

Operator:

Welcome to this Ørsted Q2 2019 earnings call. For the first part of this call, all participants will be in listen-only mode and afterwards, there will be a question and answer session. Today's speakers are the CEO Henrik Poulsen and the CFO Marianne Wiinholt. Speakers please begin.

0.00.22

Henrik Poulsen

Thank you and good afternoon everyone and welcome to this first half earnings call. Our company continued its strong performance in the second quarter with results in line with expectations and quite notably also the award of two major US offshore wind projects. Our EBITDA for the second quarter of the year amounted to DKK 3.6 billion, which is an increase of DKK 0.5 billion compared to last year. The increase in EBITDA was mainly driven by our offshore wind farms in operation where we saw a Y/Y increase of 29% driven by ramp-up in generation from Borkum Riffgrund 2 in Germany and Walney Extension and Hornsea 1 in the UK.

We are quite satisfied with our financial performance which puts us well on track to deliver on our full-year guidance. Relative to our expectations at the beginning of the year, we have as always seen some underlying ups and downs. On the negative side, we are despite the very significant growth not fully satisfied with our production in the first half year where the number of outages and curtailments across the offshore wind portfolio has been higher than normal. We estimate that these issues in total have resulted in an uncompensated production shortfall of roughly 350GWh on a year to date basis equivalent to roughly DKK 400 million in operating profit. We would under normal circumstances expect the uncompensated production loss to be less than half of that. We expect these issues to persist into the third quarter of this year.

On the positive side, we have seen higher earnings from partnerships than originally expected, which Marianne will come back to, and we have also seen stronger than expected earnings from trading related to hedging of our energy exposures and also strong margins in our gas portfolio.

With the continued ramp-up in our offshore and onshore wind capacity, our green share of heat and power generation increased to 85% in the second quarter up from 80% in the second quarter last year.

As you know by now, in June we were selected as the preferred bidder for New Jersey's first offshore wind farm with our 1,100MW project ocean wind and in July we were selected as one of the two preferred bidders in the New York solicitation with the 880MW Sunrise Wind project which we own in a joint venture with Eversource. We are obviously very pleased with these awards which I will discuss in more detail in a few moments.

During the quarter, we also received the outcome of offshore wind tenders in France and the Netherlands. These tenders were awarded to an EDF/Energy/Enbridge joint venture and Vattenfall, respectively. At the end of July, we commissioned the Lockett onshore wind farm in Texas well ahead of schedule. The 184MW onshore wind farm in the ERCOT region has performed as expected

since the commissioning and we are quite pleased with the onshore team's strong EPC performance on Lockett.

In May, we completed the largest green bond offering to date when we successfully secured a funding of £ 900 million. The proceeds from the green bonds are earmarked for offshore wind activities in the UK and will also provide a natural hedge towards our significant Pound Sterling exposure.

In June, we signed a guaranteed 5-year syndicated green revolving loan facility of 25 billion new Taiwan dollar for our offshore wind projects in Taiwan. We are also very pleased with the commitment from 15 banks in this transaction including the domestic Taiwanese banks. We are proud of this being the first ever green loan facility in Taiwan and we will now start preparations for a potential green bond issuance in the local Taiwanese market towards the end of this year.

In May, the Copenhagen Maritime and Commercial Court ruled in favour of Ørsted in the case concerning the use of the Ørsted name with a clear vote of 5 to 0. We are satisfied with this judgment that upholds our claim that we have the right to use the Ørsted name. In June, the plaintiff decided to appeal the case and it is currently being assessed whether the appeal will be heard at the High Court or whether it will go directly to the Supreme Court.

In June, we decided to consolidate the business units Customer Solutions and Bioenergy into a new business unit named Markets and Bioenergy. The decision was taken as a natural consequence of the two existing business units being reduced in size. The downsizing is driven by the plant divestment of our Danish power distribution residential customers and city light businesses and also divestments of our oil and gas infrastructure assets as well as activities that have been either discontinued or transferred to other parts of Ørsted.

The financial consolidation of the two business units into one will be reflected in our interim financial report for the first 9 months of 2019. Morten Buchgreitz who was previously EVP of Customer Solutions has been appointed EVP of Markets and Bioenergy. Within Markets and Bioenergy we continue to prepare our power distribution residential customers and city light businesses for separation and subsequent divestment. We still believe signing of a combined transaction or separate transactions can be achieved before the end of the year.

At this point, we cannot provide further details on the process but we will of course be actively pursuing the divestments during the second half of this year.

Turning to slide 4 where I will focus on the outcome of the solicitations in New Jersey and New York. As mentioned in June, the New Jersey Board of Public Utilities selected Ørsted as the preferred bidder for New Jersey's first offshore wind farm. We are very excited with the award and look forward to delivering the first offshore wind farm in the US above the 1GW mark as well as contributing to meet Governor Murphy's ambitious renewable energy goals. We will now negotiate the final terms of the 20-year offshore wind renewable energy certificate. The project will receive USD 98.1 per MWh from 2024 with a 2% annual escalator corresponding to a levelized 2013 price of USD 86.4 per MWh.

Subject to final investment decision, the 1,100MW wind farm is expected to be completed by 2024. We will work with the non-utility affiliates of PSEG who will provide energy management services and potential lease of land for use in the project development and execution phase.

Furthermore, PSEG has an option to become an equity investor of up to 50%. We are proceeding with plans to establish an operation and maintenance base in Atlantic City that will provide permanent high-skilled jobs during the life span of the project.

In July, the New York State Energy Research and Development Authority, NYSERDA, selected the project Sunrise Wind as one of the preferred bidders in the offshore wind procurement of 1.7GW. The other award went to Equinor's project Empire Wind.

We will now negotiate a 25-year offshore wind renewable energy certificate for the 880MW project which will contribute significantly to achieving Governor Cuomo's ambitious goal for New York's transition to renewable energy.

Sunrise Wind is a 50/50 joint venture with Eversource and the project is exploring transmission partnerships with the New York Power Authority and the leading New York utility Con Edison. We will apply a cluster approach to our northeast projects comprising South Fork, Sunrise Wind and Revolution Wind. The cluster will have a total capacity of 1.7GW to be built between 2022 and 2024.

Less than a year ago, we created the leading US offshore wind platform by merging the asset portfolios and competencies of Deepwater Wind and Ørsted US. Our recent significant project wins in New Jersey and New York are proof of the strength and quality of the combined organisation. With the recent allocation of almost 2GW, we have secured an offshore wind build-out portfolio on the US East Coast of approximately 2.9GW to be completed between 2022 and 2024. The significant pipeline will enable us to optimise EPC and operations across the portfolio as well as inside the clusters. In addition to the awarded capacity, we have around 5GW of lease rights on the US East Coast which can be developed for the many upcoming auctions. The awards have significantly reinforced our leadership position in US offshore wind and we are well on track to reach our ambition of 15GW offshore wind capacity by 2025 as we continue to innovate and pioneer the global offshore wind industry.

Turning to slide 5, where I will give an update on the key offshore construction projects in progress.

At Hornsea 1, the construction progress is well on track. We have installed all foundations and array cables as well as 131 out of the 174 turbines. With the current progress, we expect the wind farm to be fully operational in the fourth quarter of this year.

