

Ørsted A/S

Transcript :: Q3 2017 results :: 2 November 2017

Welcome to this call for the Ørsted Q3 2017 results. This call including Q&A will end no later than 11.30. I now hand over the word to CEO Henrik Poulsen. Please go ahead.

Henrik Poulsen

Thank you and good morning everyone and welcome to this Q3 presentation. As always, I am here today with our group CFO Marianne Wiinholt.

We continue to make very good progress strategically and operationally and 2017 continues to develop according to our expectations. As you know by now, yesterday we signed the final agreement on the divestment of 50% of Walney Extension to Danish pension funds PKA and PFA. The farm down fully confirmed our expected value creation in the project and moreover the agreement resulted in a different distribution of the partnership income between 2017 and 2018 than what we had previously expected with more income moving into 2017. We therefore yesterday also raised our outlook for the group's operating profit for 2017 to DKK 19-21 billion. This corresponds to an increase in the underlying result of 32-45% compared to 2016. We decided to maintain a DKK 2 billion range in our guidance – the exact timing of partnership income in Wind Power, operational performance across our asset portfolio, potential disruptions to one or more of the assets and market conditions represent the swing factors in this range. We did consider narrowing the range to DKK 1 billion but the downside part of narrow range becomes a bit too tight if you want it to be robust, which we do. You also have to bear in mind that the biggest swing factor often will be the shift of partnership income into the following year, in this case into 2018. This uncertainty is just as big in Q4 as it was in Q1.

Coming back to the Walney transaction, it does indeed confirm the strong interest that we continue to see among large institutional investors around the world in partnering with Ørsted in on our large-scale offshore wind projects. We continue to see a strong demand for these assets.

Q3 was also in line with our expectations. Partnership income in wind power was below Q3 last year due to quarterly fluctuations whereas the income from operating wind farms continues to grow at high rates. In Q3, profits from the spinning wind farms increased by 39% compared to the same quarter last year. We did not close the Borkum Riffgrund 2 farm down in Q3 as assumed by many analysts in the consensus forecast but we still expect it to close this year and as announced the same goes for the Walney Extension farm down.

Now let us move into the presentation where I will just comment on the broader transformation of the company as well as our construction programme and the market development in Wind Power.

As I am sure you all noticed, we have formally changed our company name to Ørsted at an extraordinary general meeting earlier this week. With the recent completion of the O&G divestment we have come a very long way in fundamentally transforming our company from black to green energy. Therefore, the time had come to replace the DONG Energy name which no longer reflects the company that we have become. The sale of Oil & Gas marks the single biggest and last major step in the strategic refocusing of our activities since 2012. The transaction results in a divestment gain of DKK 2.2 billion and a reduction of our net debt by DKK 4.6 billion. Decommissioning liabilities of DKK 7 billion have been taken over by the buyer INEOS. I am very pleased with the outcome of the transaction and the strategic clarity it brings to both Ørsted and the divested Oil & Gas business.

Our company, Ørsted's vision is a world that runs entirely on green energy. This is a vision deeply rooted in what we do and who we are as a company. We do truly want to be a company that provides real tangible solutions to one of the world's most difficult and urgent problems. Today we have close to 60% of green energy in our portfolio and we expect that number to go above 80% by 2020 and to more than 95% by 2023.

The inspiration for our new name, as you probably know, comes from Hans Christian Ørsted, one of Denmark's leading scientists of all times. He was a fairly impressive, curious and entrepreneurial gentleman and his discovery of electromagnetism helped lay sort of the scientific foundation for the way we generate power today.

If we move on to slide 3 for an update on the key construction projects in progress around the company.

The construction of our offshore wind farms is generally going according to plan. The Race Bank project is progressing very well. 72 out of 91 turbine positions have been completed and we have seen very high availability on the turbines during the first few months. We expect commissioning of the asset before the end of the first quarter next year. Walney Extension reached the first power during the third quarter and the construction is well on track. We expect to complete the turbine installation at Walney 3 before the end of this year. This is the section where we are using MHI Vestas V164 turbines. Installation of Siemens V154 turbines at Walney 4 will expectedly commence shortly into 2018. At Walney 4 we recently experienced an issue with the export cable during burial works as an excavator slipped and damaged the cable. We will seek to fix the cable before turbine commissioning and do not expect it to have any material impact on neither the project time line nor the project economics.

The most critical challenge in our construction portfolio during the third quarter was at Borkum Riffgrund 2 where a supplier of part of the foundations filed for insolvency in August. Restructuring has been successfully orchestrated during September enabling the production to be resumed and the supplier has during the month of October ramped operations back up. We do not expect that this will lead to a delay of the project but it has caused a slight delay in the closing of the previously announced farm down of Riffgrund 2 to Global Infrastructure Partners. The operational challenge at our foundation supplier required some additional documentation and process work to be undertaken towards the lender consortium providing debt finance to the transaction. As I mentioned earlier, we still expect to close the transaction in 2017 and it is now progressing.

Moving on to Hornsea 1, the transmission asset is under construction and the project is making very good progress.

At Borssele 1 and 2 in the Netherlands, turbines have been contracted and the remaining procurement processes are in progress and this project is also well on track.

Hornsea 2, as you know we were awarded the contract to build Hornsea 2 just recently. It will become the world's largest offshore wind farm with a capacity of 1.4 GW and it will be able to supply green power to more than 1.3 million British households by 2022. This will, expectedly, be our first offshore wind farm that can generate power at a lower price than newly constructed fossil-fired power stations. At the same time, it represents a very solid business case for Ørsted. We were very pleased with the award of the project as it allows us to continue to build on our market-leading platform in the UK.

Our total portfolio of constructed and decided capacity in Wind Power now stands at 8.9 GW. This is a very strong portfolio and it supports our industrial leadership position and not least our continued innovation and cost out efforts.

If we move on to Bioenergy & Thermal Power, we inaugurated the Skærbæk power station following the conversion from gas to sustainable biomass just recently. The plant is now running on wood chips thereby significantly contributing to the decarbonisation of Danish heat and power production. The facility has been in operation for almost 4 months with a 99% biomass share. We are very pleased with the operational performance of the plant during this initial start-up phase. It was inaugurated in fact just last week by Her Royal Highness Crown Princess Mary.

