## Transcription

# Ørsted Q2 report

12 August 2020

## PRESENTATION

### Operator

Welcome to the Ørsted Q2 2020 earnings call. For the first part of the call, all participants will be in listen only mode and afterwards, there will be a question and answer session. Today's speakers are CEO, Henrik Poulsen, and CFO, Marianne Wiinholt. Speakers, please begin.

### Henrik Poulsen

Thank you, and good afternoon, everyone, and welcome to the earnings call. I'm pleased to say that we have had a solid second quarter, well in line with expectations, despite the continued COVID-19 related challenges. During the quarter, our asset base remained fully operational at normal availability rates and our construction projects in Europe, Asia Pacific and the U.S. have largely progressed according to plans.

EBITDA for the second quarter amounted to DKK 3 billion, an 18% decrease compared to second quarter last year. The decrease was expected and was driven by lower partnership earnings. Adjusting for the partnership effects, EBITDA increased by 29%.

Net profit for the quarter was negative, with DKK 800 million due to two one-off effects totalling DKK 1.2 billion. At the same time, we saw strong positive cash flow in the quarter, leading to a reduction in net debt, partly supported by one of the two before-mentioned one-off effects. Marianne will elaborate on these items in her section.

EBITDA from offshore and onshore wind farms in operation increased by 7% to DKK 2.9 billion, due to the ramp up of Hornsea 1, Lockett, and Sage Draw. During second quarter, we have seen some adverse COVID-19 related profit impacts to the tune of DKK 150 million, and we had lower earnings from our power trading activities, where we saw very high earnings in second quarter last year.

On an underlying basis, the earnings from offshore and onshore wind farms in operation increased by 26%, while the relatively low headline number for the quarter is not a concern. We remain well on track to deliver on the target at 20% EBITDA growth CAGR for 2017 through 2023 for our renewable assets.

The financial performance in the first half of 2020 fully supports our full-year EBITDA guidance of DKK 16 billion to DKK 17 billion. Overall, we're very satisfied with the performance of the company during the COVID-19 crisis, and it speaks to the robustness of our business model and our organisation.

In the beginning of July, we signed the world's largest renewables energy corporate power purchase agreement with Taiwan-based TSMC for the 920 megawatt Greater Changhua 2b and 4 in Taiwan. I'll come back to this ground-breaking corporate PPA shortly. In Taiwan, we are currently in the process of farming down the Greater Changhua 1 project. The transaction is progressing according to plan, and we still expect to sign this year and close the deal during first half of 2021.

In addition, we are exploring the potential opportunities to farm down the Dutch Borssele 1 and 2 project. We continue to see very strong demand for our offshore wind projects among investors looking for de-risked stable returns, and if a farm down can create additional value for Ørsted, we will pursue it.

In June, we commissioned our 230 megawatt onshore wind farm Plum Creek in Nebraska ahead of schedule and on budget, and we received the tax equity funding from our partners. The completion of the project brings our operational

onshore capacity to 1.6 gigawatt, and one step closer to our ambition of five gigawatt installed onshore wind and solar PV capacity by 2025.

In July, we acquired the 227 megawatt solar PV project Muscle Shoals located in Alabama. The project is currently under construction and is expected to be completed in third quarter 2021, where it will be the largest solar energy asset in the U.S. Southeast. The project is eligible for 30% ITC and has a fully contracted 20-year utility PPA.

The acquisition of Muscle Shoals will establish an anchor position for Ørsted onshore in the U.S. Southeast, a market which in the coming years is expected to realise the largest growth in solar installations in the U.S. We continue to see very solid value creation opportunities in our U.S. onshore business, and the C&I demand for renewable PPAs remains strong, even during the current macro crisis.

Moving on to green hydrogen. Together with Copenhagen Airports, Maersk, DSV Panalpina, and SAS, we have founded the partnership, Greenfields for Denmark, to develop a new ground-breaking hydrogen and e-fuel production facility to produce sustainable fuels for road, maritime, and air transport in the Copenhagen area as soon as 2023. The partnership brings together the demand and supply side of sustainable fuels, with a vision to realise what could become one of the world's largest electrolyser and sustainable fuel production facilities.

We continue to see an increased support for the development of renewable hydrogen, and in early July, the European Commission launched the European Clean Hydrogen Alliance, with a target of having established 40 gigawatt renewable hydrogen by 2030.

The alliance will promote a de-carbonisation strategy, where renewable hydrogen is set to play a key role, as falling renewable energy prices and continuous innovation make it a viable alternative to gas-based hydrogen. The Commission has an ambition to make Europe a global frontrunner within renewable hydrogen, and we expect this to create additional growth opportunities for Ørsted.

Last week, we announced that the German Federal Ministry for Economic Affairs and Energy has confirmed funding for the first large-scale hydrogen project in Germany, the Westküste 100 project. With the funding in place, we can now enter the first phase of the project, where we, together with nine partners, intend to build a 30 megawatt electrolyser, which can support heavy industries and heavy transport with green fuel.

The consortium will also initiate the work to develop the vision of a large-scale sector coupling, including a 700 megawatt electrolyser system. Westküste 100 is our third hydrogen project to receive public funding, and it is another significant step in our exploration of industrial scale production of renewable hydrogen.

Let's turn to slide four and our record-breaking corporate PPA with TSMC. In June 2018, we were awarded the 920 megawatt Greater Changhua 2b and 4 project in Taiwan, with a 20-year feed-in-tariff PPA with Thai Power. Despite already having secured a 20-year feed-in-tariff via the government award at auction, Ørsted has signed a corporate PPA with TSMC, where TSMC off takes the full output from the Changhua 2b and 4 project at a fixed price, which is higher than the feed-in-tariff. In the event the corporate PPA is terminated, Ørsted retains the right to receive the awarded tariff price with Thai Power.