At our Borssele 1 and 2 wind farm, the construction of the O&M building in Vlissingen is progressing according to plan. We still expect the Dutch wind farm to be completed in late 2020 or early 2021.

The Virginia EPC Demo project is also well in progress. The onshore construction has commenced while the offshore construction work is scheduled to begin in the second quarter next year. We now expect to complete the two turbine pilot projects by the end of 2020.

At the Hornsea 2 project, we have signed all key supplier and installation contracts and we continue the onshore construction work on the substation and export cable. The project is scheduled for completion in the first half of 2022.

At our Greater Changhua 1 and 2a project in Taiwan, we continue our efforts to sign the remaining supply and installation contracts. We have started the onshore construction work and remain on schedule to complete our first large-scale offshore wind farm in Asia by 2022.

At the same time, we have seen good progress at the 120MW Formosa 1 Phase 2 joint venture project. The onshore construction work is progressing according to plan and in May, the offshore installation work commenced. By the end of July, the first turbine was installed and we expect the wind farm to be fully commissioned towards the end of this year.

Now turning to slide 6 and an update on the construction projects outside Offshore. In our Onshore business, we continue to see good progress on our construction projects. In July, we commissioned the Lockett onshore wind farm in Texas well ahead of schedule and in the subsequent period, we have seen very good performance from the wind farm.

In June, the construction work at Sage Draw commenced with road and foundation installation well underway. We expect the 338MW wind farm in the Texas ERCOT Region to be commissioned by the first quarter next year.

In June we acquired the 103MW construction ready onshore project Willow Creek. The project is located in South Dakota and together with our Plum Creek development project in Nebraska, the acquisition further expands our operations into the southwest power pool market. Construction of the wind farm commenced in the beginning of July and we expect the wind farm to be commissioned by the end of 2020.

In Bioenergy, the bio-conversion of the Asnæs Power Station is progressing according to plan. The first shipment of wood chips has arrived and the project team is currently preparing to fire up the boilers with wood chips for the first time. We still expect final commissioning towards the end of 2019.

At our last remaining coal fired CHP, Esbjerg Power Station, we have not been able to find a joint solution with the heat customers for a bio-conversion project. Consequently, we informed the heat customers that we will close down operations by the end of 2022. We applied to shut down the plant to the relevant authorities and the Danish Energy Agency has issued a draft ruling granting us permission to close down the power station by the end of 2022. The draft ruling has been in consultation with the parties and we are currently awaiting the final ruling from the authorities.

The reconfiguration of our Renaissance plant in the UK has been completed and we are now in the process of ramping up the waste throughput as well as production. We now expect to commission the plant at the end of this year.

We continue the installation of smart meters within our power distribution network. At the end of June, 976,000 smart meters had been installed and taken into use. We expect to install the last smart meters during the third quarter of this year and including the subsequent testing and period of commissioning, the project remains well on track to be finalised on schedule in 2020.

Let us turn to slides 7, 8 and 9 and take a look at the latest market development and offshore wind opportunities across the regions.

Starting in Massachusetts where the state's second offshore wind solicitation has been launched, bidders will have to submit their bids by 23 August this year with expected selection of projects for negotiation in November this year. Bidders can submit proposals ranging between 200 and 800MW. As part of the updated framework in Massachusetts, the price cap for the second solicitation has been removed. Recently, Massachusetts passed a new bill with an ambition of 3.2GW offshore wind by 2030, 5 years ahead of the previous target. With the total award of 1.7GW to Sunrise Wind and Empire Wind, New York has taken a significant step towards the 2035 target of 9GW offshore wind. We expect that the next auction will take place in the second half of 2020. Furthermore, we expect

the Federal Agency BOEM to release two New York offshore lease areas of at least 800MW each in early 2020 with a lease auction likely to take place later in 2020.

In New Jersey, the recent 1.1GW award was the first step towards the state's 2030 target of 3.5GW of offshore wind. New Jersey is expected to have subsequent auctions of 1.2GW of offshore wind in both 2020 and 2022.

Moving to Connecticut where the state approved the legislation for the procurement of an additional 2 GW of offshore wind, the next procurement is expected to be for 400 to 800MW of offshore wind with a bid deadline on 30 September this year and an expected outcome announced in November.

In Rhode Island, the 400MW PPA for our Revolution Wind Project has been approved by regulators and we continue the development of the full Revolution Wind Project. National Grid has made a conditional selection of the preferred bidders in the 2018 zero carbon RfP. Selected bidders have been notified and additional details will be updated upon successful contract negotiations. We can conclude that National Grid did not select any offshore wind projects for this procurement.

Finally, Maryland has confirmed the state's target of approximately 1.6GW of offshore wind capacity by 2030. An increase of 1.2GW compared to the previous bill. Maryland is expected to have auctions of at least 400MW of offshore wind in both 2020, 2021 and 2022.

We continue to see a strong development within offshore wind on the US East Coast with several ongoing and upcoming solicitations, expected lease area auctions as well as increased commitments to the long-term build-out of offshore wind.

Turning to slide 8 and the recent market development in Europe.

In the UK, the third CfD bid window is now closed and an outcome is expected to be announced during September this year. As we did not participate in the auction, we are looking forward to the subsequent auctions which will be held every second year.

In Germany, the German Federal Ministry for Economic Affairs has recently suggested to increase the current 15GW target for 2030 to 20GW. We expect Germany to launch the first centralised tender in 2021 with the aim of having 800MW constructed annually from 2026 onwards.

Moving to the Netherlands where the fourth offshore wind tender was concluded in the beginning of July. Even though we were not successful in the tender, we are still committed to contribute to the green transition through green hydrogen projects in the Netherlands and elsewhere as we see offshore wind-based hydrogen as a cornerstone in the continued decarbonisation of our core markets.

The Dutch government has set an ambitious target of 11.5GW of offshore wind by 2030 and we expect the next tender of up to 760MW to take place early next year.

In France, the third offshore wind tender was concluded in June. We were not successful in the tender but we are pleased that the French government increased their offshore wind target from 5GW to 10GW by 2028 in connection with the outcome of the third auction.

Finally, turning to slide 9 and the market development in Asia-Pacific.

In Taiwan, auctions for an additional 4.5GW to be built post-2025 are being planned. The framework around these auctions is not yet in place but we expect that the auction design for the third round development will be announced during the fourth quarter of this year.

In Japan, the government recently designated 11 areas as potentially suitable for the development of offshore wind farms and these areas will progress to be preparatory stages for designation of future promotion. Four of these 11 areas will immediately undergo preparations for wind and geological surveys. One of those four areas is the Choshi zone which is currently being developed by TEPCO and is the subject of a Memorandum of Understanding with Ørsted with the aim to jointly develop the project within this zone. The Ministry of Economy, Trade and Industry in Japan is pursuing a targeted time line for a first auction round to take place in the summer of 2020.

In South Korea, we continue to closely monitor the regulatory development of offshore wind.

This concludes the offshore market development review.

Now, let us turn to slide 10 and the progress of our US onshore business.

The US onshore business continues to expand its portfolio of operating and development projects. With the recent commissioning of the Lockett wind farm, our operating portfolio of onshore wind farms reach 1GW. Furthermore, the recent acquisition of Willow Creek expands the geographic footprint of our asset base and increases our portfolio of projects towards 2022. Integration of the newly acquired solar and storage development activities of Coronal Energy into our US onshore organisation is progressing according to plan and we remain very satisfied with the development of our onshore business and the value creating growth opportunities it continues to offer. We will continue to expand our development portfolio and capabilities to create a leading North American platform within onshore wind solar energy and energy storage.

