

# INVESTOR PRESENTATION Q2 2017

A large-scale offshore wind farm is shown against a clear blue sky. The foreground features a prominent white wind turbine with a yellow base and a red stripe. In the background, several other similar turbines are scattered across the dark blue ocean. A yellow service platform is visible in the middle ground, and a few small boats are seen on the water's surface.

10 August 2017

**DONG**  
energy



**DISCLAIMER.** Certain statements in this presentation are based on the beliefs of our management as well as assumptions made by and information currently available to the management. Forward-looking statements (other than statements of historical fact) regarding our future results of operations, financial condition, cash flows, business strategy, plans and future objectives can generally be identified by terminology such as “targets”, “believes”, “expects”, “aims”, “intends”, “plans”, “seeks”, “will”, “may”, “anticipates”, “continues” or similar expressions.

These statements are not guarantees of future performance and involve certain risks and uncertainties. Therefore, actual future results and trends may differ materially from what is forecast in this financial report due to a variety of factors, including, but not limited to, changes in temperature and precipitation levels; the development in oil, gas, electricity, coal, CO<sub>2</sub>, currency and interest rate markets; changes in legislation, regulation or standards; renegotiation of contracts; changes in the competitive environment in DONG Energy’s markets; and security of supply.

We urge you to read our annual report available on our website at [www.dongenergy.com](http://www.dongenergy.com) for a discussion of some of the factors that could affect our future performance and the industry in which we operate.

Should one or more of these risks or uncertainties materialise or should any underlying assumptions prove to be incorrect, our actual financial condition or results of operations could materially differ from that described herein as anticipated, believed, estimated or expected.

# Progress on strategic agenda

## Execution on 2020 Wind Power build-out

- Inauguration of
  - Burbo Bank Extension (258MW) in May
  - Gode Wind 1 & 2 (582MW) in June
- First power on Race Bank (573MW) in May
- First power on Walney Extension (659MW) expected in Q3 2017
- All projects on track

## Execution on 11-12GW ambition by 2025

- Awarded three projects (590MW) at German auction in April. Two without a subsidy
- Turbines selected for Borssele 1&2. Capacity upgraded to 752MW from 700MW
- Agreement with Dominion Energy in Virginia to construct 12MW off Virginia Beach. Potential of 2GW
- Expect to bid with Hornsea 2 in UK CfD auction in August. Outcome expected in September
- Expect to hand in bid in Massachusetts auction in second half of December
- Taiwan EIA approval expected before end of year
- Next Dutch tender expected in Q4 – opportunity being assessed

## Farm downs

- Agreement to divest 50% of Borkum Riffgrund 2 (450MW) with expected closing in H2 2017
- Walney Extension (659MW) expected during Autumn 2017
- Hornsea 1 expected in 2018/2019

## Divestment of non-core assets

- Agreement to divest our upstream oil & gas business with expected closing in Q3 2017
- Agreement to divest A2SEA with expected closing in Q3 2017

## Bioenergy

- Commissioning of first REnescience plant in Northwich in Q3
- First power from Skærbæk CHP-plant in April following conversion, full commissioning expected in October
- Agreement to convert the Asnæs plant to biomass by 2019

## Grid

- Large scale roll-out of 1m smart meters started in June after successful pilot project

# Expected future financial headroom

## Safeguard

- Rating commitment
- Optimise leverage

## Commitments

- Fuel existing growth plan
- Honour existing dividend policy

## Growth

- Additional profitable opportunities within offshore wind and other renewable technologies
- Farm down only subject to substantial value creation and risk diversification

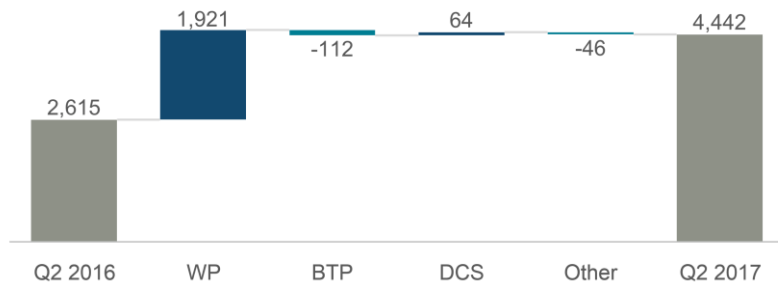
## Distribution

- Increase annual dividends  
*and/or*
- Share buy-backs



# Strong financial performance in Q2

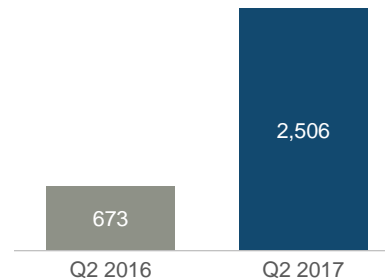
## EBITDA Continuing operations DKKm



### Reported EBITDA up DKK 1.8bn

- Earnings from operating wind farms up 48% due to ramp up of Gode Wind 1 & 2 and Burbo Bank Extension and higher WEC
- Higher partnership earnings due to recognition of a deferred gain of DKK 1.4bn on the Race Bank farm down
- Lower power spreads in Q2 2017 and positive one-offs in Q2 2016 in BTP

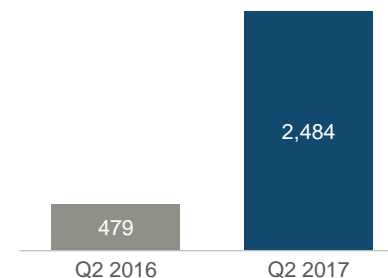
## Net profit Continuing operations DKKm



### Net profit up DKK 1.8bn

- Higher EBITDA
- Lower net financial items (negative effect in Q2 2016 from capital losses and expenses in connection with repurchase of bonds and early redemption of bank debt and swaps)

## Net profit Discontinued operations DKKm

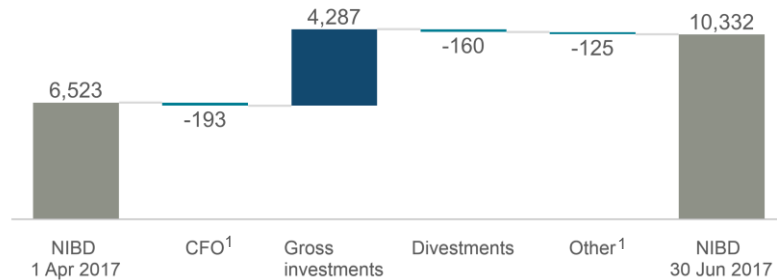


### Net profit up DKK 2.0bn

- EBITDA up by DKK 0.9bn mainly due to ineffective hedges being settled at gain (DKK 1.0bn)
- Fixed assets are no longer depreciated (assets held for sale); DKK 0.5bn in Q2 2016
- Reversal of impairment loss contributing with DKK 0.7bn in Q2 2017, from settlement of the Hejre EPC contract

# High return on capital employed

## Net interest-bearing debt development DKKbn



## Net debt increased by DKK 3.8bn

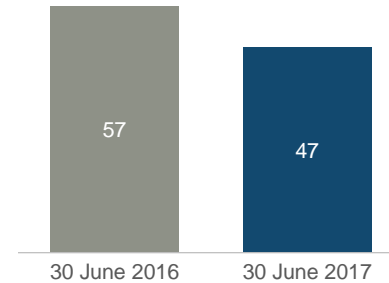
- Cash flow from operations: Strong EBITDA offset by funds tied up in working capital (high activity relating to construction of offshore transmission assets)
- Gross investments: Offshore wind farms (DKK 3.9bn), biomass conversions and REnescence waste treatment plant (DKK 0.2bn)
- Other: Primarily positive cash flow from discontinued operations (upstream oil & gas business)

1. Adjusted for DKK 2.0bn relating to early settlement of intra-group hedging contracts related to the oil and gas business

2. Last 12 months, continuing operations

3. Last 12 months and excl. write-downs, continuing operations

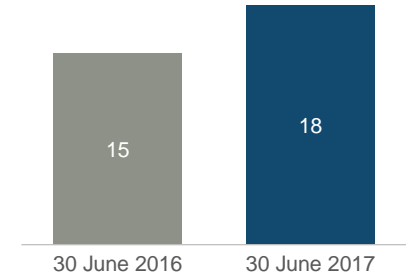
## FFO/Adjusted net debt<sup>2</sup> %



## FFO/Adjusted net debt of 47%

- Credit metric significantly above our target of around 30%
- Decrease due to net debt partly offset by higher FFO for the last 12 months

## Adjusted ROCE<sup>3</sup> %



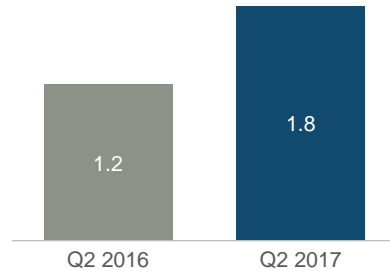
## Adjusted ROCE of 18%

- Increase due to the higher EBIT over the last 12 months, with positive impact from the Race Bank farm down

# Wind Power – EBITDA up by 85%



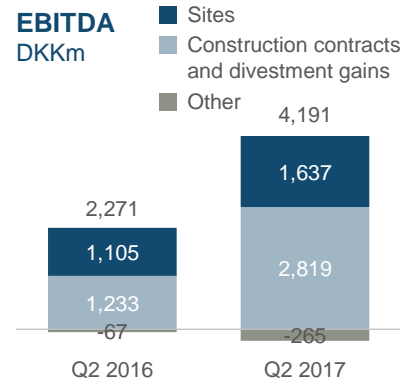
## Power generation TWh



### Power generation up 50%

- Ramp up of production from Burbo Bank Extension and Gode Wind 1 & 2
- Higher WEC (84% in Q2 2017 vs. 75% in Q2 2016)

