measured at cost determined on a first in, first out basis or a net realisable value, where this is lower.

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 Contract assets and liabilities

### Contract balances, DKKm

	2018	1 January 2018
<b>Contract assets</b>		
Current contract assets	1,451	1,693
<b>Total contract assets</b>	<b>1,451</b>	<b>1,693</b>
<b>Contract liabilities</b>		
Non-current contract liabilities	3,642	5,327
Current contract liabilities	924	1,455
<b>Total contract liabilities</b>	<b>4,566</b>	<b>6,782</b>



As we have implemented IFRS 15 in accordance with the modified retrospective method, we have not restated comparative figures. Read more about the adoption of IFRS 15 and the effect on the changed presentation in note 1.4 'Implementation of new or changed accounting standards and interpretations'.

### Revenue from contracts with customers DKKm

	2018
Revenue recognised included in contract liabilities at the beginning of the year	228
Revenue recognised from performance obligations satisfied in previous years	95



The tabel shows how much of our revenue recognised in 2018 that relates to contract liabilities carried forward (as prepayments and deferred revenue), and how much that relates to performance obligations satisfied in a prior year (e.g. renegotiations or constraints on variable considerations that are not recognised until they are highly probable).

Contract asset and contract liabilities are primarily related to:

- the construction of offshore wind farms with partners, with each party usually owning 50% of the offshore wind farm
- prepayments from heat customers.

At the end of 2018, contracts assets and liabilities included our construction of our partners' share of the Hornsea 1, Walney Extension and Borkum Riffgrund 2 offshore wind farms.

Non-current contract liabilities amounted to DKK 3,642 million compared to DKK 5,327 million as of 1 January 2018. The decrease was primarily related to a reclassification of grid connection charges and prepayments in our Danish power distribution, residential customer and city light businesses to assets held for sale at the end of 2018. Reference is made to note 3.6 'Assets classified as held for sale'.

### Accounting policies

We recognise a contract asset when we perform a service or transfer goods in advance of receiving consideration, and the consideration is conditional.

When the consideration is unconditional, and the goods or services are delivered, we recognise a receivable. A right to consideration is unconditional if only the passage of time is required before the payment is due.

Contract assets are measured at the transaction price of the good or services which we have performed less invoicing on account.

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

## 4.3 Trade receivables

Trade receivables, DKKm	2018	2017
Trade receivables, not due	10,186	8,644
Trade receivables, 1-30 days overdue	293	303
Trade receivables, more than 30 days overdue	326	305
Trade receivables, write-down	(64)	(82)
<b>Total trade receivables</b>	<b>10,741</b>	<b>9,170</b>

Trade receivables primarily relates to customers in Customer Solutions. The general terms of payment vary according to customer type and product.

We continuously perform credit ratings of our customers, as described in note 7.5 'Credit risks'. For customers with a general credit risk, a write-down of 0-1% is carried out on initial recognition. In 2018, write-downs of receivables amounted to DKK 35 million (2017: DKK 6 million). Losses for the year totalled DKK 36 million (2017: DKK 25 million).

### Accounting policies

We keep our receivables until maturity, and they are therefore measured at amortised cost.

Write-down is carried out from initial recognition of our receivables. The write-down is calculated as the difference between the carrying amount of the receivable and the net present value of expected future cash flows from the receivable. The discount rate used is the effective interest rate for the individual receivable or the individual portfolio.

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

## 4.4 Other receivables

Other receivables, DKKm	2018	2017
Receivables from the divestment of assets and investments	3,218	2,680
Receivables from the divestment of equity investments to non-controlling interests	634	648
VAT and other indirect taxes receivable	427	572
Collateral provided	710	775
Prepayments	330	304
Other account receivables	1,741	495
<b>Other receivables</b>	<b>7,060</b>	<b>5,474</b>
Of which working capital	2,968	2,082
Of which other capital employed	2,628	1,770
Of which interest-bearing net debt	1,464	1,622



The table shows our other receivables broken down into working capital, interest-bearing net debt and other capital employed.

In 2018, receivables from the divestment of assets and investments primarily relate to receivables in connection with the divestment of 50% of our ownership interests in the Hornsea 1 wind farm and receivables related to the divestment of our Oil & Gas business. In 2017, receivables from divestment of assets and investments related to the divestment of our Oil & Gas business as well as the divestment of 50% of our ownership interests in the Walney Extension wind farm.

Receivables from the divestment of equity investments to non-controlling interests primarily relate to the divestment in 2011 of our ownership interests in Gunfleet Sands.

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 4,390 million (2017: DKK 3,519 million).

Other accounts receivables consist primarily of receivables from adjustments in connection with prior year divestments, including the Oil & Gas business, where it is assessed that there is no material credit risk.

## 4.5 Tax equity liabilities

### Tax equity liabilities, DKKm

	2018	2017
Balance at 1 January	-	-
Contribution received from tax equity partner	1,995	-
Tax equity balances from business acquisitions	2,216	-
Tax attributes and PTCs recognised in other operating income	(79)	-
Cash paid to tax equity partner	(3)	-
Tax equity partners' contractual return	44	-
<b>Balance at 31 December</b>	<b>4,173</b>	<b>-</b>
Of which working capital	3,719	-
Of which interest-bearing debt	454	-



2018 is the first year of recognising US tax liabilities originating from our acquisitions and entry into the US market.

We have entered into several tax equity partner agreements in the US. These agreements are characterised by a tax equity partner who contributes an upfront payment of a part of the initial project investment. The partner does not have an operational role in the project. The partner receives a contractually agreed return on the contribution. The initial contribution and the return is 'repaid' by receiving almost all of the production tax credits (PTCs) the project generates as well as the majority of other tax attributes (accelerated tax depreciation and other taxable results) from the project in the first part of the project's lifetime as well as some cash payments. Once the contribution has been repaid, the agreement 'flips', and the partner is typically

entitled to a minor part of the cash distributions from the project unless we purchase this right from them, which is highly likely.

We have three onshore wind farms with tax equity partners. The first two are Amazon (253MW) and Willow Springs (250MW), which were operational at the time of the acquisition of Lincoln Clean Energy. The third is Tahoka (300MW) where we signed a tax equity agreement in Q4 2018, and which was commissioned in December 2018. In addition we have one offshore wind farm with a tax equity partner. This is Block Island (30MW), which was operational at the time of the acquisition of Deepwater Wind.

### Accounting policies

When a tax equity partner contributes to a US company, we evaluate our right to variable returns as well as our ability to exercise influence, including our ability to influence financial and operational decisions influencing these returns, to determine if the company should be fully consolidated. Due to the operational and financial nature of the projects, and the influence normally given to tax equity partners in such agreements, it is normally possible for us to have the influence to fully consolidate companies that have tax equity partners.

The terms of the tax equity partner's contribution are evaluated to determine the accounting treatment. As the initial contribution of the tax equity partner is repaid, including an agreed return, and as they do not share in the risks of the project in the same way as a shareholder, the contribution has the characteristics of a liability, is accounted for as such and is measured at amortised cost. The liability is based on the expected method of repayment and is divided into:

- a net working-capital element to be repaid through PTCs and other tax attributes
- an interest-bearing debt element expected to be repaid through cash distributions.

The partner's agreed return is expensed as a financial expense and is recognised as an increase of the tax equity liability. PTCs and other tax attributes transferred to the tax equity partner are recognised as other operating income. Tax attributes allocated to the tax equity partner are deferred and recognised on a straight-line basis over the estimated contractual length of the partner structure, while PTCs are recognised in the periods earned, similarly to recognition of our own PTCs.

In addition to the above, we recognise a liability for the expected purchase price for the partners post-flip rights to return. This is recognised at fair value and adjustments are expensed as a financial item.

This recognition reflects the intention and high likelihood that we will purchase the right, and that this is part of the financial cost of the arrangement.

If we choose not to buy the partner's right to post-flip returns, the tax equity partner will be entitled to part of the company returns in the post-flip period, and they will share in the risks and rewards in the company as a shareholder. This interest will be considered a non-controlling interest.

### Key accounting judgements

#### Assessment of recognition of tax equity partner

On recognition of a tax equity partner, we assess the appropriate recognition of their contribution as well as the method of recognition for the elements used to repay the partner, such as PTCs and tax attributes.

In assessing recognition of tax equity partners, we look at:

- the expected flows of PTCs, tax attributes and cash payments expected to the partner
- the rights and obligations of both us and the tax equity partner.

The deferral of the income related to tax attributes and the recognition of the contribution as working capital or interest-bearing debt, are affected by our expectation to the size, method and timing of repayments.

## 4.6 Other payables

Other payables, DKKm	2018	2017
Prepaid VAT on exports	-	1,500
Carbon rights	62	42
VAT and other indirect taxes payable	780	1,312
Salary-related items payable	809	762
Accrued interest	687	882
Virtual gas storage	107	83
Prepayments from heat customers	-	3,286
Grid connection charges	-	1,893
Other deferred income	84	1,114
Collateral received	34	119
Purchase price, acquisition of enterprises	653	-
Other	1,986	1,089
<b>Total other payables</b>	<b>5,202</b>	<b>12,082</b>
Of which working capital	3,295	11,200
Of which other capital employed	1,337	882
Of which interest-bearing net debt	570	-



The table shows our other payables broken down into working capital, interest-bearing net debt and other capital employed.

In 2018, other payables were reduced by DKK 6,880 million. Prepayments from heat customers and the majority of deferred income have been classified as contract liabilities from 2018 due to the implementation of IFRS 15. Grid connection charges in the power distribution business have been classified as

'Assets classified as held for sale', due to the expected exit during 2019. In addition, the export VAT was repaid in January 2018.

In 2018, the short-term portion of other payables amounted to DKK 4,793 million (2017: DKK 6,368 million).

## 4.7 Changes in net working capital

Change in net working capital, DKKm	2018	2017
Change in inventories	243	(423)
Change in contract assets and liabilities	(1,478)	(3,318)
Change in trade receivables	(2,261)	(3,705)
Change in other receivables	(31)	(563)
Change in trade payables	1,601	1,188
Change in tax equity liabilities	1,835	-
Change in other payables	(827)	(1,083)
<b>Total change in net working capital</b>	<b>(918)</b>	<b>(7,904)</b>
Of which changes relating to work in progress	(2,326)	(3,674)
Of which changes relating to tax equity liabilities and other working capital	1,408	(4,230)



Work in progress consists of elements in contract assets and liabilities, construction management agreements related to construction of offshore wind farms, construction of offshore transmission assets (inventory) and related trade payables.

The change in funds tied up in work in progress and related trade payables was DKK 2,326 million in 2018 due to high activity related to the construction of offshore wind farms for partners (Walney Extension and Borkum Riffgrund 2) as well as offshore transmission assets in the UK (Hornsea 1 and Hornsea 2), partly offset by receipt of milestone payments from partners and the divestment of the Burbo Bank Extension transmission asset.

In 2017, the change in funds tied up in work in progress and related trade payables was

DKK 3,674 million due to the construction of offshore wind farms for partners (mainly Race Bank) as well as offshore transmission assets in the UK (mainly Hornsea 1), partly offset by receipt of milestone payments from partners.

The change in funds tied up in other working capital was a cash inflow of DKK 1,408 million in 2018 and primarily concerned the tax equity contribution from the partner on Tahoka.

# 5. Tax

Tax	126
Tax policy and tax regimes	127
Tax on profit (loss) for the year	128
Taxes paid	130
Deferred tax	131
Total tax contribution	133



# 5. Tax

## Tax on profit (loss) for the year

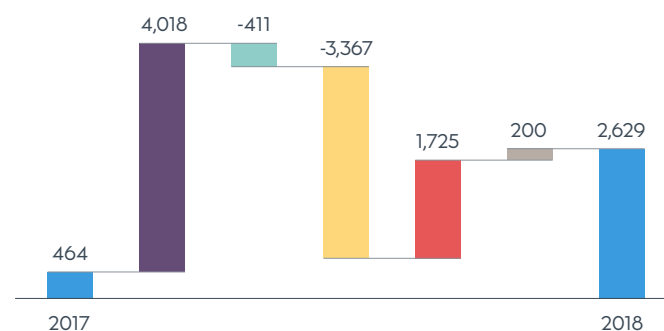
The effective tax rate was 17% for the continuing operations. The effective tax rate was primarily affected by the tax-exempt gain on the farm-down of 50% of Hornsea 1.

## Corporate income taxes paid

We have paid DKK 3,367 million in taxes in 2018, of which DKK 711 million related to residual tax for 2017. We expect to have a residual receivable tax of DKK 245 million regarding 2018 as a higher portion of income related to non-taxable income in 2018 than we expected at the time we paid taxes on account.

## Development in current and deferred tax asset and liabilities (tax, net), 2018 DKKm

- Tax, net liability
- Tax on profit (loss) for the year
- Tax on other comprehensive income and hybrid capital
- Corporate taxes paid
- Addition US investment
- Other effects



The net tax is highly impacted by the US investments.

# 3.4bn

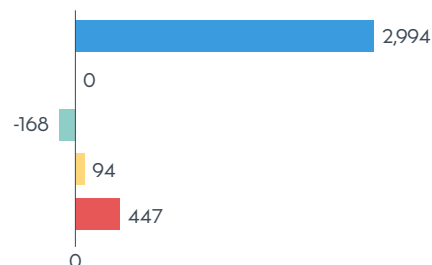
Corporate income tax paid by the Group in 2018 totalled DKK 3,367 million against DKK 2,660 million in 2017.

# 3.2bn

Current corporate income tax in 2018 totalled DKK 3,161 million against DKK 2,698 million in 2017.

## Corporate income tax paid by segment, 2018 DKKm

- Offshore
- Onshore
- Bioenergy
- Customer Solutions
- Ørsted A/S and other activities



2018, DKKm	Business performance		
	Profit (loss) before tax	Tax	Tax in %
Gain (loss) on divestments	14,886	(1,155)	8%
Tax equity, deferred tax liability, Tahoka	-	(444)	n.a.
Rest of the Group	8,618	(2,419)	28%
<b>Effective tax for the year</b>	<b>23,504</b>	<b>(4,018)</b>	<b>17%</b>



Tax on gain (loss) on divestments related to taxable gains. See more in note 2.5 'Other operating income and expenses'. 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 recognise the key role that tax plays in society and the development of the countries where we operate. We also believe that a responsible approach to tax is essential to the long-term sustainability of the societies where we have activities and of our business across the globe.

The world's governments have defined the greatest challenges for our societies towards 2030 through the UN Sustainable Development Goals (SDGs). At Ørsted, we are committed to running our business in a way that contributes to the SDGs. Tax payments contribute both directly and indirectly to most of the SDGs, in particular target #16.6 on the development of effective, accountable and transparent institutions.

Tax is a core part of our corporate responsibility and governance and is overseen by the Board of Directors. The Board of Directors is accountable for the tax policy, and the responsibility for tax risk management lies with the CFO and overseen by the Audit and Risk Committee.

## Compliance

Our ambition is to apply best practices at all times and act in accordance with applicable legislation on tax computation and

tax reporting to ensure that we pay the right amount of tax at the right time in the countries where we operate. We continuously evaluate our processes and controls to ensure that we are compliant with local and international standards relevant to our business.

## Our attitude to tax planning

We only use business structures that are driven by commercial considerations, aligned with business activity and which have genuine substance.

We make use of incentives and tax reliefs where they apply in areas where we have commercial substance.

We seek, wherever possible, to develop cooperative relationships with tax authorities, based on mutual respect, transparency and trust.

## Transparency

In line with our belief in transparency, we provide regular information to our stakeholders – including investors, policy makers, employees, civil society and the general public – about our approach to tax and taxes paid.

Read more about our tax policy at <https://orsted.com/taxpolicy>

## Tax regimes

At the end of 2018, our major activities were in Denmark, the UK, Germany, the Netherlands and the US.

## US tax equity partnerships

We have entered into several tax equity partnership agreements in the US. For more information on our tax equity partnership structure, see note 4.5 'Tax equity liabilities'. The expected value of the deferred tax liability related to property, plant and equipment at the 'flip date' in the tax equity partnership agreement is included in our accounts when the tax equity partnership is established.

## International joint taxation

For the income year 2017 and going forward, we opted to exit the international joint taxation scheme. The retaxation liability was transferred to tax payable and has been settled.

## Local taxes paid

In terms of taxation, we were affected in Denmark by completed construction agreements in connection with the construction of offshore wind farms in the UK and Germany in 2018.

We have made significant investments in offshore wind farms in the UK, Germany and the Netherlands, resulting in the accumulation of large tax assets in recent years. Accordingly, we have not paid significant taxes in these countries. Going forward, this will change as the offshore wind farms are commissioned and will be generating positive results.

We expect to start paying more significant corporate tax in the UK in 2019, in Germany in 2019 and in the Netherlands in 2021.

We are currently making significant investments in the US, and we do therefore not expect to pay any material corporate income tax in the foreseeable future.

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

	2018				2017			
	Business performance		IFRS		Business performance		IFRS	
	DKK million	%	DKK million	%	DKK million	%	DKK million	%
<b>Effective tax rate, DKKm/%</b>								
<b>Tax on profit (loss) for the year can be explained as follows:</b>								
Calculated 22% tax on profit (loss) before tax (2017: 22%)	(5,172)	22	(4,834)	22	(3,310)	22	(3,323)	22
Adjustments of calculated tax in foreign subsidiaries in relation to 22% (2017: 22%)	94	-	74	-	86	-	86	-
<b>Tax effect of:</b>								
Non-taxable income and non-deductible costs, etc., net	1,912	(8)	1,912	(9)	1,323	(9)	1,323	(9)
Unrecognised tax assets and capitalisation of tax assets not previously capitalised	(50)	-	(50)	-	(184)	1	(184)	1
Share of profit (loss) in associates and joint ventures	-	-	-	-	(12)	-	(12)	-
Adjustment of tax concerning previous years	(802)	3	(802)	4	332	(2)	332	(2)
<b>Effective tax for the year</b>	<b>(4,018)</b>	<b>17</b>	<b>(3,700)</b>	<b>17</b>	<b>(1,765)</b>	<b>12</b>	<b>(1,778)</b>	<b>12</b>



Non-taxable income and non-deductible expenses primarily concern the tax-exempt gain on divestments and US investment matters. See more in note 2.5 'Other operating income and expenses'.

### Income tax

Tax on business performance profit (loss) was DKK 4,018 million in 2018 against DKK 1,765 million in 2017. The effective tax rate was 17% in 2018 against 12% in 2017.

The effective tax rate in 2018 was particularly affected by a tax-exempt gain on the farm-down of 50% of Hornsea 1. In addition, the effective tax rate was affected by the recognition of a deferred tax liability related to a tax equity partner (see more in notes 4.5 'Tax equity liabilities' and 5.4 'Deferred tax'). The deferred tax liability will be reduced gradually once we have repaid the contribution to the tax equity partners.

The difference in tax rates from 22% to the statutory tax rates across our jurisdiction impacts the effective tax rate.

The effective tax rate in 2017 was primarily affected by tax-exempt gains on the farm-downs of 50% of the 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.

### Accounting policies

Tax for the year consists of current tax, changes in deferred tax and adjustments 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.

### Key accounting judgements

#### Estimates regarding recognition of income tax assets and provisions for uncertain tax positions

Ørsted is subject to income taxes in all the countries where we operate. Significant judgement and estimates are required in determining the worldwide accrual for income taxes, income tax assets and liabilities and provisions for uncertain tax positions.