Now moving to slide 11.

Over the past decade, we have at Ørsted undertaken one of the most ambitious green transformations in the global energy industry guided by our vision of creating a world that runs entirely on green energy and our strong commitment to the Paris Agreement and the UN Sustainable Development Goals. By the end of the first half of 2019, we have reduced the carbon emission intensity from our own energy generation by 83% through the conversion of our CHP plants to sustainable biomass and the deployment of offshore and onshore wind. Our target, which we are fully on track to meet, is to reach a 98% reduction of the carbon emissions by 2025 making our energy generation essentially carbon free. In addition to our comprehensive transformation from black to green energy, we are taking a number of carbon reduction initiatives in our own operations, including a new target to phase out fossil fueled cars from our company car fleet and fully convert to electric vehicles by 2025. With our energy generation, another in-house operational activity is well on track to become virtually carbon free.

We now take the next major step in our decarbonisation strategy and today, we announced a new target that covers the indirect carbon emissions related to our business. By 2032, we want to reduce our so-called scope 3 emissions by 50% compared to the 2018 base line. These carbon emissions primarily relate to the sale of natural gas and fossil based power in our customer businesses. And from the goods and services we source for construction of wind farms. To meet the target, we will gradually reduce our natural gas sourcing portfolios which today make up more than 80% of our total scope 3 emissions. The gradual reduction in our gas sourcing and corresponding sales over the coming decade reflects our view that natural gas will continue to play an important role in the transition towards a society fully powered by green energy but over time, it must be replaced by renewable energy sources. Furthermore, we will reinforce our ongoing engagement with our

suppliers to reduce the emissions from the goods and services we source, in particular related to the construction of our wind farms which make up the largest emission source in our supply chain.

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

0.27.45

Marianne Wiinholt

Thank you Henrik, and good afternoon from me also.

Let us start on slide 12 where I will go through the group's financials for Q2 2019.

In Q2, we realised an EBITDA of DKK 3.6 billion, a Y/Y increase of DKK 0.5 billion in line with our expectations. In offshore, earnings from our operating wind farms increased by 29% due to the ramp-up of generation from Borkum Riffgrund 2, Walney Extension and Hornsea 1. Furthermore, wind speeds in Q2 2019 were above last year. In Q2 2019, we had lower than expected generation from the underlying portfolio due to curtailments and outages. These operational issues mainly related to a platform fire at Horns rev 1 in October 2018, converter station outages at Borkum Riffgrund 2, an array cable repair campaign at London Array as well as various array cable and export system outages at Race Bank, West of Duddon Sands and Burbo Bank. In addition, we had higher than expected curtailments at our German wind farms where we are partly compensated by the German grid operator, TenneT. These outages have resulted in an availability of 87% for the quarter.

In offshore, we had higher project development costs which mainly related to activities in the US and Taiwan while earnings from partnership agreements were in line with Q2 2018. Onshore contributed with DKK 167 million in the quarter while Bioenergy was slightly below last year due to timing of maintenance costs.

In Customer Solutions, we saw higher earnings from trading related to hedging of our energy exposures and optimisation of our LNG assets in Europe as well as strong underlying margins from our gas portfolio. This was partly offset by lower earnings related to our gas at storages.

Finally, EBITDA in Q2 2019 was positively affected by DKK 149 million from the implementation of the new IFRS 16 Accounting Standard regarding leasing.

Net profit totalled DKK 1.1 billion, an increase of DKK 0.2 billion in the second quarter of 2019. The increase was driven by higher EBITDA and partly offset by higher depreciation from more wind farms in operation. The effect from IFRS 16 was slightly negative on a net profit level.

Free cash flow from continuing operations came in at DKK 4.1 billion, a 4 billion improvement Y/Y.

In Q2 2019, we had a higher release of funds tied up in work in progress due to the receipt of a milestone payment in connection with the construction of Hornsea 1 from our partner.

Our gross investments for the quarter totalled DKK 3.4 billion of which DKK 2.7 billion related to the build-out of our offshore and onshore wind farms.

If we then turn to slide 13 and our net interest-bearing debt and financial ratios.

Our net debt at the end of Q2 amounted to DKK 5 billion. The DKK 4.1 billion decrease primarily reflected contribution from free cash flow as I just described as well as minor impacts from paid hybrid coupons and exchange rate adjustments.

Our credit metric FFO / Adjusted Net Debt stood at 58%, well above our target level of around 30%.

Return on Capital Employed (ROCE) came in at 29%, a 6 percentage-point increase compared to the same period last year. Q2 2019 was significantly impacted by the farm down gains from Hornsea 1 whereas last year it was impacted by the farm down gains from Walney Extension and Borkum Riffgrund 2.

If we then move to the results from the business units, we start with Offshore on slide 14.

Power generation increased by 0.4TWh compared to Q2 last year primarily due to the ramp-up of generation from Borkum Riffgrund 2, Walney Extension and Hornsea 1 which in total amounted to 0.3TWh.

As I described earlier, we had lower than expected generation from the underlying portfolio in Q2 2019 due to these curtailments and outages.

The wind speed for the quarter was 8.0m/s, up 0.1m/s compared to last year. This was slightly below the normal wind speed for the quarter of 8.2m/s. We did, however, have a notable difference between locations with higher wind speeds in Denmark and Germany being offset by lower wind speeds in the UK. For the first six months of 2019, the wind speeds were in line with the normal year wind speed of 9.2m/s for the total portfolio.

EBITDA for the quarter amounted to DKK 3.3 billion, up DKK 0.2 billion on Q2 2018.

Earnings from wind farms in operation increased by DKK 0.5 billion due to the higher generation.

Earnings from partnerships in the quarter amounted to DKK 1.6 billion, which was in line with last year.

The construction agreements in this quarter primarily concerned Hornsea 1 as well as positive effects from the ongoing divestments of the offshore transmission assets at Walney Extension and Race Bank whereas last year's earnings related to Walney Extension and Borkum Riffgrund 2. In Q2 2019, we also had a positive effect from construction projects finalised in 2018 where the final completion of various outstanding issues ended up with a lower spend than what we had provided for.

Finally, the project development costs for the quarter amounted to DKK 0.6 billion, mainly relating to the development activities in the US and Taiwan. The total project development cost for 2019 is expected to amount to roughly DKK 2.5 billion of which approximately DKK 1.8 billion is expected to be expensed and the remaining DKK 0.7 billion will be capitalised. This increase compared to what we have earlier guided is mainly related to our US activities where we capitalise costs in the US when we have an irrevocable PPA contract and an investable project. For our US projects, we have higher costs before we take the final investment decision compared to what we see in other markets in which we are currently operating, partly due to the late timing of FID relative to commissioning of the wind farm because of the regulatory process and partly due to higher site investigation costs. In addition, the later than expected FID on Greater Changhua 1 and 2 in Taiwan has to some extent increased project development costs.

The free cash flow totalled DKK 5.9 billion in Q2, a significant increase on last year mainly driven by higher release of funds tied up in work in progress from the received milestone payments in connection with construction of Hornsea 1 from our partners and lower gross investments.