The Taiwanese government encourages corporates to procure renewable energy to support decarbonisation and long-term investments in the green energy transition. To incentivise them, the Taiwanese government will introduce a penalty

to corporates if they do not procure at least 10% of their power consumption from renewable sources. Consequently, corporates are looking to procure significant amounts of renewable energy, and thereby receive Taiwan renewable energy certificates, the so-called T-RECs, through corporate PPAs to meet this 10% requirement.

Renewable projects in Taiwan that do sell power via feed-in-tariff PPAs with Thai Power do not qualify for T-REC issuance. Furthermore, the industrial tariff in 2025 is expected to be above the feed-in-tariff that Ørsted secured at the government-awarded auction. This leaves room for structuring corporate PPAs that benefit both renewable power producers and industrial power consumers in Taiwan.

Changhua 2b and 4 is part of the portfolio of projects where we have guided a total unlevered lifecycle IRR between 7% and 8% for the portfolio. The announced PPA does not cause us to change the IRR range, but it obviously is accretive, and we are in a comfortable part of the range. With this announcement, we assigned four fixed-price CPPAs in less than 18 months, and we see that corporates are increasingly looking to stabilise their electricity costs, while decarbonising their businesses and contributing to a greener and more sustainable planet.

Turning to slide five, where I'll give an update on the offshore construction projects. At our Dutch Borssele 1 and 2 wind farm, we delivered first power to the Dutch grid at the end of April, and have as of today, installed 78 out of 94 turbines. I'm very proud of the Borssele team, who keep progressing the project under challenging circumstances, without compromising health and safety. When Borssele 1 and 2 is fully completed during fourth quarter this year, the wind farm will supply renewable energy to one million Dutch households.

During the quarter, we managed to complete turbine installation on the first project in U.S. federal waters, the 12-megawatt Virginia EPC demo project, which is located off the coast of Virginia Beach. The two turbines will now undergo testing before the project is fully commissioned, expectedly in fourth quarter.

At both Hornsea 2 and Greater Changhua 1 and 2a, we continue the onshore construction work on schedule. For the two projects, the top sites for the offshore substations are manufactured at two shipyards in Singapore. These two shipyards have been temporarily shut down, due to COVID-19, but they have now begun to slowly ramp up again. Although we still expect to complete both projects within our current budget and time schedule, we see an increased risk of delays, especially at Hornsea 2. We still expect any such delays to have limited impact on project economics.

Turning to slide six and an update on the construction projects in Onshore and Markets & Bioenergy. We continue to see good progress on all three construction projects in onshore. To date, we have installed 11 out of 38 turbines at Willow Creek, and we have commenced installation of piles, modules, and inverters at the Permian Energy Center in Texas.

At the Muscle Shoals solar PV project in Alabama, the installation of piles is underway and inverter deliveries have commenced. Following upgrades to our Renescience facility in the U.K. in late 2019 and early this year, and the shutdown throughout the spring due to COVID-19, the plant has processed waste again since June. We expect the plant to be commissioned later this year.

Turning to slide seven, and an update on upcoming auctions and market developments. Back in December 2018, the Bureau of Ocean Energy Management in the U.S. published a draft environmental impact statement for Avangrid and CIP's Vineyard Wind project. BOEM received comments from a wide variety of stakeholders, including state and local governments, federal agencies, the fishing industry, and the public. Those comments prompted BOEM to develop a

supplement to the draft environmental impact statement, with a broadened scope, looking at 22 gigawatt potential offshore wind projects along the U.S. eastern seaboard.

In June, BOEM published a draft of their supplement environmental impact statement, establishing a framework for the future development of the industry on the U.S. East Coast. Based on our assessment, we do not believe that BOEM identifies any significant impact that cannot be mitigated by the offshore wind developers. Their framework confirms the consensus developer layout in the northeast cluster, a uniform one nautical mile by one nautical mile turbine layout as the most viable configuration, an approach which has been supported by a recent U.S. Coast Guard study. We expect that BOEM could decide on the preferred layout as early as this month.

Given commentary in the supplement EIS, we remain optimistic that the one by one nautical mile layout will be the preferred alternative. A different alternative layout considered in the supplement EIS includes wide transit lanes going through the offshore development areas. As implementing such transit lanes would be detrimental to the offshore wind industry in the U.S., and as noted in the supplement EIS, it would reduce the technical capacity of Northeast development areas to less than the demand from the States, we consider it unlikely that this alternative layout will be chosen. We also note that the one by one nautical mile turbine spacing is materially wider than any other offshore wind project worldwide to accommodate for the navigation of other ocean uses.

Based on the draft assessment, we do not see a need for changes to our already submitted construction and operation plans. We will continue to monitor the process, as we are still awaiting the so-called notices of intent outlining the timeline for COP approval for most of our U.S. projects. We will have to await BOEM's final environmental impact statement in December before we have full visibility on any potential impact on our projects.

That said, the draft supplement EIS gives us confidence that the permitting process can move on. We believe that the environmental review will establish a foundation for a more efficient and predictable regulatory process to enable wind power deployment at large scale in the U.S. and allow the permitting of projects to run more smoothly in the future.

Turning to the upcoming auctions in the U.S., where Maryland, New York, and New Jersey are set to host auctions in the second half of 2020. Maryland's second auction comprises a capacity of around 400 megawatt, with bid deadline end of the year, and winners expectedly announced during summer next year.

In July, New York State issued their second RFP, with bids due October 20th, and awards expected during fourth quarter this year. The offshore wind solicitation is for up to 2.5 gigawatt, which is an important step to deliver on the State's nine gigawatt offshore wind target by 2035.

New Jersey will also be hosting their second offshore wind auction during fourth quarter this year. The bid deadline for the up to 2.4 gigawatt procurement has been scheduled for December 2020, with expected awards in the first half of 2021. In addition, we expect further auctions in Maryland, Massachusetts, and Connecticut to take place during 2021.