The construction of the Renaissance plant in Northwich in the UK has essentially been completed and we are now working our way through a list of teething issues in the end-to-end waste treatment process. This is essentially our first experience with a large-scale Renaissance plant and as you would expect, we encounter some issues where we need to fine-tune processes as well as the mechanical equipment. However, so far the issues are not beyond what you would expect. It does however take time and it takes slightly longer than what we have expected and we now estimate commissioning to take place in early 2018.

In Distribution & Customer Solutions, we are now in a fully ramped up roll-out of remote power meters to all our grid customers, roughly 1 million in total. We are rapidly approaching the first 100,000 meters being installed with roughly 1,600 being installed every day. The process is going very well and according to plan.

Moving on to slide 4. When we look beyond the construction projects to the pipeline of offshore wind development projects we continue to work on a range of exciting opportunities across a number of markets. Let me just comment on a handful of markets. In Taiwan we remain hopeful that our environmental impact assessments will be approved by the authorities before the end of this year. Following this, we will during the spring of next year expectedly submit a grid application. Allocation of grid capacity will be based on a number of selection criteria and a scoring system so in other words it is essentially a "beauty contest". If successful in the grid allocation process and establishment permit and a power purchase agreement with Taipower could expectedly be in place sometime during 2019. Parallel to the regulatory processes, we are advancing our procurement strategies for Taiwan. The pioneering Formosa One project, where we are a 35% shareholder, is progressing towards an expected FID during the first half of next year with project design and procurement being well advanced. The Taiwanese government just recently decided to target an additional 2.5 GW of grid capacity for offshore wind to be added to the grid build-out. Whereas the current 2025 target of 3 GW will be allocated on the basis of the "beauty contest"-model that I alluded to earlier, we believe the additional 2.5 GW will be allocated in a more auction-like model. We see the additional 2.5 GW commitment as a strong and encouraging sign of Taiwan's commitment to a substantial long-term build-out of offshore wind.

Moving on to the US, here our primary focus is on the upcoming auction in Massachusetts but we also closely follow the development of offshore wind opportunities in states all along the East Coast. The market momentum in the US is quite strong with several states pushing forward on plans to deploy offshore wind. In New Jersey, the candidate currently leading the race for the governor's office, Mike Murphy, just recently referred to an ambition for 3.5 GW of offshore wind to be constructed off the coast of New Jersey by 2030. In New York, state authorities have requested the Bureau of Ocean Energy Management to identify and lease off four offshore wind energy areas within a specified area of consideration off the coast of the state of New York so all of this being part of governor Cuomo's master plan for the deployment of offshore wind in New York.

In the US, we are also now in the process of negotiating the final agreement with Dominion Energy for the construction of a demonstration project in Virginia. We would expect the installation of the turbine to happen in 2020.

Moving on to the Netherlands, the upcoming tender for the South Holland Coast project has submission deadline on 15 December with the first round being an invitation for bidders ready to go for a zero bid. The Dutch tender, I should say, differs materially from the German auction earlier this year on a number of parameters, including the regulatory framework, the time line and the site specific conditions. All of this will of course be part of any assessment of the opportunity. If no bidders come forward in the first round, the process will move on to a second round and more traditional tender model as also applied for the Borssele 1 & 2 and the Borssele 3 & 4 tenders. This would then, expectedly, be in the early parts of 2018. The incoming Dutch government has announced that it will target 10 GW of offshore wind to be constructed between 2020 and 2030 supplemented by a commitment to a complete phase-out of coal by 2030 and the introduction of a carbon floor from 2020.

In Germany, the next auction is due as you know in April next year with a total capacity of 1.6 GW being available for build-out between 2021 and 2025. This will support the utilisation of the German grid build-out plan towards 2025. A minimum of 500 MW out of the 1.6 GW has been earmarked for the Baltic Sea projects.

It will be exciting now to follow the energy and climate strategies that will be put forward by a new German government. We remain hopeful that Germany also – like the incoming Dutch government – will make a strong commitment to an expedient phase-out of coal capacity also making a strong commitment to the Paris Climate Agreement and the restructuring of CO₂-pricing schemes.

Moving on to the UK, the government's Clean Growth Strategy commits £557 million for CfD contract allocations during the next CfD rounds. A meaningful part of this could be awarded to offshore wind given the technologies, scalability and the cost competitive position of the technology. It has been announced that the next CfD auction likely will be held in the spring of 2019. Our Hornsea 3 project is not expected to be fully consented for an auction during the first half of 2019 in which case we will continue to mature it for the following auction round.

Over recent weeks, the governments in the UK and as I mentioned the Netherlands have made very strong commitments to the long-term build-out of offshore wind. We are very encouraged by these commitments. We see them as a clear response to offshore wind, cost of electricity coming significantly down in recent years as well as the industry's ability to harvest local, sustainable resources and drive local growth and job creation. We believe many governments around the world are currently looking at the same trends.

All in all, I remain very satisfied with the strategic and operational progress we are making in wind power and the momentum we see behind offshore wind asset technology. I am also happy with the development of our bioenergy and customer businesses. Across our operating assets, construction projects and development pipeline things are indeed very well on track. I will now hand over the word to Marianne.

0.19.32

Marianne Wiinholt

Thank you Henrik. Good morning also from my side. Let us then dive straight into the financial which is on slide 5. Our EBITDA for Q3 was lower than Q3 last year driven by timing of the partnership income. As Henrik said earlier, the closing of the Borkum Riffgrund 2 is delayed and is now expected to come in Q4 as will the closing of Walney Extension.

Reported EBITDA amounted to DKK 1.8 billion and was DKK 1.3 billion lower compared to Q3 last year. This decline was expected and was primarily caused by a non-recurring lump sum compensation from renegotiation of a gas contract of DKK 1.1 billion in Q3 2016. The underlying EBITDA declined by 10%, earnings from operating wind farms though increased 39% driven by the ramp-up of Gode Wind 1 and 2, Burbo Bank Extension and Race Bank. However, we saw lower earnings from the construction for partners.