If we then turn to the results for Onshore on slide 15, the onshore power generation amounted to 0.8TWh in Q2. The wind speed averaged 7.7m/s, which was below our normal wind speed which is 8.4m/s for the quarter while we had a very high availability of 97% across the portfolio.

EBITDA came in at DKK 167 million for the quarter with earnings from operational wind farms and production credit contributing with DKK 220 million. This was partly offset by project development and other costs.

The free cash flow amounted to a negative DKK 1.2 billion primarily related to the construction of Sage Draw and Lockett as well as the acquisition of the Willow Creek project and the development activities of Coronal Energy.

Turning to slide 16 covering the results in Bioenergy.

EBITDA came in at a negative DKK 159 million. The lower EBITDA compared to last year was primarily related to timing of maintenance costs while the underlying earnings were in line. The free cash flow increased by DKK 0.3 billion compared to last year and this increase was driven by lower gross investments related to the bio-conversion of the Asnæs Power Station which is now close to being completed as well as higher trade and VAT payables due to higher generation in Q2 2019.

Then to the last business unit on slide 17, Customer Solutions.

The EBITDA for Q2 2019 totalled DKK 0.3 billion, an increase of DKK 0.2 billion on last year. Higher earnings from trading related to hedging of our energy exposures as well as optimisation of our LNG assets in Europe and strong underlying margins in our gas portfolio. The increase was partly offset by lower earnings related to our gas at storage within markets. The substantial decrease in gas prices during Q2 2019 led to a reduction in the accounting value of our gas inventories and consequently a temporary negative impact on EBITDA in this quarter. This negative impact will be offset if gas prices increase or when we sell the gas later in 2019 or 2020 as we have hedged most of our gas margins.

The free cash flow for the quarter amounted to a negative of DKK 0.6 billion, primarily from higher receivables, partly relating to factoring of a renewable energy certificates as well as lower payables due to the lower sourcing of gas volumes.

We then turn to slide 18 which shows our 2019 guidance and our long-term financial estimate and policies.

The 2019 EBITDA guidance for the group is unchanged relative to our guidance in our Annual Report for 2018. And we still expect EBITDA excluding new partnership agreements to be between DKK 15.5 and 16.5 billion. However, the unchanged outlook covers some underlying and offsetting changes across the business units.

Looking at Offshore, we expect earnings from offshore wind farms in operation to increase as a result of the ramp-up of generation from Walney Extension, Borkum Riffgrund 2 and Hornsea 1. However, the increase will be lower than our original expectation due to the curtailments and operational issues I have talked about which we have experienced during the first half of 2019 and which we expect to persist into the third quarter of 2019.

The earnings from our existing partnership agreements are now expected to be in line with 2018 whereas we previously expected these earnings to decline.

The earnings from partnership agreements amounted to DKK 3.7 billion in 2018. The improvement is mainly due to higher than expected earnings from the construction of Hornsea 1 due to the good progress we have seen including lower CAPEX spend. We also had positive effects from constructions projects finalised in 2018 where the final completion of these various outstanding issues ended with a lower spend than what we had provided for. And lastly, the positive effects from the ongoing divestments of the offshore transmission assets have also been included in the first half of 2019.

For Customer Solutions, we now expect 2019 EBITDA to be in line with 2018 where we previously expected the EBITDA to be significantly lower.

In Markets, we have seen significantly higher earnings from trading related to hedging of our energy exposures in the first half of 2019 than what we had expected. In addition, we have had higher underlying earnings from our gas portfolio mainly due to higher margins.

Finally, we now expect a less negative accounting effect in our gas portfolio related to gas at storage relative to what we expected at the beginning of the year. The accounting effect related to gas at storage is a timing effect and does not as such impact our earnings.

The directional guidance for Onshore and Bioenergy is unchanged relative to the guidance in our Annual Report for 2018. Furthermore, our gross investment guidance of DKK 21-23 billion is also unchanged.

And with that we now open up for Q&A. Operator, please.

0.44.09

Operator

Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad.

Please hold for the first question and the question comes from the line of Kristian Johansen of Danske Bank. Please go ahead, your line is open.

0.44.28

Kristian Johansen

Yes, thank you. First question is on your guidance and just if you can help me a bit with the math on these changes to the directional guidance so you are saying lower earnings from operating offshore wind farms is balanced by hiring some partnerships and Customer Solutions. If I look at what you communicated when you made the Hornsea 1 farm down, you said that roughly 2.6 to 2.7 would be booked in 2019 and now, you expect 3.7 for this segment so to me it sounds like you are upgrading by roughly DKK 1 billion and then on top of that the upgrade in Customer Solutions. But what you quantify in terms of lower than expected earnings for the operating wind farms is sort of in a magnitude of DKK 200 to 300 million so can you just help me a bit on what I am missing here?

0.45.22

Henrik Poulsen

I think it is a fair question, Kristian. I am not going to sort of argue with the individual items here that you refer to. I would just say that we still obviously have half a year to go and there is still a fair amount of uncertainty related to the next six months in terms of everything from production volume to prices and we are in the process of finalising the world's largest offshore wind farm which obviously also comes with uncertainty on the exact timing etc. So I am just saying there are a number of moving parts across the business during the balance of the year, which led us to conclude that it would be correct for us to maintain our guidance at this point.

0.46.10

Kristian Johansen

Okay, but am I correct in assuming that the original guidance for partnerships was in line with what you guided for Hornsea 1, i.e. those DKK 2.6 to 2.7 billion?

0.46.21

Henrik Poulsen

That is correct, yes.

0.46.24

Kristian Johansen

Alright, thank you. Then my other question is regarding Ocean Wind and this option that PSEG has, I mean, you are probably not going to give us exact details but obviously, what I would be quite interested to hear is how we should think about this sort of compared to what we have seen in your farm down model. In other words, will you be able to have sort of full NPV retention if PSEG chooses to exercise this option?

0.46.52

Henrik Poulsen

I would not be able to go into any details on the topic, Kristian, there is an agreement with PSEG as to how they can buy into Ocean Wind up to 50% equity and there is a good ongoing dialogue with PSEG at the moment. We are going to have to wait for that process to conclude before we can come out and give you any additional data points on a potential sell-down.

0.47.21

Kristian Johansen

Can you say anything about the timeline? I mean, when do you expect this to sort of be completed?

Henrik Poulsen

I mean, the dialogue is well in progress and it should be a matter of months so certainly sometime during the autumn.

Kristian Johansen

Alright, that's clear. Then my last question is on these outages and curtailment which you described. Is there anything structural in this? I mean, should we sort of expect you to increase the budget for these kind of costs going forward or is it just bad luck in the quarter?

0.47.53

Henrik Poulsen

I would consider it more bad luck in the quarter, we have seen availability in the second quarter being down to 87% which is quite unusual which is also why we felt that we should come forward and provide you with more granularity on why the availability was that low in the second quarter. I mean, we will see quarters where we have very high availability, quarters where we have slightly lower availability, these different types of operational issues they will come and go and I would consider it sort of a natural statistical fluctuation but as we have pointed out today, during the first half, we have seen more than we have seen in previous years and again, I think it is more a matter of having had a little bit of a bad streak during the first half. I wouldn't extrapolate above and beyond that. As I said earlier, we have been looking at a non-compensated production loss of 350GWh and normally, we would be looking at a normalised level which is well below half of that. So, when you look at the 400 million that we point to as the EBITDA-impact, that impact would normally probably be closer to 1-200 million. So that sort of gives you the magnitude of what we would consider more of a normal impact and what was a little bit of a challenging first half this year.