Looking towards Asia Pacific, the Choshi zone, along with Yurihonjo and Noshiro in the Akita Prefecture was officially designated as a “Special Promotion Area” on July 21st. The designation triggers the preparation of draft auction guidelines for public comment, following which, it will be known when the auction will open. We expect the framework for the upcoming auction to be in place during the second half of this year, ahead of an expected auction during first half of 2021.

Taiwan has released a draft auction guideline for the next 10 gigawatts in Taiwan to be constructed between 2026 and 2035. The draft guidelines provide more transparency for our upcoming activities, and more pipeline visibility for our local suppliers. And as part of the ongoing consultation process, we will continue to work with the Taiwanese government to further finetune the guidelines in the upcoming public hearings. We expect the guidelines to be finalised by the end of this year. It is our current expectation that Taiwan will host one or two offshore wind actions during 2021 and 2022.

Moving on to recent developments in Europe. A couple of weeks ago, the Holland Coast North offshore wind project was awarded to a local Dutch consortium. When we join a tender, we obviously want to win, and as such, the outcome was disappointing. We submitted a strong and innovative bid, and it is our understanding that we lost by a very narrow margin. We will now thoroughly assess the details of the bid outcome and the feedback from the Dutch regulator. We will make sure to extract any learning available and leverage the insight for future tenders in continental Europe.

With that said, I also want to reiterate what I've said before, which is that we cannot and should not win all the auctions and tenders we join. The important thing is that we stay disciplined in our bidding to make sure we build a healthy, sustainable business, and over time, secure enough wins to fulfil our long-term growth ambition. We remain confident that Ørsted will reach its target of 15 gigawatts of installed offshore wind capacity by 2025 and more than 30 gigawatts of renewables capacity by 2030.

In July, it was announced that the consent of Hornsea 3 has been postponed to December 31 this year to study further information on bird impacts. We have noted that the Secretary of State is minded to grant us consent, and recognises the contribution of the project towards the national need for renewable energy, and also towards reaching the target of 40 gigawatts of offshore wind capacity by 2030.

We are now reviewing the details of the comments, and we are confident that we can provide the evidence requested to secure the consent. We will continue to develop the project and work closely with stakeholders and local communities, with the aim of participating in the next CfD auction in 2021.

We have seen several European countries increasing their renewable and offshore wind targets during the past quarter, including Denmark, Germany, and Poland. And we now estimate European offshore wind capacity to grow from currently 24 gigawatt to around 110 gigawatt by 2030.

In Denmark, two offshore wind tenders are expected to take place in 2021 and 2022, respectively. The first tender will be for the Thor Offshore Wind Farm with a capacity of up to one gigawatt, and is scheduled for fourth quarter 2021, with the wind farm to be operational between 2025 and 2027. During 2022, the second tender is set to take place, aiming to award up to 1.2 gigawatt for the Hesselø Offshore Wind Farm.

In addition to the two offshore wind farms, Denmark has launched an ambitious energy agreement toward 2030, with initiatives to establish the world's first energy islands. The two energy islands, with a total capacity of five gigawatt of offshore wind, is targeted to be operational no later than 2030. Both islands are expected to be constructed with interconnections to neighbouring countries.

The long-term ambition is that the islands can also connect to other technologies that either store or convert the green power to renewable hydrogen and e-fuels. The Danish Energy Agreement is a visionary strategy, and we're delighted to see countries like the U.K., Denmark, Poland, and the Netherlands shape ambitious and bold strategies to create greener and more independent energy systems.

Poland has updated their draft legislation, aiming to award 10.9 gigawatt of offshore wind by 2027. Up to 5.9 gigawatt will be selected by Poland's energy regulator by the end of June 2021, and subsequently, five gigawatts of additional capacity will be allocated through competitive auctions in 2025 and 2027, respectively.

According to the draft legislation, developers would be eligible for government support for 25 years. The first 5.9 gigawatt of projects would likely be selected from the most advanced projects in the country's pipeline, which includes the two projects totalling 2.5 gigawatt covered by our non-binding term sheet with PGE. The final act is expected in second half of this year. We are in the process of negotiating the binding agreements with PGE regarding the Baltica 2 and Baltica 3 Offshore Wind Farms, and we expect to conclude the transaction later this year.

Germany has announced the draft framework for the upcoming centralised tenders, introducing a concession payment as the second bid component in the case of several zero subsidy bids. As part of the framework, Germany also set a target for offshore wind capacity of 40 gigawatt by 2040. The framework will be confirmed after summer at the earliest, with the first centralised tender to take place in 2021.

Based on the development in Europe, the U.S., and Asia Pacific, we continue to see a very positive growth outlook for renewable energy, supported by the role of green investments in the rejuvenation of economies in the wake of the ongoing health crisis. The EU Green Deal and the offshore wind build out required to facilitate the previously mentioned renewable hydrogen ambition will further add to Ørsted's growth opportunities.

Ørsted's Board of Directors are running a thorough search for the Company's next CEO, assessing internal and external candidates. The process is well underway, and the Board will, of course, provide an update when they have something to report. In the meantime, you can rest assured that we will continue to tightly manage operations and go full speed in the strategic development of the company. We will not miss a beat during this search and transition period.

We still very much look forward to hosting a Capital Markets Day, which we had planned to host towards the end of this year. However, as we would like the new CEO to be fully onboarded and fully up and running ahead of the CMD, we now expect our next Capital Markets Day to take place during the first half of 2021.

On that note, I will now pass on the word to Marianne.

### Marianne Wiinholt

Thank you, Henrik, and good afternoon from me too. Let's start on slide eight, where I will go through the EBITDA for Q2 2020.

In Q2 2020, we realised an EBITDA of 3 billion, a decrease of 0.7 billion on Q2 '19. The decrease was expected and was mainly due to high construction activity at Hornsea 1 during Q2 '19. EBITDA, excluding the construction agreements, increased by 0.6 billion.

