

Ørsted A/S

Transcript: Investor Presentation, Annual report 2018

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0.00.08 Henrik Poulsen

Thank you, very much and good morning, everyone and welcome to this call. I am very happy to say that the company delivered an outstanding operational and financial performance in 2018. At the same time, we have made considerable progress in terms of diversifying and expanding our long-term growth platform within green energy. We reached an EBITDA of DKK 30 billion, an all-time high for the company and our full-year EBITDA excluding new partnership reached DKK 15 billion, significantly outperforming our original guidance of DKK 12-13 billion and it was also above our most recent guidance of DKK 13-14 billion. The main drivers behind the outperformance were strong progress on the construction of our new offshore wind farms Walney Extension and Borkum Riffgrund 2 throughout 2018 which resulted in higher earnings from our partnership agreements as well as a faster ramp up of generation. We also saw an increase in our ROC recycle values compared to our expectations. Furthermore, increasing gas prices during 2018, a positive outcome of an arbitration related to a gas purchase contract as well as better than expected market fundamentals in LNG resulted in a strong performance in our gas business. Finally, we realised lower costs than expected across the company.

If we turn to slide 4 and a follow-up on our investments, in 2018 we saw significant growth in our investment programme which will support the continued growth of Ørsted. The total gross investments of the company amounted to DKK 24.5 billion which was significantly above our original guidance of DKK 16-18 billion. The increase in gross investments was related to the acquisition of two US companies, the onshore developer Lincoln Clean Energy and the offshore developer Deepwater Wind. Gross investments related to construction of offshore wind farms came in below our original expectations due to shifts in spending between 2018 and 2019, primarily relating to a milestone payment to a turbine supplier moving into 2019 as well as the Race Bank and Walney Extension construction projects being finalised at a lower CAPEX spend than we had expected. These reductions were only partly offset by early investments in US offshore and onshore equipment to secure tax credit qualification. Including the investments in 2018, Ørsted and our partners have invested around DKK 165 billion over the past decade in deploying green energy. Over the next 7 years and as announced at our Capital Markets Day in November, we plan to further accelerate our build-out by investing around DKK 200 billion. By 2025, more than 99% of our energy generation should come from renewables and by 2030 it is our ambition to reach more than 30 GW of installed green energy.

Moving on to slide 5 and the development in our dividend, on the back of our strong financials, we will propose to the annual general meeting to increase dividend by 8.3% to DKK 4.1 billion corresponding to a dividend of DKK 9.75 per share. The 8.3% increase compared to 2017 is in line with our dividend policy of increasing the annual dividend by a high single-digit percentage compared to the previous year's dividend. In 2018, the Ørsted share yielded a total return of 32% corresponding to an increase in the share price of 29% and a dividend of DKK 9 per share. Since the IPO in June 2016, the Ørsted share has generated an aggregate return from share price appreciation and dividend of 92%.

Moving on to slide 6 for an update on the key strategic and operational progress during the fourth quarter. In Q4, earnings from offshore wind farms in operation increased by 26% as a result of the commissioning of new offshore wind farms. In addition, the farm down of Hornsea 1 made a very significant contribution to the 47% increase in EBITDA compared to the fourth quarter 2017. In the US, we were awarded an additional 104 MW capacity in December in the clean energy auction in Connecticut. The 104 MW was the only allocation to offshore wind and we are pleased to add the capacity to our Revolution Wind project which now has secured a total capacity of 704 MW including the previously awarded projects in Rhode Island and Connecticut.

Revolution Wind will be constructed as one joint project thus unlocking significant procurement construction and operational synergies. Furthermore, we bid into a Rhode Island auction for up to 400 MW of renewable energy in October where we expect to get the results during the second quarter of 2019. In December, we bid into the 1.1 GW New Jersey offshore wind auction with our Ocean Wind project with support from our partner PSEG (Public Service Enterprise Group). Finally, we expect to bid into the announced 800 MW New York auction in February. During January, we announced that we have signed a Memorandum of Understanding to work with Japan's leading utility, TEPCO, on offshore wind projects. As a first step, TEPCO and Ørsted will work jointly on the Choshi project located near Tokyo for which TEPCO has been carrying out seabed surveys to examine its feasibility. As the largest player in the Japanese electricity industry, TEPCO has deep insight into the local power market as well as the regulatory requirements. This MOU is the first step in Ørsted and TEPCO's aspirations to help Japan deliver on its ambitions for renewable power generation and contribute to making Japan a significant offshore wind market. In our Onshore Division, we commissioned a 300 MW Tahoka wind farm in Texas during December and we took a final investment decision on the 184 MW Lockett wind farm. With this FID, the total onshore capacity installed and under construction reached 1 GW. We are very pleased with the progress we are making as we continue to create a leading North American company within renewable energy. We finalised the construction of our first stand-alone utility scale battery storage facility in the UK which is now ready to participate in National Grid tenders for frequency regulation and balancing services.

I will cover the development in Taiwan and the divestment of our Danish power distribution and residential customer businesses on the next two slides so moving on to slide 7 on Taiwan. As you know, in April we were awarded 900 MW capacity in the Taiwanese grid allocation as Greater Changhua 1 and 2a were awarded 605 MW and 295 MW, respectively. Furthermore, we were awarded an additional 920 MW in the June price auction. Yesterday, Taiwan's Bureau of Energy announced the feed-in tariff for offshore wind projects which signed a power purchase agreement with Taipower in 2019 allowing for developers to choose between a 20-year flat rate or a tier tariff. Furthermore, a tier production cap level was introduced. The 2019 PPA is obviously not as strong as the 2018 PPA that we had expected and hoped to get, but it is materially better than the original 2019 proposal and we will now work with our suppliers to see what they can do to help us make the Changhua 1 and 2a projects an investable business case. It should be an investment that provides Taiwan with a lot of green home-grown energy, economic growth and a capable local offshore wind supply chain but it must of course at the same time allow for a solid risk return equation for Ørsted shareholders. We will be taking on a big and costly task in terms of spearheading the build-up of the local supplier base in Taiwan and this needs to be appropriately covered in the business case. We should get more visibility on these efforts within a few months and be ready to assess a final investment case during the second quarter. I should also just highlight that – and this is not in the Annual Report but just an hour ago we have been informed that we have now received the so-called establishment permit in Taiwan which is obviously another significant milestone that we thereby have reached with the issue of this establishment permit by the Bureau of Energy in Taiwan.