0.49.22

Kristian Johansen

Alright, very clear. Thank you.

Operator

Our next question comes from the line of Alberto Gandolfi of Goldman Sachs. Please go ahead.

0.49.32

Alberto Gandolfi

Thank you and afternoon, everyone. I have a few questions and thanks for taking them. The first one is I think at the moment your run-rate seems to be participating to about 6GW of auctions or probably in the next couple of years up to 8GW of auctions. But the offshore market globally is obviously expanding, we are moving to probably if you take all those targets you were showing, we are moving to 15 and soon enough to 20GW. So I was wondering, what stops you from upgrading the tenders, the auctions you are going to attend? Is it stretching to things in the organisation, are there any constraints? What are the bottlenecks? Or can you actually continue to expand your

development team and be able to keep participating in more auctions? So, what I am trying to say here is if we go to 20GW a year of global offshore market, should you be able to perhaps being adding way more than 1GW a year because you move to a 2GW a year one day?

The second question is if you have had any thoughts in terms of what we might call an end-game. The European Union has a 2050 strategy which suggests by 2050 about 350GW of offshore just in Europe and now, the new president is talking about moving towards net zero emissions. I was curious to see if you have carried out any feasibility study. Can Europe become maybe a 400GW market in a net zero emission scenario and if that is the case, are we talking about a global offshore market of 1000GW by 2050? Is this a type of top-down, I know it is 30 years away, like 15 years ago, many people were underestimating handset sales of the iPhone or Amazon, so I am just trying to figure this out.

And the last one is on permitting and bottlenecks more in general. One of your competitors has apparently been facing some delays, I was reading that just on the East Coast, you need something like 23 permits and even when you get awarded, you don't have all the permits, so I was trying to understand how the top-down policy wheel clashes against the bottom-up permitting and if that could become a bit more of a recurring issue in such an expanding market? Thank you.

0.52.05

Henrik Poulsen

Thanks Alberto. When you look at the expansion of the global offshore wind market, it has been a trend in recent years that as the price of offshore wind has been going down quite rapidly, we have indeed seen the global market demand expanding and it has been a little bit of a moving target and clearly, demand has been accelerating. We are currently looking at estimates of 150+ GW by 2030 and of course, there is a scenario where we could go beyond that number, no doubt. So, it is hard to predict as it is indeed a market that is still very much evolving on a global scale. Whether the EU net zero emission ambition for 2050 would allow for a 350 or 400GW market, obviously very difficult for me to predict, it is not something that we have been doing any specific work on but what we do see globally at the moment is that demand, if anything, is only accelerating for offshore wind as more and more governments recognise that it has become a very cost effective technology but also more and more governments begin to realise that it brings a number of significant additional benefits in the former local investments, local job creation etc. and over time also a more independent national energy system. So, I think the benefits of offshore wind are clearly being recognised at the moment. Where it will take us, I am probably not the right person to start guesstimating but we do see it is an accelerating demand, no doubt.

What are the constraints on our side? It is a good question and obviously one that we also spend quite a bit of time on. What we are doing at the moment is we are constantly debottlenecking our own business system to make sure that we can continue to expand the capacity that we can push through our system without losing quality and market development is one area where we are clearly expanding. We are now developing markets in three regions around the world where we used to be only in a couple of countries. The entire EPC capability is being built up both in Asia and the US at the moment so we are going to be running essentially three regional EPC capabilities which is a massive expansion of our total capacity. And at the same time, of course, at the end of the day, we need the capital also, so capital is also going to be a constraint given the massive amount of growth that is available to us when I look 10-15 years into the future. So, our task is to make sure that we move forward, expand at the right pace, maintaining full control of the company but of course, at the same time, reaching out for the massive growth available to us, staying disciplined in our capital spend. So, I don't know if that answers the question, Alberto, but we are on a continued basis debottlenecking

all parts of the business system to allow for more annual build-out than what we have seen historically.

0.55.26

Alberto Gandolfi

That is good and clear. Thank you.

Henrik Poulsen

On the US permitting, indeed, when you move into a new market like the US where you have many, many stakeholders for whom offshore wind is a relatively new phenomenon, it is not unusual that there is quite a bit of education and learning to be done, processes need to be established, different agencies, different stakeholders need to collaborate to find joint solutions and this includes federal agencies, it includes its stakeholders at state level, it's fishing communities, it's local coastal communities etc. so it can be a complex stakeholder environment where everybody is sort of trying to get fully up to speed and that is where we are in the US at the moment. So yes, there is clearly over the coming years a job to be done to continue to align and streamline US permitting processes but I am sure that we will get there. It is not unusual and it's pretty much the same we have been through in other markets that we have been part of maturing over the years.

0.56.45

Alberto Gandolfi

Thank you.

Operator

Our next question comes from the line of Peter Bisztyga of Bank of America Merrill Lynch. Please go ahead.

0.56.53

Peter Bisztyga

Yeah good afternoon. A few questions if I may. Firstly, just going back to this issue of your operational problems in Q2. You list a number of UK offshore wind projects where there are issues with the cables and I was just wondering if there is some sort of type fault here or if it's just coincidence? Then secondly, Siemens Gamesa sort of blew up recently quoting that competition was putting pressure on turbine prices and I was wondering if you could just comment on the sort of trends that you are seeing in turbine cost as you are going through your various tenders? And then finally, I noticed that US is planning a bill to extend ITCs for offshore wind for a few years and I was just wondering whether you can elaborate whether any of your New Jersey or Rhode Island projects will benefit from this or if that is just something that is going to help produce the price for future tenders? Thank you.

0.58.00

Henrik Poulsen

Thank you. On the cable issues in the UK, we do not see a systemic issue. The different issues that we are fixing at the moment are all different in nature from one asset to the other, so it is not like it is one particular issue that cuts across, so we don't see any systemic effects here and these are all issues, I should remind you, of course, that we can fix and they are being fixed at the moment. We would expect many of them to be completed during the third quarter.

When it comes to SGRE, I did notice that they quoted pressure and price pressure when they released their accounts. There is no doubt that competitive intensity in renewable energy is everywhere, I mean there is a tremendous amount of growth to be found globally in green energy, there is a number of players who want to be part of it and when auctions are being used as the allocation mechanism it will in itself drive quite a bit of competitive pressure on the developers who are bidding and obviously, it is our task to pass that pressure on to the supply chain to make sure that they stay on their toes to innovate, to continue to take cost out, to make renewable energy as competitive as it can possibly be and during all of that, while still retaining a value creation margin for ourselves. So, I think it is just a natural part of the evolution of the industry that we see this type of pressure on the developers but also on all other supply chain participants. But I am sure that there will be value to be created, not only by us as developers but also by the supply chain participants. The turbine manufacturers are all looking into a very, very significant long-term growth opportunity in offshore wind.