The lower contribution from utility activities is primarily due to the fact that Q3 2016 was positively impacted by earnings from portfolio optimisation of our financial energy exposures where earnings have been locked in in previous years.

Net profit from continuing operations totalled DKK 0.2 billion, DKK 2.3 billion lower than the same period last year. The decrease was driven by the lower EBITDA and the DKK 1.3 billion gain on the divestment of our gas distribution grid last year.

Adjusted for non-recurring items, the net profit in Q3 was virtually in line with last year. Return on capital employed stood at 15% which was the same as last year.

If we then turn to slide 6, our interest-bearing debt was DKK 10.3 billion – the same level as at the end of Q2. Our cash flow from operating activities totalled a negative of DKK 1.1 billion in Q3. EBITDA was offset by funds tied up in working capital with high activity level relating to construction of offshore transmission assets.

Gross investments totalled DKK 5.2 billion of which DKK 4.6 billion related to our offshore wind farms, mainly Walney Extension, Race Bank, Hornsea 1 and Borkum Riffgrund 2 and DKK 0.4 billion related to our biomass conversions and our Renaissance waste treatment plant.

Our net debt was positively affected by the divestment of the Oil & Gas, also Race Bank and A2SEA.

The Oil & Gas transaction reduced our debt by DKK 4.6 billion and resulted in a gain of DKK 2.2 billion. These headline numbers are slightly lower than communicated back in May but the underlying earnings and free cash flow generation in the period up until 29 September when we closed have surpassed our expectations. The total reduction in our net debt is therefore in line with or actually slightly better than what we had expected.

As a result of the divestment, net profit from discontinued operations amounted to DKK 2.9 billion of which DKK 2.2 billion was the gain from the divestment.

A key credit metric FFO/adjusted net debt stood at 42% at the end of Q3 down from 55% at the same time last year. And this was due to increased adjusted net debt. As earlier mentioned, credit rating agencies apply more restrictive methodology, for example Moody's disregards both construction gains and the SPA gains in our FFO. And therefore currently we assess that we are not underleveraged relative to Moody's requirements for FFO/net interest-bearing debt.

A significant headroom is expected to build up over the next 9-15 months, as new wind farms are coming on line and farm-downs are executed.

Let us then move to the business units starting with Wind Power on slide 7.

Our power generation amounted to 1.7 TWh in the third quarter of 2017, an increase of 31% relative to Q3 2016. The increase was due to the ramp up of production from Gode Wind 1 and 2, Burbo Bank Extension and Race Bank. The increased generation from new offshore wind farms was partly offset by slightly lower wind energy content in Q3 2017 as the WEC amounted to 75% this quarter compared to 78% in the same quarter last year. Availability was unchanged at 92%. The increased power generation boosted our earnings from operating wind farms by 39%. The increase in EBITDA from operating wind farms was offset by a decrease in partnership gains and EBITDA from other including A2SEA and project development costs was in line with the same period last year.

Our free cash flow increased by DKK 0.8 billion in Q3 2017 we recognised a deferred gain on the farm down of Race Bank as well as the proceeds from the divestment of A2SEA.

Gross investments amount to DKK 4.6 billion this quarter and was driven by investments in the same wind farms I mentioned before.

If we then move to slide 8, I would like to give you some insight on how you can estimate the farm down and construction gain of the Walney Extension transaction.

As we published yesterday in the company announcement, the proceeds from the transaction were £2 billion

corresponding to DKK 16.6 billion. That is the gross proceeds so you need to deduct the offshore transmission asset which amounts to around DKK 2 billion. The £ proceeds have been hedged and these hedges contribute with a positive of DKK 2 billion. And this brings us to the same net proceeds of DKK 16.6 billion. Then you need to take into account the capex and the project development cost related to the project and that amounts to approximately DKK 7.5 – 8 billion. Here we have used the bottom of the capex interval given at the time of the IPO. We then get to the net construction and divestment gain of around DKK 8.5 – 9 billion.

Of this, the entire gain on the share purchase agreement – the SPA – is expected to be booked in Q4 2017 and makes up more than 75% of the total expected EBITDA contribution from the transaction. The remaining part of the total gain will be booked as EBITDA from construction contracts of which we expect around 25% to come in 2017 and the remainder in 2018. This is, as Henrik also mentioned, a more front end loaded distribution than earlier guided which is a result of the negotiated transaction structure where a larger part of the proceeds is allocated to the share purchase agreement.

We now move on to Bioenergy & Thermal Power on slide 9.

The result of DKK 0.1 billion in Q3 2017 was negatively affected by the adverse market conditions for power generation. EBITDA from heat more than doubled driven by the biomass conversions but not enough to offset the negative contribution from conventional power generation. The free cash flow amounted to DKK 0.6 billion. We still expect the BTP to reach a positive free cash flow by 2018.

If we then turn to page 10 covering Distribution & Customer Solutions.

Here EBITDA decreased by DKK 1.3 billion primarily due to lump sum compensations of DKK 1.1 billion from renegotiation of the gas contract last year. The lower EBITDA in markets was as I said before due to this portfolio optimisation in Q3 last year. The free cash flow decreased by DKK 2.2 billion due to divestment proceeds from the gas distribution divestment in Q3 last year and also in Q3 this year we have booked higher gross investment related to installation of smart meters.

And then finally slide 11 and our financial outlook.

As Henrik mentioned, the divestment of 50% of Walney Extension means that we have raised our outlook for the EBITDA for 2017 by DKK 2 billion to DKK 19-21 billion while we maintain our expected gross investment range of DKK 18-20 billion for 2017.

And this concludes our presentation and we are now happy to answer your questions. Operator, please.

0.30.48

Operator

Thank you very much. Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypads. Please limit yourselves to two questions.

Our first question comes from the line of Kristian Johansen of Danske Bank. Please go ahead. Your line is now open.