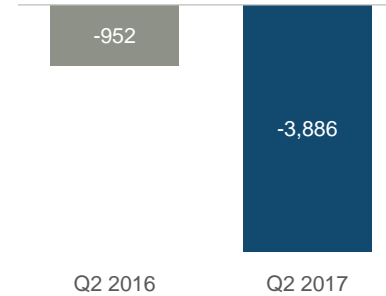
## EBITDA DKKm



### EBITDA increased DKK 1.9bn

- Earnings from operating wind farms up 48%
- Construction contracts and divestment gains increased due to deferred gain from Race Bank farm down of DKK 1.4bn
- Higher project development costs in Q2 2017 and A2SEA insurance compensation in Q2 2016

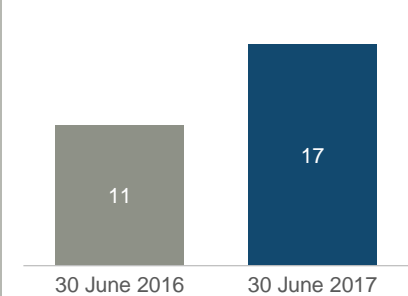
## Free cash flow DKKm



### FCF decreased by DKK 2.9bn

- More funds tied up in the construction of offshore transmission assets and wind farms for partners
- Higher gross investments

## Adjusted ROCE<sup>1</sup> %



### Adjusted ROCE up 6%-point

- Positive impact from gain on the divestment of 50% of Race Bank in December 2016

1. Last 12 months and excl. write-downs

# Increased disclosure on farm downs: SPA/CA split and timing of CA gains<sup>1</sup>



Wind farm	MW capacity	Commissioning	SPA/CA split	2015	2016	H1 17	H2 17e	2018e
Gode Wind 1	330	Q4 16	SPA	All				
			CA: 75-100%	0-10%	65-75%	20-30%		
Gode Wind 2	252	Q4 16	SPA					
			CA: 75-100%	55-65%	30-40%	0-10%		
Burbo Bank Ext.	258	Q1 17	SPA		DKK 0.6bn			
			CA: 75-100%		80-90%	10-20%		
Race Bank	573	H1 18	SPA		DKK 2.5bn	DKK 1.4bn		
			CMA: 25-50%			50-60%	35-45%	0-10%
Walney Ext.	659	H2 18	SPA				All	
			CA: 25-50%e				10-20%	80-90%
Borkum Riffgrund 2	450	H1 19	SPA				All	
			CA: 25-50%				0-10%	90-100%

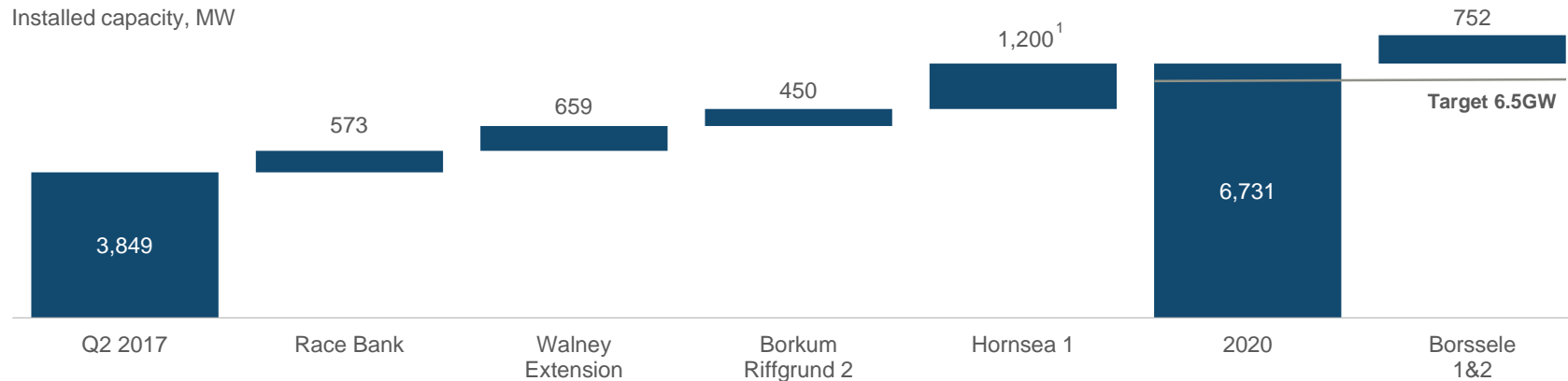
1. P/L effect



# 2020 build-out plan on track



Installed capacity, MW



Country	UK	UK	Germany	UK		Netherlands
Expected completion	2018	2018	2019	2020		2020/21
On time/budget	● / ●	● / ●	● / ●	● / ●		● / ●
Main activity next quarter	Turbine installation	Turbine installation	Onshore facilities and manufacturing of components	Onshore facilities and manufacturing of components		Further procurement

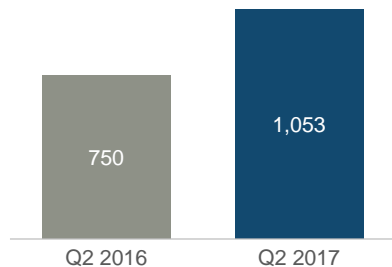
1. The export capacity of Hornsea 1 is 1,200MW determined by the boundary of the facility (offshore substations), while the aggregated installed generator capacity is 1,218MW

Note: April 2017, DONG Energy was awarded three German offshore wind projects with a total capacity of 590 MW (not included in above overview). The three projects are planned to be commissioned in 2024, subject to Final Investment Decision (FID) in 2021

# Bioenergy & Thermal Power – Adverse market conditions for power generation



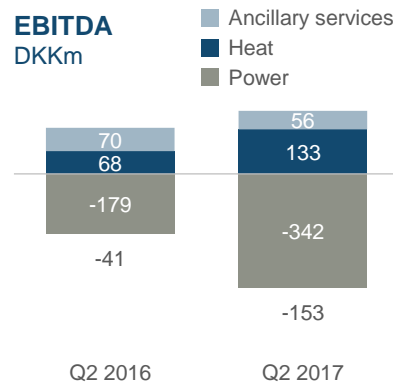
## Revenue DKKm



### Revenue up DKK 0.3bn

- Heat revenue increased due to new heat agreements at Avedøre and Studstrup CHP plants, where heat is generated using biomass
- Revenue from power and ancillary services increased, driven by higher power generation and higher power prices

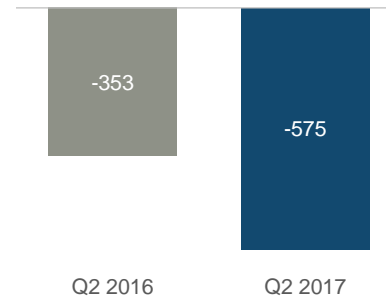
## EBITDA DKKm



### EBITDA decreased DKK 0.1bn

- Negative effect from the adverse market conditions for power generation
- Partly offset by heat generation activities due to the new heat agreements
- Power EBITDA in Q2 2016 positively impacted by gain on sale of property and changed decommissioning obligations

## Free cash flow DKKm

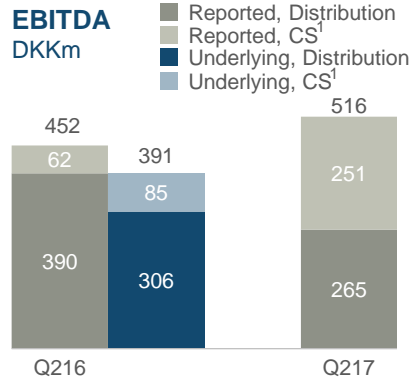


### FCF decreased by DKK 0.2bn

- Lower EBITDA
- Lower level of pre-payment from heat customers relating to the biomass conversions
- Still expect positive free cash flow for full year 2018

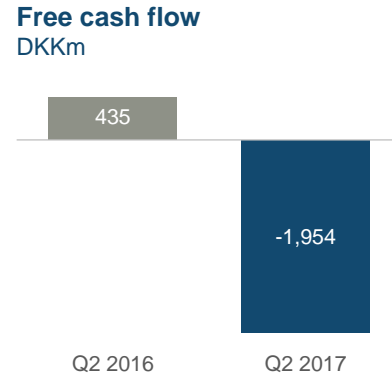


# Distribution & Customer Solutions – Continued strong performance



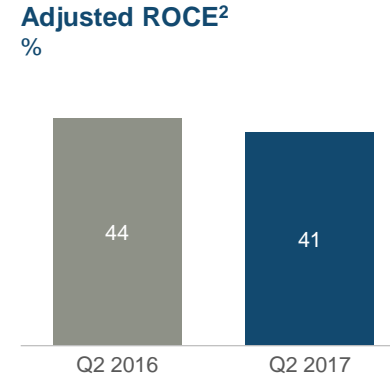
## EBITDA increased DKK 0.1bn

- Strong performance in Markets
- Divestment of our gas distribution activities in September 2016
- No one-offs in Q2 2017



## FCF decreased by DKK 2.4bn

- Negative effect from intra-group settlement of unwound hedges of DKK 2.0bn between DCS and O&G (offset in discontinued operations, no effect on the Group's net debt)
- Higher trade receivables