1.00.00

Marianne Wiinholt

And on your ITC question I could say that yes, we are benefiting from the ITC in our New York and New Jersey recent wins but this extension of the ITC period, it is not something we are counting on yet but of course, it will be very positive if that could also be a benefit to the future potential wins. We are not giving the exact qualification year for each of our projects, that is not the level of detail we have been giving up until now and we will not do that going forward.

1.00.36

Peter Bisztyga

And sorry, just to clarify, if the ITC was extended, would it be extended for the New Jersey projects as well or just for future projects?

Marianne Wiinholt

That would just be future projects.

Peter Bisztyga

Thank you very much.

1.00.59

Operator

Our next question comes from the line of Deepa Venkateswaran of Bernstein. Please go ahead.

Deepa Venkateswaran

Thank you. A few questions from me. So, firstly just on your guidance for the full year. Would you be able to give a range of what you are expecting for offshore wind site guidance for the full year, given you are still expecting some outages for the rest of the year. Second question is you have been...

Henrik Poulsen

Deepa, there is something on your line which makes it very difficult for us to hear you clearly.

1.01.34

Deepa Venkateswaran

Sorry. Is this better?

Henrik Poulsen

Yes, thank you.

Deepa Venkateswaran

Sorry for wasting everyone's time. So, I will go straight to summarise that. So I just wanted to know if you are happy to share a guidance range for just your EBITDA from Offshore Sites given that you are still expecting some outages in Q3 and overall, your guidance for the full year looks on the lighter side, I would say. Secondly, looking at the recent auction wins in the US where you have been totally more successful than what we expected but in your review return empty-handed. What sort of explains this, is it just the competitive dynamics or is there anything else at play? And I think you mentioned also that you were still interested in doing something on green hydrogen in the Netherlands, would this be a separate merchant project or how are you sort of thinking about that or is that much more long-term?

1.02.30

Henrik Poulsen



Thank you very much, Deepa. When it comes to guidance on the site EBITDA, we are not going to be providing that. We feel it simply becomes too granular for us to go down into guidance at that underlying level, so I am sorry but we are not going to be able to provide that.

1.02.46

Deepa Venkateswaran

Could you then maybe at least clarify the impact in the next two quarters from any outages that are continuing?

Henrik Poulsen

Well, I mean, we have today said the 350GWh and the DKK 400 million impact from the first half and we said that a number of these issues are going to persist into the third quarter so that is probably as close as we are going to get, at least I think it gives you an indication as to what we could expect.

Deepa Venkateswaran

Okay.

Henrik Poulsen

When it comes to the US auction wins, again obviously, incredibly encouraging for us not least because it is our impression that these projects have not only been secured on the basis of price but also with the evaluators clearly placing a lot of emphasis on our track record as a very experienced offshore wind developer and EPC company with a strong track record of delivering the projects that we commit and at the same time, I think they also place value on the investments that we are going to make into the local areas and of course, no doubt, I am sure our prices have also been competitive but it is not my impression that we have been winning on price alone and in New Jersey, I think it was even made public that we did not even have the lowest price. So again, obviously for us, that is quite a good outcome.

In the EU, clearly, in France, we were not successful. In the Dunkirk tender, we had a very productive and good collaboration with Total and Elicio but at the end of the day, the winning consortium came in with a price which was maturely below ours which is what it is. It was won at EUR 44, as you know, and that was well below our bid price so that is one of the tenders where you walk away, of course we would have liked to win, on the other hand, we have no regrets with regard to our bidding strategy in France. The same can be said about the Netherlands. Clearly, we had hoped that the innovative proposal we had put forward around green hydrogen, that that would be valued by the assessment panel and also the fact that we had given full certainty on the investment and financing by having our board of directors FID'ing the project upfront but at the end of the day, those criteria did not give us enough points, apparently, to secure the award. Of course, we always, both in France and the Netherlands and elsewhere, where we do not win, we spend a fair amount of time trying to understand exactly why we did not win and also understanding why the awardee, what they did to win the project. So, we will try to extract as much learning as we can but above and beyond that, I

am not overly concerned about it. There are many growth opportunities ahead of us in Europe, we will have auctions and tenders coming up in the UK, Germany, France, Netherlands and Denmark just over the next 24 months so we consider still Europe a core market and a significant long-term growth opportunity. And as part of that, we are still a big believer in green hydrogen as a key piece to the puzzle of building a world that runs entirely on green energy and therefore, we want to support green hydrogen. Some of the markets where we are seeing things moving forward, as you also alluded to, Deepa, is in the Netherlands and in Germany which is also why we are active in those markets and again, we will very much stay focused on green hydrogen to see if we can come up with future business models where we combine offshore wind and green hydrogen production. And thereby, I am also saying that we don't see green hydrogen on a merchant basis, we see green hydrogen in some kind of combination, over time at least, in a combination with our offshore wind assets. We may be running pilots here and there where there will be some merchant exposure but when you look at large-scale deployment, we see it as an integral part of deploying offshore wind capacity.

1.07.28

Deepa Venkateswaran

Thank you.

Operator

Our next question comes from the line of Timothy Ho of Morgan Stanley. Please go ahead.

1.07.37

Timothy Ho

Hi, good afternoon, three questions from me. The first is are the two recent US wins comparable to the 7.5-8.5 percent through cycle IRR guidance for competitively secure processes that you gave at the CMD last year? And a small follow-up on that. Given you are delivering assets at lower capital spend as exhibited to the gain this year is that a potential positive upside risk to that 7.5-8.5% guidance? And finally on farm downs, I know you are only so far communicating about potentially doing one in Taiwan but given the steep let-down in yields, and the significant capacity growth opportunities that you have, could you see that if you are changing it all? Thank you very much.

1.08.24

Henrik Poulsen

Thank you Timothy. On the IRR guidance, we are not going to be putting out a specific number for the US projects. They are included in the portfolio of projects that we guided on at the Capital Markets Day, the 7.5-8.5% we had, the Revolution Wind project in that portfolio. Sorry, Timothy, I am just getting some additional comments on the side... Yeah, okay, sorry, I am getting a little bit of side-advice here from my CFO. So just to be very clear, the Revolution Wind project is in what we guided on at the CMD, obviously at that point we didn't know about Ocean Wind and Sunrise Wind and therefore, they are not in that guidance mix or in that portfolio and as I said earlier, we are not going

to be providing any stand-alone guidance on those projects. It simply becomes too granular for us to manage if we start providing any guidance at a project level, I hope for your understanding on that.

When it comes to lower CAPEX, yes, it is true, we have had some upsides. As Marianne alluded to, Hornsea 1 is progressing quite well relative to our original CAPEX estimate and we also managed to close down some of the projects completely last year where we still had some provisions for what we call snacking, we managed to do that slightly below expected capital spend. I would not extrapolate that into sort of a broader upside to the 7.5-8.5% IRR. We have many, many moving parts in our business cases across this portfolio of projects across regions. So, I would not take one parameter and start extrapolating on that, that would be incorrect as I see it. Timothy, could I have you just repeat the third and final question about capacity expansion? I am not sure I...

1.10.36

Timothy Ho

Yeah, just regarding farm downs, so my understanding is that the only other farm-down you are planning explicitly is in Taiwan and given lower yields, we know that this huge amount of capacity opportunity in the future, the capital recycling could provide the additional capital for... could you see that view changing?