0.31.09

Kristian Johansen

Yes sir thank you so my first question is regarding the insolvency of the foundation supplier that you mention. It is correctly understood that the key reason for the insolvency is the low prices that they have offered to you and secondly is that something we should fear for other suppliers that your level of pricing power against your suppliers can make them go into financial distress?

0.31.43

Henrik Poulsen

Kristian, thanks for the question. I would say.. I would not say that it is a matter of low prices, I mean I am not an expert on the inner mechanics of ST3, the foundation supplier that went into an insolvency proceeding. It was simply a matter of them, I believe, running into a cash issue which obviously always is the issue when you get into an insolvency situation so I have no reason to conclude that it was because they were structurally going too low on prices. It is a relatively strong operational setup they have – fairly modern sites and it is a fairly modern plant. We have no reason to believe that it cannot be competitive, which is also why we decided to be part of the restructuring plan and help them progress and move forward including also of course with our foundation supply for Riffgrund 2 and along the same lines I would also be very careful in sort of extrapolating the issue at ST3 in Poland across the supply chain. I don't think that would be justified. I believe there are a lot of sound and healthy suppliers in the supply chain which is becoming more and more professional and more and more matured and I don't think there is a general pressure on the supply chain that it cannot absorb.

0.33.13

Kristian Johansen

Okay and just a follow up. Is there going to be any earnings impact from this issue?

0.33.18

Henrik Poulsen

There will be no earnings impact from the issue. The restructuring plan has been agreed by all of the different parties to the plan. Operations are being ramped back up and we now see construction progress of our foundation supply also progressing according to the revised schedule and that revised schedule should not lead to a delay of the project and as such there will also be no earnings impact from this. I would actually go as far as saying that once we detected this issue in Poland I have to commend the Wind Power-team and our Operations-team for very quickly going deep into the issue and finding solutions to the challenge that we faced and I think they have come up with a very robust plan in a very short period of time so I actually think in my view it is a testimony to the strength of our operational setup so I actually take quite a bit of comfort from our ability resolving this issue so fast so there will be no impact on earnings from this.

0.34.26

Kristian Johansen

Okay that was very clear. Then my second question is regarding the upcoming Dutch tender. You sort of mentioned that the characteristics in the Netherlands are quite different from what you saw in Germany. Can you just elaborate on whether that means that the Dutch tender is more or less attractive than what you bid for in Germany? And secondly on a more general note, do you expect that there will be built any more new projects on offshore wind in Europe with subsidies excluding the UK?

0.34.58

Henrik Poulsen

On the Dutch tender, the conditions differ on a number of dimensions so first of all the regulatory framework in the Netherlands does not explicitly allow for a lifetime of 30 years as we saw in Germany. The time line is different in terms of construction year which obviously always impacts the technology you would expect to have available for the construction project and then there are also differences in the site specific conditions. Those conditions are quite strong on the German projects that we were bidding for earlier this year so looking across that range of input parameters, yes, there is in our view a fairly material difference between the German projects and the upcoming South Holland Coast tender. On the question of whether there will be more subsidised offshore wind projects in Europe outside of the UK, I do believe there will be more projects also in continental Europe where you will see subsidised offshore wind projects also going forward.

0.36.14

Kristian Johansen

Okay and just to clarify on the first parts, so what you are saying is that the Dutch tender is less attractive than the German – is that correctly understood?

0.36.22

Henrik Poulsen

From our perspective that would be correct, yes.

0.36.26

Kristian Johansen

Great. Thank you so much that is all from me.

0.36.29

Operator

Thank you. Our next question comes from the line of Deepa Venkateswaran of Bernstein. Please go ahead. Your line is now open.

0.36.39

Deepa Venkateswaran

Thank you. I have two questions. The first one is on Taiwan, Henrik, you mentioned that the basis of the grid allocation would be based on a "beauty contest". Could you elaborate on other criteria and maybe how you think you fared versus some of the other players who also applied for EIA and the second question is really for your Hornsea 2 project. I know you have not disclosed any sort of capex estimates some of your competitors, I mean, Innogy has disclosed that excluding transmission assets they expect roughly €2 million per MW so I was just wondering whether you can directionally help us understand the economics of Hornsea 2 versus Triton Knoll given you are still adjacent to Hornsea 1 etc. to just say you know will your capex be higher, lower and you know what other factors that help you or not. Thank you.

0.37.37

Henrik Poulsen

Thanks Deepa. On the grid allocation in Taiwan that we expect to take place during the first half of next year the criteria we believe will be sort of a relatively traditional set of criteria covering topics like local content, financial capacity, experience, industrial capacity and also certain environmental criteria so it would be sort of the type of allocation criteria that you typically would see in a qualitative allocation model. How we compare to our competitors I would rather not start speculating too much about it. I would say I believe we have a pretty strong starting point being the world's largest offshore wind developer we can certainly point to a significant industrial expertise, a tremendous track record and also we certainly have the financial capacity to back up any projects we would undertake in Taiwan so I think our starting point is quite strong and we also have significant experience in terms of mitigating various environmental concerns.

And the second point of the Hornsea 2 capex expectation. Hornsea 2 is sort of beyond what we have often referred to as the build-out plan. The build-out plan was essentially the build-out plan in place at the time of the IPO and as you know we refer to that build-out plan when we set the IPO guidance of DKK 22-24 million per MW of constructed capacity and Hornsea 2 is obviously beyond that plan and as such Hornsea 2 will benefit from the significant cost reductions that we have seen over the past couple of years and therefore you should of course expect Hornsea 2 capex per MW to be significantly below the guidance we gave at the time of the IPO. And I also do believe that we are certainly competitive relative to announcements made by some of our competitors. I will rather not get much more specific than that, Deepa, given the sensitivity of this topic in a very competitive market.

0.40.09

Deepa Venkateswaran

Thank you

0.40.12

Operator

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

0.40.21

Kristian Godiksen

Thank you. Two quick ones from me. Firstly Marianne, are you indicating that dividends could be at risk due to Moody's exclusion of the farm down gains? That would be my first question. I can ask my second question. Are you indicating anything on your guidance for the capex for the built-out plan? Meaning that projects in the build-out plan should benefit from the significant cost-out we have seen in the recent year when you mention the DKK 22 million per MW in your go-through of Walney and not the full range of the 22-24? Or is it just that Walney is a relatively better site than the average of the rest of the projects? Thanks.