Turning on to slide 8 and an update on the exit of the Danish power distribution and residential customer businesses. In June, we announced our plans to divest our Danish power distribution and residential customer businesses. The structural process came to a stop in January when the Danish Ministry of Finance informed us that there was no longer the required political support for the divestment and consequently, we decided to discontinue the process. It remains our assessment that Ørsted is not the best long-term owner of these businesses. Thus, we will now review our options for an exit of the businesses before the end of this year. Consequently, we have in the Annual Report classified the businesses as assets held for sale and we will continue the work of separating the businesses. I remain convinced that we will be able to find exits that are strategically and commercially attractive to Ørsted and at the same time, politically acceptable and also providing a better long-term home for these businesses.

Turning to slide 9 where I will just give an update on our key offshore construction projects. In December, we commissioned the German Borkum Riffgrund 2 wind farm well ahead of original schedule. With the commissioning of our third offshore wind farm in 2018, we have added 1.7 GW of capacity during the year and our total installed offshore capacity reached 5.6 GW. Our current construction programme comprising Hornsea 1, Hornsea 2 and Borssele 1 and 2 will add an additional 3.4 GW by 2022. Our Hornsea 1 project continues the good progress and as announced at our recent Capital Markets Day, we expect completion during the second

half of this year. We have installed all the sub-stations and out of the total of 174 positions we have installed 167 foundations, 153 transition pieces as well as 116 array cables. We are expecting to see the first power generation from the site within a few weeks. Once Hornsea 1 is in operation, it will overtake Walney Extension as the world's largest wind farm. At Borssele 1 and 2, the procurement phase has been completed with main contracts well within budget and we expect the Dutch wind farm to be completed in either the fourth quarter of 2020 or the first quarter 2021. The Virginia EPC project remains on track with all of the key supply contracts signed and we expect completion during the first half of 2021. Finally, the Hornsea 2 project scheduled for completion in the first half of 2022 is still in the process of signing the remaining key contracts.

Turning to slide 10 and an update on the construction projects outside of offshore wind. The build-out of our US onshore wind portfolio is also progressing according to plan. The 300 MW Tahoka wind farm was commissioned in the fourth quarter last year and it brings Lincoln Clean Energy's operational onshore capacity to 813 MW. Furthermore, we have signed a 10-year PPA with Allianz for our 184 MW Lockett wind farm which is on track to be commissioned towards the end of 2019. In Bioenergy, we are still underway and well underway with the bio conversion of the Asnæs power plant. The conversion is progressing according to plan and we expect commissioning by the end of 2019. In Bioenergy we also continue to work through the mechanical challenges at the Renaissance plant in Northwich in the UK and we still expect the plant to be commissioned before the end of the first half this year. In Customer Solutions we reached a significant milestone in September 2018 where 50% of the smart meters within our power distribution network had been replaced and taken into use. At the end of December, the number had increased to 679.000 and the project remains well on track.

Let us turn to slide 11, 12 and 13 for a look at the latest market development and offshore wind opportunities across the US, Europe and Asia. For the US east coast, the fourth quarter was very eventful as we saw lease auctions, new offshore wind targets and a small win for us in the Clean Energy Auction in Connecticut. Starting in Massachusetts, the auction of development lease areas resulted in the highest price level seen so far. A testament to the continued significant development of the US east coast market for offshore wind. In 2019, we would expect to see the second offshore wind auction in Massachusetts but the timing of the solicitation for the next 800 MW is yet to be announced. In New York, Governor Cuomo announced the target of 9 GW of offshore wind capacity by 2035. The first solicitation for offshore wind in New York for 800 MW is due in a couple of weeks and we will participate in this auction. Furthermore, the Federal Agency BOEM has indicated a potential lease area auction that could consist of four areas off the coast of Long Island and south of Long Island. As mentioned in the beginning of the call, we submitted a bid in the 1.1 GW offshore wind solicitation in New Jersey with our Ocean Wind project and we expect an outcome from this auction in June. In Connecticut, we were awarded an additional 104 MW for our Revolution wind site in the Clean Energy auction in late December and furthermore, the local agency in Connecticut approved the 200 MW PPA for our Revolution wind site, awarded to Deepwater Wind in June 2018. In Rhode Island our 400 MW PPA is in the process of being filed for regulatory approval and finally the outcome of the Rhode Island auction for up to 400 MW of renewable energy in October last year is still pending. We expect an announcement during the second quarter. Just to sum it up, we expect the outcome of four US offshore wind auctions during 2019, Rhode Island and New Jersey where bids were submitted in the fourth quarter last year and the auctions in New York and Massachusetts, respectively, taking place this year.

Turning to page 12 and market developments in Europe. In the UK, we expect a signing of our Race Bank extension lease by mid-year 2019 enabling us to participate with the site in later CfD auctions. In addition, a tender round for new lease areas is expected during 2019. Moving to the Netherlands where we expect the next beauty contest tender for the Holland Coast South 3 and 4 projects to take place in March. We are still considering our participation in the upcoming tender. Lastly, a brief walkthrough some of the remaining European markets with tangible ambitions within offshore wind. France has set a target of 3 GW offshore wind capacity by 2023 and a total of 5.2 GW by 2028 while Belgium has set out a target of 2.2 GW offshore wind by 2020 and a total of 4 GW. Finally, Poland targets a build-out of 8 GW of offshore capacity by 2035 and these targets all highlight that not only are we seeing the established markets in Europe increasing their commitments to offshore wind build-out but we also see newer markets in Europe setting quite ambitious long-term targets for offshore wind.

Moving to page 13 and the Asia-Pacific region. As mentioned, the 2019 PPA in Taiwan was announced yesterday and we have just this morning received now our establishment permit and in Taiwan, future auctions for an additional 4.5 GW offshore wind after 2025 are currently in the planning. Just like Taiwan, Japan needs to replace imported fossil fuels and legacy nuclear capacity with an increasing share of green energy. In Japan, the government has issued a target of reaching 10 GW offshore and onshore wind by 2030. In November, a general sea law was passed which enables large-scale offshore wind development outside of Japanese harbour areas. We are optimistic about the potential development of bottom-fixed offshore wind in Japan and will work closely with our Japanese partner TEPCO to pursue all relevant opportunities. We currently don't have a time line for the first auction nor details on the regulatory framework and the auction design. Turning to South Korea where the authorities have set an 18 GW wind build-out target towards 2030 of which 13 GW should be offshore wind. Due to onshore space limitations and large energy import, there is a strong need for offshore wind in Korea. Right now, a feasibility study of offshore wind sites is being conducted led by the government and local players. We will of course follow the development in South Korea closely. This concludes the offshore market development review.