## Adjusted ROCE of 41%

- Lower EBIT (last 12 months)
- Both 12-month periods significantly impacted by one-off payments received from renegotiation of long-term gas contracts
- ROCE was 23% when excluding the contribution from one-off payments

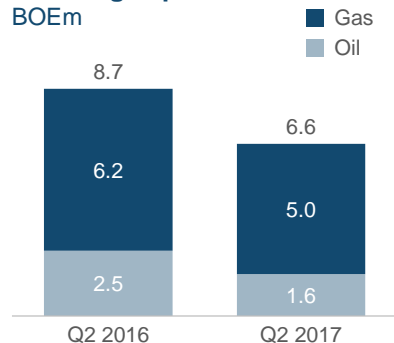


1. Customer solutions (Markets, LNG and Sales)  
 2. Last 12 months and excl. write-downs

# Oil & Gas – Discontinued operations



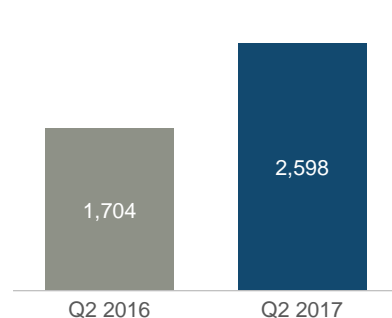
## Oil and gas production



### Production down 24%

- Lower production in Norway due to the divestment of Trym, Ula, Tambar and Oselvar end 2016
- Lower production from mature fields in Denmark, primarily Siri and Syd Arne

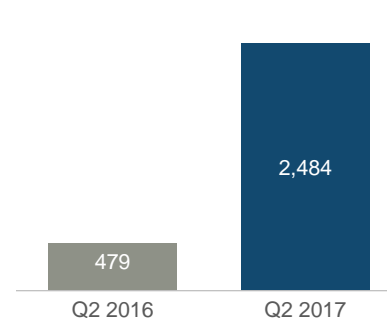
## EBITDA



### EBITDA up DKK 0.9bn

- One-off items in Q2 2017 from the recognition of ineffective hedges (DKK 1.0bn) and settlement with supplier consortium regarding the Hejre EPC contract (DKK 0.3bn)
- Partly offset by the lower production

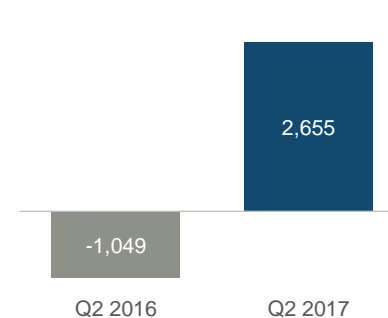
## Net profit



### Net profit up DKK 2.0bn

- Higher EBITDA
- Fixed assets are no longer depreciated due to the assets classified as held for sale
- Impairment losses amounted to an income of DKK 0.7bn in Q2 2017, from the settlement regarding the Hejre EPC contract

## Free cash flow



### FCF increased by DKK 2.8bn

- Higher EBITDA
- No gross investments
- Positive effect of DKK 2.0bn from intra-group settlement of unwound hedges between O&G and DCS (offset in discontinued operations, no effect on the Group's net debt)

# Financial outlook 2017

## Financial outlook upgraded

### EBITDA (BUSINESS PERFORMANCE) OUTLOOK 2017

Group	DKK 17-19bn
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### BUSINESS UNIT EBITDA DIRECTION FY 2017 VS. FY 2016

Wind Power	Significantly higher
Bioenergy & Thermal Power	Higher
Distribution & Customer Solutions	Significantly lower (Underlying: Lower)

### GROSS INVESTMENT OUTLOOK 2017

Group	DKK 18-20bn
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### RETURN ON CAPITAL EMPLOYED (ROCE)

Group	12-14%	Avg. 2017-2023
Wind Power	13-15%	Avg. 2017-2023
Distribution & Customer Solutions	9-11%	Avg. 2017-2023

### FREE CASH FLOW

Bioenergy & Thermal Power	Positive	2018
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### FINANCIAL POLICIES

Rating (Moody's/S&P/Fitch)	Min. Baa1/BBB+/BBB+
FFO/Adjusted net debt	Around 30%

### DIVIDEND POLICY

- Towards 2020 our target is to increase the dividend annually by a high single digit rate compared to the dividend for the previous year
- Dividend policy is subject to our commitment to maintain a Baa1/BBB+ rating profile

# Q&A

Conference call:

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US: +1 855 269 2604

For questions please press 01

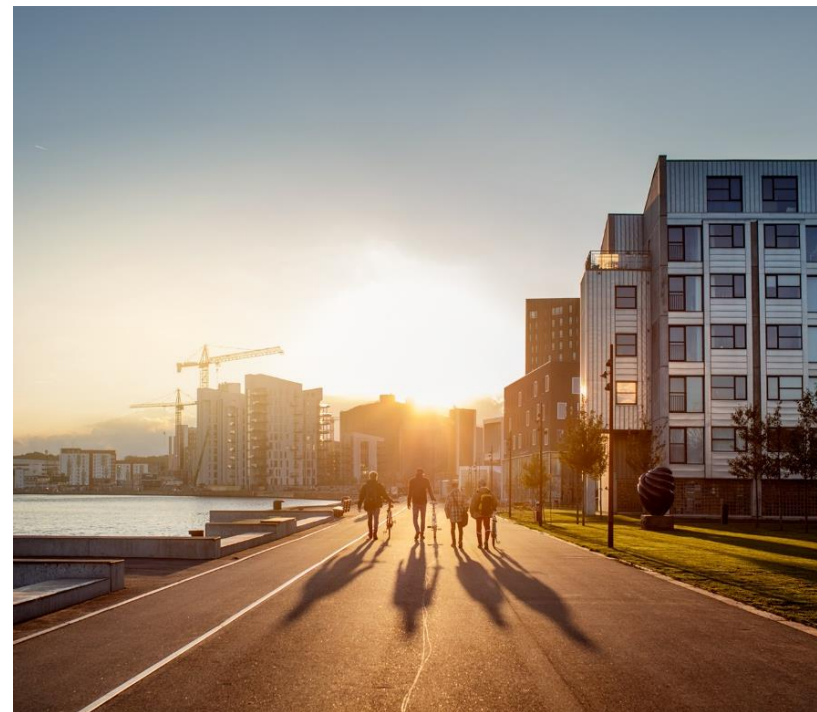




## Appendix

# Group – Financial highlights Q2 2017

FINANCIAL HIGHLIGHTS		Q2 17	Q2 16	Δ
EBITDA	DKKm	4,442	2,615	70%
• Wind Power		4,191	2,270	85%
• Bioenergy & Thermal Power		(153)	(41)	273%
• Distribution & Customer Solutions		516	452	14%
Net profit – continuing operations		2,506	673	272%
Net profit – discontinued operations		2,484	479	420%
Total net profit		4,990	1,152	333%
Operating cash flow		(1,848)	1,215	n.a.
Gross investments		(4,287)	(2,340)	83%
Divestments		160	(46)	n.a.
Free cash flow – continuing operations		(5,975)	(1,171)	410%
Net interest-bearing debt		10,332	3,821	170%
FFO/Adjusted net debt	%	47.3	56.7	(9.4%p)
Adjusted ROCE <sup>1</sup>	%	18.4	14.7	3.7%p



1. ROCE: Last 12 months and excl. write-downs



# WP – Financial highlights Q2 2017

<b>FINANCIAL HIGHLIGHTS</b>		<b>Q2 17</b>	<b>Q2 16</b>	<b>Δ</b>
EBITDA	DKKkm	4,191	2,271	85%
• Sites incl. O&Ms and PPAs		1,637	1,105	48%
• Construction contracts and farm down gains		2,819	1,233	129%
• Other incl. A2SEA and project development		(265)	(67)	296%
Adjusted ROCE <sup>1</sup>	%	17.0	10.8	6.2%p
<b>KEY BUSINESS DRIVERS</b>				
Power generation	TWh	1.8	1.2	50%
Wind energy content	%	84	75	9%p
Load factor	%	38	34	4%p
Availability	%	93	94	(1%p)
Installed capacity	GW	3.8	3.0	27%
Production capacity	GW	2.2	1.7	29%



1. ROCE: Last 12 months and excl. write-downs

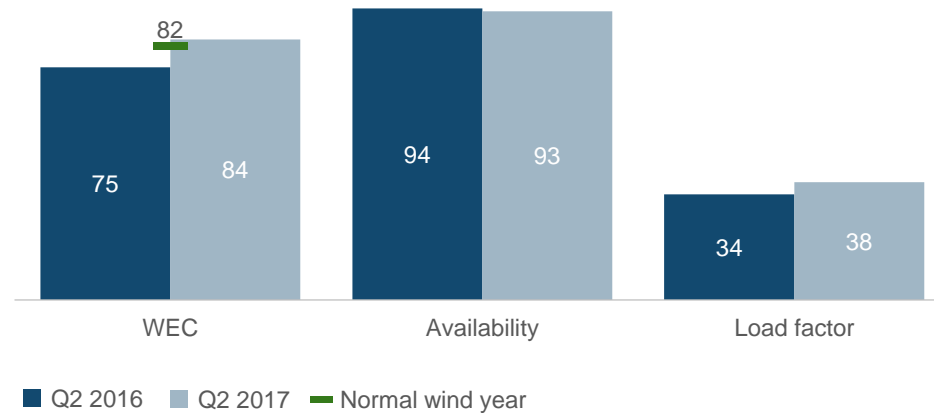
# Wind power measures

## Key commentary

- Q2 2017 WEC at 84%, 9%-point higher than Q2 2016
- Q2 WEC in a normal wind year is 82%, i.e. Q2 2017 2%-point above normal wind year
- Availability at same level as last year
- Load factor of 38% in Q2 2017, 4%-point higher than Q2 2016 due to the higher WEC

## Wind power measures

%



# BTP – Financial highlights Q2 2017

<b>FINANCIAL HIGHLIGHTS</b>		<b>Q2 17</b>	<b>Q2 16</b>	<b>Δ</b>
EBITDA	DKKkm	(153)	(41)	273%
• Heat		133	68	96%
• Ancillary services		56	70	(20%)
• Power		(342)	(179)	91%
Free cash flow		(575)	(353)	63%
<b>KEY BUSINESS DRIVERS</b>				
Heat generation	TWh	1.3	1.4	(7%)
Power generation	TWh	1.5	1.1	36%
Degree days	#	451	399	13%
Power price, DK	EUR/MWh	28.7	25.7	12%
Green dark spread, DK	EUR/MWh	(1.1)	4.9	n.a.