In the course of conducting business around the world, tax and transfer pricing disputes with tax authorities may occur. Judgement is applied to assess the possible outcome of such disputes. We apply the methods prescribed in IFRIC 23 'Uncertainty over Income Tax Treatments' when making provisions for uncertain tax positions, and we consider the provisions made to be adequate. However, the actual obligation may deviate and depends on the result of litigations and settlements with the relevant tax authorities.

Ongoing tax disputes, primarily related to transfer pricing cases, are included as part of 'Tax payables', 'Tax receivables' and 'Deferred tax'.

### Tax on profit (loss) for the year and other comprehensive income

In 2018, tax on IFRS profit (loss) for the year amounted to DKK 3,700 million, consisting of current tax of DKK 3,161 million, changes in deferred tax of DKK 266 million, tax on assets classified as held for sale of DKK 3 million, and an adjustment of tax in respect of previous years of DKK 802 million. The adjustment primarily relates to amendments of asset values in UK and Germany and reclassification of Danish liabilities.

### Current tax

Current tax is the tax incurred in Ørsted which is payable within the same year as the profit.

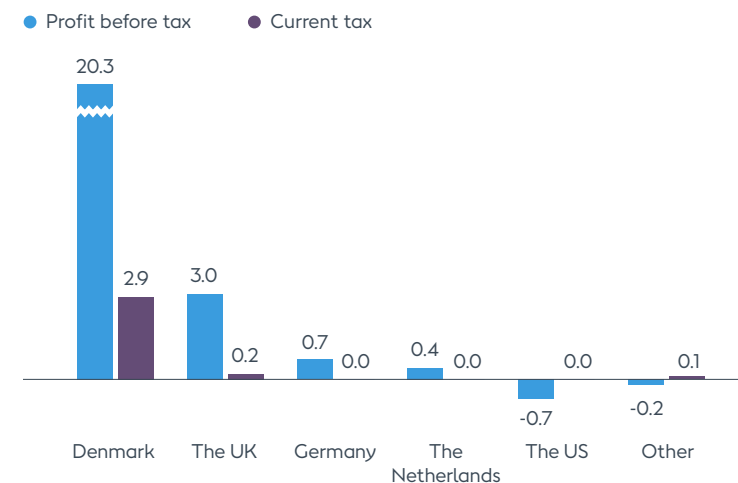
This deviates from taxes paid as a result of payments regarding prior years and residual payments regarding the current year.

Included in the current tax for 2018 is DKK 2,135 million which relate to gains from construction agreements regarding Walney Extension and Borkum Riffgrund 2 and the construction management agreement regarding Race Bank.

Due to the high level of investments and the subsequent deferrals of payable tax as a consequence of tax depreciation, our current tax is generally lower than the statutory corporate tax rates during construction and the initial years after first power.

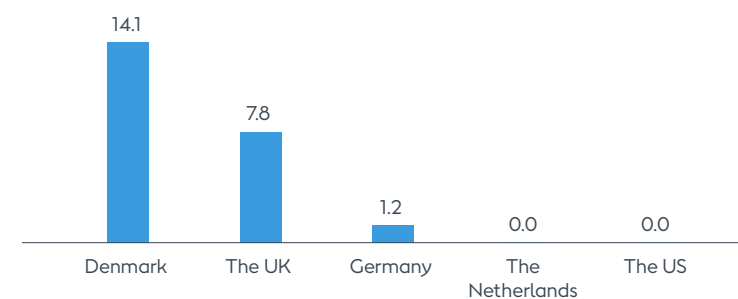
	2018		2017	
	Business performance	IFRS	Business performance	IFRS
<b>Income tax, DKKm</b>				
Tax on profit (loss) for the year	(4,018)	(3,700)	(1,765)	(1,778)
Tax on other comprehensive income	411	93	238	251
Tax on hybrid capital	120	120	141	141
<b>Total tax for the year</b>	<b>(3,487)</b>	<b>(3,487)</b>	<b>(1,386)</b>	<b>(1,386)</b>
Tax on profit (loss) for the year can be broken down as follows:				
Current tax	(3,161)	(3,161)	(2,698)	(2,698)
Deferred tax	(52)	266	586	573
Tax relating to assets classified as held for sale	(3)	(3)	15	15
Adjustment of tax concerning previous years	(802)	(802)	332	332
<b>Tax on profit (loss) for the year</b>	<b>(4,018)</b>	<b>(3,700)</b>	<b>(1,765)</b>	<b>(1,778)</b>
Tax on other comprehensive income can be broken down as follows:				
Current tax	93	93	255	255
Deferred tax	318	-	(17)	(4)
<b>Tax on other comprehensive income</b>	<b>411</b>	<b>93</b>	<b>238</b>	<b>251</b>

### Current tax (business performance), 2018, DKKbn



The figure shows the relationship between profit before tax and current tax in the main countries where we do business.

### Current tax rate (business performance), 2018, %



The figure shows the tax rates based on business performance in the main countries where we do business.



Income tax for the year is calculated on the basis of the profit (loss) before tax from continuing operations.

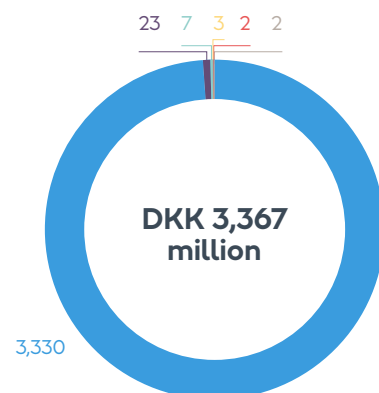
## 5.3 Taxes paid

In 2018, we paid DKK 3,367 million in taxes. The tax payment included residual tax for 2017, amounting to DKK 711 million in total for continuing operations for Denmark.

We paid most of our Danish taxes in March. Accordingly, the income tax paid for the year was based on estimates and preliminary tax positions. As our non-taxable income was higher than expected when we paid our Danish taxes on account, we expect to have a receivable tax of DKK 245 million in Denmark regarding 2018.

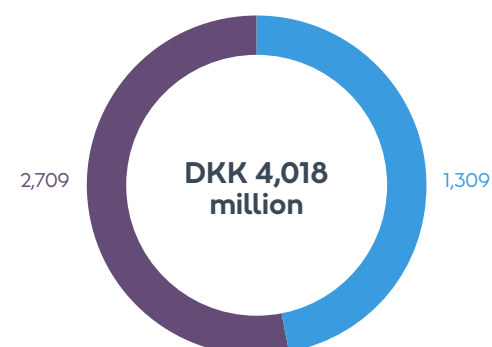
Taxes paid for the year, 2018, DKKm

● Denmark ● Germany ● The UK  
● Sweden ● Poland ● The US



Tax on profit (loss) for the year (business performance), 2018, DKKm

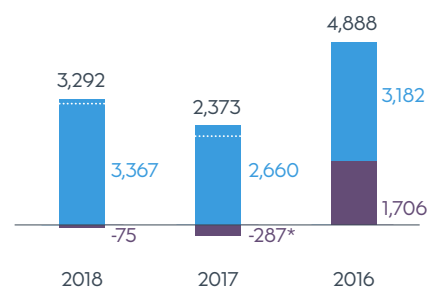
● Denmark ● Other



The figures only show our continuing operations.

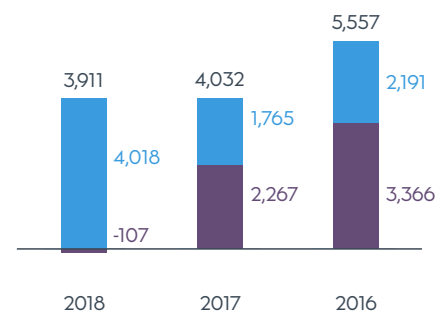
Taxes paid, DKKm

● Continuing operations  
● Discontinued operations



Tax on profit (loss) for the year, DKKm

● Continuing operations  
● Discontinued operations



The figures show the relationship between the tax on business performance 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 2018, deferred tax from continuing operations decreased due to the completion of the construction of Borkum Riffgrund 2 and Walney Extension as these taxes were paid and increased due to the ongoing construction of Hornsea 1. Also, our tax equity partner agreements in the US (see note 4.5 'Tax equity liabilities') have resulted in the recognition of the expected deferred tax liability that we will take over once the contribution from the tax equity partner has been repaid.

The adjustment regarding previous years comprised recognition of tax assets relating to offshore wind farms.

In 2017, deferred tax from continuing operations decreased as a result of deferred tax liabilities materialising as tax payable. This included differences in the tax and accounting treatment of profit received on account on work 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.

### Deferred tax by segment

Deferred tax (liabilities) in our segments primarily concerned the following:

- Offshore: recognised profit received on account and property, plant and equipment, in respect of which depreciation for tax purposes exceeds depreciation for accounting purposes.
- Onshore: recognised deferred tax liability regarding wind farm assets in tax equity structures.
- Bioenergy: property, plant and equipment in respect of which depreciation for tax purposes exceeds depreciation for accounting purposes.
- Customer Solutions: financial instruments.
- Other activities/eliminations comprised intra-group eliminations in the joint taxation across segments.

### 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 probable tax losses carried forward. 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.

Deferred tax (net liability) related to the tax equity structures is recognised as tax income in the income statement when we take over the agreements. The liability recognised is the amount that we expect to take over once the contribution from the equity partner is repaid, and the tax equity structure 'flips.'

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 where there are 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 statement.

					Other activities/eliminations	Deferred tax at 31 December
<b>Deferred tax 2018, DKKm</b>	Offshore	Onshore	Bioenergy	Customer Solutions		
Deferred tax, assets	3,565	235	40	1,112	(364)	4,588
Deferred tax, liabilities	2,838	1,293	177	72	(355)	4,025
Unrecognised tax assets	53	19	-	64	-	136
<b>Deferred tax 2017, DKKm</b>						
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



The table shows the reconciliation of deferred tax to the balance sheet by segment. The non-recognised deferred tax assets are not expected to give rise to any material income tax consequence in the event of dividends received.

Development in deferred tax assets and liabilities, 2018, DKKm	Balance sheet 1 January	Transferred to assets and liabilities classified as assets held for sale	Exchange rate adjustments	Addition of enterprises, 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	61	(13)	-	-	(28)	-	16	36
Property, plant and equipment	2,018	(1,263)	(18)	2,252	150	-	(108)	3,031
Other non-current assets	140	-	(1)	9	132	-	125	405
Current assets	(11)	-	-	-	(13)	-	(1)	(25)
Decommissioning obligations	(797)	3	2	(11)	(8)	-	54	(757)
Other non-current liabilities	(1,106)	436	(2)	(312)	88	-	(490)	(1,386)
Current liabilities	(348)	14	(1)	(67)	(163)	-	(49)	(614)
Tax loss carryforwards	(694)	-	6	(146)	(424)	-	5	(1,253)
<b>Deferred tax</b>	<b>(737)</b>	<b>(823)</b>	<b>(14)</b>	<b>1,725</b>	<b>(266)</b>	<b>-</b>	<b>(448)</b>	<b>(563)</b>
Of which recognised in the balance sheet under assets	2,865							4,588
Of which recognised in the balance sheet under equity and liabilities	2,128							4,025
<b>Development in deferred tax assets and liabilities, 2017, DKKm</b>								
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)
<b>Deferred tax</b>	<b>2,097</b>	<b>39</b>	<b>(40)</b>	<b>385</b>	<b>(573)</b>	<b>(4)</b>	<b>(2,641)</b>	<b>(737)</b>
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



The amounts transferred to assets and liabilities classified as assets held for sale concern our Danish power distribution, residential customer and city light businesses.

Addition of enterprises includes the deferred tax liability recognised in relation to our US investments.

Adjustments to prior years primarily relate to movements between deferred tax and tax payable. Also, asset value reassessment in Germany and the UK.

The increase of tax losses carried forward during 2018 is primarily a result of the accelerated depreciation on fixed assets for tax purposes. The tax loss carryforwards will be set off against realisation of either deferred tax liabilities on the same wind farm or jurisdiction or set off against future profits on that wind farm or jurisdiction.

## 5.5 Total tax contribution

According to the OECD classification, tax is a compulsory unrequited payment to general government. This means a payment by Ørsted paid to the government, including amounts paid through an agent. Tax does not result in a return of value to Ørsted for a right or asset used in the business.

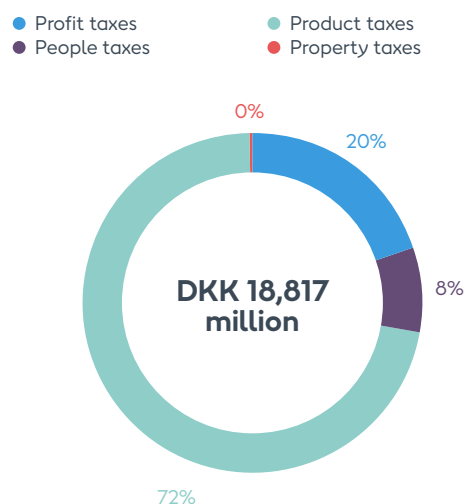
Taxes borne by Ørsted are those that represent a direct cost and are reflected in the financial result. Tax borne is charged to the profit and loss account or capitalised as part of an asset's cost.

Taxes collected are those which are generated by Ørsted's operations, but not a tax liability for Ørsted. Ørsted generates the commercial activity that gives rise to the taxes and then collects and administers them on behalf of the tax authorities in the countries in which we operate.

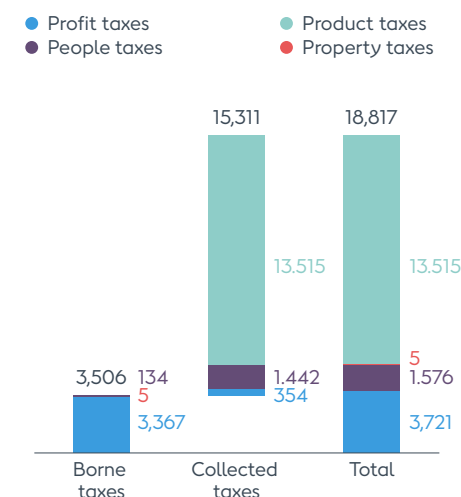
### Total global taxes that we paid in 2018

● Profit taxes	These include taxes on company profits that are borne (such as corporate income tax) and collected (such as withholding tax on payments to third parties). In 2018, Ørsted paid DKK 3,367 million in borne profit taxes and DKK 354 million in collected profit taxes. The collected profit taxes relate to withholding tax on dividends paid to Ørsted's shareholders.
● People taxes	Taxes on employment, both borne and collected (including income tax and social security tax payments). In 2018, Ørsted paid DKK 134 million in borne people taxes and DKK 1,442 million in collected people taxes.
● Product taxes	Indirect taxes on the production and consumption of goods and services, including VAT and sales tax, custom duties and insurance premium tax. In 2018, Ørsted paid DKK 13,515 million in collected product taxes. Borne product taxes were insignificant in 2018 for this summary.
● Property taxes	Taxes on the ownership, sale, transfer or occupancy of property. In 2018, Ørsted paid DKK 5 million in borne property taxes. Collected property taxes were insignificant in 2018 for this summary.

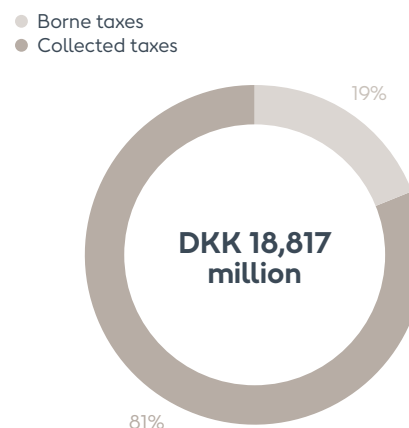
### Total tax contribution, 2018, %



### Total tax contribution, 2018, DKKm



### Total tax contribution, 2018, %



Total tax contribution is highly impacted by collection of VAT, sales tax, duties as well as profit taxes.



The chart shows the distribution between borne and collected taxes in 2018.

# 6. Capital structure

Capital structure	135
Interest-bearing debt	136
Equity	138
Hybrid capital	140
Financial resources	141
Financial income and expenses	143
Funds from operations (FFO)/ adjusted interest-bearing net debt	144



## 6. Capital structure

**In 2018, we acquired Lincoln Clean Energy and Deepwater Wind in the US and thereby entered into tax equity partnerships with associated liabilities. The interest-bearing part of our tax equity liability amounts to DKK 454 million as of 31 December 2018.**

**We have not issued new bonds or raised new loans in 2018. However, we have taken over bank loans in the amount of DKK 4,039 million in connection with the two acquisitions.**

### 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 37,879 million at 31 December 2018 (2017: DKK 39,158 million).

# 69.0%

Funds from operations (FFO) relative to adjusted interest-bearing net debt amounted to 69% at 31 December 2018 against 50.3% at 31 December 2017.

# -2.2bn

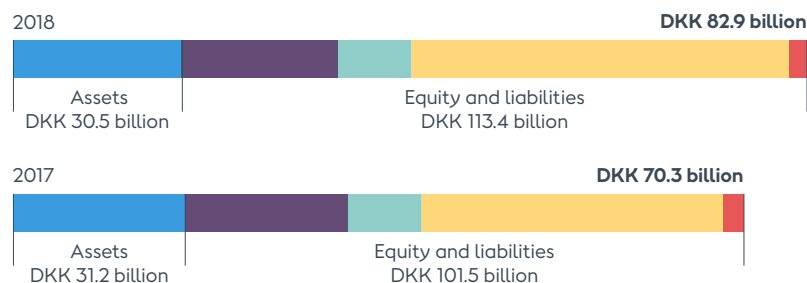
Our interest-bearing net debt totalled DKK -2,219 million at 31 December 2018 against DKK -1,517 million at 31 December 2017.

# 37.9bn

Our financial resources totalled DKK 37,879 million at 31 December 2018 against DKK 39,158 million at 31 December 2017.

### Equity and interest-bearing net debt, DKKbn

- Interest-bearing assets
- Interest-bearing debt
- Hybrid capital
- Equity attributable to shareholders in Ørsted A/S
- Non-controlling interests



# 6.1 Interest-bearing debt

## Interest-bearing debt and interest-bearing assets, DKKm

	2018	2017
<b>Interest-bearing debt comprises:</b>		
Bank debt	3,582	2,069
Bond debt	23,714	27,567
<b>Total bond and bank debt</b>	<b>27,296</b>	<b>29,636</b>
Tax equity liability	454	-
Other interest-bearing debt	570	-
<b>Total interest-bearing debt</b>	<b>28,320</b>	<b>29,636</b>
<b>Interest-bearing assets comprise:</b>		
Securities	25,501	25,280
Cash	3,515	4,203
Receivables from associates and joint ventures	60	48
Other receivables	779	647
Receivables in connection with divestments	684	975
<b>Total interest-bearing assets</b>	<b>30,539</b>	<b>31,153</b>
<b>Total interest-bearing net debt</b>	<b>(2,219)</b>	<b>(1,517)</b>



The tabel shows our interest-bearing net debt split into interest-bearing debt and interest-bearing assets.

