

**Ørsted A/S****Transcript: Conference call****Date & time: 08 October 2018 at 10.30**

Welcome to the Ørsted conference call. For the first part of the call, all participants will be in listen-only mode and afterwards there will be a question and answer session. Today's speakers are CEO Henrik Poulsen, CFO Marianne Wiinholt and Offshore Wind CEO Martin Neubert. Speakers, please begin your meeting.

Henrik Poulsen

Yes, thank you very much. Good morning everyone and welcome to this call. As you have seen this morning, we announced that we have entered into an agreement to acquire 100% of Deepwater Wind which, as you know, is a leading US offshore wind developer at a purchase price of US\$ 510 million and an enterprise value of US\$ 700 million, the difference relating to project financing in the Block Island project company. We are very excited about this acquisition and with today's transaction we are combining Deepwater Wind's longstanding expertise in developing and permitting offshore wind projects in the US with Ørsted's unparalleled track record in global offshore wind development EPC and O&M. The acquisition and merger of Deepwater Wind's activities and organisation into Ørsted's US offshore wind business creates the leading North American offshore wind platform. It will by far have the most comprehensive geographic coverage with presence in eight states, the largest development capacity with approximately 8 GW and it has proximity to a number of attractive key load centres on the East Coast. Finally, it will be the strongest offshore wind capability in the US with around 75 highly skilled employees across all functional disciplines.

Deepwater Wind has in recent years built an attractive portfolio of offshore wind projects along the US East Coast. The portfolio consists of 30 MW of operational capacity at Block Island, 810 MW of capacity with long-term revenue contracts either in place or currently under negotiation for build-out in 2022 and 2023. And then they have up to 2.4 GW of attractive development capacity. We see this as an investment case with a healthy value creation spread on top of our cost of capital based on the current portfolio of projects. This stand-alone return level is slightly lower than what we expect to achieve from the recently completed acquisition of Lincoln Clean Energy, but the significant strategic upside that the acquisition of Deepwater Wind offers fully compensates for this. I will revert to this strategic upside a little later.

Today's announcement consolidates Ørsted's position as the global market leader in offshore wind with a strong foothold across Europe, North America and Asia-Pacific. The

transaction is subject to clearance by the US competition authorities and we would expect it to close before the end of this year.

This announcement does not change our EBITDA guidance for 2018 but it does increase the CAPEX guidance from currently DKK 16-18 billion to now DKK 23-25 billion. The CAPEX guidance includes the acquisition price of Deepwater Wind. It includes early CAPEX commitments for the US offshore and onshore wind portfolio in the 4th quarter 2018 to secure tax credit qualification as well as increased spending in the remaining construction portfolio due to timing so a shift from 2019 into 2018.

If we move on to the next slide on slide 4, I will go into more details on the Deepwater Wind portfolio of projects. Deepwater Wind has built a geographically diverse portfolio of offshore wind projects along the US East Coast with a total potential capacity of more than 3 GW. It basically comprises, as I mentioned, the 30 MW Block Island wind farm with interconnection to Rhode Island. The wind farm was commissioned in December 2016 and it is the only operational offshore wind farm in the US. Block Island has a 20-year PPA with an initial price of US\$ 236 per MWh in the first year and then a 3.5% yearly price escalator.

The 90 MW South Fork project which expectedly will be commissioned in late 2022 is part of the Massachusetts lease and will interconnect into Long Island, New York. The project has signed a 20-year PPA with the Long Island power authority.

The 120 MW Skipjack project off the coast of Maryland and Delaware – this project is expected to be commissioned at the end of 2022. The project has signed a 20-year Revenue Contract with a price of US\$ 171 per MWh in the first year and a 1% yearly price escalator for the next 20 years. This project will deliver green power to the residents of Maryland.

Then we have the 600 MW Revolution Wind project which is part of the Massachusetts lease area. The project has been awarded and it is currently negotiating two separate long-term PPAs with Connecticut for 200 MW and Rhode Island for 400 MW, respectively. The expected commissioning of Revolution Wind is in 2023.

Additionally, the transaction will bolster our development pipeline with an additional gross capacity of roughly 2.5 GW of attractively situated development capacity. 1.3 GW of this capacity is situated adjacent to the Revolution Wind and our own Bay State Wind lease areas in Massachusetts and then there is a 1.2 GW development area in the Garden State offshore wind energy project. This is a 50/50 joint venture with the PSEG a leading New Jersey utility and it is situated off the coast of Delaware and New Jersey.