# DCS – Financial highlights Q2 2017

<b>FINANCIAL HIGHLIGHTS</b>		<b>Q2 17</b>	<b>Q2 16</b>	<b>Δ</b>
EBITDA	DKKm	516	452	14%
• Distribution		265	390	(32%)
• Sales		(26)	17	n.a.
• Markets		311	129	141%
• LNG		(34)	(84)	(60%)
Adjusted ROCE <sup>1</sup>	%	41.0	43.7	(2.7%p)
<b>KEY BUSINESS DRIVERS</b>				
RAB Power	DKKm	10,623	10,648	(1%)
Gas sales	TWh	28.3	35.6	(21%)
Power sales	TWh	8.8	8.5	4%
Distribution of power	TWh	2.0	1.9	5%



1. ROCE: Last 12 months and excl. write-downs

# O&G – Financial highlights Q2 2017

<b>FINANCIAL HIGHLIGHTS</b>		<b>Q2 17</b>	<b>Q2 16</b>	<b>Δ</b>
EBITDA	DKKm	2,598	1,704	52%
• Denmark		401	226	77%
• Norway		671	725	(7%)
• United Kingdom		210	165	27%
• Exploration and appraisal		(79)	(63)	25%
• Hedges		1,395	651	114%
Free cash flow		2,655	(1,049)	n.a.
<b>KEY BUSINESS DRIVERS</b>				
Oil production	BOEm	6.6	8.7	(24%)
Gas production	BOEm	5.0	6.2	(19%)
Oil price, Brent	USD/boe	49.8	45.6	9%
Gas price, NBP	EUR/MWh	15.0	13.6	11%
Lifting costs	USD/boe	6.4	6.6	(3%)





# Differences in Business Performance EBITDA and IFRS EBITDA



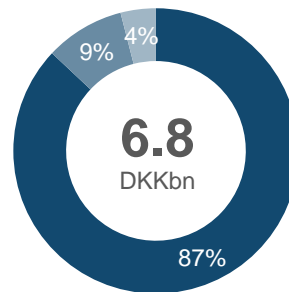
DKKm	H1 2017	H1 2016
<b>EBITDA – BUSINESS PERFORMANCE (BP)</b>	<b>7,730</b>	<b>9,700</b>
BP adjustment in respect of revenue for the year	1,314	(1,612)
BP adjustment in respect of COGS for the year	(424)	1,056
<b>EBITDA – IFRS</b>	<b>8,620</b>	<b>9,144</b>
Total BP adjustments for the year comprise:		
MtM of financial and physical hedging contracts relating to other periods	761	(156)
Reversal of deferred gain (loss) relating to hedging contracts from previous periods, where the hedged production or trade is recognised in BP EBITDA for this period	129	(400)
<b>TOTAL ADJUSTMENTS</b>	<b>890</b>	<b>(556)</b>

SPECIFICATION OF BP ADJUSTMENTS, DKKm	MTM OF HEDGING CONTRACTS RELATING TO OTHER PERIODS		REVERSAL OF DEFERRED GAIN (LOSS)	
	H1 2017	H1 2016	H1 2017	H1 2016
Oil hedge	(301)	38	9	970
Coal hedge	17	58	(23)	89
Currency hedge	124	857	120	(129)
Gas hedge (commercial and hedge)	686	206	(210)	(1,025)
Power hedge (commercial and hedge)	235	(1,315)	233	(305)
<b>TOTAL</b>	<b>761</b>	<b>(156)</b>	<b>129</b>	<b>(400)</b>

# Investments

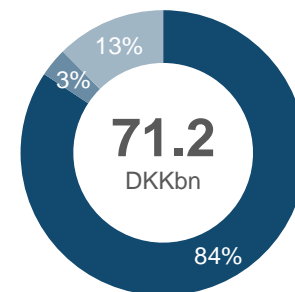
<b>GROSS AND NET INVESTMENTS (DKKm)</b>	<b>H1 2017</b>	<b>H1 2016</b>
Cash flow from investing activities	(1,016)	(3,571)
Dividends received and capital reduction, reversed	(13)	(11)
Purchase and sale of securities, reversed	(5,620)	135
Loans to associates and JVs, reversed	37	(132)
Sale of assets and companies reversed	(177)	(1,992)
<b>GROSS INVESTMENTS</b>	<b>(6,789)</b>	<b>(5,571)</b>
Transactions with non-controlling interests in connection with divestments	48	(89)
Sale of non-current assets	177	1,992
<b>TOTAL CASH FLOWS FROM DIVESTMENTS</b>	<b>225</b>	<b>1,903</b>
<b>NET INVESTMENTS<sup>1</sup></b>	<b>(6,564)</b>	<b>(3,668)</b>

**Gross investments per business unit – H1 2017**  
(continuing operations)



- Wind Power
- Bioenergy & Thermal Power
- Distribution & Customer Solutions

**Capital employed per business unit – H1 2017**  
(continuing operations)



- Wind Power
- Bioenergy & Thermal Power
- Distribution & Customer Solutions

1. Net investments are defined as the effect on DONG Energy's net debt from investments and acquisitions and disposals of enterprises

# FFO/Adjusted net debt calculation

<b>FUNDS FROM OPERATIONS / ADJUSTED NET DEBT (DKKm)</b>	<b>H1 2017<sup>1</sup></b>	<b>FY 2016<sup>1</sup></b>	<b>H1 2016<sup>1</sup></b>
<b>EBITDA – Business Performance</b>	<b>17,138</b>	<b>19,109</b>	<b>13,200</b>
Interest expenses, net	(443)	(402)	(489)
Reversal of interest expenses transferred to assets	(667)	(574)	(531)
Interest element of decommission obligations	(174)	(172)	(172)
50% of coupon payments on hybrid capital	(320)	(320)	(288)
Operating lease obligations, interest element	(268)	(194)	(316)
<b>Adjusted net interest expenses</b>	<b>(1,872)</b>	<b>(1,662)</b>	<b>(1,796)</b>
Reversal of recognised lease payment	865	746	753
Current tax	(3,721)	(3,665)	(1,309)
<b>FUNDS FROM OPERATION (FFO)</b>	<b>12,410</b>	<b>14,528</b>	<b>10,848</b>
<b>Total interest-bearing net debt</b>	<b>10,332</b>	<b>3,461</b>	<b>3,821</b>
50% of hybrid capital	6,624	6,624	6,624
Cash and securities, not available for distribution	846	953	1,172
Present value of operating lease payments	5,248	3,986	4,666
Decommission obligations	3,858	3,649	3,509
Deferred tax on decommissioning obligations	(650)	(627)	(671)
<b>ADJUSTED INTEREST-BEARING NET DEBT</b>	<b>26,258</b>	<b>18,046</b>	<b>19,121</b>
<b>FFO / ADJUSTED INTEREST-BEARING NET DEBT</b>	<b>47.3%</b>	<b>80.5%</b>	<b>56.7%</b>

1. Last 12-months

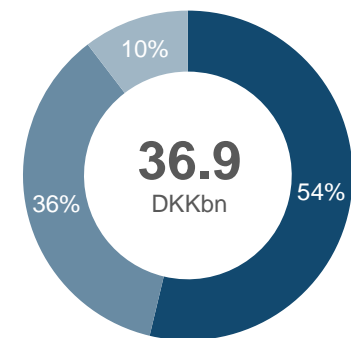
## Note:

Following the initiated sales process of the O&G business and the fact that O&G is presented as asset held for sale and discontinued operations, FFO/Adjusted net debt figures are now calculated excluding O&G in the numerator. The denominator is based on the Group's total NIBD