## Changes in interest-bearing debt, DKKm

	2018	2017
Interest-bearing debt 1 January	29,636	24,183
Instalments on loans according to the statement of cash flows	(6,429)	(4,069)
Proceeds from raising of loans according to the statement of cash flows	-	5,468
Debt from acquisition of enterprises	4,409	-
Change in other interest-bearing debt	570	-
Reclassification to bond and bank debt	-	4,192
Capital losses on early repayment of debt	-	230
Foreign exchange adjustments and amortisation	134	(368)
<b>Interest-bearing debt 31 December</b>	<b>28,320</b>	<b>29,636</b>



The tabel shows the changes in interest-bearing debt.

## Interest-bearing net debt

Interest-bearing net debt totalled DKK -2,219 million at the end of 2018, up DKK 702 million relative to 2017. The increase in the net cash position comprise of a decrease in interest-bearing assets of DKK 614 million and a decrease in interest-bearing debt of DKK 1,316 million.

In 2018, we have entered the US market where we have entered into tax equity liabilities. The part of the tax equity liability we expect to repay with tax credits (PTCs) and other tax attributes is not considered part of interest-bearing debt. This amounts to DKK 3,719 million (2017: DKK 0 million). The part of the tax equity liability we expect to repay with cash is included in interest-bearing debt.

This amounts to DKK 454 million (2017: DKK 0 million). For more information, see note 4.5 'Tax equity liabilities'.

In July 2018, we redeemed a hybrid bond classified as debt with a notional amount of EUR 500 million, corresponding to DKK 4,208 million.

In October and November 2018, we acquired Lincoln Clean Energy and Deepwater Wind. We took over a bank debt of DKK 4,039 million and interest-bearing tax equity liabilities of DKK 370 million in connection with the transactions.

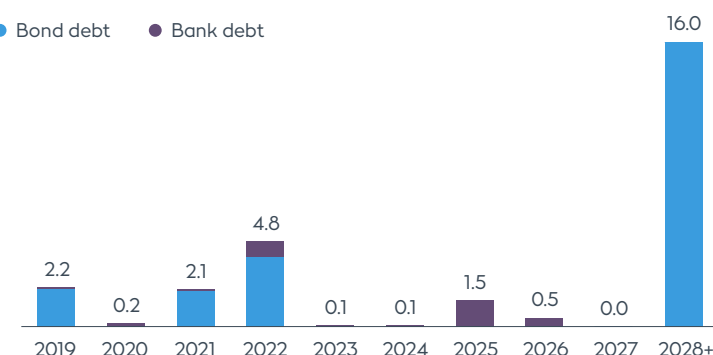
In October and December, bank debt in Lincoln Clean Energy of DKK 2,406 million was repaid.



## Maturity profile, DKKbn

● Bond debt ● Bank debt

The graph shows the maturity profile for our bank loans and bond debt.



### Market value of bond and bank debt

The market value of our bond and bank debt amounted to DKK 28,048 million and DKK 3,622 million, respectively, at 31 December 2018 (2017: DKK 32,959 million and DKK 2,108 million, respectively). The market value of our bond and bank debt exceeds the carrying amount due to the drop in interest levels since the establishment of the debt.

### Loan arrangements

At 31 December 2018, we had loan obligations totalling DKK 1,964 million (2017: DKK 2,069 million) 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 for repayment in the event of Moody's or Standard & Poor's downgrading our rating to Baa3 or BBB- or below, respectively.

Furthermore, we had non-cancellable credit facilities of DKK 10,447 million at 31 December 2018 (2017: DKK 10,424 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

We have fixed the interest rate on most of our debt by issuing fixed-rate debt. At the end of 2018, 95% (2017: 95%) of the Group's debt was fixed-rate debt. Interest payments on loans in GBP have been covered with forward exchange contracts over the next five years at an average exchange rate of 8.9. See note 7.2 'Hedge accounting and economic hedging' for further information.

At 31 December 2018, the loan portfolio had an average time to maturity of 9.9 years (2017: 9.8 years). Interest-bearing assets consist primarily of short-term bonds with limited risk.

Our interest rate risk is described further in note 7.1 'Market risks'.

### 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).

### Senior bond issued at 31 December 2018

Million	Outstanding amount		Coupon (%)	Time of issue	Maturing	Quoted in
	EUR /GBP	DKK				
EUR	280	2,091	6.500	6 May 2009	7 May 2019	London
EUR	272	2,033	4.875	16 Dec. 2009	16 Dec. 2021	London
EUR	517	3,860	2.625	19 Sep. 2012	19 Sep. 2022	London
EUR	750	5,597	1.500	24 Nov. 2017	26 Nov. 2029	London
GBP	750	6,235	4.875	12 Jan. 2012	12 Jan. 2032	London
GBP	500	4,157	5.750	9 Apr. 2010	9 Apr. 2040	London



In addition to senior bonds, we have issued a number of hybrid bonds; see note 6.3 'Hybrid capital'.

## 6.2 Equity

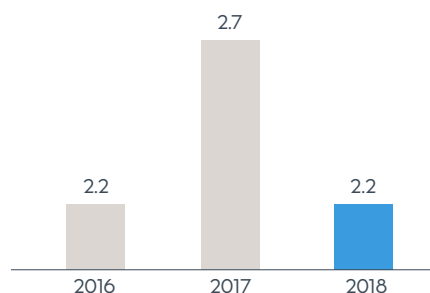
### Share capital

Ørsted's share capital is DKK 4,203,810,800, divided into shares of DKK 10. The share capital is unchanged from last year. 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 additional treasury shares in November 2018. The total portfolio of treasury shares consist of 335,904 shares at 31 December 2018 (2017: 225,904), corresponding to 0.1% of the share capital.

### 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.

### Dividends

The Board of Directors recommends that dividends of DKK 4,099 million (2017: DKK 3,783 million) be paid for the financial year, corresponding to DKK 9.75 per share (2017: DKK 9 per share). The proposed dividends correspond to a dividend yield of 2.2% (2017: 2.7%) 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 note 16 'Ownership information' in the parent company's financial statements.



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 0.1% of the share capital (2017: 0.1% of the share capital).

Earnings per share, DKKm	2018		2017	
	Business performance	IFRS	Business performance	IFRS
Profit (loss) for the year from continuing operations	19,486	18,266	13,279	13,321
Interest and costs after tax, hybrid capital owners of Ørsted A/S	(425)	(425)	(716)	(716)
Non-controlling interests	(25)	(25)	10	10
<b>Ørsted's share of profit (loss) for the year from continuing operations</b>	<b>19,036</b>	<b>17,816</b>	<b>12,573</b>	<b>12,615</b>
Profit (loss) for the year from discontinued operations	10	10	6,920	6,104
<b>Ørsted's share of profit (loss) for the year from discontinued operations</b>	<b>10</b>	<b>10</b>	<b>6,920</b>	<b>6,104</b>
('000)				
Average number of outstanding shares	420,139	420,139	420,155	420,155
Dilutive effect of share programme	466	466	271	271
<b>Average number of outstanding shares, diluted</b>	<b>420,605</b>	<b>420,605</b>	<b>420,426</b>	<b>420,426</b>
(DKK)				
<b>Profit (loss) per share</b>				
From continuing operations	45.3	42.4	29.9	30.0
From discontinued operations	0.0	0.0	16.5	14.5
<b>Total profit (loss) per share</b>	<b>45.3</b>	<b>42.4</b>	<b>46.4</b>	<b>44.5</b>

### Development in share capital, DKKm

	2018	2017
Share capital at 1 January	4,204	4,204
<b>Share capital at 31 December</b>	<b>4,204</b>	<b>4,204</b>

	Foreign currency translation reserve	Hedging reserve <sup>1</sup>				Share premium reserve	Total reserves
		Hedging of net investments	Hedging of revenue	Hedging of divestments	Hedging of interest		
<b>Reserves 2018, DKKm</b>							
Reserves at 1 January 2018	(1,825)	454	10	304	(467)	-	(1,524)
Exchange rate adjustments	(388)	-	-	-	-	-	(388)
Value adjustments of hedging	-	401	(137)	(1,054)	84	-	(706)
<b>Value adjustments transferred to:</b>							
Revenue	-	-	-	(301)	-	-	(301)
Other operating income	259	(326)	-	931	-	-	864
Financial income and expenses	-	-	-	-	135	-	135
<b>Tax:</b>							
Tax on hedging and currency adjustments	48	(17)	30	80	(48)	-	93
<b>Movement in comprehensive income for the year</b>	<b>(81)</b>	<b>58</b>	<b>(107)</b>	<b>(344)</b>	<b>171</b>	<b>-</b>	<b>(303)</b>
<b>Total reserves at 31 December</b>	<b>(1,906)</b>	<b>512</b>	<b>(97)</b>	<b>(40)</b>	<b>(296)</b>	<b>-</b>	<b>(1,827)</b>

<sup>1</sup> Cost of hedging related to basis spread on currency swaps included in hedging reserve amounts to DKK 183 million (2017: 33 million).

#### Reserves 2017, DKKm

Reserves at 1 January 2017	(1,546)	10	-	973	(498)	21,279	20,218
Transferred to retained earnings						(21,279)	(21,279)
Exchange rate adjustments	(1,354)	-	-	-	-	-	(1,354)
Value adjustments of hedging	-	565	13	967	(190)	-	1,355
<b>Value adjustments transferred to:</b>							
Revenue	-	-	-	(283)	-	-	(283)
Other operating income	325	(128)	-	(1,113)	-	-	(916)
Profit (loss) from discontinued operations	562	133	-	(444)	-	-	251
Financial income and expenses	-	-	-	-	229	-	229
<b>Tax:</b>							
Tax on hedging and currency adjustments	188	(126)	(3)	204	(8)	-	255
<b>Movements in comprehensive income for the year</b>	<b>(279)</b>	<b>444</b>	<b>10</b>	<b>(669)</b>	<b>31</b>	<b>-</b>	<b>(463)</b>
<b>Total reserves at 31 December</b>	<b>(1,825)</b>	<b>454</b>	<b>10</b>	<b>304</b>	<b>(467)</b>	<b>-</b>	<b>(1,524)</b>

#### 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 reserve

The hedging reserve covers:

- hedging of net investments in foreign operations
- cash-flow hedging of currency risks and inflation risks associated with revenue
- cash-flow hedging of the currency risk associated with the construction of offshore wind farms and interest expenses.

##### 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

Type	Due in 3013
Carrying amount	Subordinate to other creditors
Financial classification	DKK 5,148 million
Notional amount	Equity
Issued	EUR 700 million (DKK 5,224 million)
Maturing	June 2013
First redemption date at par	June 3013
Interest	26 June 2023
	For the first ten years, the coupon is fixed at 6.25% p.a., after which it is adjusted every five years with the five-year euro swap + 4.75 percentage points from 2023-2043 and + 5.5 percentage points after 2043
Deferral of interest payment	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 13,432 million (EUR 1,800 million).

On 8 July 2018, we redeemed the hybrid bond maturing in July 3013 at par at the first redemption date.

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 other hybrid bonds.

As a consequence of the special terms regarding the hybrid bonds, these are classified as equity, and coupon payments are therefore recognised in equity.

Due in 3015	Due in 3017
Subordinate to other creditors	Subordinate to other creditors
DKK 4,423 million	DKK 3,668 million
Equity	Equity
EUR 600 million (DKK 4,477 million)	EUR 500 (DKK 3,731 million)
May 2015	November 2017
November 3015	November 3017
6 November 2020	24 November 2024
Coupon for the first 5.5 years is fixed at 3.0% p.a., after which it is adjusted every five years with the five-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
Optional	Optional

### 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 bonds. 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 the 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 due to the 1,000-year term of the hybrid capital, amortisation charges will only have an 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 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, cash equivalents and securities

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;  
DKK 399 million at 31 December 2018 (2017: DKK 397 million)
- trading in financial instruments;  
DKK 333 million at 31 December 2018 (2017: DKK 40 million).

At 31 December 2018, we had received collateral in the amount of DKK 852 million (2017: DKK 787 million) concerning the positive market value of derivatives.

Cash not available for use comprise:

- collateral for insurance-related provisions;  
DKK 264 million (2017: DKK 312 million)
- collateral for US power purchase agreements; DKK 246 million (2017: DKK 0 million)
- collateral for other transactions;  
DKK 342 million (2017: DKK 0 million).

### Financial resources, DKK million

- Cash, available
- Securities, available
- Undrawn, non-cancellable credit facilities

2018



DKK 37,879 million

2017



DKK 39,158 million

Cash and cash equivalents, securities, DKKm	2018	2017
Cash, available	2,663	3,891
<b>Total cash and cash equivalents at 31 December, cf. statement of cash flows</b>	<b>2,663</b>	<b>3,891</b>
<b>Cash can be specified as follows:</b>		
Cash, available	2,663	3,891
Cash, not available for use	852	312
<b>Total cash at 31 December, cf. balance sheet</b>	<b>3,515</b>	<b>4,203</b>
<b>Securities can be specified as follows:</b>		
Securities, available	24,769	24,843
Securities, not available for use	732	437
<b>Total securities at 31 December</b>	<b>25,501</b>	<b>25,280</b>



The table shows our cash and securities which are divided into available and not available for use.

### Overview of securities, DKKm

Maturities	Fixed rate	Floating rate	2018	Fixed rate	Floating rate	2017
0-2 years	3,178	1,086	4,264	2,091	1,971	4,062
2-5 years	15,073	3,460	18,533	17,712	3,506	21,218
After 5 years	2,671	33	2,704	-	-	-
<b>Total carrying amount</b>	<b>20,922</b>	<b>4,579</b>	<b>25,501</b>	<b>19,803</b>	<b>5,477</b>	<b>25,280</b>



The tabel shows our securities split into maturities and fixed or floating interest rate.

## Maturity analysis of loans and borrowings 2018, DKKm

	2019	2020	2021-2022	After 2022	2018
<b>Bank loans and issued bonds</b>					
Notional amount	2,213	235	6,917	18,179	27,544
Interest payments	1,003	873	1,654	8,074	11,604
Trade payables	13,093	-	-	-	13,093
Derivatives	6,066	1,626	133	414	8,239
Tax equity debt	66	59	143	334	602
Other payables	5,327	-	-	-	5,327
Liabilities relating to assets classified as held for sale	812	-	-	-	812
<b>Total payment obligations</b>	<b>28,580</b>	<b>2,793</b>	<b>8,847</b>	<b>27,001</b>	<b>67,221</b>



## 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.

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.

The maturity analysis does not include hybrid capital classified as equity. At 31 December 2018, we had issued hybrid capital with a notional amount totalling DKK 13,432 million due in 3013 (DKK 5,224 million), 3015 (DKK 4,477 million) and 3017 (DKK 3,731 million), respectively.

## Maturity analysis of loans and borrowings 2017, DKKm

	2018	2019	2020-2021	After 2021	2017
<b>Bank loans and issued bonds</b>					
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
<b>Total payment obligations</b>	<b>25,154</b>	<b>4,117</b>	<b>4,506</b>	<b>30,235</b>	<b>64,012</b>

\* The amount primarily relates to reclassified hybrid capital. See more in note 6.3 'Hybrid capital'.

## Accounting policies

Securities comprise bonds that are monitored, measured and reported at market value on an on-going 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 repurchase agreements (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, DKKm

	2018	2017
Interest expenses, net	(877)	(629)
Interest element of provisions, etc.	(408)	(451)
Tax equity partner's contractual return	(44)	-
Capital losses on early repayment of loans and interest rate swaps	-	(230)
Value adjustments of derivatives, net	(64)	(67)
Exchange rate adjustments, net	285	391
Value adjustments of securities, net	(176)	(150)
Other financial income and expenses	6	94
<b>Net financial income and expenses</b>	<b>(1,278)</b>	<b>(1,042)</b>



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'.

### 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.

The accounting policy for the tax equity partner's contractual return is described in note 4.5 'Tax equity liabilities'.

### Financial income and expenses, DKKm

	2018	2017
Interest income from cash, etc.	62	71
Interest income from securities at market value	264	216
Capital gains on securities at market value	119	250
Foreign exchange gains	2,033	1,523
Value adjustments of derivatives	670	2,043
Other financial income	31	150
<b>Total financial income</b>	<b>3,179</b>	<b>4,253</b>
Interest expenses relating to loans and borrowings, etc.	(1,710)	(1,670)
Interest expenses transferred to assets	506	754
Interest element of provisions	(280)	(303)
Tax equity partner's contractual return	(44)	-
Capital losses on securities at market value	(304)	(419)
Foreign exchange losses	(1,978)	(1,568)
Value adjustments of derivatives	(466)	(1,887)
Other financial expenses	(181)	(202)
<b>Total financial expenses</b>	<b>(4,457)</b>	<b>(5,295)</b>
<b>Net financial income and expenses</b>	<b>(1,278)</b>	<b>(1,042)</b>



Exchange rate adjustments of currency hedging are recognised in revenue and cost of sales with a gain of DKK 268 million (2017: a gain of DKK 190 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 4.1% in 2018 (2017: 5.3%).

## 6.6 Funds from operations (FFO)/adjusted interest-bearing net debt

Funds from operations (FFO), DKKm	2018	2017
<b>EBITDA – business performance</b>	<b>30,029</b>	<b>22,519</b>
Interest expenses, net	(877)	(629)
Reversal of interest expenses transferred to assets	(506)	(754)
Interest element of decommissioning obligations	(192)	(194)
50% of coupon payments on hybrid capital	(272)	(320)
Calculated interest paid on operating lease obligations	(196)	(234)
<b>Adjusted interest expenses, net</b>	<b>(2,043)</b>	<b>(2,131)</b>
Reversal of gain (loss) on divestment of assets	(14,995)	(10,835)
Reversal of recognised operating lease payment in profit (loss) for the year	778	885
Total current tax	(3,068)	(2,447)
<b>Funds from operations (FFO)</b>	<b>10,701</b>	<b>7,991</b>



The table shows which items are included in FFO. FFO is calculated for the continuing operations.

Adjusted interest-bearing net debt, DKKm	2018	2017
<b>Total interest-bearing net debt</b>	<b>(2,219)</b>	<b>(1,517)</b>
50% of hybrid capital	6,619	6,619
Cash and securities not available for distribution, excluding repo loans	1,583	749
Present value of operating lease payments	4,819	6,095
Decommissioning obligations	5,471	4,751
Deferred tax on decommissioning obligations	(757)	(797)
<b>Total adjusted interest-bearing net debt</b>	<b>15,516</b>	<b>15,900</b>



The table shows which items are included in the adjusted interest-bearing debt as well as FFO relative to adjusted interest-bearing debt.

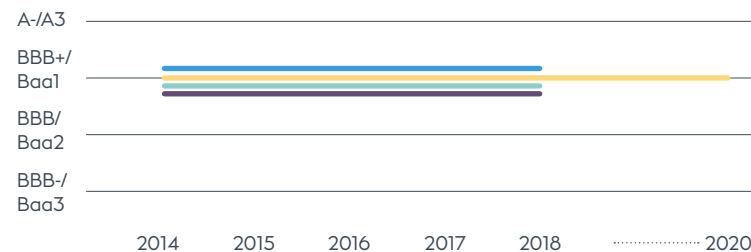
Funds from operations (FFO)/adjusted interest-bearing net debt, %	2018	2017
<b>Funds from operations (FFO)/adjusted interest-bearing net debt</b>	<b>69.0%</b>	<b>50.3%</b>

Our long-term target is for funds from operations (FFO) to be around 30% of adjusted interest-bearing net debt.

FFO/adjusted interest-bearing net debt was 69% in 2018, exceeding the target.