The Garden State project is also located fairly close to our Ocean Wind project. The development stage nature of the three awarded projects offers a significant potential for Ørsted to realise EPC and O&M synergies. Furthermore, the Deepwater Wind portfolio of assets creates a significant strategic upside in combination with Ørsted's portfolio of development assets. We see significant scale effects by combining Bay State Wind and the acquired Revolution Wind projects as well as Deepwater's development capacity in the same Massachusetts lease area.

Our Ocean Wind project and the acquired Garden State wind development project will create a very strong platform for long-term growth in the Mid-Atlantic region.

If we move on to slide 5, we are very excited about the prospect of merging the two management teams and organisations. Deepwater Wind has done a fantastic job as a first mover and a pioneer in US offshore wind and the merger will create a very strong and market leading platform. The organisation in Deepwater Wind will contribute with in-depth knowledge and experience on market development, permitting, stakeholder engagement and supply chain development at a state-by-state level.

Furthermore, they will provide experience in offtake agreements and securing a monetising federal tax credit for an offshore wind project via a tax equity structure.

Ørsted will have the opportunity to take a leading construction role in the US and capture first mover advantages through the delivery of the US's first wave of utility scale offshore wind projects. In addition, the development stage of the portfolio provides Ørsted with the opportunity to utilise our extensive EPC and O&M experience.

With the combined capacity and organisation, Ørsted US Offshore Wind will create a leading platform that will be able to deliver clean energy to the seven states on the US East Coast that have already committed to build more than 10 GW of offshore wind capacity by 2030. Furthermore, we will have the largest pipeline of development capacity with a combined gross ownership interest of approximately 8 GW providing Ørsted with a number of opportunities in the upcoming auctions in New Jersey, New York and Massachusetts.

We have exciting times ahead of us delivering large-scale clean energy projects to households and businesses on the US East Coast. Ørsted will maintain a strong presence in

Massachusetts and Rhode Island and will of course honour the local commitments associated with Deepwater Wind projects along the East Coast.

After closing of the transaction, the name of the new organisation will be Ørsted US Offshore Wind. The new organisation will be led by a local management team headed by Ørsted's US Offshore Wind CEO, Thomas Brostrøm, Co-CEO Jeff Grybowski, CFO David Hang, both from the Deepwater Wind team, and then COO Claus Bøjle Møller from the Ørsted team.

Should the transaction close prior to our Capital Markets Day on 28 November, we will take that opportunity to provide additional information about Deepwater Wind and our new platform in US offshore wind.

We are both pleased and very excited with the unique US platform for long-term growth created by the acquisitions of first Lincoln Clean Energy and now Deepwater Wind. And on that note, we will open up for questions, please.

0.10.48

Operator

Thank you. Ladies and gentlemen, if you do have a question for the speakers, please press 0 and then 1 on your telephone keypad now and please hold until we have the first question. And the first question is from the line of Jenny Ping from Citi. Please go ahead, your line is now open.

0.11.11

Jenny Ping

Hi, good morning. A couple of questions from me. Firstly, just on the South Fork asset. Did you mention a price there? Together with that the Revolution Wind, the 600 MW, can you give us a sense of timing where you are in the negotiation process and then very lastly in terms of CAPEX you have given us the guidance for the full-year 2018. Can you at this stage give us a flavour for a full-year 2019 and 2020 perhaps? I appreciate the ..

0.11.52

Henrik Poulsen

Thank you, Jenny. When it comes to the price for the South Fork PPA with the Long Island power authority, this is not a publicly available number and that is simply part of the PPA agreement with LIPA that this is not being made public. So that is something we are unfortunately not in a position to share that number but obviously that has been the basis of our valuation of that particular project but it is not public. When it comes to Revolution Wind and the two PPAs currently being negotiated, we would expect both of those PPAs to be signed before the end of the year and at that point we should get a public visibility on the strike prices. When it comes to CAPEX guidance for 2019 and 2020, this is not something we are ready to communicate at this point. We will stick to CAPEX guidance being on a one-year basis so only covering the current year.

0.12.53

Jenny Ping

Thank you

0.12.57

Operator

And the next question is from the line of Kristian Johansen from Danske Bank. Please go ahead, your line is now open.

0.13.05

Kristian Johansen

Yes, thank you. A couple of questions. Firstly, in your changed CAPEX guidance, you give three reasons. Two relate to the acquisition. The last one you say you move forward CAPEX. Can you just elaborate a bit on what exactly is driving that and along that, does that have any impact on your earnings from construction contracts which you back in August said were going to be fairly limited here in the second half?