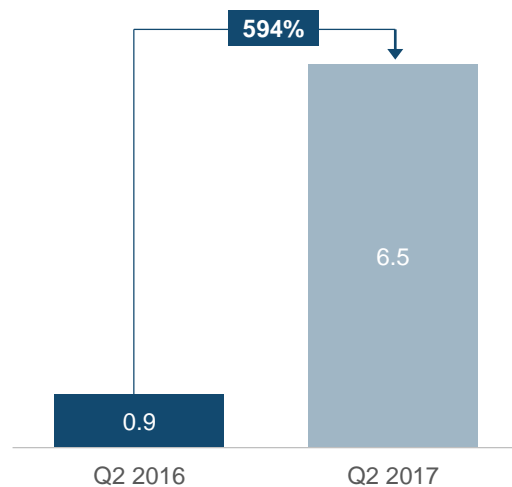
# Debt overview

## Gross debt and hybrids H1 2017

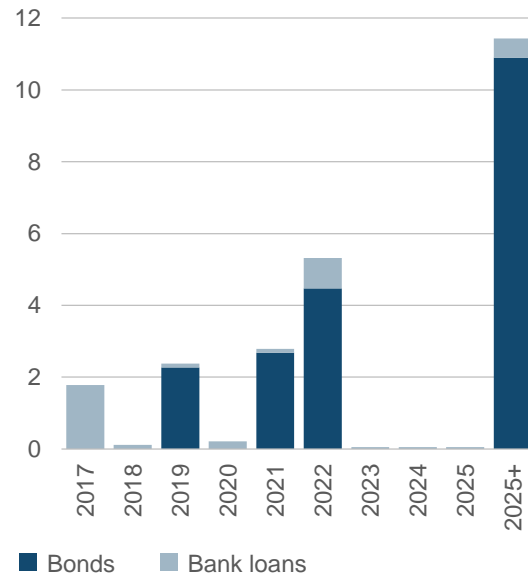


■ Bonds ■ Hybrids ■ Bank loans

## Net debt DKKbn



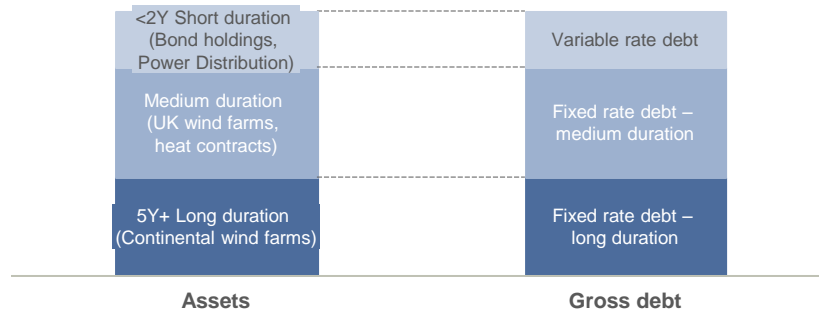
## Long term debt maturity schedule H1 2017



# Management of interest rate and inflation exposure reduce risk

## Portfolio asset & liability duration-matching approach for interest rate risk management

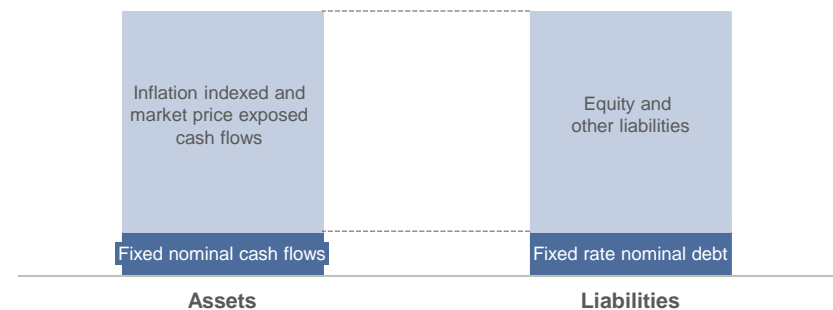
Illustrative



- We assess the interest rate sensitivity (duration) of each of the major income streams, and match it with an amount of debt with similar duration (allocation order starts from the highest interest sensitive assets until all debt is allocated)
- A change in market value of the assets caused by changing interest rates will be (partly due to capital structure) mitigated by an opposite change in the market value of our debt
- Currently, not all categories of assets have gross debt allocated to them because the debt capacity is not fully used

## Nominal cash flow matching for inflation risk management

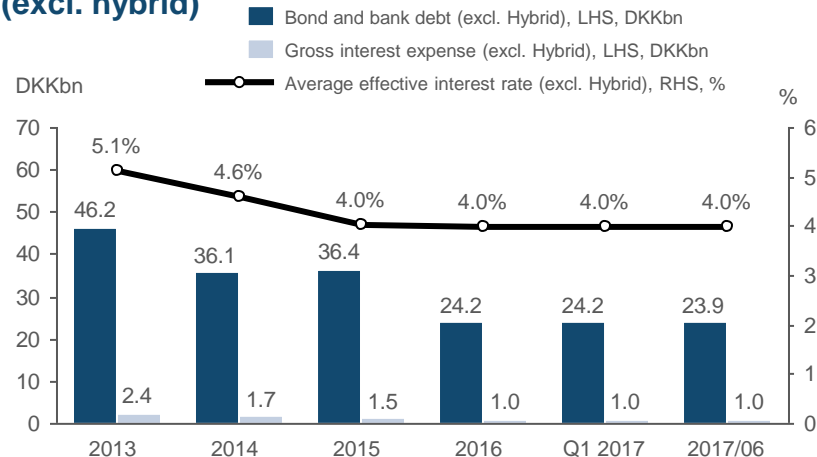
Illustrative



- Inflation considered a medium to long term risk. Long term fixed rate nominal debt matches the medium to long term fixed nominal operating cash flows from continental wind farms
- The high hedge ratios in the near term, highly certain short/mid-term cash flows are reflected in the high share (90% of short-/mid-term fixed rate debt)
- Around 90% of CAPEX related to Wind Power's current build-out plan is contractually secured
- With a 1%-point upward shift in inflation, NPV of the inflation exposure would change with approximately DKK 1.0bn

# Interest rate risk and funding costs

## Effective funding costs – gross debt (excl. hybrid)



- Funding costs reflect existing bonds issued during period from 2009 to 2012
- Marginal funding cost is much lower
- Liability management activities during recent years focused on short end of maturity profile

## Key risk figures H1 2017 (excl. hybrid)

	<i>Cost of debt (%)</i>	<i>Modified duration (%)</i>	<i>Avg. time to maturity (years)</i>
Bond loans	4.7	8.6	11.4
Bank loans	0.1	0.3	4.0
<b>Total</b>	<b>4.0</b>	<b>7.5</b>	<b>10.2</b>

# Hybrid capital in short

Hybrid capital can broadly be defined as funding instruments that combine features of debt and equity in a cost efficient manner

- Hybrid capital encompasses the credit supportive features of equity and improves rating ratios:
- Perpetual or long-dated final maturity (1,000 years for DONG Energy)
- Absolute discretion to defer interest payments and such deferrals do not constitute default nor trigger cross-default

- Deeply subordinated and only senior to common equity
- Without being dilutive to equity holders (no ownership and voting rights, no right to dividend)

Due to hybrid's equity like features, rating agencies assign equity content to the hybrids when calculating central rating ratios (e.g. FFO/NIBD)

The hybrid capital has increased DONG Energy's investment capacity and supports the growth strategy and rating target

DONG Energy has made use of hybrid capital to maintain our ratings at target level in connection with the merger with Danish power distribution and production companies back in 2006 and in recent years to support our growth in the offshore wind sector

Currently, DONG Energy has fully utilised it's capacity to issue hybrids (S&P has the strictest limit of 15% of total capitalisation)

HYBRIDS ISSUED BY DONG ENERGY A/S <sup>1</sup>	PRINCIPAL AMOUNT	TYPE	FIRST PAR CALL	COUPON	ACCOUNTING TREATMENT <sup>2</sup>	TAX TREATMENT	RATING TREATMENT
<b>4.875% hybrid due 3013</b>	EUR 500m	Hybrid capital (subordinated)	July 2018	Fixed during the first 5 years, first 25bp step-up in July 2023	100% equity	Debt – tax deductible coupon payments	50% equity, 50% debt
<b>6.25% hybrid due 3013</b>	EUR 700m	Hybrid capital (subordinated)	June 2023	Fixed for the first 10 years, first 25bp step-up in June 2023	100% equity	Debt – tax deductible coupon payments	50% equity, 50% debt
<b>3.0% hybrid due 3015</b>	EUR 600m	Hybrid capital (subordinated)	Nov. 2020	Fixed during the first 5.5 years, first 25bp step-up in Nov. 2025	100% equity	Debt – tax deductible coupon payments	50% equity, 50% debt

1. All listed on Luxembourg Stock Exchange and rated Baa3 (Moody's), BB+ (S&P) and BBB- (Fitch)

2. Due to the 1,000-year structure

# Benefits of hybrid capital

Hybrid capital is an attractive form of financing for corporates:

- Provides strength to the balance sheet at relatively attractive terms (tax deductible)
- Supportive to credit ratings
- WACC efficient instrument to enhance financial flexibility
- Non-dilutive source of quasi equity capital

The issuance of hybrid capital is significantly cheaper than issuing proportional amounts of debt and equity

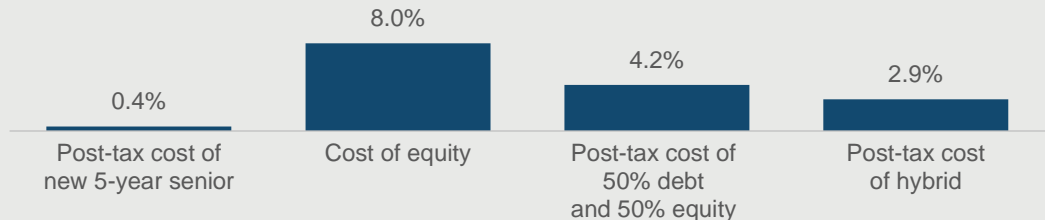


## Illustrative example – current example

### ASSUMPTIONS

Pricing for a Hybrid with first call in year 5:	3.5% (pre-tax)
Post-tax cost of hybrid = $3.5\% * (1-22\%)$	2.87%
Pricing for a 5-year senior bond of 0.5% (pre-tax)	
Post-tax cost of senior = $0.5\% * (1-22\%)$	0.41%
Cost of Equity:	8%