### Rating, category

● S&P ● Moody's ● Fitch ● Financial objective



The figure shows the development in our credit rating since 2014 compared to our objective.

# 7. Risk management

Risk management	146
Market risks	147
Hedge accounting and economic hedging	150
Energy trading portfolio	152
Sensitivity analysis of financial instruments	153
Credit risks	154
Categories of financial instruments	155
Fair value measurement	156



# 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.

## Aquisitions in 2018

We have acquired Lincoln Clean Energy in October 2018 and Deepwater Wind in November 2018. The two acquisitions have increased our power and USD exposure.

## Currency and energy exposures

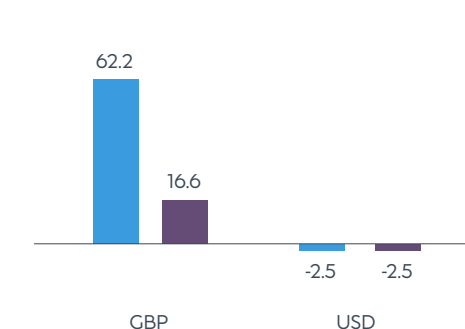
At the end of 2018, our forward-looking energy and currency exposures from production, sales, investments and divestments for 2019-2023 had been reduced from DKK 24.0 billion and DKK 64.7 billion to DKK 9.1 billion and DKK 19.1 billion respectively via hedging.

## 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 'Energy Trading portfolio'.

Currency exposure 2019-2023, DKKbn

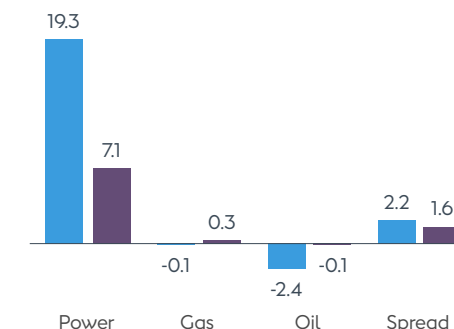
● Before hedging  
● After hedging



Our currency exposure for 2019-2023 totalled DKK 64.7 billion before hedging and DKK 19.1 billion after hedging at the end of 2018. We do not deem EUR to constitute a risk, as we expect that Denmark will maintain its fixed exchange-rate policy.

Energy exposure 2019-2023, DKKbn

● Before hedging  
● After hedging



Our energy exposures for 2019-2023 totalled DKK 24.0 billion before hedging and DKK 9.1 billion after hedging at the end of 2018.

# 5 years

We hedge prices for up to five years to reduce cash flow fluctuations.

# +0.4bn

In 2018, business performance EBITDA was positively impacted by DKK 368 million from hedging instruments against a positive impact by DKK 1,665 million in 2017.

# -3.0bn

The value of our energy and currency hedging instruments at 31 December 2018 was negative at DKK 3,032 million, which will reduce business performance EBITDA in a future period, against DKK -812 million at 31 December 2017.

# 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.

We manage market risks to protect Ørsted against market price volatility and ensure stable and robust financial ratios that support our growth strategy.

In the first five years, we primarily hedge future prices using derivatives to reduce cash flow fluctuations. We are almost fully hedged in the first two years. At longer durations, we also manage our market risks; our power exposure is partly mitigated through long term power purchasing agreements (PPA), and debt is used to manage currency, interest rate and inflation risk. Our long-term risk picture is determined by our strategic asset portfolio.

Minimum hedging levels are determined by the Board of Directors. In the first two years, a high degree of hedging is wanted to ensure stable cash flows after tax. The degree of hedging is declining in subsequent years.

This is due to:

- reduced certainty about long-term production volumes and
- increasing hedging costs in the medium to long term; both spread costs and cost of collateral.

## Energy price risks

Our consolidated energy exposure after hedging for the years 2019-2023 can be summarised as shown in the table.

Risk after hedging DKKbn	Effect of price change	
	+10%	-10%
Power: 7.1 sales position	+0.7	-0.7
Gas: 0.1 sales position	+0.0	-0.0
Oil: 0.1 purchase position	-0.0	+0.0
Spread: 1.6 sales position	+0.2	-0.2

A 10% increase in the power price in 2019-2023 will therefore result in a gain of DKK 0.7 billion in the period, all else remaining unchanged.

## Currency risks

Our consolidated currency exposure after hedging for the years 2019-2023 can be summarised as shown in the table.

Risk after hedging DKKbn	Effect of price change	
	+10%	-10%
GBP: 16.6 sales position	+1.7	-1.7
USD: 2.5 purchase position	-0.3	+0.3

Our largest currency exposure relates to GBP due to our investments in offshore wind farms in the UK. During 2018, we have experienced a substantial increase in long-term USD exposure, due to acquisition of both onshore and offshore companies in the US. Our exposure towards New Taiwan Dollar will increase if we

take final investment decision for the awarded offshore capacity in Taiwan.

In general, highly certain cash flows in foreign currencies are hedged within the first five years.

This means that exchange rates related to energy prices in foreign currency are not hedged until the energy price is hedged. Hence, GBP exchange rates associated with power generation in the UK is not hedged until the GBP power price is hedged.

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.

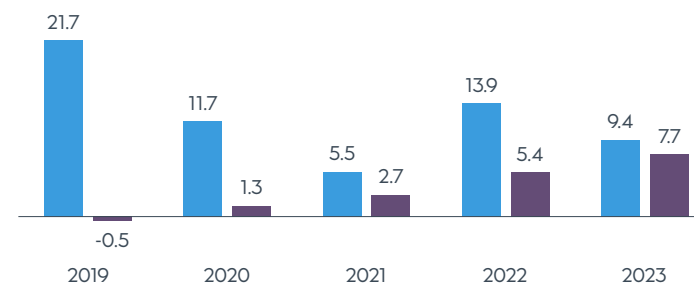
Our GBP exposure amounted to DKK 16.6 billion after hedging for the years 2019-2023. This unhedged GBP exposure stems from subsidised GBP income less operational expenditures.

The GBP exchange rate for hedges impacting EBITDA in 2019 and 2020 is hedged at an average exchange rate of DKK/GBP 8.4 and 8.4.

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.

## GBP exposures, DKKbn

- Before hedging
- After hedging



The graph shows our GBP exposure before and after hedges from:

- divestment and investment
- green certificates
- hedged energy.

### Interest rate and inflation risk

We manage interest rate and inflation risk by matching the sensitivity of our assets with the sensitivity of our debt.

The majority of our inflation risk relates to revenue from offshore wind farms. Subsidy regimes for offshore wind varies from country to country:

- In the UK, the fixed tariff is adjusted with inflation
- In Denmark, Germany and the Netherlands, the fixed 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. We have fixed the inflation for part of the future revenue from our UK offshore wind farms at an average of 3.5% for the period 2024-2037 to create a better match with our fixed rate UK debt.

Fixed tariffs for future projects in the US and potentially Taiwan will also not be adjusted with inflation.

### Offshore

Earnings from offshore wind farms mainly comprise:

- fixed tariffs in Denmark, Germany, the Netherlands, UK (CfD farms) and in the future also US and Taiwan
- guaranteed minimum prices for green certificates in the UK (ROC farms)
- sale of power at market prices from our out-of-subsidy farms or ROC farms in the UK.

At the end of 2018, such fixed tariffs and guaranteed minimum prices cover 81% 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.

### Onshore

Earnings from the generation of power from our onshore wind farms in the US comprise tax incentives, such as PTCs or ITCs and power. The tax incentives have a fixed value. But there is a price risk associated with the power which is reduced by entering into PPAs. The current PPAs cover approx. 78% of the expected generation, spanning 12-15 years from the commissioning of the wind farm. The PPAs are entered into with large corporates or financial institutions.

### Bioenergy

Our CHP plant portfolio consists of biomass- and coal-fired plants in Denmark and a Renescience plant in the UK. The CHP plants 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 covered by the heat customers. However, heat generation often entails a price risk for power, as heat and power to a large extend 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. At the end of 2018, 52% of the power generation expected in 2019 from our power stations was hedged. The total net risk associated with the power stations' power generation for the 2019-2023 period is DKK 1.6 billion after hedging.

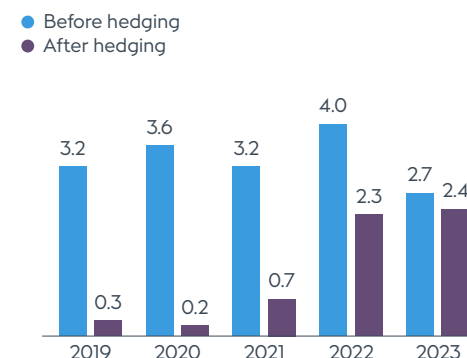
### Customer Solutions

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

### Principles for estimating exposures

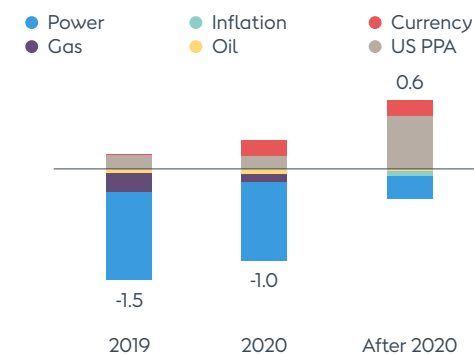
Exposure is calculated as the expected production (or net purchase/sale) times the forward price for the respective years. In addition, the exposure is determined on the basis of the expected exposure after renegotiations of oil-indexed gas purchase contracts.

### Offshore's power price exposure, DKKbn



The table shows the exposure from Offshore's generation of power before and after hedges.

### Expected value for recognition in business performance EBITDA, DKKbn



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 together with deferred revenue from US power purchase agreements; see note 1.6 'Business performance'.

Note	Overview of the Group's derivative positions, DKKm	2018				2017			
		Energy hedging		Currency and interest rate hedging		Energy hedging		Currency and interest rate hedging	
		Contractual principal amount	Market value	Contractual principal amount	Market value	Contractual principal amount	Market value	Contractual principal amount	Market value
	<b>Recognised with EBITDA impact</b>								
1.6, 7.2	Economic hedging	27,927	(3,806)	29,684	712	21,396	(940)	25,303	592
7.2	Hedging of cash flows, currency	-	-	12,434	22	-	-	23,588	678
7.3	Trading portfolio	6,509	313	-	-	8,720	118	-	-
	<b>Total</b>	<b>34,436</b>	<b>(3,493)</b>	<b>42,118</b>	<b>734</b>	<b>30,116</b>	<b>(822)</b>	<b>48,891</b>	<b>1,270</b>
	<b>Recognised in financial income and expenses</b>								
7.2	Hedging of fair value, currency	-	-	10,388	(761)	-	-	18,178	(716)
7.2	Hedging of cash flows, inflation	-	-	15,547	(69)	-	-	-	-
7.2	Hedging of cash flows, interest	-	-	1,602	56	-	-	-	-
7.2	Hedging of cash flows, currency	-	-	2,721	(272)	-	-	2,739	(365)
	Other interest derivatives	-	-	6,588	(39)	-	-	550	-
	Other currency derivatives	-	-	3,798	436	-	-	3,923	605
	<b>Total</b>	<b>-</b>	<b>-</b>	<b>40,644</b>	<b>(649)</b>	<b>-</b>	<b>-</b>	<b>25,390</b>	<b>(476)</b>
	<b>Recognised in other comprehensive income</b>								
7.2	Hedging of net investments	-	-	27,839	888	-	-	29,686	476
	<b>Total</b>	<b>-</b>	<b>-</b>	<b>27,839</b>	<b>888</b>	<b>-</b>	<b>-</b>	<b>29,686</b>	<b>476</b>
	<b>Total continuing operations</b>	<b>34,436</b>	<b>(3,493)</b>	<b>110,601</b>	<b>973</b>	<b>30,116</b>	<b>(822)</b>	<b>103,967</b>	<b>1,270</b>
	<b>Recognised in discontinued operations</b>								
7.2	Hedging of fair value, currency	-	-	2,285	(106)	-	-	2,480	48
	<b>Total discontinued operations</b>	<b>-</b>	<b>-</b>	<b>2,285</b>	<b>(106)</b>	<b>-</b>	<b>-</b>	<b>2,480</b>	<b>48</b>
	<b>Total</b>	<b>34,436</b>	<b>(3,493)</b>	<b>112,886</b>	<b>867</b>	<b>30,116</b>	<b>(822)</b>	<b>106,447</b>	<b>1,318</b>



The table shows the Group's derivatives and commercial contracts according to the type of accounting treatment and the items affected. 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 1.6 'Business performance' 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, inflation 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 currencies 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 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 'Significant changes in the current reporting period' provides further details on economic hedging, including information about the underlying products traded.

## 7.2 Hedge accounting and economic hedging

Hedge accounting 2018, DKKm	Contractual principal amount	Maturity analysis			Market value		Recognised in comprehen- sive income	Expected transfers to income statement		
		2019	2020	After 2020	Asset	Liability		2019	2020	After 2020
Hedging of cash flows										
Revenue (USD)	1,152	214	935	3	-	(55)	(55)	(11)	(42)	(2)
Divestments (GBP)	11,282	10,733	549	-	113	(36)	(51)	(49)	(2)	-
Interest payments (GBP)	2,721	543	543	1,635	-	(272)	(187)	(99)	(65)	(23)
Interest payments (fixed)	1,602	18	24	1,560	56	-	(193)	(41)	(38)	(114)
Revenue (UK inflation)	15,547	-	-	15,547	34	(103)	(69)	-	-	(69)
Hedging of fair value										
GBP (sell position)	5,911	(4,481)	-	10,392	60	(832)				
EUR (sell position)	4,477	-	-	4,477	11	-				
USD (buy position)	2,285	1,306	979	-	-	(106)				
Hedging of net investment										
GBP	23,281	2,879	428	19,974	1,075	(178)				
EUR	4,477	-	-	4,477	2	(13)				
USD	81	-	-	81	21	(19)				
2017, DKKm										
		2018	2019	After 2019				2018	2019	After 2019
Hedging of cash flows										
Revenue (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	-				

### 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 gains or losses are 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.

### Cash flow hedging

We have entered into forward exchange contracts 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 (2017: 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.

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 1.6 'Business performance'.

Our hedging of energy prices and commercial contracts recognised at market value is specified in the table below.

### 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.

	2018		2017	
	Contractual principal amount	Market value	Contractual principal amount	Market value
<b>Economic hedging and commercial contracts, DKKm</b>				
<b>Energy</b>				
Oil swaps	2,442	(182)	3,595	374
Gas swaps	5,717	(412)	6,939	(626)
Power swaps	16,543	(3,267)	7,745	(1,009)
Power options	2,900	48	2,941	280
Coal	325	7	176	41
<b>Currency</b>				
Forward exchange contracts	29,684	712	25,303	592
<b>Total</b>	<b>57,611</b>	<b>(3,094)</b>	<b>46,699</b>	<b>(348)</b>



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.

On 31 December 2018, the accumulated exchange rate adjustments totalled DKK -1,660 million divided between the exchange rate adjustment of the net investment of DKK -2,329 million and the hedging thereof of DKK 669 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

Ineffectiveness relating to hedging of net investments in foreign subsidiaries totalled DKK 0 million (2017: DKK 0 million).

transaction affects results. See note 1.6 'Business performance' 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.

### Hedging of net investments in foreign subsidiaries, DKKm

	Net investment <sup>1</sup>	Of which non-controlling interests	Hedged amount in currency	Net position	Accumulated exchange rate adjustment in equity
<b>2018</b>					
<b>Currency</b>					
GBP	46,468	(3,377)	(23,281)	19,810	(1,583)
EUR	23,871	-	(4,477)	19,394	14
USD	9,060	-	(81)	8,979	(48)
Other	237	-	-	237	(43)
<b>Total</b>	<b>79,636</b>	<b>(3,377)</b>	<b>(27,839)</b>	<b>48,420</b>	<b>(1,660)</b>
<b>2017</b>					
<b>Currency</b>					
GBP	35,991	(3,777)	(23,868)	8,346	(1,527)
EUR	13,784	-	(5,668)	8,116	(15)
USD	152	-	(150)	2	(18)
Other	134	-	-	134	(46)
<b>Total</b>	<b>50,061</b>	<b>(3,777)</b>	<b>(29,686)</b>	<b>16,598</b>	<b>(1,606)</b>



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 increased with 10% on 31 December 2018, equity would have increased by DKK 1,981 million, corresponding to 10% of DKK 19,810 million.

## 7.3 Energy 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 power and gas.

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 an economic hedging instrument (business performance hedge) 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, DKKm	2018		2017	
	Contractual principal amount	Market value	Contractual principal amount	Market value
Oil swaps	184	182	287	(361)
Gas swaps and options	1,126	308	2,772	170
Power swaps and options	5,142	(127)	5,566	363
Carbon emissions allowances	7	(43)	44	(14)
Coal	50	(7)	51	(40)
<b>Total</b>	<b>6,509</b>	<b>313</b>	<b>8,720</b>	<b>118</b>



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.

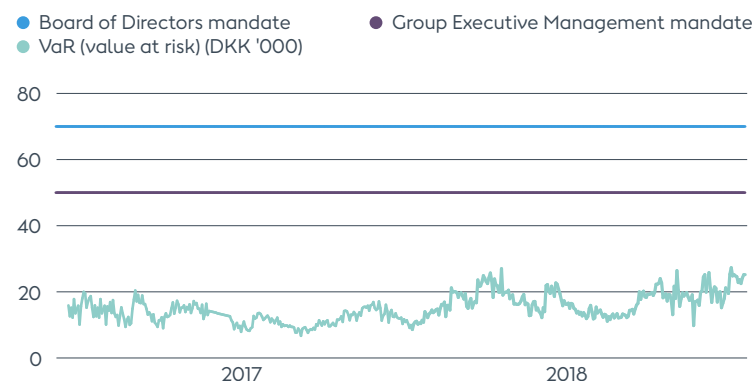
### Market trading mandates

VaR limit in 2018: DKK 70 million	Stress limit in 2018: 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.	<ul style="list-style-type: none"> <li>– Max. 15TWh of, gas</li> <li>– Max. 4 million boe of oil</li> <li>– Max. 8TWh of power</li> <li>– Max. 3 million tonnes of CO<sub>2</sub></li> <li>– Max. 2 million tonnes of coal</li> </ul>



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, DKKm



### Accounting policies

Market value adjustments of physical and financial contracts relating to energy that are entered into with the purpose of generating gains from short-term price changes are recognised as revenue.



The graph shows the daily value at risk position for the period 2017-2018. The mandates from the Board of Directors and Group Executive Management have not been breached during the period.

## 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 2018.

The 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, including 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.

### Sensitivity analysis of financial instruments DKKm

		31 December 2018			31 December 2017		
Risk	Price change	Effect on profit (loss) before tax		Effect on equity before tax	Effect on profit (loss) before tax		Effect on equity before tax
		Trading portfolio	Other financial instruments <sup>1</sup>		Trading portfolio	Other financial instruments <sup>1</sup>	
Oil	10%	(220)	230	-	10	134	-
	-10%	220	(230)	-	(10)	(134)	-
Gas	10%	12	(511)	-	(81)	(607)	-
	-10%	(12)	511	-	75	607	-
Power	10%	73	(2,385)	-	86	(952)	-
	-10%	(53)	2,365	-	(81)	959	-
Coal	10%	(33)	(5)	-	(6)	(43)	-
	-10%	33	5	-	6	43	-
USD	10%	(16)	(301)	(115)	91	131	(132)
	-10%	16	301	115	(91)	(131)	132
GBP	10%	51	(2,905)	(856)	31	(2,312)	(1,534)
	-10%	(51)	2,905	856	(31)	2,312	1,942
EUR	10%	(228)	(1,353)	420	419	(1,304)	522
	-10%	228	1,353	(420)	(419)	1,304	(522)
Interest	100 basis points	(454)	-	161	(565)	-	-
Inflation	100 basis points	-	-	(1,770)	-	-	-



<sup>1</sup> Other financial instruments, including derivatives classified as economic hedging, comprise 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 are considered to be neutral to price changes.