0.41.05

Marianne Wiinholt

Yes, the first question on the dividend. No, we are absolutely not indicating that the dividend is at risk. Moody's they don't look at one individual year when they evaluate the rating. There are a lot of other things they also take into account. We are just saying that we have been asked by many whether we see ourselves as underleveraged and what I am indicating is that we don't see ourselves as underleveraged right now but we will within, as I said, this 9-15 months, move into another era, you can say, where we will have excess investment capacity. But no indication of dividend being reduced or anything. On the guidance for the build-out plan, yes you are right, we have indicated that we are at the bottom of the range. Walney Extension is a very attractive project with good site characteristics and not as far from shore as for example Hornsea, so here we are saying that we are in the bottom of the range.

0.42.11

Christian Godiksen

Okay, so there is no change to your original guidance in connection with the IPO? It is still the 22-24 for the... average?

0.42.21

Marianne Wiinholt

For the build-out plan, yes.

0.42.24

Christian Godiksen

Okay. And this is due to fixed pricing? Because I guess why is it you don't benefit from the significant cost-out? Is that because you have fixed prices with the turbine suppliers and all the other types of suppliers?

0.42.37

Marianne Wiinholt

It is because we had contracted the capex for these projects in the build-out plan to a very large extent at the time of the IPO. So we see some benefit but a lot of the capex was contracted already then.

0.42.52

Christian Godiksen

Okay, thanks a lot.

0.42.54

Operator

Thank you. Our next question comes from the line of Mark Freshney of Credit Suisse. Please go ahead, your line is now open.

0.43.02

Mark Freshney

Hello, good morning. Two questions if I may. Firstly on the exact accounting for Walney. It seems like on Walney you are taking 7 billion DKK of EBITDA farm down profit this year. You haven't disclosed what the accounting policies are but can you give us some more detail about why it now is that you are taking 7 rather than 4 or 5 which I think you envisaged at the beginning of the year? And my second question is on the 19-21 billion EBITDA guidance. Is it fair to say, alluding to your comments, Henrik, at the beginning of the call, that whether it is 19 or 21 depends upon whether Borkum Riffgrund slips into next year?

0.44.00

Marianne Wiinholt

Yes, I will answer the first question and then Henrik the second one. The accounting policy we have around the farm-down gains is that the SPA gain we take into the P&L when we close the contract and then the construction gain we take over the construction period. Whether the gain is allocated to SPA or construction agreement depends on the negotiations with the buyer and in this case the contract that has been negotiated has resulted in a very significant part on the SPA and therefore we get a front-end loading you can say of the gain. So it will be different from agreement to agreement and it depends on the negotiation.

0.44.53

Mark Freshney

And if I may follow that up, does the profit recognition and revenue recognition on those contracts does it map the cash flow receipts from the farm down partners?

0.45.06

Marianne Wiinholt

To a very large extent, yes. So the SPA gain, for example, we get that when we close the transaction and the construction part of the agreement we get over the milestones we reach. So there is a very close link between the income recognition and the cash flow.

0.45.30

Henrik Poulsen

On the second question, Mark, on Borkum Riffgrund 2 as I said earlier, we are progressing towards closing so it is our clear expectation that it will be closed before the end of this year so that is also a premise for the 19-21 billion guidance. You could then ask whether we will be able to absorb the Riffgrund 2 farm down hypothetically slipping into 2018 within that guidance range and the answer to that would be that if other parts of the business perform in the high end or above our expectations, we could potentially absorb it within the range we would in that case be in the very low end of the range of course but it would take out performance in other part of our mix but we clearly expect it to close and that is part of the guidance we have provided.

0.46.31

Mark Freshney

Okay, thank you very much.

0.46.36

Operator

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

0.46.45

Casper Blom

Thanks a lot, two questions from my side, please, also on Wind Power. First of all regarding Hornsea 1. I think you have previously indicated that you would also consider farming down that park as it is a very large part of your

portfolio. Could you give any indication to the potential timing of that and secondly also sort of your comments on what learnings from Race Bank and Walney that we can bring with us to Hornsea 1? And then secondly regarding Taiwan, Henrik, you touched upon the timeline etc. but could you give any update on how the subsidy regime in Taiwan is looking right now? Thank you.

0.47.28

Henrik Poulsen

Yeah. On the first question of Hornsea 1, yes, it is indeed part of our plans to farm down in Hornsea 1. We have previously mentioned that we would expect it to happen during 2019 or 2020 and that is still as close as we can get to it. In terms of learning from previous farm downs on Race Bank and Walney, we have been very happy with the outcome from those two farm downs and I would say that the.. sorry, I am just being told that I actually referenced the wrong years on the Hornsea 1 farm down, I did of course mean that we expected it to take place in 2018 or 2019. Sorry, I got one two year too far into the future here. So Hornsea 1 farm down in 2018 or 2019 as previously also communicated. In terms of the learning from previous projects, I would just say that both the Race Bank and the Walney farm down has been very strong farm downs and in our view very strong lock-in of significant value creation and we would expect no less from the Hornsea 1 farm-down. On the subsidy regime in Taiwan it has not been finally locked in, the Taiwanese government has reserved the right to adjust the regime all the way through to the final PPA agreement that we ultimately would expect to settle with Taipower during the year of 2019. Currently we are looking into a regime in sort of the EUR 160-170 per MWh for 20 years, that is the most recent indication we have received from the Taiwanese government but as said they have reserved the right to still adjust that as we move forward to PPA negotiations.

0.49.31

Casper Blom

Okay. If I can just follow up on that, please. Does it look as if it is going to be sort of like a fixed price or will there be any kind of flexibility in the subsidy, given that a pretty much a brand new supply chain will need to be constructed out there?

0.49.50

Henrik Poulsen

We firmly do believe that it will be a fixed tariff for the duration of the 20-year contract.