In offshore, the EBITDA for the quarter totalled 2.4 billion, a decrease of 1.2 billion. The earnings from operating wind farms was in line with last year. When adjusting for the adverse COVID-19 related impacts and the lower earnings from trading related to hedging of our power exposures and power portfolio optimisation activities, we had very high earnings in Q2 '19. The earnings from operating wind farms increased 0.5 billion.

Offshore power generation in Q2 2020 increased 20%, due to the ramp up of generation from Hornsea 1, and as Q2 '19 had a high number of outages and curtailments across the portfolio. The availability in Q2 2020 was 95%, significantly above the 87% in Q2 '19. Wind speeds were in line with Q2 '19 and amounted to a portfolio average of eight metres per second, slightly below a normal wind year of 8.2 metres per second.

In Q2 2020, we have seen adverse COVID-19 related impacts of approximately 150 million on our operating earnings, especially related to U.K. power market, due to lower demand for electricity. This led to higher balancing tariffs from National Grid, some periods with negative power prices, and lower expected rock recycle prices.

In periods where U.K. day-ahead head prices are negative for more than six consecutive hours, our Hornsea 1 and Walney Extension wind farms under the CfD regime will not receive a subsidy for the duration of the negative pricing period. Consequently, we shut down these wind farms in such periods. In Germany, we also experienced slightly more hours with negative prices than in the same period last year.

Earnings from partnerships amounted to 0.4 billion, compared with 1.6 billion in Q2 '19. The construction agreements this year related to the construction of Virginia Coastal Wind and lower capex spend at Hornsea 1, while Q2 last year, primarily concerned Hornsea 1.

In onshore, EBITDA almost doubled to 312 million compared to last year. The increase was primarily due to ramp up of generation from Sage Draw, Lockett, and Plum Creek. The wind speeds for the portfolio in Q2 '20 was eight metres per second, slightly below normal wind speeds, but above the wind speeds last year. Availability across the portfolio came in at 96%, almost at level with last year.

EBIDTA in Markets & Bioenergy was 185 million in Q2 2020, an increase of 300 million. The increase was primarily driven by higher earnings from the CHP plants due to higher sale of ancillary services, lower fixed costs due to timing, and a one-off gain of 37 million from the divestment of the Inbicon production facilities in April.

If we then turn to slide nine and our financial performance and net interest bearing debt. Net profit totalled a negative 0.8 billion, a 1.9 billion decrease on Q2 '19. The decrease was driven by the lower EBITDA, higher depreciation for more wind farms in operations, and two one-off items.

The first item relates to higher financial expenses from the early termination of project finance on our U.S. Block Island project, resulting in a loss on the interest rate swap of 0.5 billion. The termination of the project financing is in line with our company strategy of funding projects on our group balance sheet, and will lead to future savings on interest payments, as well as savings on administrative costs.

The second item was a very high one-off tax expense for the period, due to the initial recognition of deferred taxes of 0.9 billion related to tax equity at Sage Draw and Plum Creek, which also explains the unusually high tax rate of 780% for Q2 '20.

For assets where we'll receive tax equity contribution, we have to make an upfront one-off recognition of the expected deferred tax liability at the time the tax equity investor is expected to flip out of the project, which is typically 10 to 12 years into the future. This is opposite to what we do for all our other assets, where we build up the deferred tax liability over time. If we adjust for these two one-off items, the net profit was 0.4 billion.

Free cash flow from continuing operations was 4.5 billion in Q2 '20. Cash flow from operating activities came in at 8.2 billion, mainly driven by EBITDA, the tax equity contributions from our partners at Sage Draw and Plum Creek of 3.2 billion in total, a reduction of trade receivables due to lower revenues, as well as the divestment of the offshore transmission assets at Walney Extension in the quarter.

Our gross investments for the quarter totalled 3.8 billion, primarily related to our offshore projects, Borssele 1 and 2, Hornsea 2, and Greater Changhua 1 and 2a, as well as our onshore projects, Sage Draw, Plum Creek, and Permian Energy Center. Our net debt at the end of Q2 '20 amounted to 22.3 billion. The 4.8 billion decrease in the quarter primarily reflected the positive free cash flow, as just described, and a positive impact from exchange rate adjustments of 0.8 billion.

If we then turn to slide ten, which shows our financial and non-financial ratios. Our key credit metric FFO to adjusted net debt stood at 23% for the 12-month period ending in June. The low level is primarily because it includes the majority of the current taxes regarding '19. For the full year, we still expect the credit metric to be in line with our target of around 30%. We expect to close the Radius, B2C, and City Light transaction by the end of this month, and we will then receive the proceeds of more than 20 billion and reduce our net debt accordingly.

Our return on capital employed came in at 11%, and the decrease compared to the same period last year was due to lower EBIT of the 12-month period, which in Q2 '19, was significantly impacted by the farmed down gain from Hornsea 1 in Q4 '18. The return level is around our target of an average return on capital employed of approximately 10% for the group for the period '19 to 2025.

Our greenhouse gas emission intensity continued to decline in the first half of 2020, due to our continued build out of offshore and onshore wind, and we remain well on track to meet our scope one and two target of less than 10 grams of CO2 equivalents per kilowatt hour in 2025. Our target is to become carbon neutral in 2025 by neutralising any remaining and minor emissions with carbon offsets.

As always, safety is high on our agenda, and we do our utmost to prevent accidents and injuries. During the first half of 2020, the total recordable injury rate amounted to 3.7, which was a positive development compared to '19. Our target is to reduce this rate to 4.2 or lower this year and to 2.9 in '25.

