

**Company announcement
No. 28/2019**

Ørsted presents update on its long-term financial targets

At our Capital Markets Day on 28 November 2018, Ørsted presented a number of long-term financial targets. These targets are based on estimates of capital and operational expenses, production forecasts, outcome of offshore auctions, expected long term power prices, interest rates and other factors that are all inherently dynamic and subject to uncertainty. Given the combined impact of an adjustment of our offshore wind production forecasts and certain key positive and negative developments since the Capital Markets Day, as described below, we will give an update on the long-term targets.

On the negative side, three factors have added pressure on our long-term targets. The first factor relates to our offshore production forecasts.

We have been running a comprehensive project, which was finalised and presented to our Board of Directors today, to upgrade the models and processes we use to forecast the energy production from our offshore wind farms based on our access to extensive production data from our asset portfolio. The project has involved advanced analysis of a long list of variables impacting our production, and we have developed new proprietary models to forecast our expected energy production.

The project has led us to conclude that our current production forecasts underestimate the negative impact of two effects across our asset portfolio, i.e. the blockage effect and the wake effect.

The blockage effect arises from the wind slowing down as it approaches the wind turbines. There is an individual blockage effect for every turbine position and a global effect for the whole wind farm, which is larger than the sum of the individual effects. Our new wind simulation models show that we have historically underestimated these blockage effects. This finding is also supported by industry consultant DNV GL's recent report on blockage, which indicates that this effect is more broadly underestimated.

The second effect is the wake within wind farms and between neighbouring wind farms. There is a wake after each wind turbine where the wind slows down. As the wind flow continues, the wake spreads and the wind speed recovers. This effect, with wind turbines shielding and impacting each other, has been subject to extensive modelling by the industry for many years, and it is still a highly complex dynamic to model. Our results point to a higher negative effect on production than earlier models have predicted.

The Ørsted vision is a world that runs entirely on green energy. Ørsted develops, constructs and operates offshore and onshore wind farms, bioenergy plants and provides energy products to its customers. Headquartered in Denmark, Ørsted employs 6,500 people. Ørsted's shares are listed on Nasdaq Copenhagen (Ørsted). In 2018, the group's revenue was DKK 76.9 billion (EUR 10.3 billion). For more information on Ørsted, visit orsted.com or follow us on Facebook, LinkedIn, Instagram and Twitter.

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With respect to wake effects between neighbouring wind farms, we are in the process of developing a new model capable of more accurately predicting wake effects over longer distances. We have, among other things, leveraged a first-of-its-kind advanced radar system collecting three-dimensional data on the wind flow. The new model, which is still being refined, suggests a slower wind speed recovery and higher wake effects. At the same time, we have now factored in a more extensive offshore wind build-out in the different basins, which will increase the wake effect from neighbouring wind farms. As the global offshore wind build-out accelerates, the whole industry will see higher wake effects from neighbouring wind farms.

Over the years, we have benchmarked our internal production estimates against third-party views from industry experts. In comparison, most third-party production estimates have been trending towards a more positive view than ours. Therefore, we believe that underestimation of blockage and wake effects is likely to be an industry-wide issue.

While there is still uncertainty involved, it is clear that the production forecast adjustment arising out of our analysis has a negative effect on our financial estimates (see status below).

The higher-than-forecasted blockage and wake effects have also been embedded in our actual historical production numbers, but they have been captured in more broadly defined deviation buckets, such as wind contents, availability, curtailments and effects of ramp-up of new capacity being either behind or ahead of schedule. We have until now not had the data and the advanced analytics models to do a more granular breakdown of the production deviation. The new tools leveraging all our production data, including large new assets built over the past couple of years, have given us more detailed insight into the blockage and wake effects and other underlying production impacts. It is this analysis that has led us to conclude that the blockage and wake effects have been underestimated.

While the production adjustment is negative we are convinced that Ørsted's access to data and advanced analytics will be a driver of our long-term competitive advantage. We will, of course explore how the recent findings may translate into improvements to our design and layout of future wind farms.

The second key negative development since the Capital Markets Day is the lower feed-in tariff in Taiwan, where we had to accept a 6% reduction and a cap on full-load hours for our Changhua 1 & 2a projects. Thirdly, we

have raised the CAPEX estimate for the Deepwater development portfolio in the US, mostly related to the transmission assets.

In terms of positive developments since the Capital Markets Day, we now expect slightly lower capital expenses on some of our construction projects. Secondly, lower interest rates have led to lower return requirements on our offshore transmissions assets in the UK, which leads to lower transmission charges. Thirdly, we have seen higher than budgeted availability on one of our newer wind turbine platforms, which positively impacts some of our assets.

Fourth and finally, in addition to the ongoing optimisation of our projects, we are taking measures to reduce our annual overhead cost base by DKK 500-600 million between 2020 and 2022, recognising that tight cost control remains an imperative in a competitive market environment. Roughly half of the cost reductions will be fall-away costs relating to the simplification of our structure following the divestment of our Danish downstream assets, and half will come from reductions across our staff functions, both internal and external spend.

The combined impact of these key developments since the Capital Markets Day leads to the following status on the long-term financial targets:

- Average growth in site EBITDA: ~20% for 2017-2023. Unchanged
- Average return on capital employed (ROCE): ~10% for the period 2019-2025. Unchanged
- Unlevered lifecycle IRR, capacity-weighted average for seven named offshore wind projects won in competitive tenders (Borssele 1 & 2, Hornsea 2, German Cluster 1, Gode Wind 3 & 4, Greater Changhua 1 & 2a, Greater Changhua 2b & 4 and Revolution Wind). The target is reduced from 7.5-8.5% to 7.0-8.0%
- Share of contracted and regulated EBITDA, average 2019-2025 of ~90%. Unchanged.

Lifetime load factor of 48-50% for a defined European offshore wind portfolio and construction and development projects is reduced to around 48% due to the adjustment of production forecasts.

The CAPEX and OPEX multiples communicated at the Capital Markets Day remain unchanged.

The information provided in this announcement does not change Ørsted's previously announced financial outlook for the 2019 financial year or the expected investment level announced for 2019.

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