0.49.58

Casper Blom

That is great and thanks a lot for not having me to re-do my Hornsea estimates by a year.

0.50.09

Operator

Thank you. Our next question comes from the line of Marcus Bellander of Carnegie. Please go ahead, your line is open.

0.50.16

Marcus Bellander

Thank you. A few quick ones I think. The Dutch tender which will be a two-tier process, assuming you participate in that tender in the zero subsidy part of the tender, which parameters will you be competing on?

0.50.40

Henrik Poulsen

Thanks, Marcus. I mean it is obviously very difficult for us to start commenting on a tender which is right in front of us so I would rather not comment on it. I already made the comment that when assessing the opportunity, we obviously have to look at a lot of different input parameters and I did make a comparison to the German projects where we gained the project rights earlier this year at zero subsidy, in our view the South Holland Coast project does not come with similarly strong project characteristics in terms of technology being available, in terms of synergies to neighbouring sites, in terms of site specific conditions and also in terms of the regulatory framework provided by the authorities. So across that range of parameters we see this being less attractive than the projects we won in Germany.

0.51.42

Marcus Bellander

Understood, thank you. And the second on the UK 2019 auction it sounds like you won't be participating with Hornsea 3 but could you in theory participate with the rest of Hornsea 2?

0.51.57

Henrik Poulsen

The rest of Hornsea 2 will not be used for the tender or for the auction in 2019. We have used the full grid capacity allocated to the project with the 1.4 GW that we were awarded earlier this year so our next contender in the UK will be Hornsea 3 which is currently being matured and as you know going through consenting and that consenting timeline follows a pretty sort of standard timeline which will not allow us to participate insofar as the auction does take place by spring 2019. If it is postponed further into 2019, the project may become ready for the auction.

0.52.48

Marcus Bellander

Okay, thank you and a last one. The Massachusetts auction you said it will be held in December 2017. Is that also when you expect the decision or outcome?

0.53.00

Henrik Poulsen

No, we expect an initial decision of the preferred bidder to come in April 2018 and then the winning bidder will be announced expectedly by mid-2018.

0.53.17

Marcus Bellander

Very helpful, thank you very much.

0.53.20

Operator

Thank you. Our next question comes from the line of Jenny Ping of Citigroup. Please go ahead, your line is now open.

0.53.29

Jenny Ping

Hi, good morning, two questions from me, please. Firstly on the Hornsea 1 farm down, we talked about timing but have you disclosed or talked about the potential size? I note interestingly Walney Extension you have received the farm down from two partners given its size and I wonder whether Hornsea 1 to attract the relevant bidders at the price you want, whether a less than 50% farm down is the intention? So that is my first question. And then secondly on UK OFTO cables, I note that the electricity network association of OFTOs have recognized that there is an inherent cable failure with several of the UK wind farms without stating which one, essentially stating that the fibre optic cabling is interfering with and damaging the overall power cables. Can you confirm whether that is something that you have found within your assets or whether that is something that you are looking at? Thanks.

0.54.46

Henrik Poulsen

Thanks, Jenny. I will answer the first question here. On Hornsea 1, it is clear that the sheer size of the project obviously means we are looking at a very, very significant farm down. Whether there will be investors out there being able to shoulder it on their own or whether we will be dealing with a consortium of two or more investors, obviously we don't know just yet, we are certainly being open to various scenarios here. What we do believe is that there will continued be very strong demand – that is at least what we currently experience in the market. So we are quite comfortable that there are investors out there that either on their own or in a consortium will be able to carry the investment. We are currently.. sorry, say it again, Jenny?

0.55.41

Jenny Ping

Sorry, I was just going to say but you wouldn't exclude farming down two lots of 25%, for example?

0.55.48

Henrik Poulsen

We are moving the project forward as one integrated project so rather than thinking of it as two transactions of 25% we are currently moving the project forward as one transaction covering 50% and if that takes a consortium to carry the investment, that is the most likely model.

0.56.12

Jenny Ping

Okay, very clear, thank you.

0.56.14

Marianne Wiinholt

Yes, and I would answer your question on the fibre optic issue. Yes, there is an issue known by the whole industry. We have had one case. Last year we had this breakdown of the Walney, not Walney Extension but the old Walney project. It was fixed within some months. The projects that are built right now, we know how to avoid this issue so it will not be a problem going forward for the new wind farms because there you have a solution. We have been aware of this for quite some time and we are taking a lot of precautionary measures if things should happen that we can fix it fast so it is an issue, it is not something we foresee as something that will impact our financials to a large extent – quite the contrary, we think we have it under control but it is very important to follow it continuously.

0.57.19

Jenny Ping

Okay, thank you.

0.57.21

Operator

Thank you. Our next question comes from the line of Gurpreet Gujral of Macquarie. Please go ahead, your line is now open.

0.57.29

Gurpreet Gujral

Hi guys just a couple of questions from me. What is the next offshore wind farm in your pipeline that will reach FID and what milestones need to be achieved in order to get there? And then secondly, can you give us a guide or a range at least on what you think your partners on Walney Extension are generating in terms of an equity IRR based on the achieved sales price? Thank you.

0.58.00

Henrik Poulsen

Thanks. In terms of the next FIDs, frankly it is actually quite difficult for us to predict because it obviously depends on the outcome of auctions coming up. There are, as we also have referred to, there are opportunities in the Netherlands and Germany, in the UK, US, Taiwan, which one of the markets that will reach an FID as the next one it all depends on how we come out of the different auctions and tenders and processes that we are currently engaging in. So the short answer is I couldn't predict exactly where the next FID is going to come. What I would say is that we are looking at a pretty broad range of opportunities right now and the 11-12 GW ambition that we have set forward for 2025 we are quite comfortable we can deliver on that ambition and also deliver it in a way that is and remains very value creating. On Walney and the equity IRR requested by the investors is not something I can comment on. It is obviously all in their hands and I wouldn't even know exactly where they are. We obviously get an idea during the process and also just from our own calculation of the NPV that we retain on the project what I can say is that in this particular instance we have retained roughly 100% of the NPV on the one half that we have farmed down. So in other words we retain the full value creation on the 50% that we have farmed down.