A 10% increase in the currencies hedged in connection with net investments would reduce equity by DKK -2,784 million (2017: DKK -2,969

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 put in place.

### Credit quality of the Group's counterparties, DKKm

	2018	2017
AAA/Aaa	20,949	23,329
AA/Aa	3,078	5,197
A/A	6,428	4,969
BBB/Baa	3,817	1,712
Non-rated	11,638	11,072
<b>Total credit exposure</b>	<b>45,910</b>	<b>46,279</b>



The table shows the credit quality of our counterparties, distributed by category. In addition, we have receivables and construction agreements related to the construction of offshore wind farms amounting to DKK 6,951 million (2017: DKK 13,349 million) where we have collateral in the offshore wind farm under construction.

### Offsetting of financial assets, DKKm

	Derivatives	Trade receivables	2018	Derivatives	Trade receivables	2017
Financial assets	12,173	23,173	35,346	9,743	33,270	43,013
Financial liabilities, offset	(7,435)	(20,060)	(27,495)	(5,000)	(29,480)	(34,480)
<b>Financial assets in the balance sheet</b>	<b>4,738</b>	<b>3,113</b>	<b>7,851</b>	<b>4,743</b>	<b>3,790</b>	<b>8,533</b>
Amounts not offset in the balance sheet:						
Liabilities with set-off rights	(1,485)	-	(1,485)	(1,611)	-	(1,611)
Collateral received in the form of bonds	(614)	-	(614)	(787)	-	(787)
<b>Net</b>	<b>2,639</b>	<b>3,113</b>	<b>5,752</b>	<b>2,345</b>	<b>3,790</b>	<b>6,135</b>

### Offsetting of financial liabilities, DKKm

	Derivatives	Trade payables	2018	Derivatives	Trade payables	2017
Financial liabilities	13,410	23,085	36,495	8,700	32,327	41,027
Financial assets, offset	(7,435)	(20,060)	(27,495)	(5,000)	(29,480)	(34,480)
<b>Financial liabilities in the balance sheet</b>	<b>5,975</b>	<b>3,025</b>	<b>9,000</b>	<b>3,700</b>	<b>2,847</b>	<b>6,547</b>
Amounts not offset in the balance sheet:						
Assets with set-off rights	(1,485)	-	(1,485)	(1,611)	-	(1,611)
Collateral provided in the form of bonds	(713)	-	(713)	(40)	-	(40)
<b>Net</b>	<b>3,777</b>	<b>3,025</b>	<b>6,802</b>	<b>2,049</b>	<b>2,847</b>	<b>4,896</b>

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 Group Executive Management. 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 2018 or 2017.

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 table shows our financial assets and liabilities where a share is offset and is therefore presented net. Offsetting is typically limited within specific products.

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.

### Accounting policies

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

## 7.6 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 'Interest-bearing debt'.

Categories of financial instruments, DKKm	2018	2017
Energy and currency derivatives	4,096	2,589
Securities	25,501	25,280
<b>Financial assets measured at fair value via the income statement</b>	<b>29,597</b>	<b>27,869</b>
Interest and inflation derivatives	90	-
Currency derivatives	1,282	2,281
<b>Derivatives (assets) used as hedging instruments</b>	<b>1,372</b>	<b>2,281</b>
Trade receivables	10,741	9,170
Other accounts receivable	8,896	8,812
<b>Financial assets measured at amortised cost</b>	<b>19,637</b>	<b>17,982</b>
Energy and currency derivatives	6,480	2,214
<b>Financial liabilities measured at fair value via the income statement</b>	<b>6,480</b>	<b>2,214</b>
Interest and inflation derivatives	103	-
Currency derivatives	1,511	2,160
<b>Derivatives (liabilities) used as hedging instruments</b>	<b>1,614</b>	<b>2,160</b>
Bank loans and issued bonds	27,296	29,636
Trade payables	13,082	11,499
Other accounts payable	3,207	2,767
<b>Financial liabilities measured at amortised cost</b>	<b>43,585</b>	<b>43,902</b>



The table shows our financial instruments divided into categories. The categories indicate how the financial instruments are recognised in the financial statement.

## 7.7 Fair value measurement

During 2018 we have entered into a number of power purchase agreements (PPAs) in the US accounted for at fair value. The duration of these PPAs are 13-15 year. Since power prices are only available in five to sixth years we have classified these agreements as based on non-observable input.

### 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 the external information that most accurately reflects the market values. We use pricing services and benchmark services to increase the data

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

### Deferred revenue from US power purchase agreements

The deferred revenue from US PPAs consist of losses not recognised at initial recognition since the market value is based on non-observable inputs. The US PPAs were taken over as part of the purchase of Lincoln Clean Energy in the US. The PPAs lock in the power price of the expected power generation over

a period of 13 to 15 years. These contracts are accounted for at fair value. Due to the long duration of these PPAs, power prices are not observable for a large part of the duration, whereby the estimated fair value is categorised as based on non-observable input.

The deferred revenue is recognised in profit or loss in the future period where the market value relate. In 2018, we have recognised an income of DKK 12 million related to the deferred fair value of PPAs not recognised in profit or loss at initial recognition. The total amount of deferred revenue as of 31 December 2018 amounts to DKK 1,183 million (2017: DKK 0 million).

### Significant non-observable inputs

Market values based on non-observable input comprise primarily long-term contracts on the purchase/sale of, in particular power and to a less extent gas, coal, USD, EUR. Since there are no active markets for the long-term prices of power and gas, the market values have been determined through an estimate of the future prices. Normally, the price can be observed for a maximum of four to sixth years in the power market, after which an active market no longer exists. When market prices are no longer available, the price is projected by extending the observable forward curve, only adjusted for the expected development in inflation.

Part of the purchase price of Deepwater Wind is a contingent consideration of DKK 657 million that we will pay upon Deepwater Wind successfully entering into two specific PPAs. The maximum payable consideration is DKK 657 million which we have also estimated to be the fair value, due to our strong expectation of successfully signing the agreements. 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 market value under other receivables.

### Fair value hierarchy DKKmn

	Assets			Liabilities	
	Securities	Derivatives	Other receivables	Derivatives	Other payables
<b>2018</b>					
Quoted prices	-	3	-	9	-
Observable input	25,501	5,206	-	7,179	-
Non-observable input	-	259	109	906	657
<b>Total 2018</b>	<b>25,501</b>	<b>5,468</b>	<b>109</b>	<b>8,094</b>	<b>657</b>
<b>2017</b>					
Quoted prices	22,490	444	-	667	-
Observable input	2,790	3,478	-	2,602	-
Non-observable input	-	948	105	1,105	-
<b>Total 2017</b>	<b>25,280</b>	<b>4,870</b>	<b>105</b>	<b>4,374</b>	<b>-</b>

## Derivatives valued on the basis of non-observable input, DKKm

	2018
Market value at 1 January	(157)
Value adjustments through profit or loss	61
Sales/redemptions	580
Purchases/issues	(1,814)
Additions due to acquisitions of enterprises	(1,184)
Transferred from quoted prices and observable input	(344)
Transferred to quoted prices and observable input	400
<b>Market value at 31 December before deferred gain/loss</b>	<b>(2,458)</b>
Deferred loss at initial recognition	1,811
<b>Market value at 31 December</b>	<b>(647)</b>

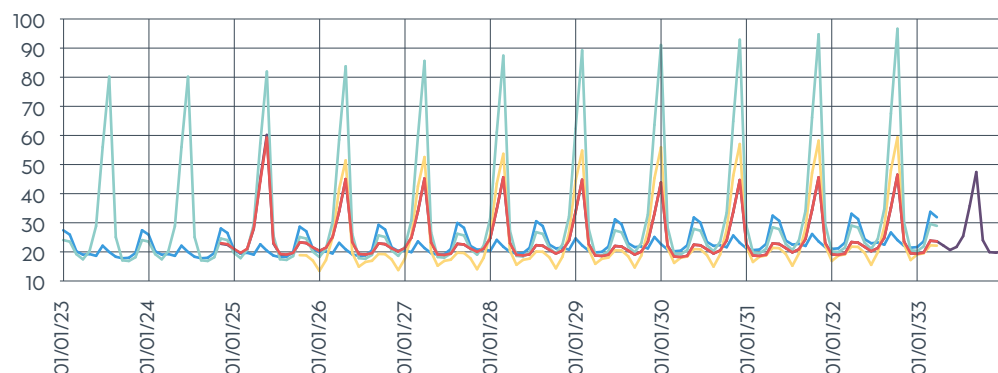
	2017
Market value at 1 January	(157)
Net changes in market value	-
<b>Market value at 31 December</b>	<b>(157)</b>



The table shows the movements during the year in the total market value (assets and liabilities) of derivatives valued on the basis of non-observable inputs.

## Non-observable inputs, US power prices

● SPP North RT ● Ercot North RT ● Ercot West DA ● Ercot West RT ● Ercot North DA



## Non-observable inputs per commodity price input, DKKm

	2018	2017
US power prices	(2,533)	-
Other power prices	(52)	(157)
Gas prices	127	-
<b>Total</b>	<b>(2,458)</b>	<b>(157)</b>



US power prices are the most significant non-observable input. The non-observable US power prices used as basis for the market values as of 31 December 2018 are illustrated in the graph below.

## Sensitivity of non-observable inputs, DKKm

	Market value	Sensitivity	
Non-observable inputs		+10%	-10%
ERCOT North real time, 2024-2033	(194)	(105)	105
ERCOT North day ahead, 2024-2033	(388)	(275)	275
ERCOT West day ahead, 2023-2033	(90)	(33)	33
ERCOT West real time, 2025-2033	(132)	(34)	34
SPP North real time, 2023-2033	(288)	(68)	68
<b>Total</b>	<b>(1,092)</b>	<b>(515)</b>	<b>515</b>



The table shows the market value related to the non-observable input for the stated period and sensitivity per power price index. The sensitivity illustrates the impact on the market value as of 31 December 2018 if the non-observable price increases/decreases by 10%. The most critical non-observable input is US power prices in the period 2023-2033. If power prices as of 31 December 2018 increased/decreased by 10%, the market value would decrease/increase by DKK 515 million. The sensitivity analysis is presented on the different US power price areas in the table above.

## Accounting policies

Market values based on quoted prices comprise quoted securities and derivatives that are traded in active markets. The market value of derivatives traded in an active market are often settled on a daily basis, thereby minimising the market value presented on the balance sheet.

Market values based on observable inputs comprise derivatives where valuation models with observable inputs are used to measure fair value.

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

In business combinations, gain (loss) at initial recognition on derivatives whose values are based on non-observable inputs are deferred and recognised in the period to which the value relate.



The graph shows the US power prices in the period where prices are not observable, and which we have used as basis for calculating market value as of 31 December 2018.

# 8. Other notes

Related-party transactions	159
Operating lease obligations	160
Auditor's fees	161
Contractual obligations	161
Company overview	162



# 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 the Ørsted A/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 'Company overview' 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 are described in notes 2.6 'Employee costs' and 2.7 'Share-based payment'.

Through a directly owned company, Peter Korsholm, board member, has had ordinary transactions with Danish Oil Pipe A/S, a wholly owned subsidiary in the Ørsted Group.

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, DKKm	2018	2017
Capital transactions, net	129	91
Sale of goods and services	16	-
Purchase of goods and services	(9)	(23)

Associates, DKKm		
Dividends received and capital reductions	15	14
Capital transactions, net	(20)	-
Sale of goods and services	-	7
Purchase of goods and services	(169)	(20)
Interest, net	3	1
Receivables	60	48

Owners, DKKm		
Sale of goods and services	-	58

Board of Directors, DKKm		
Purchase of goods and services	(139)	(110)
Payables	-	11

## 8.2 Operating lease obligations

Our total operating lease obligations decreased by DKK 1,300 million relative to last year. The decrease in the obligations is primarily due to the farm-down of the Hornsea 1 and run-off of existing leases. The acquisition of Lincoln Clean Energy (Onshore) and Deepwater Wind (Offshore) added DKK 635 million to the obligations (per 31 December 2018), which partly off-sets the first mentioned effects on the operating lease obligations.

Offshore's assets held under operating leases mainly comprise seabeds relating to the offshore wind farms in the UK and service vessels.

Onshore's leases comprise plots of land relating to onshore wind farms.

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 megawatt hours 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 778 million (2017: DKK 885 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.

We will implement the new lease accounting rules in IFRS 16 'Leases' on 1 January 2019. See note 1.4 'Implementation of new or changed accounting standards and interpretations'.

Operating lease obligations by segment 2018, DKKm					Other activities	Total
	Offshore	Onshore	Bioenergy	Customer Solutions		
0-1 year	737	15	9	159	198	1,118
1-3 years	584	31	13	159	409	1,196
3-5 years	363	31	14	161	399	968
5-10 years	731	75	36	20	1,007	1,869
10-15 years	726	79	39	0	280	1,124
After 15 years	748	284	62	0	38	1,132
<b>Total</b>	<b>3,889</b>	<b>515</b>	<b>173</b>	<b>499</b>	<b>2,331</b>	<b>7,407</b>
<b>Present value</b>	<b>2,336</b>	<b>308</b>	<b>112</b>	<b>310</b>	<b>1,753</b>	<b>4,819</b>

### Operating lease obligations by segment 2017, DKKm

0-1 year	462	-	11	145	171	789
1-3 years	1,148	-	16	238	404	1,806
3-5 years	433	-	13	159	403	1,008
5-10 years	1,032	-	35	101	1,024	2,192
10-15 years	1,022	-	38	0	454	1,514
After 15 years	1,276	-	71	0	51	1,398
<b>Total</b>	<b>5,373</b>	<b>-</b>	<b>184</b>	<b>643</b>	<b>2,507</b>	<b>8,707</b>
<b>Present value</b>	<b>3,638</b>	<b>-</b>	<b>117</b>	<b>453</b>	<b>1,887</b>	<b>6,095</b>

### Supplementary information to operating lease obligations, continuing operations, DKKm

	2018	2017
Present value of lease payments	4,819	6,095
Lease payments recognised in profit (loss) for the year	778	885
Calculated interest expenses on lease obligations	196	234
Discount rate applied	3.5%	3.5%



The present value is calculated by discounting the individual obligations each year using our internal discount rate of 3.5% (2017: 3.5%).

## 8.3 Auditor's fees

PwC is Ørsted's auditor 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.

It is our policy that the annual fee for non-audit services provided by our statutory auditor cannot exceed the annual fee for statutory audit services measured at Group level. The cap may be exceeded subject to approval by the Audit and Risk Committee.

Other assurance engagements primarily included reviews of ESG data and reviews 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 Danish 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 9 million (2017: DKK 8 million) and consisted of accounting and tax advice in connection with both acquisition and divestment of assets and enterprises, review of ESG data and other general accounting and tax advice.

### Auditor's fees, DKKm

	2018	2017
<b>Audit and audit-related fees</b>		
Statutory audit	11	11
Other assurance engagements	2	2
<b>Non-audit services</b>		
Tax and VAT advice	3	4
Other services	7	7
<b>Total fees to PwC</b>	<b>23</b>	<b>24</b>
<b>Fee for non-audit services in percent of statutory audit fee</b>	<b>94%</b>	<b>100%</b>



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 2018, contractual obligations in Offshore mainly related to offshore wind turbines, foundations and cables, etc., for the construction of offshore wind farms. The obligations in Onshore mainly related to purchases of onshore wind

turbines. In Bioenergy, the obligations mainly related to the biomass conversion of Asnæs Power Station, while the obligations of Customer Solutions related to the roll-out of smart meters.

Contractual obligations by segment, DKKm	Offshore	Onshore	Bioenergy	Customer Solutions	Total
0-1 year	13,258	1,957	417	546	16,178
1-5 years	5,555	854	18	-	6,427
<b>2018</b>	<b>18,813</b>	<b>2,811</b>	<b>435</b>	<b>546</b>	<b>22,605</b>
<b>2017</b>	<b>31,485</b>	<b>-</b>	<b>890</b>	<b>1,121</b>	<b>33,496</b>



Overview of concluded contracts where delivery had not taken place at 31 December 2018.