And to the last slide, slide 11, which recaps our 2020 EBITDA and gross investment guidance, as well as our long-term financial estimates and policies. We reiterate our full-year 2020 EBITDA guidance of 16 to 17 billion. The directional EBITDA guidance for offshore and onshore is unchanged relative to the guidance in our Q1 2020 report. However, for offshore, we now expect earnings from existing partnerships to be higher than our previous expectations, whereas we expect lower growth from operating wind farms due to the adverse COVID-19 impacts I described before.

The directional guidance for Markets & Bioenergy has changed from lower to now being in line. The increase in expected earnings is mainly due to inclusion of earnings from power distribution, residential customers, and satellite business for eight months of 2020 instead of the previously expected six months, and also due to higher sales of ancillary services at our CHP plants.

Our gross investments guidance has been lowered by 2 billion relative to the previous guidance, due to changed timing of payments. Gross investments are now expected to amount to 28 billion to 30 billion in 2020. In the first half of 2020, our gross investments amounted to 9.1 billion. The relatively low amount is due to outstanding CapEx trade payables of 9.1 billion, primarily related to our offshore projects.

And with this, we now open up for questions. Operator, please.

## Q&A

### Operator

Thank you. If you wish to ask a question, please dial 01 on your telephone keypads now to join the queue. If you find a question is answered before it's your turn to speak, you can dial 02 to cancel. Our first question comes from the line of Alberto Gandolfi of Goldman Sachs. Please go ahead. Your line is open.

### Alberto Gandolfi

Thank you very much for taking my questions. I have three, hopefully quite quick. The first one relates to your farm downs, Changhua, and potentially, Borssele. Can I ask you if you intend to carry this out, A., opportunistically to crystallise value, B., because you think you need to lower leverage, or C., to free up room to upgrade investments elsewhere? And maybe you can elaborate on that.

In terms of the future auctions, given all the targets we're beginning to see on the Green Deal, given a potential U.S. version of the net zero policy, the U.S. version of the Green Deal, we know there haven't been U.S. elections yet and the Green Deal hasn't been approved yet. But when do you believe we can move to a world of 20, 25 or higher gigawatt auctions per year? And in that world, how many players do you think could be a healthy number, properly capitalised players, before you think this space becomes too crowded? I'm thinking about the recent BP announcement, I'm thinking about Shell winning another auction.

Last question is a bit more conceptual. Long term, if we start to move into a world of renewables and batteries and hydrogen is there going to be a power market? So, should we care about long term negative power prices? How will your existing projects or future projects be remunerated when the power market no longer exists? How do you envisage that transition? What are you doing in your old models to think IRR? Thank you.

### Henrik Poulsen

Thank you, Alberto. With regards to the farm downs, as we've talked about before, there is an argument to pursue a farm down if it adds incremental value above and beyond the existing NPV on the project. There is such strong demand in the market that we feel it's warranted to go out and see if indeed there is incremental value to be captured on Borssele through a farm down.

We can certainly fund our existing growth plans within the current balance sheet framework. On the other hand, we are also seeing an accelerating demand for green energy technology around the world so it certainly wouldn't hurt to add additional capacity in order to give us the flexibility if we see growth above and beyond current targets.

So, yes, you could call it opportunistically that we pursue incremental value where we can find it and that is the primary driver. We could certainly do without the capital for now but on the other hand, to one of the questions you also asked, we are looking into a market that may potentially further accelerate.

On that note, the combination of an E.U. Green Deal and we'll have to wait and see what comes post the U.S. general election in terms of energy policy. But clearly, we are seeing demand for offshore wind now gradually moving into the teens in terms of gigawatt buildout per year. As we move deeper into the 2020s, we will probably also go towards 20 gigawatt per year when you look sort of towards the back half of the decade.

It will of course attract a lot of attention. We have seen some remarkable strategic announcements from BP and partly also recently from Equinor. There is no doubt that they are looking to expand their renewable presence at an accelerating pace. So, we are looking into a market which is getting bigger and bigger. On the other hand, we will also see more companies looking for a presence in that market.

In many ways, you could say it is really an extension of the dynamics we've seen over the past two to three years in particular, and we'll see those dynamics continue to play out probably over the next five to six years. If we imagine a market at 20 gigawatt or more per year, you could reasonably start modelling out how many players can that market support while retaining a healthy competitive balance and still maintaining decent value creation in the market.

It is hard to give you an exact answer, but we are obviously, on an ongoing basis, looking for what are the long-term targets that our competitors put out there and how do we see the total demand in the market developing and is that supporting a healthy balance. I think it's fair to say, for now, we feel that the long-term outlook for green energy and for developers like Ørsted remains quite positive.

In terms of modelling out any future periods with negative power prices, again, it is something we do. It is admittedly a very complicated exercise with a very complex dynamic between the supply side and the demand side of the electricity markets.

On one hand, more and more renewable capacity will put pressure on pricing. On the other hand, we will also see a lot of capacity being retired on the fossil and nuclear side of the equation and not least, we do expect to see quite meaningful growth in demand for electricity over the next 10 to 20 years as societies go through a pretty comprehensive electrification journey, bringing electrification not only to transportation but also to heating and industrial processes.

And that combined with more flexibility on the demand side, actually gives us some confidence that we'll continue to see healthy price developments in our markets when we take a 15, 20-year view on the business.

### Alberto Gandolfi

Thank you so much.

### Operator

Thank you. And just to remind participants, this call has to end no later than 15:30, so please respect only one question per participant, and then you can join the queue again to ask a second question. Our next question comes from the line of Casper Blom of ABG Sundal Collier. Please go ahead.

### Casper Blom

Thank you very much. I will stick with one question. Just wanted to follow up on this very interesting Taiwanese PPA that you made with TSMC. I completely understand that you cannot comment on the level of the PPA other than that it's higher than what you initially got out of it but maybe you could talk a little bit about this as a concept.