0.59.45

Gurpreet Gujral

Okay thanks and if I can follow up with one more if that is okay, when you think about Hornsea 2 in order to make the economics work here, are you assuming turbines used based on existing technology or are you assuming the sort of 13-15 MW turbines that may be around at that point in time?

1.00.06

Henrik Poulsen

The Hornsea 2 project economics are quite strong and they are based on existing technology, they are even based on a great deal of visibility on the specific contract.

1.00.20

Gurpreet Gujral

Great stuff, thank you.

1.00.23

Operator

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

1.00.30

Ian Turner

Good morning. Can I just ask a couple of questions? Firstly with respect to the Oil & Gas divestment, at the time you did the divestment you announced that.. you said there were some hedging contracts in place. Are those all closed out now or is there any more income to come from those in future quarters? And then just a point of clarification on this Holland auction. Are you saying that you are going to bid or not going to bid? I am not quite clear what you are saying.

1.00.57

Marianne Wiinholt

On the first question, the Oil & Gas hedges, yes, everything is closed out and you will not have an impact going forward.

1.01.05

Henrik Poulsen

And on the second question, Ian, yes, there is a good reason why it is a little unclear to you whether we are going to join the tender or not and that is because I would rather not tell you specifically whether we join the tender or not so given that we are so close to it and given that it is a competitive tender, we would keep that to ourselves for now.

1.01.27

Ian Turner

Okay, thank you.

1.01.32

Operator

Thank you. Our next question comes from the line of Pinaki Das of Bank of America, Merrill Lynch. Please go ahead, your line is now open.

1.01.40

Pinaki Das

Hi, good morning guys, this is Pinaki from Bank of America. I have got a couple of questions. The first one is on Hornsea 1 and 2. Can you give us an idea about how much the transmission would cost for both the phases? Just a rough idea in terms of sort of million pounds for each of the projects. And secondly on US and Taiwan. Could you give us an idea of in the next two years what volumes of auctions or projects might come up in the US including the Massachusetts for one? And on Taiwan what gives you the confidence that the government in Taiwan in the future may not go for an auction model like most of the other parts of the world? Thank you.

1.02.32

Henrik Poulsen

Yeah, I can start with the second question Pinaki. I mean when you go to the US, Massachusetts they have set a target of 1.6 GW to be built towards 2027. We would expect an auction to take place roughly every second year, starting as you know late this year. We would expect the volume allocated to be between 200 and 800 MW per auction. So that kind of gives you a little bit of the expected run-rate in Massachusetts, then we do see some of the other states along the Eastern seaboard progressing quite rapidly towards something that could become auctions within the next couple of years. In the state of New York, they are talking about 2.4 GW, the potential incoming governor in New Jersey has mentioned 3.5 GW. We also see states like Maryland and Virginia moving forward on their plans for offshore wind. So I believe within the next 12-18 months we will gain quite a bit of additional visibility on what type of auction volumes we can expect in the US. But clearly we are quite encouraged by the current development. In Taiwan, the first 3 GW of capacity we now have visibility on the allocation system. It is, as I alluded to earlier, for the first 3 GW going to be more of a qualitative type of allocation model based on a range of selection criteria and for the next 2.5 GW that has now been announced, we do in fact believe that the Taiwanese government will go for an auction model.

1.04.29

Marianne Wiinholt

Yes, and on your question on the OFTO for Hornsea 1 and 2. On Hornsea 1, the total OFTO investment will be in the range of 9-10 billion. It is significantly more expensive per MW than you see for Race Bank and for Walney as it is significantly further from shore. On Hornsea 2, it is too early days to say exactly how much it will cost. But it is the same kind of magnitude, it is also far from shore.

1.05.03

Pinaki Das

Great, thank you. Can I just reconfirm again on the Taiwan, did you say 3 GW in the qualitative part of the process?

1.05.10

Henrik Poulsen

Yes, 3 GW. Yes.

1.05.14

Pinaki Das

Okay, great. Thank you so much, thank you.

1.05.17

Operator

Thank you. Our next question comes from the line of Jørgen Bruaset of Nordea Markets. Please go ahead, your line is now open.

1.05.26

Jørgen Bruaset

Thank you, two questions from my side. First of all on the UK auction in 2019. The fact that you won't participate with Hornsea 3, has this been your expectations all along or have you initially hoped for the Hornsea 3 details to be ready to participate in 2019? That is my first question.

1.05.46

Henrik Poulsen

Thanks, Jørgen. I mean we have known all along that there was clearly a scenario where we were not going to be ready for the third CfD auction round so that has been part of our scenario planning all along. We would then expect to be ready for the fourth CfD allocation round.

1.06.09

Jørgen Bruaset

Okay, thank you. And also you signed a letter of intent with NaiKun Wind Energy in Canada. Can you just give some of your thoughts on the Canadian market and what your ambitions with this partnership are?

1.06.21

Henrik Poulsen

Yes. We did sign a letter of intent with NaiKun in Vancouver. We are actually quite excited about the potential along the Canadian West Coast in the sense that site conditions are quite attractive, both in terms of wind speed, water

depth and we believe also in terms of sea bed conditions, distance to shore. So still very early days, still Lol stage but we very much look forward to progressing this opportunity together with Naikun for the Haida project and I think over the next year or so we will probably gain more visibility on the more specific points. The initial project we are looking at is most likely sort of in the 4-500 MW range but we will see. The whole area has been consented for an even bigger potential and there is also an approved grid connection plan for the area but still early days so we need a little bit more time to get clearer on the exact potential of this collaboration.

1.07.44

Jørgen Bruaset

Okay, thank you and just a very short follow-up on that, how does the subsidy scheme look like for the Canadian market? Is it similar to what we have seen in the US with the local PPA or?

1.07.55

Henrik Poulsen

There is no subsidy scheme in place just yet. It would be a PPA model and we still need clarity on the actual PPA for the project so that is one of the things that will be part of now entering into this partnership with NaiKun and sort of maturing the whole project.

1.08.17

Jørgen Bruaset

Okay, thank you very much.