0.13.33

Marianne Wiinholt

On the first question on the changed CAPEX guidance, the timing I guess that is where you want some additional insight. We have big milestone payments, both when it comes to our supplies and also when it comes to our farm downs and this is just a changed timing of some of these milestones so there is nothing that increases the full CAPEX on the project. It is just purely timing.

0.14.04

Henrik Poulsen

And for the same reason, Kristian, we do not really expect any material change to our earnings from construction projects on that basis. This is simply a shift from January into December.

0.14.19

Kristian Johansen

Okay, that is very clear then my other question was just on Revolution Wind primarily, will you consider a farm down model for this project?

0.14.29

Henrik Poulsen

That is too early to say, Kristian, we will now, you know, post closing we will obviously be diving deeper into exactly how to take the project forward so a partnership strategy for Revolution Wind is yet to be explored.

0.14.48

Kristian Johansen

Great, thank you. That was all from me.

0.14.55

Operator

And next question is from the line of Sam Arie from UBS. Please go ahead, your line is now open.

0.15.03

Sam Arie

Hi, and thank you very much. I just wanted to ask a question about, I mean, to help us think about the economics of the new projects that you have acquired and I know you are

not going to give us any specific numbers. That's fine. But can you just confirm, is it part your business case in this acquisition that you can develop the assets at a lower cost than Deepwater Wind could have done without you? So in other words, although you are paying to acquire equity you are also probably adding value to the project by bringing your own cost base effectively. Is that the right way to think about it?

0.15.38

Henrik Poulsen

I would say at least, the way to think about it is that it is a highly complementary acquisition in the sense that Deepwater Wind has done an outstanding job in developing this portfolio of projects. Obviously, we do bring in a much bigger EPC capability and much more experience than it has been possible for Deepwater Wind to accumulate given our global track record and our experience from Europe so we do see a lot of complementarity and in that complementarity we obviously also see quite a bit of value creation potential. So that is obviously one of the key value creation drivers in this transaction.

0.16.23

Martin Neubert

..to add, we can – the timing of the three near-term execution projects being Skipjack, South Fork and Revolution Wind works in a way with this transaction that we can actually leverage all our EPC and EPC capabilities and especially to realise these projects in time for 2022 and 2023 delivery so this is very creative in terms of leveraging and bringing our strong capabilities to force here. So, timing works well.

0.16.59

Sam Arie

Okay, very helpful, thank you

0.17.00

Henrik Poulsen

Sam, you made the point about the visibility on the prices. Let me just clarify again and repeat that out of the five projects that we are talking about in total here, you have prices today on Block Island and Skipjack. The South Fork price will not become public information and we hope before the end of the year you will have full visibility on the strike prices for Revolution Wind, both the 200 and the 400 MW PPAs.

0.17.30

Sam Arie

Okay, we will look forward to that. Thank you and congratulations for today.

0.17.33

Henrik Poulsen

Thank you

Operator

And just as a reminder, if you have any further questions, please press 0 and then 1 on your telephone keypad now. And next question is a follow-up from Kristian Johansen from Danske Bank. Please go ahead. Your line is open.

0.17.55

Kristian Johansen

Yes, thank you, just a follow-up here on the projects you are acquiring, can you just remind us or tell us the level of tax credits these projects have qualified for?

0.18.12

Henrik Poulsen

We have obviously made assumptions as to the type of tax credit qualification that we will be able to achieve for the projects and that is very much built into our procurement strategies for each of the projects going forward. I don't think we are at a point where we want to become granular project by project exactly what those assumptions are but as we did allude to, we would expect to start spending CAPEX on some of these projects already in Q4 which is part of why we have changed the guidance for 2018 CAPEX.

0.18.42

Kristian Johansen

Okay, let me ask in this way: Would it be fair to assume that I mean Block Island and South Fork, Skipjack and Revolution Wind will all be receiving some sort of tax credits?

0.18.54

Henrik Poulsen

Yes, I think that is a fair assumption to make, Kristian, absolutely.

0.18.58

Kristian Johansen

Great, thank you.

0.19.02

Operator

And next question is from Iain Turner from Exane. Please go ahead. Your line is open.

0.19.07

Iain Turner

Good morning. Can I just ask on these three near-term projects when you think you will take FID on them, please?