## 8.5 Company overview

Segment/company/registered office	Type <sup>1</sup>	Ownership interest
<b>Parent company</b>		
Ørsted A/S, Fredericia, Denmark	-	-
<b>Offshore</b>		
Anholt Havvindmøllepark I/S <sup>2,3</sup> , Fredericia, Denmark	JO	50%
Barrow Offshore Wind Limited, London, UK	S	100%
Bay State HoldCo LLC., Delaware, USA	JO	50%
Bay State Wind LLC <sup>2</sup> , Delaware, USA	JO	50%
Boreas B.V., Gravenhage, Netherlands	S	100%
Borkum Riffgrund I Holding A/S, Fredericia, Denmark	S	100%
Borkum Riffgrund I Offshore Windpark A/S GmbH & Co. oHG, Norden, Germany	S	50%
Borkum Riffgrund 2 Holding GmbH, Hamburg, Germany	S	100%
Borkum Riffgrund 2 Offshore Wind Farm GmbH & Co. oHG, Norden, Germany	JO	50%
Borssele Wind Farm C.V., Gravenhage, Netherlands	S	100%
Breesea Limited, London, UK	S	100%
BSW Holdco LLC, Delaware, USA	JO	50%
BSW Projectco LLC <sup>2</sup> , Delaware, USA	JO	50%
Burbo Extension Holding Ltd, London, UK	JO	50%
Burbo Extension Ltd <sup>2</sup> , London, UK	S	50%
Celtic Array Limited, Berkshire, UK	JV	50%
Cerulea Limited, London, UK	S	100%
CT Offshore A/S under frivillig likvidation, Fredericia, Denmark	S	100%
Cygnus Wind Transmission Limited, London, UK	S	100%
CH-SP Series 7-05 (C), LLC, Delaware, USA	S	100%
CH-SP Series 13-05 (C), LLC, Delaware, USA	S	100%
CH-SP Series 15-01 (C), LLC, Delaware, USA	S	100%
CH-SP Series 17-01 (C), LLC, Delaware, USA	S	100%
Deepwater Wind, LLC, Delaware, USA	S	100%
Deepwater Wind Block Island Transmission, LLC, Delaware, USA	S	100%

Segment/company/registered office	Type <sup>1</sup>	Ownership interest
Deepwater Wind Block Island, LLC, Delaware, USA	S	100%
Deepwater Wind Block Island Holdings, LLC <sup>2</sup> , Delaware, USA	S	100%
Deepwater Wind Hudson Canyon, LLC, Delaware, USA	S	100%
Deepwater Wind New England, LLC, Delaware, USA	S	100%
Deepwater Wind New Jersey, LLC, Delaware, USA	S	100%
Deepwater Wind New York, LLC, Delaware, USA	S	100%
Deepwater Wind Operating, LLC, Delaware, USA	S	100%
Deepwater Wind Rhode Island, LLC (taxed as corporation), Delaware, USA	S	100%
Deepwater Wind South Fork, LLC, Delaware, USA	S	100%
DWBI Class B member, LLC, Delaware, USA	S	100%
DWW MARI Holdings, LLC, Delaware, USA	S	100%
DWW Rev 1, LLC, Delaware, USA	S	100%
Euros B.V., Gravenhage, Netherlands	S	100%
Formosa I International Investment Co., Limited, Taipei City, Taiwan	JV	35%
Formosa I Wind Power Co <sup>2</sup> , Ltd, Taipei City, Taiwan	JV	35%
Garden State Offshore Energy, LLC, Delaware, USA	JV	50%
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 <sup>2</sup> , London, UK	S	50%
Gunfleet Sands Limited <sup>2</sup> , London, UK	S	50%
GSOE I, LLC, Delaware, USA	JV	50%
Horns Rev I Offshore Wind Farm, Fredericia, Denmark	JO	40%
Hornsea 1 Holdings Limited, London, UK	JO	50%
Hornsea 1 Limited <sup>2</sup> , London, UK	JO	50%
Lincs Renewable Energy Holdings Limited, London, UK	JO	50%

Segment/company/registered office	Type <sup>1</sup>	Ownership interest	Segment/company/registered office	Type <sup>1</sup>	Ownership interest
Lincs Wind Farm (Holding) Limited, London, UK	JO	25%	Orsted London Array II Limited, London, UK	S	100%
Lincs Wind Farm Limited <sup>2</sup> , Aberdeen, UK	JO	25%	Orsted London Array Limited, London, UK	S	100%
London Array Limited, Kent, UK	JO	25%	Orsted North America Inc., Delaware, USA	S	100%
Morecambe Wind Limited, London, UK	JO	50%	Orsted Power (Gunfleet Sands) Ltd, London, UK	S	100%
Njord Limited <sup>2</sup> , London, UK	S	50%	Orsted Power (Participation) Ltd, London, UK	S	100%
Northeast Wind Energy LLC, Delaware, USA	S	50%	Orsted Power (UK) Limited, London, UK	S	100%
Northern Energy OWP West GmbH, Hamburg, Germany	S	100%	Orsted Race Bank (Holding) Ltd., London, UK	S	100%
Notos B.V., Gravenhage, Netherlands	S	100%	Orsted Shell Flats (UK) Limited, London, UK	S	100%
Nysted Havmøllepark I, Fredericia, Denmark	JO	43%	Orsted Speicher R GmbH, Hamburg, Germany	S	100%
Nysted I A/S, Fredericia, Denmark	S	86%	Orsted Taiwan Ltd., Taipei City, Taiwan	S	100%
Nördlicher Grund GmbH, Hamburg, Germany	S	100%	Orsted UK III Limited, London, UK	S	100%
Ocean Wind LLC, Delaware, USA	S	100%	Orsted US East Coast Offshore Wind Holdco, LLC, Delaware, USA	S	100%
OFTRAC Limited, London, UK	S	100%	Orsted US East Coast Offshore Wind, LLC, Delaware, USA	S	100%
Optimus Wind Limited, London, UK	S	100%	Orsted Walney Extension Holdings Limited, London, UK	S	100%
Optimus Wind Transmission Limited, London, UK	S	100%	Orsted West of Duddon Sands (UK) Limited, London, UK	S	100%
Orsted Borkum Riffgrund I GmbH, Hamburg, Germany	S	100%	Orsted Westernmost Rough Limited, London, UK	S	100%
Orsted Borkum Riffgrund I HoldCo GmbH, Hamburg, Germany	S	100%	Orsted Wind Power A/S (branch)	S	100%
Orsted Borkum Riffgrund West I GmbH, Hamburg, Germany	S	100%	Orsted Wind Power Germany GmbH, Hamburg, Germany	S	100%
Orsted Borkum Riffgrund West II GmbH, Hamburg, Germany	S	100%	Orsted Wind Power Netherlands B.V., 's-Gravenhage, Netherlands	S	100%
Orsted Borssele 1 B.V., 's-Gravenhage, Netherlands	S	100%	Orsted Wind Power Netherlands Holding B.V., 's-Gravenhage, Netherlands	S	100%
Orsted Borssele Holding B.V., 's-Gravenhage, Netherlands	S	100%	Orsted Wind Power North America LLC, USA, Delaware, USA	S	100%
Orsted Burbo (UK) Limited, London, UK	S	100%	Preparatory Office of Greater Changhua Offshore Wind Farm NE Ltd., Changhua County, Taiwan	S	100%
Orsted Burbo Extension Holding Ltd, London, UK	S	100%	Preparatory Office of Greater Changhua Offshore Wind Farm NW Ltd., Changhua County, Taiwan	S	100%
Orsted Gode Wind 1 Holding GmbH, Hamburg, Germany	S	100%	Preparatory Office of Greater Changhua Offshore Wind Farm SE Ltd., Changhua County, Taiwan	S	100%
Orsted Gode Wind 2 GmbH, Hamburg, Germany	S	100%	Preparatory Office of Greater Changhua Offshore Wind Farm SW Ltd., Changhua County, Taiwan	S	100%
Orsted Gunfleet Sands Demo Ltd, London, UK	S	100%	Race Bank Wind Farm (Holding) Limited, London, UK	JO	50%
Orsted Hornsea 1 Holdings Limited	S	100%	Race Bank Wind Farm Limited <sup>2</sup> , London, UK	JO	50%
Orsted Hornsea Project Four Limited, London, UK	S	100%	Rhiannon Wind Farm Limited <sup>2</sup> , Windsor, UK	JV	50%
Orsted Hornsea Project Three (UK) Limited, London, UK	S	100%	Scarweather Sands Limited, Coventry, UK	JV	50%
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%			

Segment/company/registered office	Type <sup>1</sup>	Ownership interest	Segment/company/registered office	Type <sup>1</sup>	Ownership interest
Skipjack Offshore Energy, LLC, Delaware, USA	S	100%	Dermott Wind, LLC <sup>2</sup> , Delaware, USA	S	100%
SMart Wind Limited, London, UK	S	100%	Emerick Wind, LLC, Delaware, USA	S	100%
SMRT Line, LLC, Delaware, USA	S	100%	Helena Wnd, LLC, Delaware, USA	S	100%
Sonningmay Wind Limited, London, UK	S	100%	LCE Asset Management Services, LLC, Delaware, USA	S	100%
Soundmark Wind Limited, London, UK	S	100%	LCE Dermott Holdings, Inc., Delaware, USA	S	100%
UMBO GmbH, Hamburg, Germany	JV	90%	LCE Services, LLC, Delaware, USA	S	100%
VI Aura Limited <sup>2</sup> , London, UK	JO	50%	LCE Turbine Holdings, Inc., Delaware, USA	S	100%
VI Aura Transmission Limited, London, UK	S	100%	LCE Wind Turbine Company, LLC, Delaware, USA	S	100%
Walney (UK) Offshore Windfarms Limited, London, UK	S	50%	LCE WS Holdings, Inc., Delaware, USA	S	100%
Walney Extension Holdings Limited, London, UK	JO	50%	Lincoln Clean Energy Development, LLC, Delaware, USA	S	100%
Walney Extension Limited <sup>2</sup> , London, UK	JO	50%	Lincoln Clean Energy, LLC, Delaware, USA	S	100%
West of Duddon Sands, London, UK	JO	50%	Lockett Windfarm Class B Member, LLC, Delaware, USA	S	100%
Westermost Rough (Holding) Limited, London, UK	JO	50%	Lockett Windfarm Project Holdings, LLC, Delaware, USA	S	100%
Westermost Rough Limited <sup>2</sup> , London, UK	JO	50%	Lockett Windfarm, LLC, Delaware, USA	S	100%
Zephyrus B.V. Gravenhage, Netherlands	S	100%	Napoleon Wind, LLC, Delaware, USA	S	100%
Ørsted - Anholt Offshore A/S, Fredericia, Denmark	S	100%	NJ Oak Solar Finco, LLC, Delaware, USA	S	100%
Ørsted Horns Rev 2 A/S, Fredericia, Denmark	S	100%	NJ Oak Solar Holdco, LLC, Delaware, USA	S	100%
Ørsted Horns Rev I A/S, Fredericia, Denmark	S	100%	NJ Oak Solar, LLC, Delaware, USA	S	100%
Ørsted Nearshore Wind ApS, Fredericia, Denmark	S	100%	Pactolus Solar, LLC, Delaware, USA	S	100%
Ørsted VE A/S, Fredericia, Denmark	S	100%	Orsted Renewables N.A. LLC, Delaware, USA	S	100%
Ørsted Vind A/S, Fredericia, Denmark	S	100%	Plum Creek Wind, LLC, Delaware, USA	S	100%
Ørsted Wind Power A/S, Fredericia, Denmark	S	100%	Rockwood Energy Center, LLC, Delaware, USA	S	100%
Ørsted Wind Power A/S, Taiwan Branch	S	100%	Sage Draw Wind, LLC, Delaware, USA	S	100%
Ørsted Wind Power Denmark A/S, Fredericia, Denmark	S	100%	Shawnee Energy Center, LLC, Delaware, USA	S	100%
Ørsted Wind Power Holding A/S, Fredericia, Denmark	S	100%	SP Energy 1, LLC, Delaware, USA	S	100%
Ørsted Wind Power TW Holding A/S, Fredericia, Denmark	S	100%	SP Energy DM, LLC, Delaware, USA	S	100%
<b>Onshore</b>			SP Energy ET, LLC, Delaware, USA	S	100%
2w Permian Solar, LLC, Delaware, USA	S	100%	SP Energy GL, LLC, Delaware, USA	S	100%
Antelope Flats Wind, LLC, Delaware, USA	S	100%	SP Energy PV, LLC, Delaware, USA	S	100%
Badger Wind, LLC, Delaware, USA	S	100%	SP Energy TL, LLC, Delaware, USA	S	100%
Dermott Wind Class B Holdco, LLC, Delaware, USA	S	100%	St Lawrence Solar, LLC, Delaware, USA	S	100%
Dermott Wind Class B Member, LLC, Delaware, USA	S	100%	Staked plains Energy, LLC, Delaware, USA	S	100%

Segment/company/registered office	Type <sup>1</sup>	Ownership interest
Tahoka Wind Class B Holdco, LLC, Delaware, USA	S	100%
Tahoka Wind Class B Member, LLC, Delaware, USA	S	100%
Tahoka Wind Project Holdings, LLC <sup>5</sup> , Delaware, USA	S	100%
Tahoka Wind, LLC, Delaware, USA	S	100%
Western Trail Wind, LLC, Delaware, USA	S	100%
Willow Springs Class B Holdco, LLC, Delaware, USA	S	100%
Willow Springs Class B Member, LLC, Delaware, USA	S	100%
Willow Springs Project Holdings, LLC <sup>5</sup> , Delaware, USA	S	100%
Willow Springs Windfarm, LLC, Delaware, USA	S	100%
<b>Bioenergy</b>		
Cure Renescience B.V., 's-Gravenhage, Netherlands	JV	50%
DE Thermal Power Nr. 1 A/S in voluntary liquidation, Fredericia, Denmark	S	100%
DONG Energy New Bio Solutions Co. Ltd., China	S	100%
Emineral A/S, Fredericia, Denmark	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	JV	40%
Konsortiet for etablering af Maabjerg Energy Concept <sup>2</sup> , Holstebro, Denmark	NC	50%
Maabjerg Energy Concept A/S, Fredericia, Denmark	S	70%
Orsted Bioenergy & Thermal Power A/S (UK branch)	S	100%
Orsted Energy Storage & Solar N.A. LLC, Delaware, USA	S	100%
Orsted ESS Mersey Limited, London, UK	S	100%
Orsted Holding Ludwigsau I GmbH, Hamburg, Germany	S	100%
Orsted Kraftwerke Holding GmbH, Hamburg, Germany	S	100%
Orsted Netherlands 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 Limited., London, UK	S	100%

Segment/company/registered office	Type <sup>1</sup>	Ownership interest
Stigsnæs Vandindvinding I/S, Slagelse, Denmark	NC	64%
Vejen Kraftvarmeværk A/S in voluntary liquidation, Fredericia, Denmark	S	100%
Wilson Battery Storage LLC, Delaware, USA	S	100%
Ørsted Bioenergy & Thermal Power A/S <sup>4</sup> , Fredericia, Denmark	S	100%
Ørsted Energy Storage Solution Holding A/S, Fredericia, Denmark	S	100%
Ørsted GWS Avedøre Biogas 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%
<b>Customer Solutions</b>		
Danish Offshore Gas Systems A/S, Fredericia, Denmark	S	100%
Danish Oil Pipe A/S, Fredericia, Denmark	S	100%
Etzel-Kavernenbetriebsgesellschaft mbH & Co. KG, Bremen, Germany	A	33%
Etzel-Kavernenbetriebs-Verwaltungsgesellschaft mbH, Bremen, Germany	A	33%
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 <sup>3</sup> , 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%
Orsted Salg & Service A/S (UK branch)	S	100%
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%
Valified ApS, Copenhagen, Denmark	A	31%
Ørsted Pipelines A/S, Fredericia, Denmark	S	100%
Ørsted Real Estate A/S, Fredericia, Denmark	S	100%
Ørsted Sales & Distribution A/S, Fredericia, Denmark	S	100%
Ørsted Salg & Service A/S, Fredericia, Denmark	S	100%

Segment/company/registered office	Type <sup>1</sup>	Ownership interest
<b>Other</b>		
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%
Ørsted (UK) Limited, London, UK	S	100%
Ørsted Holdings N.A. Inc, Delaware, USA	S	100%
Ørsted Services Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia	S	100%
Ørsted Venture N.A. LLC, Delaware, USA	S	100%
Ørsted Polska Sp. z o. o., Warszawa, Poland	S	100%
Ørsted EGJ A/S, Fredericia, Denmark	S	100%
Ørsted EL A/S <sup>2</sup> , Fredericia, Denmark	S	100%
Ørsted Insurance A/S <sup>2</sup> , Fredericia, Denmark	S	100%
Ørsted North America Holding A/S, Fredericia, Denmark	S	100%
Ørsted nr. 1 2008 A/S <sup>3 4</sup> , Fredericia, Denmark	S	100%
Ørsted Nr. 1 2014 A/S <sup>3 4</sup> , Fredericia, Denmark	S	100%
Ørsted Nr. 2 2014 A/S <sup>3 4</sup> , Fredericia, Denmark	S	100%
Ørsted Nr. 3 2014 A/S <sup>3 4</sup> , Fredericia, Denmark	S	100%
Ørsted Nr. 4 2014 A/S <sup>3 4</sup> , Fredericia, Denmark	S	100%
Ørsted Services A/S <sup>4</sup> , Fredericia, Denmark	S	100%



<sup>1</sup> S = subsidiary

A = associate

JO = joint operation

JV = joint venture

NC = non-consolidated entity

<sup>2</sup> The company is owned through a company which is not owned 100% by Ørsted. The disclosed ownership interest is Ørsted's ultimate ownership interest in the company.

<sup>3</sup> The company applies the provision in section 5 or section 6 of the Danish Financial Statements Act to omit presenting a separate annual report.

<sup>4</sup> Subsidiaries owned directly by Ørsted A/S.

<sup>5</sup> One or more tax equity partners own an insignificant share of the company. See note 4.5 'Tax equity liabilities'. The company is fully consolidated.



# Consolidated ESG statements (additional information)

Basis of reporting	168
Environment	169
Social	171
Governance	172



# Basis of reporting

## Consolidated environmental, social and governance (ESG) statements

In the consolidated ESG statements, we give an account of our results, objectives and accounting policies for the ESG data included in the management's review in this report.

Our full ESG data set can be seen in the independent publication '[ESG performance report 2018](#)'. The ESG performance report also includes additional information, such as selected ESG indicators by country and all ESG accounting policies, including a list of references for conversion factors used in calculations.

## Scope and consolidation

Unless otherwise stated, ESG data is reported on the basis of the same principles as the financial statements. Thus, the consolidated ESG statements include consolidated data from the parent company, Ørsted A/S, and subsidiaries controlled by Ørsted A/S. Data from associates and joint ventures are not included.

The consolidation of safety data deviates from the above described principles. Safety data is collected using an operational scope. This means that we, irrespective of our ownership share, include 100% of injuries and hours worked etc., from all operations where Ørsted is responsible for safety, including safety for external suppliers.

Data from acquisitions and divestments are included/excluded from the date of acquisition/divestment.

## Danish Financial Statements Act, sections 99a and 99b

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, the environment and the climate. By publishing our sustainability report ([orsted.com/sustainability2018](#)), Ørsted complies with section 99a of the Danish Financial Statements Act.

Ørsted's work for greater gender diversity at management level is reported in accordance with section 99b of the Danish Financial Statements Act. The reporting of gender diversity can be seen in our ESG performance report 2018.

## Business changes in 2018 affecting ESG data

Acquisition of:

- Lincoln Clean Energy (onshore wind power)
- Deepwater Wind (offshore wind power).

Divestment of:

- 50% of Hornsea 1 (offshore wind farm)
- Enecogen (thermal power plant, fossil).

Commissioning of:

- Race Bank (offshore wind farm)
- Walney Extension (offshore wind farm)
- Borkum Riffgrund 2 (offshore wind farm)
- Tahoka (onshore wind farm).

## New ESG indicators in 2018

- Installed renewable capacity.
- Awarded and contracted capacity.
- Onshore wind generation indicators.
- Solar power generation.
- Avoided carbon emissions (was reported in the 2017 ESG performance report).
- Job creation from offshore wind.
- People powered from offshore wind.
- Additional Board of Directors and Group Executive Management information.

## Discontinued ESG indicators

- Wind energy content (replaced by wind speed).
- Employee loyalty (refer to the ESG performance report 2018).



Our full ESG data set can be seen in the ESG performance report 2018. ([orsted.com/ESGperformance2018](#))

# 8.3GW

Our installed renewable capacity increased by 44% from 2017 to 2018. We have a target of 30GW installed renewable capacity in 2030.

# 75%

The green share of our heat and power generation increased from 64% in 2017 to 75% in 2018. We have a target of 99% in 2025.

# 131g

Our greenhouse gas intensity was reduced by 13% to 131g CO<sub>2</sub>/kWh in 2018. Our target is to reach 10g CO<sub>2</sub>/kWh in 2025.

# 4.7

Total recordable injury rate (TRIR) has been reduced from 6.4 in 2017 to 4.7 in 2018. Our target is to reach 3.3 or below in 2025.