1.10.56

Henrik Poulsen

Yeah. No, it is an absolutely valid question, Timothy, and we do face, as we talked about, a tremendous amount of growth and we have many opportunities. Of course, we still have quite a bit of capacity on our balance sheet to fund the growth over the coming years, the DKK 200 billion estimate that we provided at the Capital Markets Day, if we are going to be in need of additional capital, if there is simply more value-creating growth for us to reach out for, obviously we do have an opportunity to go back and farm down any of the operating assets or some of the projects currently under construction and if we do, if we believe there is a value creation opportunity in doing that, yes, it is clearly still something we are open to.

1.11.47

Timothy Ho

Got it, thank you.

Operator

Our next question comes from the line of Marcus Bellander of Nordea. Please go ahead.

1.11.57

Marcus Bellander

Thank you, two questions, first regarding the outages, it seems many of them are related to cables or transmission infrastructure and I am just wondering if there is any chance you will receive compensation from cable manufacturers or maybe on the contrary, that you will have to compensate the buyers of the OFTO assets because you built those transmission assets?

1.12.24

Henrik Poulsen

Thank you, Marcus. I mean, the outages, some of them are cable related, both array cable and also partly related to the export systems. Other outages have been related to substations, converter stations. Some have also had a turbine component in them even if that is the smaller part of it. So it does cut across different types of components. We generally always use our contractual rights to the full extent towards our suppliers to make sure that they pay for repair campaigns and we obviously also in these cases going back to our suppliers to make sure that they pay what they are obliged to according to contracts and broadly speaking, they are obliged to stand by the quality of the components that they have delivered to us. When it comes to compensation of our partners in the projects, there is no compensation for these types of issues. They live with the operational risk that we have. In that regard, it is a shared risk basis.

1.13.40

Marcus Bellander

Okay, thank you. And my second question concerns the latest five or six auctions. It seems to me at least as if you have won the auctions where price was maybe not the most important factor. Does that concern you at all that you are essentially not competitive on price?

Henrik Poulsen

I don't think you can conclude from that that we are not competitive on price. If we were not competitive on price, I don't think we would have won these auctions. I would actually turn it the other way around and rather than finding it to be a matter of concern, I find it very encouraging to see that we are able to win on non-price factors as well. But I don't think we can win on non-price factors while being downright uncompetitive on price so I would certainly not jump to that conclusion, I think that would be quite a mistake.

1.14.33

Marcus Bellander

Okay, thank you.

Operator

Our next question comes from the line of Sam Arie of UBS. Please go ahead.

1.14.41

Sam Arie

Thank you very much, good afternoon everybody and thank you otherwise for the presentation, very helpful. I got two questions, the first one is on Brexit, I don't think we really had a discussion of that today but I am just wondering now that so-called Hard Brexit starts to be rising in probability, whether you see any risk to I suppose it is the Hornsea 2 construction plan that will be affected, I guess Hornsea 1 will be mostly done by the end of this year but it would be great if we could talk that through because I suppose a risk there, is that a project where you have got the subsidy locked, where the construction cost hasn't gone in yet? So if you could talk about Hornsea 2 and Brexit, that would be one.

And then my second question, and I apologise if this is a bit of a theoretical one but I really want to take advantage to get your view. But with rates and yields where they are at the moment, we get tons of questions now on cost of capital and that's where, you know, you don't ... I don't want you to tell us what you think the cost of capital is and I am not asking. But can you help on a couple of questions as follows? So, the first part is on page 34 of your slides today, you give us an average funding cost of the organisation, I think it's 3.something%, maybe a bit higher if you include the hybrids but on the page after, you show a marginal cost of that which can be much lower, maybe some bonds at 1.5% we have seen of the utilities being 1% not long ago. So when you are bidding for a new project, can you tell us, do you tend to think about your average debt cost which might be 3 or 4% or your marginal debt cost which might be 1 or 2% and then I suppose the flipside to that is when we value the existing projects that you have, I think we all tend to sort of do a cashflow forecast and use a discount rate but some people are marking that discount rate to market when their cost of capital, you know, when rates and bonds yields fall but is that how you think about it for your existing assets? Do you tend to think of your cost of capital for those projects as fixed because it is locked in the funding already or do you tend to think that you should sort of mark to market that WACC if you ever move around in the market? I am sorry, those are two sides of the same coin and a bit of a theoretical question but I think there is very great value if you can just share your thinking on those questions. Thank you.

1.16.55

Henrik Poulsen

Thank you for the questions, Sam. I will start out on the Brexit question. We have been spending a lot of time working through the different Brexit scenarios including a no-deal Brexit and the supply chain implications it may have. It has mostly involved us actually going out to suppliers and talking to them about what their contingency plans are that would allow them to deliver all components for Hornsea 2 even in a no-deal Brexit and that has given us a good level of comfort that we will be able to complete not only Hornsea 1 but also Hornsea 2 without any major disruptions from Brexit.

1.17.44

Marianne Wiinholt

Yes, and on the other question, on the cost of capital, it's a very good and very valid question. As we have talked about before, both the WACC and the CAPEX is the most sensitive information when it comes to the competitive auctions and tenders so of course, we have a very clear methodology

which we use but I would actually not share that with you because that is too sensitive for us. So unfortunately, I cannot share it with you, Sam.

1.18.15

Sam Arie

So, no discussion even in principle?

Marianne Wiinholt

No, not really, because if I do that, I actually give you the answer so that's the problem.

1.18.23

Sam Arie

Okay, well I leave out further questions on that. Perhaps just a very quick follow-up on Hornsea 2 then, if you don't mind. I think your answer was you don't expect any disruption but should we expect that your build cost will increase significantly if we go to, you know, look at the... in fact looking at a higher CAPEX in other words?

1.18.40

Henrik Poulsen

For Hornsea 2 or beyond Hornsea 2?

Sam Arie

For Hornsea 2 in particular and I suppose future projects you would bid based on what you expect the cost will be post Brexit but here is one where you have got revenue locked in that cost could now go up.

Henrik Poulsen

We do not expect any material impact on Hornsea 2, that is by and large fully locked in by now and when it comes to future projects, we will have a fair amount of visibility, I would assume at least, on the implications of Brexit once we participate, expectedly at least participate in the next CfD round in 2021. There, of course, we would have to take account of any potential increases in our sourcing for the UK projects.

1.19.28

Marianne Wiinholt

Yeah, and for Hornsea also, the currency part of it is also locked in due to the hedging policy we have, so we will not be hit there.

Sam Arie

Of course. Okay, very clear, thank you.

Operator

Our next question comes from the line of Jenny Ping of Citi. Please go ahead.

1.19.47

Jenny Ping

Hi, thank you for taking my questions, I have got three. Firstly, can you give us an update for especially the Japan and the South Korea auctions coming up in terms of where you are relative to some of the competitors that have already formed JVs and entered that market with floating technology where you are on floating, what are your latest thoughts on that would be helpful. Secondly, going back to the non-compensated curtailment issues specifically looking at Germany. It looks like basically you get or the TSO has a 28-day allowance of not paying you every year. Can you firstly give us the run-rate on how, what utilisation, what the take-up of that 28 days has been from the TSO and whether we should think about that being fully utilised going forward just because we have more and more renewables coming on to the system and they can essentially ask you to switch off if there is too much wind and solar.