Is this something you're seeing in other places as well, that corporates are approaching you asking if they can a little bit buy in to the original contract and take over part of the agreement, or maybe the whole thing, at an even higher PPA? Do you think this is something we're going to see more of?

### Henrik Poulsen

I think there's a fair chance that we'll see more deals in the corporate market. I wouldn't go as far as saying that there's a trend, but there's no doubt that TSMC is responding to incentives from both the Taiwanese government, but frankly also from their large customers putting requirements on them to decarbonise their production and these large customers will add similar requirements to other sourcing agreements around the world. So, we see a lot of these dynamics playing out where companies will meet higher and higher expectations in terms of what they do to support the fight against climate change.

Obviously, in this case, tech giants like Apple, Facebook, Amazon, et cetera, they are playing a pivotal role in getting the ball rolling and really influencing, also spilling over into other industries and we see that effect right now, which is also why we are optimistic about how the corporate PPA market is going to develop, both onshore and offshore and globally.

### Casper Blom

So, is it also something you are seeing in Europe where you're seeing more and more zero subsidy projects also?

### Henrik Poulsen

Indeed, there's no doubt that whenever you decide to take on some merchant exposure, you need to carefully think about what you can do to cover it off with as much fixed price off-take as you can get.

### Casper Blom

Thank you. I better stop there. Thanks, Henrik.

### Operator

Thank you. Our next question comes from the line of Sam Arie of UBS, please go ahead. Your line is open.

### Sam Arie

Hi. Thank you very much for the presentation. Congratulations again on the results. I'm just looking at my list of questions and quickly deciding which is the one I'm going to ask. I think the one I want to ask is actually a follow up to Alberto's question just now and your answer in which I think you were saying that the current competitive dynamic could continue to be very intense for a period of five or six years.

In our world, we've been thinking about that as basically a price war in offshore wind and you can see the players gathering for that price war. I think in the past, you've said you wouldn't participate in a price war, you wouldn't exchange value for growth and that the market is so big, there should be enough growth for lots of players. I'm just starting to doubt - thinking about how the ambition of the oil sector has increased since even the beginning of this year, I'm just starting to doubt if that logic holds and wondering what would it mean for you if there's a really aggressive price war in offshore wind over the next, say, five years and that starts to look like, for example, what we saw in the early days of broadband rollout, which was very difficult for the telcos, a couple of decades ago.

How would you handle that and what would it mean for the business? Could it mean, for example, that in 2030, you've had a material shift away from offshore as a central business or do you have other strategies, or would you be materially moving away from auctions as a way to get assets funded and built? I'm just wondering what your thoughts are about how you could survive or even defeat a price war dynamic in the offshore market.

### Henrik Poulsen

Thank you, Sam. I stick to the answers that I provided before and the reason why I do that is that we're really looking at a global growth matrix where you have the geographic regions on one dimension, and you have offshore wind, onshore wind, solar PV, storage, green hydrogen on the other dimension. We are rapidly establishing very strong market positions in a number of those different submarkets in that growth matrix and there's still a lot of additional growth space to be filled out for Ørsted over the coming 10 years in that matrix.

Now, when you look at it, it's going to offer us a lot of different growth opportunities across the world across technologies, and I still don't see us not being able to find value-creating growth opportunities. We continue to find these opportunities, also over the past three to four years, where we've seen a pretty intense competitive environment. So, yes, no doubt, there will be more players with big ambitions, but it's also going to be a very big market and it's even an expanding market opportunity.

When you look at the auction dynamics, yes, that's clearly an allocation mechanism where you have to stay disciplined and we do remain disciplined, which means that obviously we won't always win. But I remain confident that every so often we are so cost-competitive in terms of our capability and our cost structure that we will be able to secure capacity and create value.

Will that also in future be driven by other types of buildout than government-sponsored auctions? That may well be. We'll have to see. If you take back to the TSMC agreement, you could say in principle, that is an offshore wind farm of 920 megawatt that we potentially could have built without government intervention above and beyond the open door permits they would have to give us.

So, can you imagine a future where large corporates around the world actually buy and sponsor their own offshore wind farms under more of an open door regime? I wouldn't rule it out. We'll have to wait and see.

So, yes, there will be a lot of competition, there will be a lot of demand. We have to just keep working every day to sharpen the sword and make sure we are super competitive. And I would claim we are still a very competitive player in this field.

### Sam Arie

It's a very helpful answer. Thank you. Apologies if the question is challenging. You've obviously done an amazing job until now. We can't help being a bit nervous about the future but thank you for your answer.

### Henrik Poulsen

Thanks, Sam. Appreciate it.

### Operator

Thank you. Our next question comes from the line of Peter Bisztyga of Bank of America Securities. Please go ahead, your line is open.

### Peter Bisztyga

Hi, good afternoon. So, one question from me. The European Commission is expected to publish its offshore wind strategy in the fourth quarter of this year, I believe as part of its Green Deal process. Is there anything in particular that you're hoping to see in this document?

**Henrik Poulsen**
We certainly hope to see obviously a significant ambition and an ambition that lends credibility to the decarbonisation targets and we expect to see offshore wind playing a much, much bigger role in that strategy than it probably would have just three or four years ago. I think that's a realistic expectation.

We would also like to see increased alignment across European markets in terms of regulatory frameworks, permitting processes. The more we can align standards and processes across markets, the more transaction costs you can take out of the end to end process.

We also hope that we'll see ambitious strategies to tap into the huge potential we have for offshore wind build-out in the North Sea, between U.K., Netherlands, Germany and Scandinavia, in the Baltic Sea for that matter. All of that coupled to decarbonisation strategies for heavy transportation and heavy industry, coming back to the huge potential for green fuels. If you really want 40 gigawatts of green hydrogen by 2030, you're going to need a tremendous amount of renewable electricity to fuel that green hydrogen production.