# Environment

Strategic target	Business driver	Indicator	Unit	Target	2018	2017
●		<b>Green share of heat and power generation</b>	<b>%</b>	<b>99 (2025)<sup>1</sup></b>	<b>75</b>	<b>64</b>
●		<b>Greenhouse gas intensity</b>	<b>g CO<sub>2</sub>e/kWh</b>	<b>≤ 10 (2025)<sup>2</sup></b>	<b>131</b>	<b>151</b>
●		<b>Installed renewable capacity</b>	<b>MW</b>	<b>30GW (2030)</b>	<b>8,303</b>	<b>5,763</b>
●		– Offshore wind	MW	15GW (2025)	5,602	3,875
	●	– Onshore wind	MW		803	-
	●	– Onshore, solar	MW		10	-
	●	– Thermal heat, biomass	MW		1,888	1,888
●		<b>Decided (FID) renewable capacity (not yet installed)</b>	<b>MW</b>		<b>3,665</b>	<b>5,178</b>
	●	– Offshore wind	MW		3,356	5,053
	●	– Onshore wind	MW		184	-
	●	– Thermal heat, biomass	MW		125	125
●		<b>Awarded and contracted renewable capacity (no FID yet)</b>	<b>MW</b>		<b>4,796</b>	<b>590</b>
	●	– Offshore wind	MW		3,916	590
	●	– Onshore wind	MW		530	-
	●	– Onshore, solar	MW		350	-
●		<b>Sum of installed and FID renewable capacity</b>	<b>MW</b>		<b>11,968</b>	<b>10,941</b>
●		<b>Sum of installed, FID, awarded and contracted renewable capacity</b>	<b>MW</b>		<b>16,764</b>	<b>11,531</b>

<sup>1</sup> additional target is >95% (2023)

<sup>2</sup> additional target is ≤ 100 (2020) and ≤ 20 (2023)

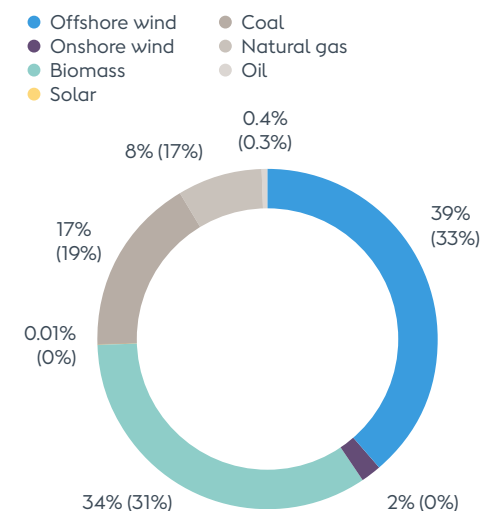
In 2018, we defined an ambition of installing more than 30GW of green capacity by 2030 across offshore wind, onshore wind, bioenergy and solar PV technologies. In addition, our ambition is to have installed 15GW of offshore wind capacity by 2025, up from our previous target of 11-12GW.

The installed renewable capacity increased by 44% in 2018 due to the new offshore wind farms Race Bank, Walney Extension and Borkum Riffgrund 2. In addition, we acquired a small offshore wind farm Block Island, two onshore wind farms Willow Springs and Amazon and commissioned Tahoka.



Our greenhouse gas intensity was reduced by 13% for the same reasons as for the renewable energy share (described to the right). We are well on track to meet our target of a greenhouse gas emission intensity of no more than 20g CO<sub>2</sub>e/ kWh in 2023 and 10g CO<sub>2</sub>e/ kWh in 2025.

**Total heat and power generation 2018 (2017) by energy source**



The green (renewable) share of our heat and power generation amounted to 75% in 2018, up 11 percentage points relative to 2017. The increase was due to higher generation from offshore wind farms, new onshore wind farms, a larger share of biomass-based generation as a result of the conversion of Skærbæk Power Station as well as lower use of gas following the divestment of the Enecogen power plant.

Our target is 99% green energy generation in 2025.

Strategic target	Business driver	Indicator	Unit	Target	2018	2017	
		<b>Generation, power and heat total</b>	<b>TWh</b>		<b>26.0</b>	<b>25.7</b>	
	●	Power generation	TWh		17.2	16.7	
	●	– Offshore wind	TWh		10.0	8.5	
	●	– Onshore wind	TWh		0.5	-	
	●	– Solar	TWh		0.003	-	
	●	– Thermal	TWh		6.7	8.2	
	●	Heat generation, thermal	TWh		8.8	9.0	
		<b>Offshore wind indicators</b>					
	●	Generation capacity	GW		3.0	2.5	
	●	Wind speed	m/s		9.1	9.3	
	●	Load factor	%		42	44	
	●	Availability	%		93	93	
		<b>Onshore wind indicators</b>					
		Generation capacity	GW		0.8	-	
	●	Wind speed	m/s		7.3	-	
	●	Load factor	%		41	-	
	●	Availability	%		92	-	
		<b>Thermal heat and power generation indicators</b>					
		Power generation capacity	GW		2.8	3.4	
		Heat generation capacity	GW		3.4	3.4	
	●	Degree days, Denmark	Number		2,526	2,705	
		Coal share of fuels	%	0 (2023)	38	30	
		Sourcing of certified biomass	%	100% (2020)	83	72	
		Biomass share of thermal heat and power generation	%		58	47	
		<b>Avoided carbon emissions</b>	<b>Million tonnes CO<sub>2</sub>e</b>		<b>8.1</b>	<b>6.7</b>	
		– Offshore wind	Million tonnes CO <sub>2</sub> e		6.3	5.3	
		– Onshore wind	Million tonnes CO <sub>2</sub> e		0.4	-	
		– Biomass-converted generation	Million tonnes CO <sub>2</sub> e		1.4	1.4	



Offshore generation capacity increased by 20% to 3.0GW in 2018 following commissioning of Race Bank, Walney Extension and Borkum Riffgrund 2 and acquisition of Deepwater Wind.

The acquisition of Lincoln Clean Energy added 0.8GW onshore capacity in 2018.

The higher wind capacity contributed to a 24% increase in wind-based generation in 2018.

Thermal power generation decreased by 18% in 2018, mainly due to the divestment of the Dutch power plant Enecogen. Power generation from Danish power plants increased by 4%, while thermal heat generation decreased by 2%.

The coal share of fuels increased in 2018 as we experienced a higher demand for power in periods where we were not generating heat. In these periods, fossil fuels are normally used. This was offset by a reduction in the use of natural gas and an increase in the use of biomass, resulting in an 11 percentage points higher biomass share of our thermal energy generation.

The certified share of renewable woody biomass increased from 72% in 2017 to 83% in 2018. The suppliers are still in the process of introducing certifications in their production and supply chains, and only a few suppliers have certified their entire production. We expect the suppliers to continually increase their share of certification. Our target is to source all woody forest-based biomass as certified sustainable biomass by 2020.

Due to the increase in renewable energy generation, the amount of avoided carbon emissions increased by 21% from 2017 to 2018. In 2018, our renewable energy generation avoided 8.1 million tonnes carbon dioxide.

# Social

Strategic target	Business driver	Indicator	Unit	Target	2018	2017
●	<b>Employees</b>					
		Total number of employees at 31 December	Number of FTEs		6,080	5,638
		Average number of employees for the year	Number of FTEs		5,796	5,738
		Employee satisfaction	Scale 0-100	≥ 77 (2020)	76	76
●	<b>Safety</b>					
		Fatalities	Number	0	0	0
		LTIF (lost-time injury frequency)	Per million working hours		1.5	1.6
		TRIR (total recordable injury rate)	Per million working hours	≤ 3.3 (2025)	4.7	6.4
●	<b>Sales and distribution</b>					
	●	Gas sales	TWh		131.1	129.0
	●	Power sales	TWh		35.2	37.5
	●	Power distribution	TWh		8.4	8.4
●	<b>Reliability of supply</b>					
		Reliability of supply (power cuts per customer, SAIFI)	Number		0.65	0.42
●	<b>Customer satisfaction</b>					
		Customer satisfaction, B2B	Scale 1-100	≥ 80 (2020)	75	77
		Customer satisfaction, B2C in Denmark	Scale 1-100	≥ 80 (2020)	74	76
		Customer satisfaction, distribution customers in Denmark	Scale 1-100	≥ 80 (2020)	81	82
●	<b>Job year creation from offshore wind power value chain</b>					
		Total job years over asset lifespans (based on installed and FID capacity)	1,000 FTE years		179	179
		– Based on installed capacity	1,000 FTE years		112	78
		– Based on decided capacity (FID), not yet installed	1,000 FTE years		67	101
●	<b>People powered from offshore wind farms</b>					
		Based on installed capacity	Million people		12.5	8.6



The number of employees increased by 8% from 2017 to 2018.

Employee satisfaction continued to be 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 2018. Our total recordable injury rate (TRIR) declined from 6.4 in 2017 to 4.7 in 2018. We registered 98 total recordable injuries (TRIs), 61 of which involved employees working for our suppliers. LTIF decreased from 1.6 in 2017 to 1.5 in 2018. There were no fatal accidents in 2018. We have set a new ambitious target for TRIR of 3.3 or lower by 2025.

The increase in power cuts per customer (SAIFI) was a result of more interruptions from cable cuts from excavation activities and a higher fault rate on our high voltage grids.

In a lifecycle perspective, our and our partners' investments in deploying green offshore energy have created 179,000 job years.

Our 2025 target of 15GW offshore wind capacity corresponds to more than 30 million people powered. Our 2030 target of 30GW renewable energy corresponds to more than 50 million people powered.

# Governance

Strategic target	Business driver	Indicator	Unit	Target	2018	2017	
		<b>Board of Directors, Ørsted A/S</b>					<p>↶</p> <p>The Board of Directors is responsible for the overall management of the company and appoints the Executive Board. The Board of Directors lays down the company's strategy and makes decisions concerning major investments and divestments, the capital base, key policies, controls and audit matters, risk management and significant operational issues.</p> <p>Since climate change is fundamental to Ørsted's business strategy and all our investments, climate-related issues are directly or indirectly an agenda item at all board meetings. As such, climate-related issues are integrated in reviewing and guiding strategy, performance and in all aspects of decision-making.</p> <p>The Board of Directors monitors progress against Ørsted's strategic goals and targets for addressing climate-related issues.</p> <p>Our employees and other associates may report serious offences, such as cases of bribery, fraud and other criminal offences, through our whistleblower scheme or through our management system. In 2018, two substantiated cases of inappropriate or unlawful behavior were reported through our whistleblower scheme. One case concerned violation of procure-to-pay policies, and one case concerned misappropriation of assets. The cases had consequences for the individuals involved. None of the reported cases were critical to our business or impacted our financial results.</p> <p>Whistleblower cases are taken very seriously, and we conducted an awareness campaign to avoid similar cases.</p>
		Independent board members	%		100	83	
		<b>Gender diversity</b>					
		Members, female	Number		3	3	
		Members, male	Number		5	3	
		Gender with lowest representation	%		38	50	
		<b>Nationality diversity</b>					
		Members, Danish	Number		5	5	
		Members, non-Danish	Number		3	1	
		<b>Group Executive Management</b>					
		<b>Gender diversity</b>					
		Members, female	Number		1	1	
		Members, male	Number		6	4	
		Gender with lowest representation	%		14	20	
		<b>Nationality diversity</b>					
		Members, Danish	Number		4	3	
		Members, non-Danish	Number		3	2	
		<b>Good business conduct</b>					
		Substantiated whistleblower cases	Number		2	3	
		– Cases transferred to the police	Number		1	0	

## Accounting policies – Environment

### 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 energy sources used and the energy generated at the different energy plants.

Wind and solar-based generation is computed as the input from the individual plant (wind and solar), as there is only one source of power for each plant.

For CHP plants, the share of the specific fuel (e.g. biomass) is calculated relative to the total fuel consumption for a given plant/unit within a given time period. The specific fuel share is then multiplied with the total heat and power generation for the specific plant/unit in the specific period. The result is the fuel-based generation for the individual unit – for example the biomass-based generation of heat and power in the CHP plant unit within a given time period.

Energy generation based on fuel, wind and solar is added up to a total which tallies with total generation. The percentage share of the individual energy sources is calculated by dividing generation from individual energy source with the total generation.

The following energy sources and fuels are considered renewable energy: wind, solar and biomass. The following energy sources are considered fossil energy sources: coal, natural gas and oil.

### Greenhouse gas intensity

Greenhouse gas intensity is defined as the greenhouse gas emissions from the CHP plants divided by the total heat and power 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 carbon dioxide (CO<sub>2</sub>), nitrous oxide (N<sub>2</sub>O) and methane (CH<sub>4</sub>).

### Installed renewable energy capacity

The installed renewable energy capacity is calculated as the cumulative renewable gross capacity installed by Ørsted before divestments.

For installed renewable thermal capacity, we use the heat capacity, as heat is the primary thermal energy generation, and as bioconversions of the thermal power stations are driven by heat contracts.

### Decided (FID) capacity

Decided (FID) capacity is the renewable capacity for which a final investment decision (FID) has been made.

### Awarded and contracted renewable capacity

The awarded renewable capacity is based on the capacities which have been awarded to Ørsted in auctions and tenders. The contracted capacity is the capacity for which Ørsted has signed a contract or power purchase agreement (PPA) concerning a new renewable energy plant. Typically, offshore wind farms are awarded, whereas onshore wind farms are contracted. We include the full capacity if more than 50% of PPAs/offtake is secured.

### 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 (including steam) generation is measured as net output sold to heat customers.

### Heat and power generation capacity

Power generation capacity from wind farms is calculated and included from the time when the individual wind turbine has passed a 240-hour test.

The Gunfleet Sands and Walney 1 and 2 offshore wind farms have been consolidated according to ownership interest. Other wind farms and CHP plants are financially consolidated.

The thermal heat and power generation capacity is a measure of the maximum capability to generate heat and power. The capacity can change over time with plant modifications. For each power station, the

capacity is given for generation with the primary fuel mix. Overload is not included.

### Availability and load factor

The time-based availability factor (availability) is calculated as the ratio of the number of hours the 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 wind farm's availability against 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. Wind farms in other countries are not compensated for non-access to the grid. New wind turbines are included in the calculation of availability and load factor once they have passed a 240-hour test.

### Wind speed

Offshore wind speed shows the wind speeds of the areas for Ørsted's offshore wind farms. The wind speeds where the individual offshore wind farms are located are provided to Ørsted by an external supplier. Wind speeds are weighted on the basis of the capacity of the individual offshore wind farms and consolidated to an Ørsted total.

Onshore wind speed is based on wind speed measurements from anemometers on the wind turbines.

### Degree days

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. The number of degree days expresses the difference between an average indoor temperature of 17°C and the outside mean temperature for a given period. The need for heat increases with the number of degree days.

### Coal share of fuels used for thermal heat and power generation

The coal share is calculated as the coal consumption in GJ relative to the total fuel volume in GJ.

### Sourcing of certified biomass

Certified biomass is defined as forest-based woody biomass, i.e. wood pellets and wood chips. Biomass is measured as sourced woody biomass delivered to the individual combined heat and power plants within the reporting period.

Certified sustainable woody biomass sourced must be certified within at least one of the claim categories accepted by the Danish industry agreement on certified biomass. Accepted claim categories are: FSC 100%, FSC Mix, PEFC 100%, SBP compliant.

Certified biomass is calculated as the amount of sourced woody biomass compared to the total amount of sourced woody biomass delivered to individual power stations within the reporting period.

### 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.

### Avoided carbon emissions

The avoided carbon emissions due to generation from offshore and onshore wind farms are calculated assuming that the generation from wind farms replace an equal quantity of electricity generated using fossil fuels.

The avoided carbon emission due to conversion of combined heat and power plants and subsequent switch of fuel from fossil to biomass (i.e. biomass from dedicated plantations or biomass residues) is calculated from the energy content of the fuel used at power plants. It is assumed that the use of 1GJ of biomass fuel avoids the use of 1GJ of fossil fuels. The upstream emissions from biomass fuel production and transportation are included.

## Accounting policies – Social

### Employees

Our reporting covers contractually employed employees in all 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

Ørsted conducts a comprehensive employee satisfaction survey once a year. All Ørsted employees with a few exceptions are invited to participate in the survey.

The following employees are not invited to participate: Employees who joined the company shortly before the employee satisfaction survey, employees who resigned shortly after the employee satisfaction survey, interns, consultants/advisers and external temporary workers who do not have an employment contract with Ørsted.

In the survey, a number of questions are asked. 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, is included. Occupational injuries and lost-time injuries are calculated for both our own employees and suppliers. Data from all Ørsted locations is 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 to 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.

Fatalities are the number of employees who lost their lives as a result of a work-related incident.

### Sales and distribution

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 are not included in the statement.

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

System average interruption frequency index (SAIFI) covers the frequency of announced and unannounced power outages for the customer. SAIFI is calculated as the average number of power outages per customer per year. SAIFI is presented here without the transmission grids, as these grids are operated by Energinet and therefore do not lie within the responsibility of Radius.

### 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 the countries where we have B2B customers. 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 month. So-called sleeping customers are therefore not included in the statement. The method follows the ACSI model based on the European customer satisfaction index (EPSI) scale. External agencies conduct the interviews and report absolute and weighted results.

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 the customer 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.

### Job creation

The number of job years is calculated based on a factor for job years per MW installed from the International Renewable Energy Agency, IRENA. The job year creation factor is based on a 500MW offshore wind farm. The factor is not adjusted for other details, such as when the wind farm was constructed (wind turbine size and other parameters), wind farm size-specific parameters beyond a simple scaling of capacity size, geographical position (i.e. water depths and distance to shore).

The number of job years created relates only to the value chain from procurement and manufacturing, over installation, operation and maintenance, to decommissioning.

This means that job years related to for example mining and manufacturing of steel and concrete as well as local jobs, such as hotels and dining for people working on local sites, are not included. A lifetime of 25 years for all wind farms is used.

The number of job years relates to the installed capacity and not Ørsted's ownership share of the wind farm. The number of job years varies during the lifespan, and most of the jobs are created in the beginning during construction and installation.

### People powered

The number of people powered is calculated on the basis of capacity, a fixed industrial load factor for offshore wind farms and country-specific power consumption per person. The indicator is calculated based on the full capacities of the wind farms and not Ørsted's ownership share.

## Accounting policies – Governance

### Board of Directors of Ørsted A/S

The employee representatives on the Board of Directors are not included in the data for the Board of Directors.

### Substantiated whistleblower cases

Ørsted's whistleblower hotline is available for internal and external reporting of suspected cases of inappropriate or illegal behaviour. Whistleblower cases are received and handled by the Internal Audit function, which also receives similar reports through the management system and from compliance officers.

All reports are managed 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 reported in the ESG statement.

### Cases transferred to the police

Cases transferred to the police are defined as the number of cases reported in accordance with the above which are transferred to the police.