### RELATIVE COST ANALYSIS



# Financing strategy



## **We have a centralised financing strategy as customary for vertically and horizontally integrated European energy utilities**

The centralised financing strategy was adopted in 2003 to benefit from our heritage as state owned energy monopoly offering:

- A capital structure supportive of its BBB+ rating ambition
- Concentration of and scale in financing activities
- Cost efficient financing based on a strong parent rating
- Optimal terms and conditions and uniform documentation
- Transparent debt structure and simplicity
- Avoidance of structural subordination

All cash flow generated by our subsidiaries supports the creditworthiness and rating of and thus the debt taken up by the Group parent

The financing strategy optimizes the effect of a fully integrated group cash pool where cash at practically all of the Group's more than 150 subsidiaries are made available for the group's financing and liquidity purposes

Financing of activities at subsidiary level is provided by the Group parent in a standardised and cost efficient set-up involving very few resources at Business Unit and Group level

Widespread use of project financing is not considered cost-efficient and dilutes the creditworthiness of the Group parent

# Currency hedging principles

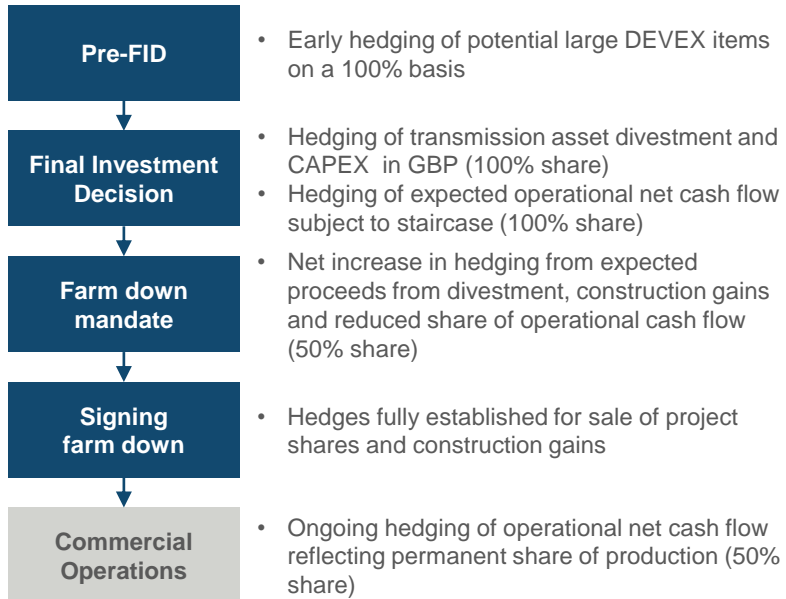


- The purpose of our currency risk management is to reduce the Group's currency risks over a 5-year horizon
- The main principle is to hedge FX exposure once it is deemed relatively certain that the underlying cash flows in foreign currency will materialise
- Thus, FX risk is hedged concurrently with the hedging of energy price risk
- FX risk related to divestments and investments are hedged once the amount is relatively certain
- Hedging of ROC and CfD income deviates from main principle and follows a staircase model (see next page). GBP therefore constitutes a strategic risk
- Management of currency risks is centralised at DONG Energy to obtain netting advantages

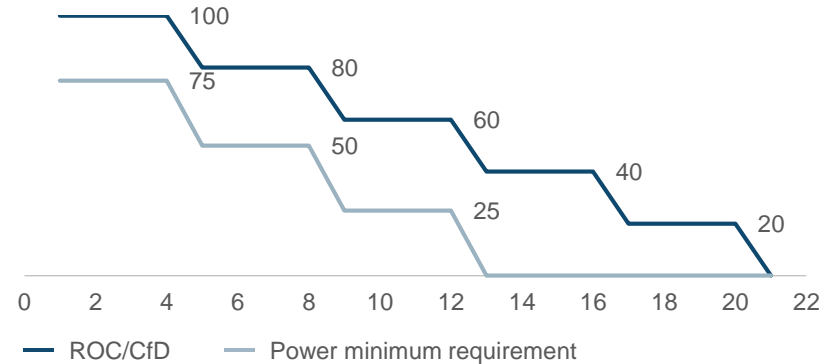
# Hedging of FX and power risk in Wind Power

## Construction and Farm downs – Hedging of FX

Decision gates



## Commercial Operations – Hedging of FX and power



Rolling operational hedging process on monthly/quarterly basis:

- ROC/CfD hedges are target hedge ratio
- The power hedge ratio is a minimum requirement, and power related FX exposures are included in FX exposures and hedged when the underlying power price is hedged

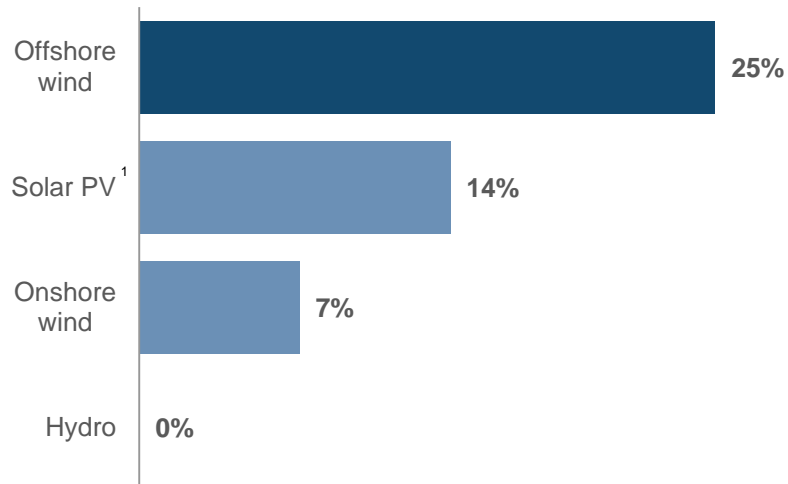


# Offshore wind is a large scale renewable technology with growth rates exceeding other renewables



## Fastest growing renewable technology in OECD

Installed capacity CAGR, 2014-2020  
%



## Offshore wind offers multiple advantages

### Utility size power generation

*659 MW Walney Extension will power more than 460,000 UK homes*

### Offers +45% capacity factors<sup>2</sup>

*Significantly higher than onshore wind and solar PV*

### Rapidly declining cost

*Industry maturity, volume and technological development reduce LCoE<sup>3</sup>*

### Limited visual impact on landscape

*Wind farms are built far from shore*

Source: Bloomberg New Energy Finance (BNEF)

1. Sum of utility-scale PV and small-scale PV

2. Capacity factor is a performance indicator measuring to what degree a wind farm has produced according to the farms capacity (actual production / (capacity x hours in period))

3. According to BNEF, long-term offtake price required to achieve a required equity hurdle rate for the project

# DONG Energy Wind Power has built a strong integrated end-to-end business model



## DONG Energy Wind Power core competencies

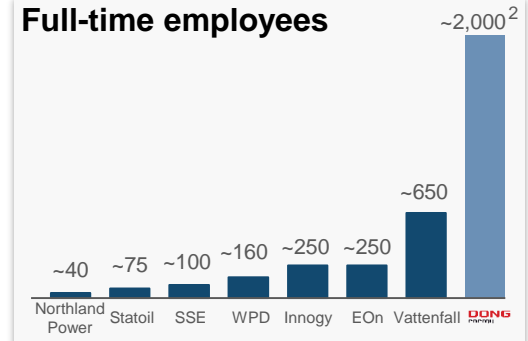
~2,000 Full-time employees<sup>2</sup>



Ability to **design and optimise** projects with a '**total life-cycle cost of wind farm**' mindset

Experience and expertise along the entire value chain allow for **better understanding** and **management of risks**

End-to-end model reduces LCoE through **fast** feedback and **learning** across the entire organisation












1. Front-end engineering design

2. Excluding CT Offshore and A2SEA as of January 2017

# Proven construction track-record and leading operating capabilities



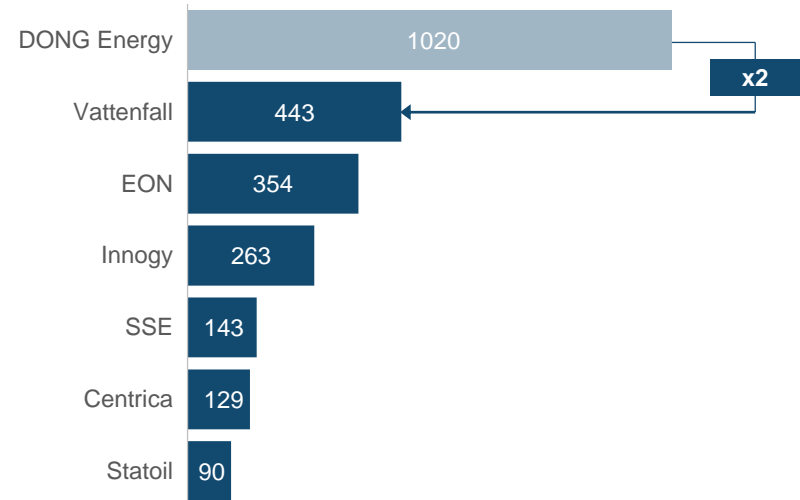
## Strong construction track-record due to full EPC<sup>1</sup> control