So, all of those sector coupling opportunities coming together in a more integrated European framework, and under a significant ambition would be my hope and I still believe that that is quite a fair and realistic expectation. I think there is a clear recognition in Europe among political leaders that if you look at it from a global competitive point of view, green energy is one of not that many industries where Europe still has a lead in some areas where Europe has a historical stronghold, and where Europe also going forward, should have an ambition to be a global leader.

**Peter Bisztyga**
Excellent. Thanks very much.

**Operator**
Thank you. Our next question comes from the line of Rob Pulleyn of Morgan Stanley. Please go ahead. Your line is open.

**Rob Pulleyn**
Thank you. Just one question, if I may. Regarding the U.K. impact in the second quarter and specifically the six-hour rule, may we ask, is this something that was anticipated in your targeted economics for the CfD projects over the life of the project given increasing renewables penetration as we go out over the next five, 10, 15 years? Or was it unanticipated that it would ever be invoked and is this particularly a COVID related one-off given power demand in the second quarter or something we could see again in the future? That's a multi-faceted question but thank you very much.

**Henrik Poulsen**
Thank you. First of all, we do see it as a direct COVID-19 impact and therefore, we also would expect this to normalise once we, hopefully in the not too distant future, return to more normalised economic activity levels. We did in the CfD contracts, not expect negative price events in 2020 but we have anticipated more negative price events when you look further into the future under the CfD business cases.

**Rob Pulleyn**
Okay, that's very clear. Thank you.

**Operator**
Thank you. Our next question comes from the line of Kristian Johansen of Danske Bank. Please go ahead. Your line is open.

**Kristian Johansen**
Thank you. A question regarding the earnings booked in Q2 due to lower CapEx for Hornsea 1. So, have you now booked all CapEx for Hornsea 1 or could we potentially see lower CapEx for Hornsea 1 in Q3 and hence positive earnings impact here as well?

**Marianne Wiinholt**
We are fully completed with the Hornsea 1 so we will not have construction earnings from that project. We still expect some earnings on the line. Construction again in the second half in the magnitude of a couple of hundred million. But that's more related to our previously constructed projects where we have these provisions for different kinds of warranties. So, we expect some more earnings, but not related to Hornsea 1.

**Kristian Johansen**
Okay, very clear. Thank you.

**Operator**
Thank you. Our next question comes from the line of Deepa Venkateswaran of Bernstein. Please go ahead. Your line is open.

**Deepa Venkateswaran**
Thank you. That's Deepa Venkateswaran from Bernstein. So, my question and if you can't answer it, I'll put a second question, just in case. So, on the Taiwan case, could you help us understand whether this PPA was needed absolutely for the FID and maybe if you can talk about how the IRR moved by how many bps before and after?

If you can't answer that question, I wanted to understand more about your green hydrogen project in Denmark, the one you're in consortium with a number of other Danish players. How might the revenue model of this work? Would this be corporate off-takers, who will subsidise the offshore wind and the electrolyser? Would there be government subsidies? Maybe just some colour on how you see these green projects, green hydrogen projects actually being implemented. Thank you.

**Henrik Poulsen**
Thanks, Deepa. We certainly - my clear expectations would have been that we would have FID'd at Changhua 2b and 4 also without the corporate PPA. It has provided a meaningful reinforcement of the economics of the project. But as you also anticipated in your question, I will not be able to provide the IRR or NPV uplift that is as per our agreement with our partner on this contract.

On the green hydrogen project in Copenhagen, we are really partnering up with four potential off-takers of green fuels, one for - or actually two of them for aviation, for jet fuel, and one for heavy road transport, and one for shipping, which is what makes it so interesting that we actually cover more or less the entire transportation sector in this consortium.

Obviously, we do it coming from an offshore wind and green hydrogen production point of view. They very much come at it because they recognise that they need to decarbonise their fuel consumption, and they are looking for projects that can help accelerate and drive innovation in this area. And that's why they have been keen to join the consortium.

We are going to apply for public support on the initial capex investments, and long term, we will also be looking for other kinds of support. We don't know exactly what form that those subsidies are going to come in, whether it will be further capex support, or whether it will be more of a production-based subsidy to allow us to offer the off-takers a price that is not too far away from fossil-based products.

### Deepa Venkateswaran
Alright. Thank you so much.

### Operator
Thanks. And our next question comes from the line of Ingo Becker of Kepler Chevreux. Please go ahead. Your line is open.

### Ingo Becker
Thank you. Good afternoon. I had a question on your earlier statement that you would expect directionally the EU stimulus package and economic recovery efforts to also support your business. I think I understand hydrogen project-based support. But do you also see support for your offshore business? And what form would that be? Would it rather be the availability of more projects or also direct support?

And if I may, just in conjunction to an earlier question that you've already answered, I was wondering if you've seen the potential of PPAs, like the very successful one you just concluded, to maybe mitigate the rising competitive pressures that you actually are facing in the initial auction? Thank you.

### Henrik Poulsen
On the support, the EU support for offshore wind, there could be a scenario where EU actually will procure green energy directly. But I'm not sure that that's the most likely scenario, but I do believe that it has been part of the discussions. I think you should still expect this to be more of a national government type of support framework, like we see at the moment, but obviously stimulated by a build-out of green hydrogen and stimulated by the bigger European commitment on de-carbonisation. So, I would expect that still to be nationally driven more so than EU driven.

Whether corporate PPAs will allow us to mitigate some of the competitive pressures, as I mentioned earlier, I could certainly see corporate PPAs becoming a bigger factor in the demand for offshore wind over the next five years. Exactly how it's going to play out, it's, of course, very difficult to predict. But based on what we've seen over the past 18 months, I think it's fair to assume that we'll continue to see more corporate demand for green energy in general.

### Ingo Becker
Thank you.

### Operator
Thank you. And we have two further questions in the queue so far. So, just as a reminder to participants, if you do wish to ask a question, please dial 01 on your telephone keypads now. The next question comes from the line of Mark Freshney at Credit Suisse. Please go ahead. Your line is open.