Let us just turn to page 14 and the pipeline development in our US onshore business. The current onshore pipeline consists of three projects totalling 880 MW with all three projects having secured PPAs for more than 70% of the capacity with strong partners. We expect to take final investment decision on the Sage Draw and Plum Creek wind farms during 2019 with expected commissioning in 2020. For our first large-scale solar PV project Permian we expect to take final investment decision in the first half of 2020 with the aim of commissioning the solar farm in 2021. The next steps for these projects in Lincoln Clean Energy are finalisation of development activities and further advancement of tax equity discussions. On that note, I will hand it over to Marianne.

0.21.47 Marianne Wiinholt

Thank you, Henrik and good morning from me also. Starting with slide 15, I will dive into the financials for Q4 2018. In Q4, we realised an EBITDA of DKK 19.2 billion, an increase of DKK 6.2 billion compared to Q4 2017. This was mainly driven by the farm-down of Hornsea 1 which contributed with DKK 15.1 billion compared to DKK 9.8 billion gain in Q4 2017 from the farm-downs of Walney Extension and Borkum Riffgrund 2. We saw an increase of 26% in earnings from offshore wind farms in operation which was driven by the ramp-up of Walney Extension and Race Bank in the UK and Borkum Riffgrund 2 in Germany. Furthermore, Lincoln Clean Energy, which was acquired in October 2018, was included in the financials and contributed with DKK 44 million. Bioenergy and Customer Solutions delivered in line with Q4 2017. Net profit totalled DKK 15.2 billion, up from DKK 9.4 billion in Q4 2017, driven by the higher EBITDA. In addition, we have reversed a previous impairment loss of DKK 0.6 billion in connection with the classification of our power distribution activities as assets held for sale. Free cash flow from continuing operations for Q4 2018 came in at DKK 11.4 billion, a decrease of DKK 0.8 billion on Q4 2017. This Y/Y decrease in the free cash flow reflects the acquisition of Deepwater Wind and Lincoln Clean Energy which totalled DKK 9.6 billion. In addition to the 2018 effect, part of the purchase price of Deepwater Wind is contingent consideration of DKK 657 million that we will pay upon receiving certain approval milestones. Cash flows were positively impacted by the receipt of approximately 60% of the proceeds from the farm-down of Hornsea 1, a positive contribution from tax equity partners related to the Tahoka onshore wind farm and lower tax payment as we primarily paid Danish tax on account in Q1 2018 versus November 2017.

If we then turn to slide 16 on our full-year financials. In 2018, we realised an EBITDA of DKK 30 billion - an increase of DKK 7.5 billion compared to 2017. This was mainly driven by the farm-down of Hornsea 1 and an increase of 29% in earnings from wind farms in operation. Furthermore, Lincoln Clean Energy impacted the financials positively and Bioenergy was up by DKK 0.2 billion due to higher spreads. Net profits from continuing operations totalled DKK 19.5 billion, up from DKK 13.3 billion in 2017. The increase was driven by the higher farm-down gains, partly offset by higher taxes and financial expenses. The free cash flow from continuing operations for the full year 2018 came in at DKK 5.8 billion. An increase of DKK 5.6 billion compared to 2017. This reflects higher EBITDA and a positive effect from a tax equity contribution, lower receivables and funds tied up in working capital. This was partly offset by higher gross investments which primarily related to the US acquisitions.

If we then turn to page 17 covering the net working capital development for 2018. At the end of 2018, funds tied up in working capital increased by DKK 2.5 billion compared to 2017. This was mainly driven by an increase in funds tied up in construction of transmission assets. Looking into 2019, we expect a continued high level of funds tied up in working capital due to the construction of the transmission assets at Hornsea 1 and 2. This will partly be offset by the divestment of the transmission assets at Race Bank and Walney Extension during 2019. The construction of Hornsea 1 for our partners is expected to be cash flow neutral as we will receive milestone payments during the construction phase. In connection with our onshore wind farms, our tax equity partners up-front payments as well as pay gos as we call them, related to the PTCs and tax incentives have been included as part of net working capital by the end of 2018 whereas the capital – net working capital – related to our power distribution businesses has been reclassified to assets held for sale.

If we then turn to slide 18 and our net interest-bearing debt and financial ratios. Our net interest-bearing debt as of 2018 was all-time low and represented a cash position of DKK 2.2 billion. This was driven by a strong cash flow from operating activities, proceeds from the farm-down of Hornsea 1 and a tax equity contribution related to the onshore wind farm, Tahoka. This was only partly offset by the funds tied up in working capital. Our gross investments primarily related to investments in offshore wind projects and the acquisition of Lincoln Clean Energy and Deepwater Wind. Finally, we paid dividends to our shareholders totalling DKK 3.8 billion in 2018. Our key credit metric FFO/Adjusted Net Debt stood at 69% by the end of 2018, well above our target level of around 30%. Return on Capital Employed came at 32%, an increase of 7 percentage points and was significantly impacted by the farm down of Hornsea 1 whereas 2017 was impacted by the farm downs of Walney Extension and Borkum Riffgrund 2.

If we then move to offshore starting with Q4 on slide 19. Power generation in Q4 2018 was up by 0.4 TWh compared to Q4 2017. That was driven by the ramp-up of generation from Race Bank, Walney Extension and Borkum Riffgrund 2, partly offset by lower wind speeds. Q4 wind speeds were on par with the norm of 10.3 metres per second versus 11 metres per second in Q4 2017. EBITDA for the quarter totalled DKK 18.8 billion, an increase of DKK 6.2 billion driven by the farm-down of Hornsea 1 and increased earnings from ramp up of our offshore wind farms in operation. The free cash flow totalled DKK 15.3 billion, an increase of DKK 1.8 billion, mainly due to the higher cash flows from farm-downs.

If we then move to slide 20 and the full-year financials for Offshore. In 2018, we realised a power generation of 10 TWh, an increase of 18% compared to 2017. Again this was driven by the ramp-up in generation from new wind farms but partly offset by lower wind speeds. Despite the lower wind speeds in the summer period, the full-year wind speeds were 9.1 metres per second which corresponds to a normal wind year. But it was slightly below the 9.3 metres per second wind speed from 2017. EBITDA for the full year 2018 came in at DKK 27.8 billion, an increase of DKK 7.2 billion compared to 2017. This was mainly driven by an increase of 29% in earnings from offshore wind farms in operation and higher earnings from partnerships, partly offset by increased project development costs. The free cash flow totalled DKK 10.4 billion, an increase of DKK 5.8 billion compared to 2017. This was again mainly driven by the proceeds from Hornsea 1 and a lower increase in funds tied up in construction of transmission assets and offshore wind farms for partners compared to 2017 which was then partly offset by higher paid taxes. Return on Capital Employed for offshore stood at 37% boosted by the farm-down gain from Hornsea 1.