0.19.19

Henrik Poulsen

The specific FID timing is yet to be determined. Again, we would take some time between signing and closing to start working through these things. You have to bear in mind that until closing, there is a limit to how much we can do here in terms of integrating the companies. We have to continue to operate as two separate companies and essentially keep things apart so we are going to need a little bit of time post closing to get in full agreement with the Deepwater Wind and the new merged team in the US as to exactly when they will be ready to bring them forward to our investment committee for FID. We should, subject to closing taking place prior to Capital Markets Day – I would expect us to be able to give you a little more granularity on that topic when we meet for the Capital Markets Day.

0.20.12

Iain Turner

But you are potentially spending on them in Q4, would that be potentially ahead of FID?

0.20.18

Henrik Poulsen

It is not unusual that we have certain types of spends long-lead items prior to the Final Investment Decision. That has been the way we have been developing projects actually for many, many years now so that in and of itself is not an unusual practice for us.

0.20.34

Iain Turner

Okay, thanks very much. Very clear.

0.20.37

Operator

And next question is from the line of Klaus Kehl from Nykredit Markets. Please go ahead. Your line is open.

0.20.45

Klaus Kehl

Yes hello, Klaus Kehl from Nykredit Markets. One question. I had some technical problems so I am not really sure whether you have already talked about this. But anyway, could you give us any kind of indication about CAPEX or the expected CAPEX per MW on the three near-term projects? Or secondly, potentially, could you talk about whether there will be materially different CAPEX per MW compared to Northern Europe? That would be my questions.

0.21.18

Henrik Poulsen

Thank you, Klaus. We are not commenting specifically on our CAPEX per MW expectation for given projects or for the US specifically as we consider that too sensitive information from a competition point of view at this point so that is not information we can share with you publicly.

0.21.40

Klaus Kehl

Okay, fair enough. Thank you.

Operator

And next question is a follow-up from Sam Arie from UBS. Please go ahead, your line is now open.

0.21.50

Sam Arie

Hi, thank you, yes, apologies but I sensed there weren't so many questions so I would just come back with a follow-up not specifically on your transaction announced today, but there is a report from the UN Climate Change Panel today stressing again the extent of the challenge for the energy system of addressing climate change and they talk about renewables rising to 85% of global power by 2050 and the need for between US\$ 2 and 3 trillion of annual average impact we need in the energy system from now to 2035 so that gives me a sense of a really kind of a tipping point. I wanted to check if you have the same feeling from the industry point of view that we are getting to the tipping point and the point of acceleration in demand and secondly, I just wanted to cross-check with you, you know, if there really is acceleration of demand, factoring in the deal today, what do you now think would be your maximum capacity for annual additions in the business? What could you actually build if demand was there for it? Thank you.

0.22.58

Henrik Poulsen

Those are obviously quite good and strategic questions, Sam. I have been reading the summary of the Climate Change report this morning, actually. I do believe it just sort of accentuates what is becoming fairly firm knowledge for everyone on the planet, which is that we face a very, very serious challenge here. The challenge is not going to go away, in fact it is only getting worse and it calls for some pretty dramatic action and as time goes by, the need for action only goes up and there is in our view no doubt that we need to accelerate the transition to fully sustainable energy systems worldwide. We also do sense that the political momentum is quite strong but we still need to see further acceleration also through political leadership. There has been clearly an inflection point in the industry in the sense that we can now say that the cost of green energy is fully competitive with black energy and as such there is no economic reason for not accelerating the transition to green energy and we also do see that happening. When you take offshore wind, there is

no doubt that the total expected growth over the next 10-15 years in offshore wind has only been going up over the past couple of years. This goes both for Europe, Asia-Pacific and not least the US as you also saw on the last slide in the deck that we sent out today, so yes, we do see a clear acceleration in demand and I am not sure that we have seen the final acceleration. There could be further growth momentum in renewables over the coming years. Where that leaves us remains to be seen. Obviously, an acceleration of demand should allow also for long-term healthy demand and supply balances in the industry and we are obviously looking into how we can expand our annual build-out as we look further into the future and this is another topic that we potentially might touch on at the Capital Markets Day. Exactly how much we could build is not a number that I want to release today. But obviously, we are looking into how we could play our role in accelerating the journey towards an energy system powered by renewables.

0.25.24

Sam Arie

Okay, thank you. We will hopefully have some more discussion at the CMD.

0.25.33

Operator

And there are currently no further questions registered so I will hand the call back to the speakers. Please go ahead.

0.25.38

Henrik Poulsen

Thank you all very much for joining this call at short notice. And any further questions, don't hesitate to put them back to the IR team and we will do our utmost to come back to you ASAP. Have a continued good day.