**Mark Freshney**
Hello, I have a question on the 2025 targets. You have a 15 to 16 gigawatt gross installed wind capacity target. Clearly, the potential farm down of Borssele 1 and 2 will take your capacity to slightly above perhaps 16.5 or 17. But, 2025 is just around the corner. The U.S. projects have not yet reached FID. There is still work to do on the German North Sea for the German projects. My question is, is it possible that you could end up missing the bottom end of the 15 to 16 target? And if so, what is there immediately on the horizon that you could do to actually offset that? Thank you.

**Henrik Poulsen**
Thanks, Mark. We have a target of 15 gigawatts of installed capacity by 2025.

**Marianne Wiinholt**
You are referring to the CAGR, is that right? Or are you referring to the capacity? It's a bit -

**Mark Freshney**
The installed capacity of 15 to 16.

**Henrik Poulsen**
No, it was the offshore wind capacity. Offshore wind capacity in 2025?

**Mark Freshney**
Exactly.

**Henrik Poulsen**
There we have a 15 gigawatt capacity target. I'm still confident we can reach that, Mark. Again, I can never issue a guarantee, but we have a pipeline, which will pretty much take us there, if you combine our projects in Taiwan, Germany, and U.S. We've pretty much reached the 15 gigawatts. So, assuming that we're going to FID all of those projects and have them built reasonably on the expected timeline, that will already take us to 15 gigawatt.

**Marianne Wiinholt**
And also, to remind you that the farm down doesn't impact the capacity because it's installed capacity. So, even if we farm down Borssele, that doesn't impact that metric.

**Henrik Poulsen**
Correct.

**Mark Freshney**
But Borssele gives you extra capacity over and above the 15 to 16 because there's extra cash in that you didn't envisage at the time you did your last business plan 18 months ago?

**Henrik Poulsen**
There are still a couple of opportunities out there that could lead to projects being both secured, FID'd, and constructed before the end of 2025. So, we still have a couple of open opportunities that could either replace some of the current projects or come on top. So, just like I cannot guarantee we'll reach 15, I'm quite confident we will, I would also say that it's an open question whether we will exceed it. There could be a couple of opportunities that could lead to us over-performing.

### Mark Freshney

And just if I could have a follow-up to that. Some of the auctions look very irrational, and I wouldn't be surprised if players who have won projects can't complete them. And there have been, for example, with Race Bank, which was a project one of your previous partners couldn't get to work, you were able to get to work. Is it possible that you could move in and take a partly developed project on, perhaps pre-FID from a competitor, where they're just not able to do what they've promised or thought they would do when they won the auction?

### Henrik Poulsen

The Race Bank project certainly turned out to be a very good project for us, and we would always be open to having a conversation with anyone who potentially would want to sell a project which is already quite progressed, if they for one reason or the other decide that they don't want to move forward. Again, obviously, it would all come down to a commercial negotiation on the terms and conditions and the price of it.

But I would say we are always open to picking up projects. I would, again in all humbleness, say that we are able to deal with a fair amount of complexity. We have a capability that again and again has proven its ability to actually profit on complexity, and therefore, I would certainly keep a door open for such opportunities.

### Mark Freshney

OK. Thank you.

### Operator

Thank you. And the last question in the queue is Elchin Mammadov from Bloomberg. Please go ahead. Your line is open.

### Elchin Mammadov

Hi, there. I have a question of hydrogen, please. Again, I just wanted to - you touched on this earlier, but I just wanted to see if there's going to be any meaningful impact on EBITDA in the next five or 10 years, or ever. And related to that, if you are going to grow in hydrogen, is it going to be in hydrogen production, or are you going to expand to transports, supply, and trading as well? Thank you.

### Henrik Poulsen

Thank you. We wouldn't expect hydrogen to have any material impact on our financials on this side of 2025. Hopefully, as we start expanding some of the projects I referred to earlier into several hundred megawatts or even gigawatts towards 2030, it should hopefully start having a positive impact on our financials. So, five years, I would say very limited. 10 years, hopefully, we should start noticing an additional value creating growth opportunity for the company.

In terms of where we're going to engage in the value chain, our focus will of course be starting with offshore wind as the electricity supply for the green fuels. And then, we would also engage in the green hydrogen production. I do not expect us to move forward from there into refinery and production of e-fuels like e-kerosene, e-methanol, and ammonia. There, I do believe, we'll rely on partners to team up with us.

### Elchin Mammadov

Thank you.

**Operator**
Thank you. And we've had one further question join. That's from Kristian Johansen of Danske Bank. Please go ahead. Your line is open.

**Kristian Johansen**
Thank you. Just on these 317 million negative impact on product trading activities in offshore, I would presume it's due to the low power prices we saw during the wide lockdown. Would it be fair to think of a rebound into Q3 in power trading as power prices recover?

**Marianne Wiinholt**
First of all, it is a delta versus the same quarter last year. So, you're right. We had a small loss of around 40 million for the quarter for the trading activities. And that has actually nothing to do with the current very low power prices because the trading is not dependent on the level of power prices. We had a very, very strong last year in trading. If you look year-to-date at our trading results, they are actually exactly on target. And then, of course, they will vary over time, but we are very satisfied with this year's trading results. But it was just that last year was so extraordinary. And we expect Q3 and Q4 to be normal quarters. That's the expectation.

**Kristian Johansen**
Okay. Very clear. Thank you.

**Operator**
Thank you. And as there are no further questions at this time, I'll hand back to our speakers for the closing comments.

**Henrik Poulsen**
Thank you. And thank you all very much for joining the call. Appreciate all of the great questions. And, as always, should you have more questions, please don't hesitate to reach out to the Investor Relations team, who will be there to answer them. Thank you, everyone. Have a continued great day and stay safe.