# Parent company financial statements

**Income statement** 176

**Balance sheet** 176

**Statement of changes in equity** 177

**Notes** 178

1. Basis of reporting
2. Employee costs
3. Financial income and expenses
4. Tax on profit (loss) for the year and deferred tax
5. Distribution of net profit
6. Investments in subsidiaries
7. Receivables from subsidiaries
8. Derivatives
9. Securities
10. Loans and borrowings
11. Other provisions
12. Contingent liabilities
13. Related-party transactions
14. Operating lease obligations
15. Auditor's fees
16. Ownership information



# Income statement

1 January - 31 December

Note	Income statement, DKKm	2018	2017
	Revenue	198	232
2	Employee costs	(33)	(31)
	External expenses	(356)	(315)
	<b>Operating profit (loss) (EBIT)</b>	<b>(191)</b>	<b>(114)</b>
	Gain on divestment of enterprises	(10)	(4,210)
3	Financial income	10,014	13,667
3	Financial expenses	(6,732)	(10,486)
	<b>Profit (loss) before tax</b>	<b>3,081</b>	<b>(1,143)</b>
4	Tax on profit (loss) for the year	(69)	(76)
5	<b>Profit (loss) for the year</b>	<b>3,012</b>	<b>(1,219)</b>

# Balance sheet

31 December

Note	Assets, DKKm	2018	2017
6	Investments in subsidiaries	40,425	41,762
7	Receivables from subsidiaries	55,131	48,706
	Other receivables	1,082	1,325
	<b>Financial assets</b>	<b>96,638</b>	<b>91,793</b>
	<b>Non-current assets</b>	<b>96,638</b>	<b>91,793</b>
	Receivables from subsidiaries	32,933	15,664
8	Derivatives	3,102	3,596
	Other receivables	604	524
	<b>Receivables</b>	<b>36,639</b>	<b>19,784</b>
9	Securities	24,740	24,806
	Cash	1,105	862
	<b>Current assets</b>	<b>62,484</b>	<b>45,452</b>
	<b>Assets</b>	<b>159,122</b>	<b>137,245</b>

Note	Equity and liabilities, DKKm	2018	2017
	Share capital	4,204	4,204
	Reserves	(296)	(467)
	Retained earnings	25,968	27,522
	Proposed dividends	4,099	3,783
	<b>Equity attributable to shareholders in Ørsted A/S</b>	<b>33,975</b>	<b>35,042</b>
10	Hybrid capital	13,239	13,239
	<b>Equity</b>	<b>47,214</b>	<b>48,281</b>
4	Deferred tax	97	81
11	Other provisions	794	775
10	Bank loans and issued bonds	23,482	25,715
10	Other payables	0	27
	<b>Non-current liabilities</b>	<b>24,373</b>	<b>26,598</b>
	Bank loans and issued bonds	3,448	6,509
8	Derivatives	3,322	4,020
	Trade payables	34	159
	Payables to subsidiaries	79,364	48,638
	Other payables	1,242	2,433
	Income tax	125	607
	<b>Current liabilities</b>	<b>87,535</b>	<b>62,366</b>
	<b>Liabilities</b>	<b>111,908</b>	<b>88,964</b>
	<b>Equity and liabilities</b>	<b>159,122</b>	<b>137,245</b>

# Statement of changes in equity

1 January - 31 December

Statement of changes in equity, DKKm	Share capital	Hedging reserve	Share premium reserve	Retained earnings	Proposed dividends	Shareholders in Ørsted A/S	Hybrid capital	Total
Equity at 1 January 2018	4,204	(467)	-	27,522	3,783	35,042	13,239	48,281
Profit (loss) for the year	-	-	-	2,587	-	2,587	425	3,012
Dividends paid	-	-	-	2	(3,783)	(3,781)	-	(3,781)
Proposed dividends	-	-	-	(4,099)	4,099	-	-	-
Purchase of treasury shares	-	-	-	(48)	-	(48)	-	(48)
Value adjustments of hedging instruments	-	84	-	-	-	84	-	84
Value adjustments transferred to financial income and expenses	-	135	-	-	-	135	-	135
Tax on changes in equity	-	(48)	-	-	-	(48)	-	(48)
Coupon payments, hybrid capital	-	-	-	-	-	-	(545)	(545)
Tax on coupon payments	-	-	-	-	-	-	120	120
Share-based payment	-	-	-	4	-	4	-	4
<b>Changes in equity in 2018</b>	<b>-</b>	<b>171</b>	<b>-</b>	<b>(1,554)</b>	<b>316</b>	<b>(1,067)</b>	<b>-</b>	<b>(1,067)</b>
<b>Equity at 31 December 2018</b>	<b>4,204</b>	<b>(296)</b>	<b>-</b>	<b>25,968</b>	<b>4,099</b>	<b>33,975</b>	<b>13,239</b>	<b>47,214</b>
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)
Dividends paid	-	-	-	1	(2,522)	(2,521)	-	(2,521)
Proposed dividends	-	-	-	(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
<b>Changes in equity in 2017</b>	<b>-</b>	<b>30</b>	<b>(21,279)</b>	<b>15,564</b>	<b>1,261</b>	<b>(4,424)</b>	<b>(9)</b>	<b>(4,433)</b>
<b>Equity at 31 December 2017</b>	<b>4,204</b>	<b>(467)</b>	<b>-</b>	<b>27,522</b>	<b>3,783</b>	<b>35,042</b>	<b>13,239</b>	<b>48,281</b>



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

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 2018 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 77.

## New legislation

The Danish Financial Statements Act has been changed, and it is now possible to use certain IFRS standards to interpret the act. For Ørsted A/S, it will be relevant to use IFRS 16 'Leases', and we expect to implement it from 1 January 2019.

## 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, DKKm	2018	2017
Wages and salaries	24	24
Share-based payment	4	2
Remuneration for the Board of Directors	5	5
<b>Total employee costs</b>	<b>33</b>	<b>31</b>

Remuneration for the Executive Board, DKK '000	Henrik Poulsen		Marianne Wiinholt		Executive Board, total	
	2018	2017	2018	2017	2018	2017
Fixed salary	10,500	9,700	5,900	5,061	16,400	14,761
Cash-based incentive schemes	2,993	2,656	1,637	1,348	4,630	4,004
Share-based incentive scheme	2,306	1,367	1,231	713	3,537	2,080
IPO Executive Retention Bonus	1,232	1,848	643	964	1,875	2,812
Pension, incl. social security and benefits	313	326	242	196	555	522
<b>Total</b>	<b>17,344</b>	<b>15,897</b>	<b>9,653</b>	<b>8,282</b>	<b>26,997</b>	<b>24,179</b>

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 2018 (2017: five employees).

## 3. Financial income and expenses

Financial income and expenses, DKKm	2018	2017
Interest income from cash, etc.	56	14
Interest income from subsidiaries	1,803	1,432
Interest income from securities at market value	258	211
Capital gains on securities at market value	119	55
Foreign exchange gains	1,243	664
Value adjustments of derivatives	2,511	8,751
Dividends received	4,024	2,513
Other financial income	-	27
<b>Total financial income</b>	<b>10,014</b>	<b>13,667</b>
Interest expenses relating to loans and borrowings	(1,502)	(1,584)
Interest expenses to subsidiaries	(9)	(9)
Impairment of investments in subsidiaries	(1,400)	-
Capital losses on securities at market value	(292)	(217)
Foreign exchange losses	(1,169)	(1,549)
Value adjustments of derivatives	(2,330)	(7,106)
Other financial expenses	(30)	(21)
<b>Total financial expenses</b>	<b>(6,732)</b>	<b>(10,486)</b>
<b>Net financial income and expenses</b>	<b>3,282</b>	<b>3,181</b>

## 4. Tax on profit (loss) for the year and deferred tax

Income tax, DKKm	2018	2017
Tax on profit (loss) for the year	(69)	(76)
Tax on changes in equity	(86)	132
<b>Total tax for the year</b>	<b>(155)</b>	<b>56</b>
<b>Tax on profit (loss) for the year can be broken down as follows:</b>		
Current tax	(88)	(1,379)
Adjustments to deferred tax	(18)	1,298
Adjustments to current tax in respect of prior years	35	(360)
Adjustments to deferred tax in respect of prior years	2	365
<b>Tax on profit (loss) for the year</b>	<b>(69)</b>	<b>(76)</b>

Development in deferred tax, DKKm	2018	2017
Deferred tax at 1 January	81	1,744
Adjustment for the year recognised in profit (loss) for the year	18	(1,298)
Adjustments to deferred tax in respect of prior years	(2)	(365)
<b>Deferred tax at 31 December</b>	<b>97</b>	<b>81</b>

Specification of deferred tax, DKKm	2018	2017
Non-current liabilities	97	81
<b>Deferred tax</b>	<b>97</b>	<b>81</b>

## 5. Distribution of net profit

Distribution of net profit, DKKm	2018	2017
<b>Profit (loss) for the year is attributable to:</b>		
Shareholders of Ørsted A/S, proposed dividends for the financial year	4,099	3,783
Shareholders of Ørsted A/S, retained earnings	(1,512)	(5,718)
Coupon and bond discount after tax, hybrid capital owners of Ørsted A/S	425	716
<b>Profit (loss) for the year</b>	<b>3,012</b>	<b>(1,219)</b>

## 6. Investments in subsidiaries

Investments in subsidiaries, DKKm	2018	2017
Cost at 1 January	41,762	70,436
Additions	63	2,333
Disposals	-	(31,007)
<b>Cost at 31 December</b>	<b>41,825</b>	<b>41,762</b>
Value adjustments at 1 January	-	(15,681)
Impairment losses	(1,400)	-
Disposals	-	15,681
<b>Value adjustments at 31 December</b>	<b>(1,400)</b>	<b>-</b>
<b>Carrying amount at 31 December</b>	<b>40,425</b>	<b>41,762</b>



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.

The impairment test in 2018 gave rise to an impairment of DKK 1,400 million which is mainly attributable to the shortening of the green power subsidy time period in Denmark announced in 2018. Also, we no longer see a viable business case for a new CHP plant in the Esbjerg and Varde areas when the current district heating agreement ends in 2022. Both elements relate to our Bioenergy business.

The 2017 disposal for the year primarily concern 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. The sale resulted in a gain of DKK 2,179 million in the consolidated financial statements. The difference occurs due to different accounting policies.

## 7. Receivables from subsidiaries

Non-current receivables from subsidiaries, DKKm	2018	2017
Cost at 1 January	48,706	50,402
Additions	17,641	18,552
Disposals	(11,216)	(20,248)
<b>Cost at 31 December</b>	<b>55,131</b>	<b>48,706</b>

## 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 and receivables in GBP, USD and EUR. The value of the fair value hedge offset in the income statement amounted to DKK 263 million (2017: DKK 289 million).

Derivatives at the end of December 2018 mature as follows: 2019: DKK -99 million, 2020: DKK -268 million, after 2020: DKK 147 million (2017: 2018: DKK -24 million, 2019: DKK -76 million, after 2019: DKK -324 million).

Overview of derivative positions, DKKm	2018		2017	
	Contractual principal amount	Market value	Contractual principal amount	Market value
Interest derivatives	6,588	(39)	550	-
Currency derivatives	17,623	(181)	36,665	(424)
<b>Total</b>	<b>24,211</b>	<b>(220)</b>	<b>37,215</b>	<b>(424)</b>
<b>Assets</b>		<b>3,102</b>		<b>3,596</b>
<b>Equity and liabilities</b>		<b>(3,322)</b>		<b>(4,020)</b>



See note 7.1 to the consolidated financial statements and the management's review on pages 66-69 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, DKKm	2018	2017
Securities, available	24,407	24,766
Securities, not available for use	333	40
<b>Total securities</b>	<b>24,740</b>	<b>24,806</b>



Securities not available for use are used as collateral for repo loans and trading in financial instruments.

## 10. Loans and borrowings

At 31 December 2018, we had issued hybrid capital with a total notional amount of DKK 13,432 million (2017: DKK 17,125 million). The hybrid bonds have a 1,000-year term and expires as follows: DKK 5,224 million in 3013, DKK 4,477 million in 3015 and DKK 3,731 million in 3017, respectively.

The long-term portion of bank loans and issued bonds amounted to DKK 23,482 million at 31 December 2018 (2017: DKK 25,715 million), of which DKK 16,376 million (2017: DKK 16,528 million) fall due in more than five years.

The long-term portion of other payables amounted to DKK 0 million at 31 December 2018 (2017: DKK 27 million) falls due in 1-5 years.

# 11. Other provisions

We have made provisions for non-current liabilities totalling DKK 794 million (2017: DKK 775) which fall due in 1-5 years. The liabilities concern the divestment of our Oil & Gas business, which was closed in 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 as well as 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 an exit, an exit premium will be payable, which has been calculated at USD 10.3 million at 31 December 2018 (2017: USD 6.8 million).

Ørsted A/S is taxed jointly with other companies in the Ørsted Group. As management company, the company has unlimited as well as joint and several liability together with the other jointly taxed companies for Danish income taxes and withholding taxes on dividends, interest and royalties related to 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 'Employee costs' and 2.7 'Share-based

payment' and the remuneration report in the management's review in the consolidated financial statements.

Our related-party transactions are made on arm's length terms.

## 14. Operating lease obligations

We have entered into leases for office premises, primarily in Gentofte (expiring in 2028) and Virum (expiring in 2027). In 2018, an amount of DKK 148 million was recognised (2017: DKK 153 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 2018, an amount of DKK 97 million was recognised (2017: DKK 123 million) in profit (loss) for the year in respect of rental income.

We have minimum payments of DKK 1,688 million (2017: DKK 1,816 million), most of which concerns subleasing via subleasing agreements.

## 15. Auditor's fees

Auditor's fees, DKKm	2018	2017
Statutory audit	2	2
Other assurance engagements	-	1
Tax and VAT advice	1	-
Other services	-	1
<b>Total fees to PwC</b>	<b>3</b>	<b>4</b>

## 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%
SEAS-NVE A.M.B.A.	Svinninge, Denmark	9.54%	9.54%
The Capital Group Companies, Inc.	Los Angeles, USA	<5%	5-10% <sup>1</sup>

<sup>1</sup> Interval shown as precise voting share is not publicly available.



The table shows the shareholders with ownership interests and voting shares of at least 5%. Difference between ownership interests and voting shares occurs when power of attorney is issued.

# Management statement, auditor's reports and glossary

Statement by the Executive Board and the Board of Directors	186
Independent auditor's report	187
Limited assurance report of the independent auditor	191
Glossary	192



# 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 2018.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act. The financial statements of the parent company, Ørsted 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 2018 and of the results of the Group's and the parent company's operations and the Group's cash flows for the financial year 1 January - 31 December 2018.

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

risks and elements of uncertainty facing the Group and the parent company.

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

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

Skærbæk, 31 January 2019

## 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**

**Jørgen Kildahl**

**Peter Korsholm**

**Benny D. Loft**

**Dieter Wemmer**

**Hanne Sten Andersen\***

**Poul Dreyer\***

**Benny Gøbel\***

\* Employee representative

# 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 2018 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU ('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 2018 and of the results of the parent company's operations for the financial year 1 January to 31 December 2018 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 2018, pp. 72-166 and 186, 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 2018, pp. 175-184, comprise the income statement, the balance sheet, the statement of changes in equity and the notes to the parent 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 9 years, including the financial year 2018.

### 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 2018. 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

**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 agreement, respectively, and in calculating the divestment gain, including any provisions recognised to cover guarantees, indemnities, etc. 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 and estimates 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.

## How our audit addressed the key audit matter

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 agreement, 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 were in compliance with IFRS.

## Key audit matter

**Construction contracts**

The Group has adopted the accounting standard IFRS 15 'Revenue from Contracts with Customers' from 1 January 2018, using the modified retrospective method. The adoption has affected the timing of when income and costs are recognised in respect of offshore transmission assets and the presentation of construction agreements in the balance sheet.

The accuracy of the revenue recognition related to work in progress of large construction agreements 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 agreements.

We focused on this area because the revenue recognised with reference to the degree of completion both requires complex and subjective judgements and estimates by management.

Refer to notes 1.4, 2.2 and 4.2 in the consolidated financial statements.

## How our audit addressed the key audit matter

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 outcome 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.

We evaluated management's assessment of the transition from IAS 11 and IAS 18 to IFRS 15 applying the modified retrospective method, including the impact on the on-going construction of the offshore transmission assets as well as the changed presentation made by management in respect of the transition.

## Key audit matter

### Business combinations

When acquiring businesses, the Group performed a purchase price allocation ('PPA') exercise for each acquisition separately, resulting in various assets and liabilities being separately valued. The Group used projected financial information in the PPA exercise.

Management uses their best knowledge to make estimates when utilising the Group's valuation methodologies. In order to determine the fair value of the separately identified assets and liabilities in a business combination, the valuation methodologies require input based on assumptions about the future and use discounted cash flow forecasts. The significant judgements and estimates involved in the PPA exercise mainly relate to assessing the fair value of production assets, assets under construction, tax equity partner balances and derivatives.

We focused on this area because the PPA exercises, which involves the identification of the acquired assets and liabilities and their respective fair values, require complex and subjective judgements and estimates by management.

Refer to note 3.3 in the consolidated financial statements.

## How our audit addressed the key audit matter

We assessed whether the acquisitions during the period met the criteria of a business combination.

We verified the assets and liabilities recorded in the opening balance, by performing procedures, including, amongst others, obtaining statements of cash and bank balances acquired, agreeing the opening balance to the trial balance and the tax equity liabilities to underlying contracts and specifications.

We involved our internal specialists in assessing the valuation methodologies used by management and the fair valuation of the acquired assets and liabilities. We challenged the key assumptions used to determine the fair value of production assets, assets under construction, tax equity partner balances, derivatives, etc.

Finally, we assessed the adequacy of disclosures relating to the business combinations.

## Statement on management's review

Management is responsible for the management's review, pp. 4-71.

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, 31 January 2019

### **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 consolidated environment, social and governance (ESG) statements of the Ørsted A/S annual report for the year ended 31 December 2018.

## Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us not to believe that data in the 2018 Consolidated ESG Statements on pages 167-174 of the Annual Report for the year ended 31 December 2018 are free of material misstatements and has been prepared, in all material respects, in accordance with the accounting policies as stated on pages 167-174 of the 2018 Ørsted A/S Annual Report.

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 Consolidated ESG Statements on pages 167-174 of the Ørsted A/S Annual Report for the year ended 31 December 2018.

## 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 policies (pages 167-174 of the 2018 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 2018 Ørsted A/S consolidated ESG statements;
- 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 2018 Ørsted A/S consolidated ESG statements 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 2018 consolidated ESG statements on pages 167-174 in the annual report that are free from material misstatement, whether due to fraud or error;
- Establishing objective accounting policies for preparing data;
- Measuring and reporting data in the 2018 consolidated ESG statements based on the accounting policies; and

- The content of the 2018 consolidated ESG statements.

## Our responsibility

We are responsible for:

- Planning and performing the engagement to obtain limited assurance about whether data in the 2018 Ørsted A/S consolidated ESG statements on pages 167-174 of the 2018 Annual Report are free of material misstatements and has been prepared, in all material respects, in accordance with the accounting policies;
- 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, 31 January 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.

**Awarded capacity:** Offshore capacity that we have been awarded in auctions and tenders, but where we need to sign a PPA and take final investment decision.

**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 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.

**Contracted capacity:** Onshore capacity where we have signed a PPA, but where we need to take final investment decision.

**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) and installed 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.

**Investment tax credits (ITCs):** Federal tax credit based on qualifying renewable investment costs.

**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.

**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.

**Production tax credit (PTC):** Federal tax credit based on eligible power generation in the US.

**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.

**Tax equity:** An arrangement where an investor obtains rights to federal tax credits and other tax attributes in exchange for a cash contribution.

**Thermal generation:** Power and heat generated through the combustion of fossil fuels, biomass or waste.

**TRIR:** In addition to lost-time injuries, total recordable injury rate (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 1TWh. 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 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.

**Ørsted A/S**

Kraftværksvej 53  
DK-7000 Fredericia  
Tel.: +45 99 55 11 11  
CVR No. 36213728

<https://orsted.com/en>

**Group Communication**

Martin Barlebo  
Tel.: +45 99 55 95 52

**Investor Relations**

Daniel Lerup  
Tel.: +45 99 55 97 22

**Design and layout**

e-Types

**Publication:**

31 January 2019

**Front page photo:**

Burbo Bank Offshore Wind Farm  
in the Irish Sea of the UK