And then lastly a question for Marianne on the accounting aspect. It looks like you have released, had a provision released from the farm down of 50% of your Walney Extension OFTO assets. Do you expect future provision releases to come through, especially given rates have fallen for the assets such as the Hornsea 1 and Hornsea 2 which are obviously quite sizable? If you can comment on that, that would be helpful as well. Thanks.

1.21.38

Henrik Poulsen

Thank you Jenny. When it comes to Japan and South Korea, we see the Japanese government providing more and more visibility on sort of a regulatory framework for offshore wind buildout. We still don't have the exact auction design, we don't have the exact timeline either, but our current expectation would be that there will be the first auction in Japan during the summer of next year. They have designated these 11 zones that are suitable for offshore wind development and out of the 11, four have been selected to be the first movers so we would expect those four areas clearly to be part of an initial auction, presumably next year. In those four areas, we are actively focusing on the Choshi zone in collaboration with TEPCO where we signed the MoU earlier this year and we are now in a joint process with TEPCO in developing an offshore wind project in the Choshi zone, hopefully we should be able to then join a Japanese auction next year. In South Korea, we do not yet have that same level of visibility. There is a lot of work going on between government and some of the local players to basically establish a framework for offshore wind buildout and we are closely monitoring the market and looking at any potential opportunities that may come up for Ørsted so we are staying close to it. That is also the case for floating. We are closely observing all opportunities

around the world for floating offshore wind and staying close to both the market development and the technological development in floating to make sure that if there is an opportunity where we should act, that we would be ready to do so. But for the time being, we are not actively pursuing any floating projects.

When it comes to the German non-compensated curtailment, what you alluded to relates to grid outages where the grid operator has an annual cap of 18 days per year that they can spend on unplanned grid disruptions and then they have another 10 days for planned grid maintenance, adding up to the 28 days that you alluded to. Whether they will be spending the full amount of planned and non-planned time every year is very difficult to predict. My impression is that in some years, they will be maxing out more or less but in other years, they will not be using the full cap on both planned and un-planned grid outages.

1.24.54

Marianne Wiinholt

Yes, and then to your question on the OFTO release of provision. Yes, you are right, we released provisions related to both Race Bank and Walney Extension in this quarter. The remaining OFTO we have is Hornsea 1 and Hornsea 2 and Hornsea 1 we expect to divest in 2021 and Hornsea 2 even later, so it is too early to say in a way how the interest rate environment and everything will be then. So therefore, in a way, we don't know and we keep things unchanged for those assets.

1.25.35

Jenny Ping

Thank you

Operator

Our next question comes from the line of James Brand of Deutsche Bank. Please go ahead.

1.25.42

James Brand

Hi, good afternoon. Most of my questions have been answered to be honest so I just had a couple of relatively minor ones but the first is just on some of the operational issues that you have had this year that have impacted production, whether we should be, whether you are or have spent a significant amount of CAPEX sorting out those problems. And I guess some of that, as you answered to an earlier question, might be able to be compensated by your suppliers but whether you are spending a significant amount of CAPEX or whether it is all just coming through as OPEX? And the second one is you mentioned the green bonds that you have raised. I was wondering whether you could tell us the terms for the Taiwanese green bond? I am just curious what your funding cost was in local currency in Taiwan. Thanks.

1.26.32



Henrik Poulsen

Thank you. We have limited CAPEX spend on these outages traditionally as they are mostly picked up by our suppliers. We will have some spend on the London Array cable repair campaign but broadly speaking, this is typically spend that will be picked up by the suppliers of the malfunctioning components. When it comes to OPEX, it is a relatively minor item, it is included in the DKK 400 million EBITDA impact that I alluded to earlier but it is a relatively small part of that number. The vast majority of the 400 million are lost revenues.

1.27.19

Marianne Wiinholt

Yes and then to the question on the green bond in Taiwan. We expect to approach the market this autumn so for now in a way, we don't know where we will end on the interest rate for the Taiwanese bond. But we see a lot of interest and we think that we will be able to make an attractive financing package there.

James Brand

Okay, great. Thank you.

Operator

Our next question comes from the line of Mark Freshney of Credit Suisse. Please go ahead.

1.27.54

Mark Freshney

Hi, thanks for taking my questions. Firstly on the DKK 200 billion CAPEX plan or outlook through to 2025, my numbers they are still.. onshore is mostly, you know you have got projects to take up the share there, but there seems to be an amount still of DKK 20-30 billion uncommitted of scope for investments and I think on your slide, Henrik, your CMD last November, you flagged the potential for the acquisition of a European onshore wind platform. How do you feel about that and what are the other types of investment opportunities that you see? For example, would you consider investing more in North American onshore or maybe buying into projects in Europe and increasing the 2025 target? My second question is just on the benefit, if you would like, the extra DKK 1 billion benefit through EBITDA from partnership profits. Is it fair to say, Marianne, that there is an extra billion benefit to yourselves through lower CAPEX through not spending as much on your own share of the projects, i.e. that impact should be doubled? Thank you.

1.29.28

Henrik Poulsen

Thanks, Mark. On the DKK 200 billion toward 2025, you are right, I mean we don't have fully committed that entire spend by now. In terms of where it is going to be spent, the remaining part, I

mean, we are obviously only going to spend the money if we can find profitable opportunities but I do believe that we will be able to do so. Whether it is going to be in offshore or onshore and in what region, hard to predict, a lot of it is going to come down to the outcome of auctions over the next 1-2 years. When it comes to onshore, in Europe we do not have any active plans to make a European onshore acquisition. Again, I don't want to box ourselves in by ruling it out categorically and say it could never happen, I think that would be wrong but I can say that we are not in any active processes to acquire a European onshore asset. We are extremely happy about the US onshore business and its performance and the growth that we are able to find at the moment and if anything, we could potentially continue to further expand that business which currently is generating quite good value opportunities for us.

1.30.42

Marianne Wiinholt

Yes and then on your DKK 1 billion additional partnership gains. There are three components to this approximately 1 billion. It is the lower spend on Hornsea 1, it is these Walney Extension and these leftovers from the projects we completed in 2018 and then you have these OFTO divestments. The two first of them, yes, that is right, from a cash flow perspective, you can double them but not the OFTO part because for our own share, the OFTO is, even if we get more cash flow upfront, we pay it through higher tenures or the opposite if we get lower cashflow, we pay it through higher tenures. So that is a zero game on the OFTO but in the two others, you are right.

Mark Freshney

Okay, thank you.

Operator

Thank you. Our last question comes from the line of Iain Turner of Exane BNP Paribas. Please go ahead.

1.31.41

Iain Turner

Last but hopefully not least, can I just ask you about when you expect to take FID on those two US projects that you have won and what you need to do between now and then to achieve that, please?

1.31.57

Henrik Poulsen

Yes, you know, I cannot give you the exact FID timing. What we need is essentially we need a construction and operations plan to be approved by BOEM and that is going to take a while. It is a relatively comprehensive permitting consenting process that we are going to go through and once we have that and we have a matured supply chain concept, we are going to be putting the business

cases in front of the board for final investment decision. But at this point, I cannot give you an exact timing but it is going to take us a while to get the FIDs done.

Iain Turner

Thank you

Operator

There are no further questions. Please go ahead, speakers.

Henrik Poulsen

Alright. Thank you everyone so much for joining and thank you for all of the excellent questions, much appreciated. Have a continued great day.