If we then go to Onshore on slide 21. Onshore power generation reached 552 GWh, a level we expect to increase significantly over the coming years. The production primarily came from the Amazon and Willow Springs sites. The EBITDA came in at DKK 44 million and was driven by the sites and PTCs and offset by project development and other costs. Free cash flow for 2018 totalled a negative DKK 4.9 billion including the acquisition price of DKK 5.9 billion including debt as well as investments in Tahoka and the Lockett site. This was partly offset by a tax equity contribution from the partner at Tahoka of DKK 1.9 billion.

If we then turn to page 22 covering the results in Bioenergy. EBITDA for the fourth quarter came in at DKK 203 million, marginally below Q4 2017. Free cash flow in Q4 2018 amounted to DKK 0.6 billion, an improvement of DKK 0.4 billion. This was driven by the receipt of a subsidy for the Asnæs power station which is currently being converted to biomass and higher inventories in Q4 2018. Full-year EBITDA came in at DKK 0.4 billion and a doubling compared to 2017. The increase was driven by a full-year effect from the bio conversion of the

Skærbæk power station in Q4 2017 and higher spreads and was partly offset by higher project development costs related to new activities. In Bioenergy, we reached our target of realising a positive free cash flow for 2018 as we had guided. For the full year, we achieved a free cash flow of DKK 0.5 billion, an improvement of DKK 1.3 billion compared to last year, driven by the higher EBITDA, the subsidy and the pre-payments related to the bio conversion of the Asnæs power station and the divestment of Enecogen, the Dutch gas-fired power station in July 2018.

If we then turn to slide 23 covering the results in Customer Solutions. The EBITDA for Q4 2018 was slightly lower than 2017 and amounted to DKK 0.2 billion. Q4 2018 was negatively impacted by a price-driven reduction in the value of gas at storages compared to an increase in Q4 2017. In LNG, results improved as 2017 was adversely impacted by a DKK 0.4 billion provision. In the Sales business, results were negatively impacted by higher development costs in the B2B business and implementation of a new billing system in our residential customer business. Free cash flow in Q4 2018 increased by DKK 0.2 billion due to lower receivables and paid taxes. The full-year EBITDA decreased by DKK 0.1 billion – a significant outperformance on our expectations from the beginning of the year and this was mainly driven by increasing gas prices that gave positive storage effects and gains on time spread hedges which will come back negatively in 2019. Furthermore, 2018 was positively affected by an arbitration gain as well as an increase in the LNG Division from the utilisation of the positive market fundamentals and the DKK 0.4 billion provision in 2017. This was countered by very strong trading results in 2017 and the before-mentioned higher costs in the Sales Division in 2018. The full-year free cash flow came in at DKK 1.1 billion, an increase of DKK 2.3 billion compared to 2017. This was driven by lower receivables and less funds tied up in clearing accounts and it was partly offset by a higher ROC inventory due to the increased offshore wind generation. Furthermore, 2017 was negatively impacted by the effects of the intra-group settlement of hedges related to the divestment of our upstream oil and gas business in 2017.

If we then move to page 24 on the Outlook. We expect 2019 EBITDA to be between DKK 15.5 and 16.5 billion against the DKK 15 billion realised in 2018 when excluding new partnership agreements. We don't expect any new partnerships in 2019. On this slide, I will highlight the main developments compared to 2018 before going into further details on the guidance on the next few slides. EBITDA in 2019 will be positively impacted by approximately DKK 0.6 billion following the implementation of IFRS 16 on leasing of which the majority of the effect will be in Offshore. This effect is reflected in the guidance. Offshore will also see an increase in earnings from wind farms in operation, from ramp-up of capacity. That is mainly Borkum Riffgrund 2 and Hornsea 1 whereas lower partnership earnings and higher project development costs will have an adverse impact on our 2019 EBITDA in Offshore. In Onshore, we will get a significant positive impact from a full year of operation and the ramp-up of new wind farms. In bio energy, we expect a positive impact from higher production as well as higher spreads. We expect Customer Solutions to see a significant decline in Markets due to the gains from increasing gas prices in 2018 which will revert with a negative impact in 2019. For 2019, we have included earnings from the power distribution and residential customer businesses for the full year. The gross investments for 2019 are expected to amount to DKK 21-23 billion. The outlook reflects a high level of activity in Offshore with continued focus on Hornsea 1, Borssele 1 & 2, Hornsea 2 and the Greater Changhua 1 and 2a as well as onshore where focus for 2019 will be on the construction of Lockett, Sage Draw and to some extent Plum Creek.

Turning to page 25 covering a more detailed outlook for the business units Offshore and Onshore. The 2019 EBITDA for our Offshore Division is expected to be higher than 2018. The earnings from the Offshore wind farms in operation are expected to increase as a result of earnings from Borkum Riffgrund 2 and Walney Extension which were fully commissioned during 2018 as well as the commissioning of Hornsea 1 in the second half of 2019. The earnings from existing partnership agreements are expected to decline relative to 2018 where earnings from partnership agreements at Walney Extension and Borkum Riffgrund 2 contributed to the majority of the DKK 3.7 billion from existing partnerships. In 2019, the partnership agreement of Hornsea 1, which is now an existing partnership agreement, is expected to contribute with approximately DKK 2.6-2.7 billion, corresponding to the remaining part of the Hornsea 1 gain. We also expect an increase in the product development costs as a result of our global expansion. The total fixed costs and product development in offshore is expected to reach a level around DKK 2.4 billion. Moving to onshore where EBITDA for 2019 is expected to be significantly higher than 2018. 2019 will be the first full year of operation for the business unit and the earnings from wind farms in

operation is expected to increase on the back of this as well as commissioning of Tahoka in Q4 2018 and the expected commissioning of Lockett in Q3 2019.

If we then turn to page 26 covering the outlook for the business units Bioenergy and Customer Solutions. In Bioenergy, EBITDA for 2019 is expected to be higher than 2018. The total EBITDA from our heat and power generation activities is expected to increase, primarily as a result of an expected increase in generation from our biomass converted power stations driven by higher Danish wood pellet and green dark spreads which will positively impact the earnings in the business. We expect earnings from the ancillary services to be lower than the very strong 2018 results and we expect it to be in line with 2017. If we then move to Customer Solutions EBITDA for 2018, we expect to see a significantly lower result. As previously mentioned, our gas portfolio activities significantly outperformed our expectations for 2018. The strong result was driven by increasing gas prices that gave a significant positive effect and which to a large extent will revert in 2019 with a negative effect all other things equal. Furthermore, 2018 included the positive outcome of an arbitration case which will not be repeated in 2019. The 2018 earnings from our LNG business were positively affected by strong market fundamentals which we do not see in 2019 so therefore, we expect lower earnings from these activities. We plan to exit the power distribution and the residential customer businesses during the year. We have though included these businesses with a full-year impact in our 2019 outlook and we do not expect any significant changes in earnings from these businesses compared to 2018.