Country	Asset	FID	Gross capacity (MW)
	Burbo Bank Extension	2014	258
	Gode Wind 1&2	2013	582
	Westermost Rough	2013	210
	Borkum Riffgrund 1	2011	312
	West of Duddon Sands	2011	389
	Anholt	2010	400
	London Array	2009	630
	Walney 1&2	2009	367
	Horns Rev 2	2007	209

1. Engineering, procurement and construction

## Leader in operating offshore wind farms

# of operated turbines January 2017



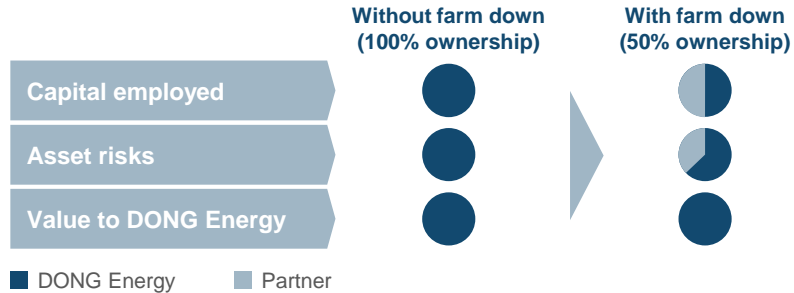
Source: Bloomberg New Energy Finance January 2017

# Partnership model allows for significant portfolio value with less capital and reduced risk



## Significant up-front value realisation from partnership model

Illustrative



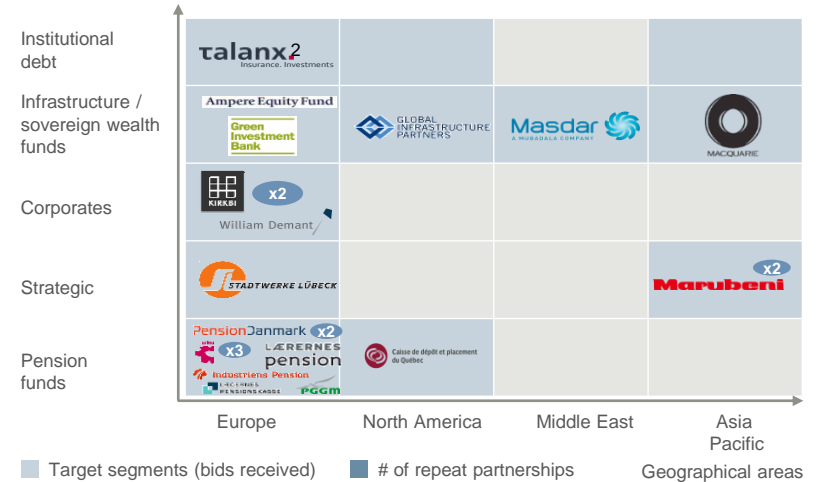
DONG Energy brings in partners at a price around DONG Energy's cost of capital, thereby allowing for up-front value realisation to invest in new value creating projects

## Multiple portfolio benefits from partnership model

- Recycle capital
- Portfolio value creation
- Risk diversification
- Scale and standardisation from large portfolio

1. Excludes utilities and other strategic partners such as Siemens, Vattenfall, SSE, Scottish Power, Centrica, and E.ON  
 2. Cornerstone bond investor in Global Infrastructure Partners' acquisition of 50% of Gode Wind 1

## Wind farm partners by type, geography and # of partnerships<sup>1</sup>



- More partnerships than any other competitor in the industry
- DONG Energy has been able to consistently divest 50% of assets during construction phase

# Connecting the dots: Shaping a double-digit IRR case in 18 months



**Race Bank – a show case of value creation from the integrated business model**

Example

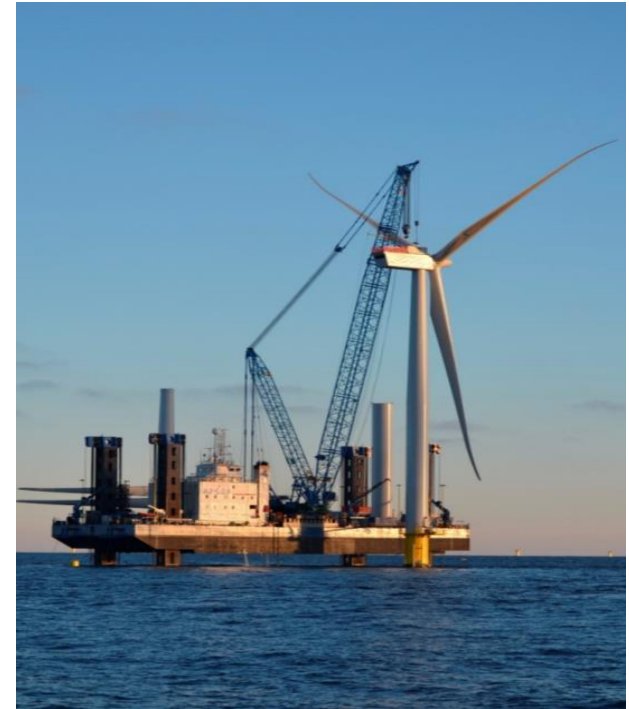
-  **Strong buying power**
-  **Innovative technology**
-  **Superior standardised design**
-  **Synergies from O&M cluster**
-  **1st mover on 6.3 MW turbine<sup>1</sup>**
-  **Fast re-consenting**



**December 2013**  
Project under  
development acquired



**June 2015**  
FID with double-digit  
IRR for DONG Energy



1. Siemens 6.0 MW platform with performance enhancing features delivering 6.3 MW effect

# Overview of key financial accounting and tax recognition effects for Wind Power partnerships



Deal elements	Accounting	Development	Construction	Operation	Examples
		▲ 12-24 months ▲ FID Farm down			Westermost Rough (shared risk)    Burbo Bank Extension (EPC wrap)
<b>SPA</b> Gain on shares	Other operating income <sup>1</sup>		● SPA gain ● No paid tax locally		● ●
<b>CA</b> Construction agreement <sup>2</sup>	Revenue/COGS/OPEX		● During construction ● At COD		●
<b>CMA</b> Construction management agreement <sup>2</sup>	Revenue/COGS/OPEX		● During construction ●		●
<b>OMA</b> O&M agreement	Revenue/OPEX			● During operations on accrual basis ● During construction	● ●
<b>PPA</b> Power purchase agreement	Revenue/COGS			● During operations on accrual basis ● During construction	● ●
Consolidation principle		100% → Pro-rata			● ●

● Recognition in income statement    ● Paid tax

1. Gain on shares is not part of cash flows from operating activities, but part of cash flows from investing activities

2. Internal construction agreement gains and construction management agreement gains eliminated for accounting purposes are still subject to taxation in the entity acting as constructor or construction manager