On the next slide, you will see the financial estimates and policies which are in line with what we presented at the Capital Markets Day in November 2018. We will increase our dividend in line with our policy and the remaining targets also remain on track. And now, I will hand back to Henrik.

0.45.11 Henrik Poulsen

Thank you, Marianne. Just to sum it up before we open up for Q&A, 2018 was an outstanding year for Ørsted. We delivered our best ever financial result, we have expanded our global growth platform and continued our deployment of green energy reaching 75% green share in our heat and power generation. On a global scale, renewable energy will continue to grow rapidly in the years and decades to come and we do believe Ørsted is very well positioned to benefit from this significant growth opportunity. On that note, we will open up for Q&A. Operator, please.

0.45.52 Operator

Thank you. Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad now. And our first question comes from Sam Arie from UBS. Please go ahead, your line is now open.

0.46.06 Sam Arie

Thank you very much and good morning everybody, thank you for the presentation. As usual, I start by saying congratulations on the 2018 results, it obviously came higher than we expected so that is very good news. But I did want to ask just one question on the guidance you have given for 2019 which starts to look a bit lower than consensus and some of us expected and yet, on the other hand, also if I think backwards, it has been the pattern that you have that guidance at the start of the year that you have then been able to beat during the year and guidance has sort of tended to increase as we go along. I don't expect you to increase your guidance right now but could you just talk to us about where upsides might be able to come in 2019, relative to the assumptions you have taken in this morning's guidance? Thank you.

0.46.56 Henrik Poulsen

Thank you, Sam, appreciate it. Obviously, we don't want to start sort of providing additional details to the guidance at this point. We have put forward guidance for 2019 that we believe is a good and prudent estimate of where we should land the year. As Marianne just alluded to, there are a number of moving parts in this guidance. It is important to bear in mind that we will take a step-down on the partnership income from existing partnerships from 2018 to 2019, given that we don't expect anything but Hornsea 1 partnership income in 2019 and that number is publicly available. And of course, we will continue to see significant growth from wind farms

in operation and that is of course the underlying growth driver in the company and this is where we at the Capital Markets Day guided average growth of 20% towards 2023. We do believe that is the key driver of growth in the company and the number to really monitor. There will be moving parts from one year to the other and this is what we have tried to outline on page 24 in this investor presentation. I think that is as far as I can elaborate on that topic, Sam.

0.48.41 Sam Arie

Yes, okay, understood and I see it is a very helpful answer and if you will allow me I'll just make one comment which is you describe the guidance as good and prudent and I suppose if I were in your shoes and I was giving good and prudent guidance, I would plan for normal weather when I think about wind site production and I would plan for bad weather when I think about construction so there is, my inference from your answer is there might be a sort of doubly conservative outlook baked in but that is just a comment rather than a question and I thank you for your answer.

0.48.50 Henrik Poulsen

Thanks, Sam. I will leave it at that.

Operator

Thank you. Our next question comes from the line of Kristian Johansen from Danske Bank. Please go ahead, your line is now open.

0.49.05 Kristian Johansen

Yes, thank you, two questions from me. First question is on these three factors which you also highlighted in your announcement yesterday which positively impacted Q4 earnings being this lower cost level, being the ROC recycle value and then the faster execution of Borkum Riffgrund 2. Can you just elaborate on what the impact on these three factors will be into 2019? I mean, how sustainable are these or should they more be viewed as a one-off in Q4?

0.49.34 Henrik Poulsen

I think when you look at the different factors, obviously we will continue to benefit from Borkum Riffgrund 2 into 2019 but that is, you can say, already baked in our projection for the year, so it is not like Riffgrund 2 will continue to provide an upside. It surprised us on the positive side during the fourth quarter but now we obviously have it in full operation so we don't see an additional upside so to speak in 2019. When it comes to the ROC recycling values, it is sort of an annual event so to speak where there is an outcome from what essentially is an impact from the demand-supply balance of green energy in the UK market. Sometimes, these ROC recycling values will be slightly lower, sometimes they will be slightly higher than what we had expected and in 2018, we got a positive surprise but that is not necessarily a predictor for what will happen in 2019. I can say that in 2018, we saw a ROC recycle value that came to a few hundred million DKK more than we had originally dared to expect. And on the cost side, yes, it is correct that as we were moving towards the end of the year, we could see that the cost budgets were not fully utilized across the company and obviously, that also ended up making a contribution. I will just consider that sort of part of what is sort of good ongoing cost management across the company but not something that in and of itself should be considered another upside as such in 2019.

0.51.18 Kristian Johansen

Very clear, thank you. Then my second question focusing on offshore wind and the income from sites specifically. Looking at the metric of EBITDA per MWh produced, that went up quite sharply in 2018 versus 2017 and as I understand it, it primarily reflects these quite lucrative projects like Walney and Race Bank adding to earnings. Looking into 2019 where Hornsea 1 and Borkum Riffgrund 2 will ramp up, how should we think about this metric? Should it continue up given that these are also very lucrative projects or should we think of it more as a stable metric going forward?

0.52.03 Marianne Wiinholt

This is not the most sustainable metric because there are some things that influence it but in general, you will see a trend also in 2019 where you see both Borkum and Hornsea 1 having very high subsidies but for example Borkum, we have since its ramp-up, we have had quite a lot of compensation for curtailment and that compensation for curtailment goes directly into other income and is not reflected in the revenue line. So therefore, you will have some disturbances in that metric that makes it a little bit difficult to predict and fully understand.

0.52.46 Kristian Johansen

But if you measure it on EBITDA per MWh produced, the curtailment, I mean the fact that it is booked as operating ...

0.52.52 Marianne Wiinholt

And that is completely right but it is just the revenue line that is disturbed by this factor but the EBITDA line is, you are right. But for example, if you take production versus EBITDA, for example the curtailed production, you get some money but you don't have the production so that is also a thing if you look at that metric you need to take into account.

0.53.15 Kristian Johansen

Okay, that is understood. So, what you are saying is theoretically, it should continue up a little bit but there are elements creating noise, so..

Marianne Wiinholt

Especially when you look at it quarter by quarter, you will have some noise.

0.53.29 Kristian Johansen

Very clear. That was all from me. Thank you very much.

Operator

Thank you. Our next question comes from Deepa Venkateswaran from Bernstein. Please go ahead, your line is now open.

0.53.40 Deepa Venkateswaran

Thank you very much. I have two questions, one on the 2019 outlook and one more long-term on the quarter. So, for the 2019 outlook, two questions. I just wanted to understand what exactly you are assuming on the timing of Hornsea 1 because I mean that is a big project and it can have quite a lot of swing. You say it is second half but you know, are you assuming three months, four months or one month? That could be helpful. Secondly on the Markets division, I believe this is one that I personally find a little bit of a black box. Would you be happy kind of sharing at least what is your long-term guidance for this division, the LNG and the Markets part? And you know based on particularly on 2019 if you can talk about it because I think that is something that we spend very little time on. And is there any strategic rationale for holding onto this division? And on the long-term growth, I think you talked about some new, interesting markets, Poland where I saw some news that you are trying to buy a 50% stake and in Japan. Could you talk a little bit about how you expect the subsidy regimes in Poland and Japan to develop? Thank you.

0.54.50 Marianne Wiinholt

Yes. The first one on Hornsea 1, we have said second half and we cannot be more specific than that. And then on the other question on Markets, when you look at Markets, it is for us a very strategically important business unit

as it is. There is a unit that sells all our production into the market and also makes all our hedging activities. A lot of the volatility you see in the results is actually just timing effects. It has nothing to do with the underlying earnings. We have now had two years in a row, 2017 and 2018, where we have significantly outperformed our own expectations. Some of it is driven by one-offs which is this arbitration gain we have had, we have also had, LNG is a business where you also see a lot of volatility because you will have windows where you can realise very good deals and we have had that in 2018. Now, we can see that the markets have closed for that. Then you have the gas business where you have an underlying very sound earning but you see big timing impacts driven by this storage impact but it is also driven, to a large extent, by these summer-winter-spreads where we earn some money but unfortunately, which we hedge in so it is a completely certain earning but unfortunately, one leg of the hedging is realised in one year and the other leg of the hedging is realised in the other year. And that gives this volatility. And now, after a very, very good year with positive timing effects, we will have a negative timing effect in 2018 unless, of course, gas prices continue to increase, which is not what we consider realistic. On the power business, we see very stable and very sound earnings from optimising our power portfolio.

0.57.09 Henrik Poulsen

And Deepa on the question about Poland and Japan, we still don't have full visibility into the regulatory frameworks in either one of the two markets. Clearly, there is a lot of activity going on and we are quite optimistic that we will see both markets moving forward, again some pretty ambitious offshore wind targets longer term. I alluded to the partnership with TEPCO in Japan and the Choshi 1 project that will now explore in further detail and in parallel to that, we would expect to gain more and more visibility on the future regulatory framework and the auction design in Japan and in Poland as you know there is also a process around PGE looking for partners to some of their projects and parallel to that, we will continue to see further details and maturation of the longer-term regulatory framework in Poland. Of course, we are also monitoring the Polish market quite closely but for now, we cannot give you a lot more visibility on the subsidy regime as such.

0.58.15 Deepa Venkateswaran

Okay, thank you.

Operator

Thank you. Our next question comes from Casper Blom from ABG. Please go ahead, your line is now open.

0.58.23 Casper Blom

Thanks a lot, a couple of questions from my side as well. First regarding the process of selling off Radius, the Danish distribution asset. You say that you expect it to be done in 2019 and you classify the asset as held for sale, however, the Danish Ministry of Finance has also been out saying that well, after this process got cancelled, you guys pretty much have to live with owning it. With the risk of mixing business and politics here, how can you talk about wanting to divest this in 2019 if your main owner says that is not going to happen? And that is my first question. And then secondly, regarding Taiwan and CAPEX, you mentioned that you want to sort of talk to sub-suppliers about the new conditions out there. I suppose you would also want to look into local content. Can you give any kind of flavour on how you can sort of massage the DKK 27 million per MW guidance of CAPEX that you gave at the CMD and sort of try and mitigate the lower price? That is the two questions from me, please.

0.59.35 Henrik Poulsen

Thanks, Casper. What we have announced is that we still don't see Ørsted being the right long-term owner of Radius and we would like to find a good exit for these businesses and obviously, that needs to be an exit that is strategically and commercially meaningful to Ørsted and its shareholders, all its shareholders, and at the same time, it needs to be a good future solution for the businesses and the employees of these businesses and then of course, it needs to be a politically viable solution. So we are well aware that it attracts quite a bit of political attention and of course, we only have an interest in making sure that we find a solution that will work for all key stakeholders in such a transaction and this is, what we have said this morning is that as we don't see ourselves

as the right long-term owner, we will continue to explore an exit that can fulfil all of those criteria that I just alluded to. It is our hope that we could get it done before the end of this year, this is why we hold the assets as held for sale and then we will just have to wait and see what that timeline will look like. But we have said that we don't consider ourselves to be the right long-term owner. That is still the conclusion of the board of directors and the management team of Ørsted.

Then the question about Taiwan. We will obviously now be and we are in a process with our supplier base in Taiwan and in the region to discuss with them how we can make sure that the Changhua projects become good and investable projects. We have taken a cut on the tariff compared to the 2018 level and we have seen the introduction of production caps and we obviously will see some negative impact from those changes relative to the 2018 PPA and we will now have to discuss with all suppliers how we can work together to make these projects investable to make sure that we can proceed with the projects and this is a discussion that will take some time, it is ongoing but we will need a bit of time, a few months to settle these discussions before I can give you further visibility.

1.02.00 Casper Blom

Okay. Can you give any sort of indication as to, given that you got the permit today, can you give any indication to when you may do an FID on the first project in Taiwan?

Henrik Poulsen

I would expect us to make a decision no later than during the second quarter.

Casper Blom

Thanks a lot, Henrik

Operator

Thank you. Our next question comes from John Musk from RBC. Please go ahead, your line is now open.

1.02.32 John Musk

Yes, thanks everyone, two questions from me as well and sorry to come back to the guidance for 2019 but if I look on your slide 24, we have pretty good estimates, I think, on each of those building blocks to get to the 15.5-16.5. Where I am perhaps struggling a little bit is the underlying growth from offshore because I think we should be showing something which would have contribution from Walney for maybe a little bit under half a year, given that came on line in May this year, Borkum for most of this year and then also something potentially from Hornsea and I think consensus is maybe 2.5-3 billion of growth for those three assets over the quarter this year which would, based on the indications you have given on all the other boxes, could push us probably above your top end of your range. So yeah, is the underlying growth lower than the DKK 2.5 billion, let's say that consensus seems to have in? That would be my first question and then the second question is back to the ROC recycling, can you just let me know how you budget for ROCs, is that done purely on the headline ROC rate without any assumption for the recycling level which is if Offshore get their sums right typically 10% or do you include an assumption for the recycling?