# Wind Power fact sheet



## OFFSHORE WIND FARMS<sup>1</sup>

Asset Book updated as of 30 June 2017

Denmark		Partners	Park capacity, MW	Installed capacity, MW	DE ow nership share, %	Ow ned capacity, MW	Financial consolidation	Commercial operational date	Subsidy regime	Subsidy expiry	Fixed feed-in tariff, DKK/MWh	
Anholt (111 x SWT-3.6-120)		Pension Danmark, FKA	400	400	50%	200	Pro rata	2013	Fixed feed-in tariff	20 TW h (7.6 TWh produced) <sup>2</sup>	1,051	
Horns Rev 2 (91 x SWT-2.3-93)			209	209	100%	209	Full	2010	Fixed feed-in tariff	10 TWh (7.1 TWh produced) <sup>2</sup>	518	
Nysted (72 x (Bonus) SWT-2.3-82)		Pension Danmark, Stadterke Lübeck	166	166	42,75%	71	Pro rata	2003	Fixed feed-in tariff	2016 <sup>3</sup>	453	
Horns Rev 1 (80 x Vestas V80-2.0)		Vattenfall	160	160	40%	64	Pro rata	2003	Market price + 100DKK/MWh <sup>4</sup>	Expiry after 20 years	-	
Middelgrunden <sup>5</sup> (10 x Bonus B76-2.0)			20	40	100%	20	Full	2001	Market price + 100DKK/MWh <sup>4</sup>	Expiry after 20 years	-	
Avedøre Høje (2 x SWT-3.6-120) <sup>6</sup>			7	11	100%	7	Full	2009 and 2011	Fixed feed-in tariff	22,000 full-load hours <sup>4</sup>	Market price + 250	
Vindeby (11 x Bonus B35-0.45)			5	5	100%	-	Full	1991 (decommissioned 2017)	Market price	-	-	
<b>Sub total</b>			<b>967</b>	<b>990</b>		<b>571</b>						
United Kingdom		Partners	Park capacity, MW	Installed capacity, MW	DE ow nership share, %	Ow ned capacity, MW	Financial consolidation	Commercial operational date	Subsidy regime	Subsidy expiry	CFD, GBP/MWh (Real 2012)	
London Array 1 (175 x SWT-3.6-120)		ECN Masdar & CDFP	630	315	25%	158	Pro rata	2013	ROC	2033	-	
West of Duddon Sands (108 x SWT-3.6-120)		Scottish Pow er Renew ables (bedrulla)	389	389	50%	194	Pro rata	2014	ROC	2034	-	
Walney 1&2 (51 x SWT-3.6-107 & 51 x SWT-3.6-120)		PGGM & Ampere, SSE	367	367	50,1%	184	Full	2011 and 2012	ROC	2032	-	
Lincs (75 x SWT-3.6-120)		Centrica, Siemens PV	270	-	25%	68	Pro rata	2013	ROC	2033	-	
Westernmost Rough (35 x SWT-6.0-154)		Marubeni & Green Investment Bank	210	210	50%	105	Pro rata	2015	ROC	2035	-	
Gunfleet Sands 1&2 (48 x SWT-3.6-107)		Marubeni & Development Bank of Japan	173	173	50,1%	87	Full	2010	ROC	2030	-	
Barrow (30 x Vestas V90-3.0)			90	45	100%	90	Full	2006	ROC	2025	-	
Burbo Bank (25 x SWT-3.6-107) <sup>11</sup>			90	90	100%	90	Full	2007	ROC	2027	-	
Gunfleet Sands Demo (2 x SWT-6.0-120)			12	12	100%	12	Full	2013	ROC	2033	-	
Burbo Bank Extension (M/OV V164-8.0)		Kirkbi, FKA	258	258	50%	129	Pro rata	2017	CFD	2032	150	
<b>Sub total, excl. parks under construction</b>			<b>2,489</b>	<b>1,859</b>		<b>1,116</b>						
Hornsea (174 x SWT-7.0)			1,200	1,200	100%	1,200	Full	2020 <sup>7</sup>	CFD	2036	140	
Walney Extension (40 x M/OV V164-8.0 <sup>11</sup> & 47 x SWT-7.0-154)			659	659	100%	659	Full	2018 <sup>7</sup>	CFD	2033	150	
Race Bank (91 x SWT-6.0-154) <sup>11</sup>		Macquarie European Infrastructure Fund 5 & Macquarie Capital & Sumitomo	573	573	50%	287	Pro rata	2018 <sup>7</sup>	ROC	2037	-	
<b>Sub total, incl. parks under construction</b>			<b>4,921</b>	<b>4,291</b>		<b>3,262</b>						
Germany		Partners	Park capacity, MW	Installed capacity, MW	DE ow nership share, %	Ow ned capacity, MW	Financial consolidation	Commercial operational date	Subsidy regime	Subsidy expiry period 1	Subsidy expiry period 2	
Borkum Riffgrund 1 (78 x SWT-4.0-120)		Kirkbi, William Demant	312	312	50,0%	156	Pro rata	2015	Fixed feed-in tariff	2023	2025 <sup>8</sup>	
Gode Wind 1 (55 x SWT-6.0-154)		Global Infrastructure Partners	330	330	50,0%	165	Pro rata	2016	Fixed feed-in tariff	2024	2026 <sup>9</sup>	
Gode Wind 2 (42 x SWT-6.0-154)		PKA, Industriens Pension, Lærerenes- & Lægernes Pensjonskasse	252	252	50,0%	126	Pro rata	2016	Fixed feed-in tariff	2023	2026 <sup>9</sup>	
<b>Sub total, excl. parks under construction</b>			<b>894</b>	<b>894</b>		<b>447</b>						
Borkum Riffgrund 2 (56 x M/OV V164-8.0)			450	450	100,0%	450	Full	2019 <sup>7</sup>	Fixed feed-in tariff	2027	2029 <sup>9</sup>	
<b>Sub total, incl. parks under construction</b>			<b>1,344</b>	<b>1,344</b>		<b>897</b>						
Holland		Partners	Park capacity, MW	Installed capacity, MW	DE ow nership share, %	Ow ned capacity, MW	Financial consolidation	Commercial operational date	Subsidy regime	Subsidy expiry	Fixed feed-in tariff, EUR/MWh	
Borssele 1 & 2 (94 x SWT-6.0)			752	752	100,0%	752	Full	2020/21 <sup>10</sup>	Fixed feed-in tariff	2035/2036 <sup>10</sup>	72,7	
<b>Sub total, incl. parks under construction</b>			<b>752</b>	<b>752</b>		<b>752</b>						
Taiwan		Partners	Park capacity, MW	Installed capacity, MW	DE ow nership share, %	Ow ned capacity, MW	Financial consolidation	Commercial operational date	Subsidy regime	Subsidy expiry period 1	Subsidy expiry period 2	
Formosa 1, Phase 1 (2 x SWT-4.0-120)		Macquarie Capital & Sw ancor Renew able	8	-	0	3	One-line	2017	Fixed feed-in tariff	2027	2037	
<b>Sub total, excl. parks under construction</b>			<b>8</b>	<b>0</b>		<b>3</b>						
Divested offshore wind farms, but constructed by DONG Energy <sup>6</sup>			106	106								
Totals		Park capacity, MW	Installed capacity, MW	Ow ned capacity, MW								
Total capacity for operational parks		4,358	3,743	2,137								
Total capacity operational parks incl. installed but divested farms		4,464	3,849	2,137								
Total installed capacity incl. parks under construction + divested farms		8,106	7,483	5,488								

- Assets in operation and assets where Final Investment Decision has been taken. April 2017, DONG Energy was awarded three German offshore wind projects with a total capacity of 590 MW (not included in above overview). The three projects are planned to be commissioned in 2024, subject to Final Investment Decision (FID) in 2021.
- By December 31, 2016
- The supplement depends on the development of market price and is increased pro rata – a market price below 260 DKK/MWh equals 100 DKK/MWh and over 360 DKK/MWh 0 DKK/MWh
- DONG Energy has installed Middelgrunden (40 MW) and Avedøre Høje (10,8 MW), however DONG Energy has subsequently divested 50% of the turbines in Middelgrunden and one of the three turbines on Avedøre Høje. No partnerships on either of the parks
- The first turbine reached approximately 18,261, whereas the second turbine is out of subsidy, by December 31, 2016

- Kentish Flats (90MW), Frederikshavn (11MW) and Tune Knob (5MW)
- Expected year of commissioning
- After expiry of fixed feed-in-tariff period in 2016, Nysted will receive market price + supplement dependent on the development of market price which is increased pro rata – a market price below 260 DKK/MWh equals 100 DKK/MWh and over 360 DKK/MWh 0 DKK/MWh
- Floor price of 39 EUR/MWh for up to 20 years
- DONG Energy will, in accordance with the Dutch tender regulation, build Borssele 1 and 2 within four years from award (5 July 2016) with a flexibility of 1 year.
- With performance-enhancing features

# Strong trading performance in first half of 2017

## DONG Energy's trading operations

- The main purpose of DONG Energy's trading department is to manage DONG Energy's financial commodity exposures, including the implementation of a hedging programme in external markets
- Each business unit hedges their underlying price exposure directly towards Market Trading
- To efficiently reduce risk Market Trading is allowed to proxy hedge externally, i.e. Market Trading can take risk in terms of location spread (i.e. continental vs. UK gas), time spread (i.e. a 5-year exposure hedged by a rolling 1-year hedge) and commodity spread (i.e. UK power hedged with UK gas)
- The basis risk from proxy hedging is governed by strict risk limits measured on a daily basis
- After Market Trading's hedge execution risk is reduced by approximately 90%

## Value drivers in Market Trading

- Flow of positions
- Market understanding – deep competency centre
- More liquidity in the traded products compared to the underlying exposures

## Performance in H1

- Trading constitute about 30% of Markets EBITDA, DKK 942m, in H1
- Performance in H1 significantly positively affected by large flow from unwinding of hedges related to O&G
- Positive effect from spark spread position and lower UK Power volatility



# Radius welcomes the new regulation



## Current regulation is outdated

Historical regulatory accounts settled and confirm the expected historical revenues – thus unchanged expectations to 2017 results

The current regulation is outdated:

- Ex-post regulation with years of uncertainty of final revenue
- Two different mechanisms of control with income cap and return cap do not result in healthy incentives to efficiency improvements
- Different effect in regulation from capex and opex gives incentive to spend capex rather than opex
- Benchmarking model is outdated with wrong incentives

## New regulation effective from 1 January 2018 – meets previous expectations

5-year income cap with ex-ante approach and following elements

<b>Cost Cap</b>	Operational expenses and depreciations Starting point is average of costs in 2012-14
<b>Return Cap</b>	New investments based on market based WACC <sup>1</sup> Existing RAB continues with LBR+1 return
<b>Adjustments</b>	Efficiency requirements, change in activity level, change in tasks, price indexation
<b>Net loss</b>	Starting point is average of costs in 2014-16
<b>Quality of supply</b>	Possible penalty for low quality of supply

Recalibration of income cap between regulation periods

1. WACC currently estimated at approx. 3.5%

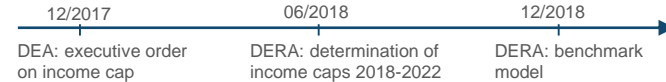
# Implementation of new regulation



## Benefits and opportunities in new regulation

- Within the 5-year regulation period, additional regulatory return is secured by performing better on costs and investments than implied in the income cap
  - efficiency improvements
  - asset management optimisation
- Recalibration of income cap between regulation periods. Income cap in future regulation period adjusted to average of realised costs in current regulation period
- Income cap is robust to changes in interest rate and inflation
- Benefits from electrification and green transformation and develop products and prices that take advantage from the flexibility in consumption and production among Radius' customers

## Pending issues in detailed implementation of new legislation



<b>Important pending issues</b>	<b>Description</b>
<b>New benchmarking model and implementation</b>	A new benchmarking model of economic efficiency of the network companies is under development by DERA. The model is expected to be in place by 2018 and will subsequently be used to establish individual efficiency demands for 2019.
<b>WACC model</b>	The WACC model effective from 2023 may be reconsidered in 2021-2022.



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