1.04.09 Henrik Poulsen

Let me just cover the first question and Marianne will come back to the ROC recycling. First of all, obviously I cannot comment on the DKK 2.5 billion growth from sites, it is quite clear that you are right in sort of saying that it is going to be an impact coming from Riffgrund 2 being available for the full year whereas in 2018, it has been on line for Q4. It is also about Walney Extension. It is true that it was commissioned in May but you have to consider that there is a ramp-up that starts much earlier than May so we had production from Walney Extension much earlier in 2018 than that and then of course this whole calculation is quite sensitive to the number of months that you assume that Hornsea 1 will be on line in 2019 and that can quickly in and of itself move a few

hundred million. So you are absolutely right in sort of the way you approach it but of course, a few months here and there for some of these assets can move the numbers. The DKK 2.5 billion is not a number that I can comment on specifically, we do expect significant growth in EBITDA from our sites also in 2019. The growth number will vary from one year to the other which is also why we at the Capital Markets Day gave you the 20% average growth steer towards 2023 and some years will be above the 20%, some years will be below which is obviously simply a matter of exactly when some of these wind farms are being commissioned and come on line.

1.05.51 Marianne Wiinholt

Yes and perhaps just to add to that, in the ramp-up phase, you don't get the CfD for your production. You actually in the beginning of the production period, you are on the variable power price. And that actually makes quite a big difference for Hornsea 1 so just a.. And then to your next question on the ROC recycle value, the way we estimate that, we have external benchmarks on the ROC recycle value so we actually include a value of the recycle, not only the buyout price for the ROCs but this year, the supply-demand balance has been to our advantage, meaning that there has been higher than expected value for these ROC recycles.

1.06.42 John Musk

Okay, thank you

Operator

Thank you. Our next question comes from the line of Baptiste Cota from Goldman Sachs. Please go ahead, your line is now open.

1.06.51 Baptiste Cota

Good morning, two questions from me on Japan. Could you tell us a bit more on the Choshi project such as what TEPCO is planning in terms of volumes and maybe what share of the projects you may have and whether discussions have started on the tariffs just to get an idea of the potential here and the timing? And the second question is, I understand that Japan has not given details on auction frameworks going forward but do you have a view on whether it will be site exclusive like Taiwan or the US? Thank you very much.

1.07.23 Henrik Poulsen

On the Choshi 1 project, I would rather not go into too many details at this point. We are now in the process of establishing this joint project with TEPCO. I believe there are probably numbers out there as to the size of it but it is what we consider a good scale standard size offshore wind project that we will be looking at for Choshi 1, the exact volume not being finally settled and in terms of timing, I cannot give you an exact timing for the Choshi 1 project either and the same goes for the auction framework, we don't have that visibility just yet. We have now started the project and it is my hope that during the course of 2019, that will gain more visibility on what the project might look like and also what kind of regulatory framework that would apply.

1.08.20 Baptiste Cota

Okay, thank you very much.

Operator

Thank you. Our next question comes from the line of Iain Turner from Exane. Please go ahead, your line is now open.

Iain Turner

Morning everybody, could you just give us a bit more colour on how the IFRS 16 adjustment for next year works? Which projects it comes from etc.? I was expecting you to have to smear your renewable payments across

longer liaison and for the adjusted metric to be down rather than up, so any clarification you can give on that will be very welcome.

1.08.54 Marianne Wiinholt

Yeah so this standard means that all the operational leases we have, which we have earlier expensed above EBITDA, we now have to capitalise and then we depreciate on these leased assets so that means that you will have less leasing cost in your P&L but on the other hand, you will have higher depreciation. The most important assets we have, where we have recalculated the accounting treatment, that is the buildings we have here in Copenhagen and in the UK and then it is also these seabed leases that we have in the UK and then it's small things but those are the main assets.

1.09.44 Iain Turner

So it relates to assets, it relates to depreciation you have already done, not future projects?

Marianne Wiinholt

No, we have to as of 1 January of 2019 where we implemented this new standard, all our operating lease assets are treated according to this new standard. So in 2018, we have done it the old way, and 2019 we then do it in the new way.

1.10.09 Iain Turner

Okay, thank you.

Operator

Thank you. Our next question comes from Klaus Kehl from Nykredit Markets. Please go ahead, your line is now open.

1.10.22 Klaus Kehl

Yes, hello, two questions from my side. First of all, we have talked quite a bit about customer solutions and that you have some gains due to the gas prices and the arbitration case. But you have not said what the number is so could you give us any kind of flavour on that? And secondly, a Brexit load will most likely happen here in 2019. Could you give us your thoughts about that and how you are prepared, what kind of hedging you have put in place etc.? Thank you.

1.11.00 Henrik Poulsen

Let me start with the Brexit question, Klaus, and then we can come back to the gas results including the arbitration contract. On Brexit, clearly, we are obviously monitoring this situation closely and we have done that for quite a while now. We are of course hopeful that there will still be a deal so that the trade relations between the UK and the EU can continue in a good and orderly fashion. Of course, for contingency planning purposes, we are looking into what a no-deal Brexit might look like and our key focus has been on the Hornsea 1 and Hornsea 2 supply chains basically working closely with our suppliers to make sure that we will continue to have a good and steady flow of the components we need for these two major offshore wind assets and those contingency planning efforts we believe have given us pretty good comfort that we can manage the different scenarios that we could foresee around Brexit. And of course, then there is also potential impact on energy markets and the currency, those are obviously factors out of our control but we of course take that into account in applying our fairly prudent hedging policies for the UK market.

1.12.23 Marianne Wiinholt

Yes and you can see on page 147 in the Annual Report the exposures, the pound exposures and you can see that in 2019 and 2020, we are more or less fully hedged and then we are also significantly hedged in 2021 and 2022.

So the impact in the short term will not be very significant. On the Markets or the Customer solutions, you asked for a specific number. Unfortunately, that is not something we are giving.

1.12.58 Klaus Kehl

Okay, thank you.

Operator

Thank you. Our next question comes from Elchin Mammadov from Bloomberg. Please go ahead, your line is now open.

Elchin Mammadov

Hi there. I had two questions. The first one was on Taiwan, please. From what I understand, you are currently negotiating with the suppliers to lower the cost of components and what not. If you can't lower them enough, do you have any other options other than just pull out of the project? And I am thinking perhaps reducing the local content requirement or something like that? Is there a flex on the government's side? Do they do that to make sure this project can get done? And the second question is on the disposal of the Danish business, I mean you talked about it but to be honest, I am still not clear what options you have got. I mean, from what we have been reading in the press, the bidders were pension funds and other uncontroversial investors so if the government is not happy with them, what other options do you have as a company? I am thinking, is it litigation or is there another way maybe a utility buyer who the government would be more comfortable with and if that doesn't happen and you have to hold this grid asset for the time being beyond 2019, are you prepared to take on your farm-downs maybe in Borssele or Hornsea 2? Thank you.

1.14.19 Henrik Poulsen

On the Taiwanese supplier base, again, we obviously have to make sure that this is a good project for all stakeholders. It needs to be a good, meaningful project for the Taiwanese government, for all of the counties where we will see significant local economic growth from this build-out of offshore wind, they should all see good benefits. We also want our suppliers to have a good development of the local supply chain and at the same time, Ørsted of course needs to have a good return that reflects the task and the risk that we take on in these projects. We need more time to make that whole equation come together, we will continue the dialogue with local authorities and the government in Taiwan and of course also all of our suppliers to make sure that we find investable projects that will benefit all participants in these projects. This is the task at hand, this is the task that we will be focused on over the next couple of months and in due time, we will of course come back to the market with the conclusion. When it comes to the Danish disposals, we are, as I said, looking into various options for how we can exit these businesses in a way that makes financial sense to us as a company and at the same time makes sense for the businesses and their employees and which is at the same time politically acceptable. We do believe there is such a space, this is the space that we are currently scoping out and exploring, this will take some time but hopefully, later this year we should have an opportunity to potentially resume a divestment process. This is our current focus. I can't get more specific than that at the moment given we are in a review process. In terms of the support for our overall funding plan and the DKK 200 billion investment programme, we have obviously been relying on the proceeds from these disposals to be part of that overall funding equation but we do have fall-back opportunities and you mentioned one of them which would be that we have a lot of assets on our balance sheet that are very attractive and that we can turn into liquidity, should we need to do so. This is not our plan A, our plan A is still to secure the proceeds from these Danish downstream businesses.

1.16.56 Elchin Mammadov

Thanks a lot.

Operator

Thank you. Our final question comes from the line of Sam Arie from UBS. Please go ahead, your line is now open.

Sam Arie

Hello again, I am coming back for a second question and this time I just wanted to go back to the level of the industry outlook and here I think we say your view was that there is very strong growth to come and I note that the 13 GW target you mentioned for South Korea, not a market that many of us have spent a long time looking at, that means that already that market could add more to industry growth even with growth coming in Germany which has been a leader so far. So for market growth, I think we are very aligned, however, the question we get all the time is about your ability to make good returns on future projects and in the context of auctions. I wonder if you could just take a minute to help us here and for example do you think you can still do high single digit IRRs on future projects in an auction context? Or maybe an easier question for you to answer but maybe even more helpful for us, can you say anything about what kind of NPV per GW we should have in mind when we think about future additions in an auction context in markets we haven't looked at yet? Thank you.

1.18.14 Henrik Poulsen

Thank you, Sam. Yes, I mean, we are fully aligned on the global growth opportunities that we are looking into over the next few decades. There is no doubt that we consider renewables to be a double digit growth industry for many, many years to come on a global scale and clearly, we see offshore wind gaining ground even within the renewable mix at the moment with more and more markets opening up for large-scale offshore wind deployment. It is obviously a key task for us to make sure that we sustain good, decent returns on the investments that we take on. I will claim that we have certainly been able to do that so far. We gave you a bit of a steer at the Capital Markets Day when we sort of said that if we take a basket of projects that we have secured in competitive auctions over the past roughly three years, we are looking at an average on-level IRR on that portfolio of projects covering both Taiwan, US and Europe at a level around 8%. This is as specific as we can get and as specific as we want to get given that we are operating in a very competitive industry where there is a balance between providing you guys with as much transparency as we can while not giving too much information away to competition. So, that is the steer that I again want to put forward and we remain comfortable with that 8% guidance on that specific portfolio.

1.19.56 Sam Arie

Okay, very helpful. I guess that means that you are not wanting to comment on sort of indicative NPV per GW, that kind of metric.

Henrik Poulsen

I would rather not start commenting on that particular metric and having that introduced, hopeful for your understanding there, Sam

1.20.11 Sam Arie

Yeah, of course. Alright, thank you very much for your answer, I appreciate it and thank you for the presentation today.

1.20.20 Operator

Thank you. We do have another question from Jenny Ping from Citi. Please go ahead, your line is now open.

Jenny Ping

Hi, good morning everyone. Two questions, please. Just one specifically on Taiwan. I was wondering whether you have had the discussion with the Energy Bureau about the potential use of the order of dispatching systems for different technology? Obviously we now have the tiered system and the cap but what have they said about the dispatching? I am thinking about it in the context of obviously overcapacity now that they have got overwhelming majority to support nuclear life extension and then secondly just a quick one on IFRS 16, I am

assuming the 4.8 billion of operating lease that we see which currently is off balance sheet would just be an asset and a liability so net net no impact on net debt. Thanks.

1.21.24 Marianne Wiinholt

Yes, the first one, the last one first. It is included in the net interest-bearing debt and it is also on the assets side, so it is increasing the net interest-bearing debt but on the other hand, when the rating agencies have made their calculation before we introduced IFRS 16 they already included a calculated debt in their calculations. So it doesn't make any difference on our credit metrics.

1.21.54 Henrik Poulsen

Jenny, on the first question, I am not sure that I totally exactly understood what the question is?

Jenny Ping

Really, looking at it from the point of view that the Taiwanese government has introduced what was hoping to replace the nuclear capacity with new offshore wind and given now nuclear is still going to be on the system, have they talked about using different types of dispatching systems which prioritise nuclear over offshore? Because clearly, you can't switch on an off nuclear power stations.

1.22.33 Henrik Poulsen

No, I do believe that there is still clearly a strong political consensus in Taiwan that they want to phase out some of the existing capacity potentially both nuclear but also coal. Today, Taiwan is first and foremost a coal-fired energy system and they have a strong desire to phase out coal capacity, not only for CO2 emission reductions but also for air pollution reasons. So, we do believe there is a strong consensus in Taiwan that they want to reduce the fossil fuelled capacity and phase in more and more green energy over the next couple of decades so in that respect, we are quite comfortable that there will be a phase-out of existing legacy capacity to create the room for the phase-in of offshore wind.

1.23.31 Jenny Ping

Understood, thank you.

Operator

Okay, there is no further question so I hand back to the speakers for any closing comments.

Henrik Poulsen

All right, thank you very much and thank you all for joining and thank you for your attention and interest in Ørsted. Have a continued great day.