1.08.20

Operator

Thank you. Our next question comes from the line of Timothy Ho of Morgan Stanley. Please go ahead, your line is now open.

1.08.28

Timothy Ho

Hi, good morning, two questions from me. Firstly regarding the larger SPA percentage at the Walney Extension farm down. Historically these have been tax-free. Would it be correct to assume this holds for the Walney divestment also? And secondly regarding additional shareholder returns, you highlight the significant headroom on FFO/net debt over the next 9-15 months. Is that the point at which you should be able to provide incremental colour on the potential for additional shareholder returns? Thank you very much.

1.09.04

Marianne Wiinholt

On the first one, no, I don't think you can use this Walney Extension split between SPA and CA as a proxy for Hornsea. As I said, it is individual contracts based on negotiations so I think it is very difficult to predict. Probably this is more front-end loaded than what you could expect for Hornsea if I should say something but basically we don't know.

1.09.32

Timothy Ho

Sorry, I think I didn't make my question clear. Just regarding the SPA gain for Walney specifically I think historically and around the IPO you said that these are tax-free? And I just wanted to check if that would continue to be the case?

1.09.45

Marianne Wiinholt

Yes, that will continue to be the case. Yes, yes. Sorry.

1.09.51

Henrik Poulsen

Timothy, on the second question of additional shareholder returns, as we gain more and more visibility on the scope of our excess investment capacity, we will of course come back to the market to give you also more visibility on how to deploy that capacity. We expect it to begin to materialise during the second half of next year, as Marianne has mentioned, so sometime during 2018 we should certainly be able to come back to you and start giving you more clarity and visibility on this topic. We just in the meantime ask for your understanding that we would rather wait until we have a little more visibility ourselves.

1.10.33

Timothy Ho

Great. Thank you very much.

1.10.37

Operator

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

1.10.45

Kristian Godiksen

Yeah, thank you, just a couple of follow-ups. So firstly, Henrik, you touched upon why you did not increase or narrow the range of the EBITDA guidance but can you give a bit more elaboration on why that is? Because I thought that one of the main triggers was the size of the SPA gains which is now locked in. Is it because of the milestone payments in the construction agreements or what is the reason for that? And then just secondly I was curious on when you say in the announcement of the Walney you mention that the divestment fully confirms our expectation of the value creation in the project. This is not a wording you have used previously and obviously the project is part of the build-out plan so on a stand-alone basis it is very lucrative and an IRR of around 20% so what is it actually you are saying here? Are you trying to indicate something?

1.11.40

Henrik Poulsen

Thanks, Kristian. On the guidance range, as I mentioned we did in fact consider whether we should narrow it, I am not foreign to the idea that as we now approach the end of the year you could have expected us to narrow it. What you have to consider is if we narrow it we would typically be moving in 1 billion increments, which means the next level down would be a DKK 1 billion range. In a DKK 1 billion range, the downside part of that range, assuming there is both a downside and an upside part of the range, actually becomes slightly too narrow for our taste. We would like to operate a robust guidance range. And to your question, yes, the single biggest uncertainty towards the end of the year will be whether part of the construction agreement income potentially moves into 2018 or not. As you know, the booking of income from construction agreements is linked to the degree of completion of the projects and sometimes we will see some of these projects accelerate, sometimes we will see them slow down in their construction progress due to weather, logistics or site specific issues and especially towards the end of the year with weather becoming more rough, this actually becomes slightly less predictable. And this in itself can represent a swing of several hundred million DKK across quarters in this case from Q4 to Q1 and it can move in both directions so to speak. So while all of this of course it is all timing differences, we will still need to take it into account in our guidance range.

1.13.25

Kristian Godiksen

Okay.

1.13.27

Henrik Poulsen

On the second point of our wording around the farm down value creation fully living up to our expectations, I am not trying to signal anything in particular above and beyond the fact that we have for such a project obviously a targeted net present value for the 50% that we farm down we have a targeted retention of the NPV relative if we had kept the 50% to ourselves and in this particular case both the NPV and the retention ratio fully lived up to the expectations we had when we launched the project.

1.14.07

Kristian Godiksen

Okay, thanks a lot. Maybe just a last follow-up on.. I was just wondering on the development costs which you indicate for the Walney was around 250-750 million. Is that representative for the Hornsea 2 project and upcoming round 3 project and if so, should we use the absolute number or should we use the cost per MW?

1.14.31

Henrik Poulsen

You cannot sort of extrapolate the DevEx from one project to the next. The DevEx from one project to the next will differ quite materially, depending on how we acquired the project. In some cases, we have won the rights early on and we have developed and matured the project ourselves. That would lead to one type of development expenditure. In other cases like for instance the Hornsea zone we acquired the right for the projects while they were at a fairly mature stage which means that there is an acquisition sum going into the DevEx. So you will see some fluctuations across the portfolio in terms of DevEx so I would not advise you to try to find sort of a one size fits all in terms of DevEx costs.

1.15.23

Kristian Godiksen

Okay. Thanks a lot.

1.15.27

Operator

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

1.15.35

Deepa Venkateswaran

Thank you. I have a question on the working capital that is locked up in OFTO and receivables from your partners. Could you just quantify where that is at this quarter? I believe it should roughly be around DKK 10 billion and secondly how do the credit rating agencies treat this, clearly the amount is as high as your financial net bidding capacity and you should be receiving it in the next two to three years so it clearly overstates your financial debt so I am sort of wondering how the agencies treat it and have you tried to educate them about this? Thank you.

1.16.14

Marianne Wiinholt

Yes, you are right, the number is very close to 10, it is actually DKK 9.8 billion at the end of the quarter. Yes, we have tried to educate the agencies but they treat it as normal debt so it is impacting our FFO/net debt, no adjustment for that. But as you say, it will be a timing thing and as we in a way complete these big UK projects, it will be lower over time.

1.16.46

Deepa Venkateswaran

Thank you. Maybe one more follow-up. Just on DevEx can I confirm that DevEx for all the projects you are building is a sunk cost it has already been spent so in terms of looking at any kind of farm down gains from a pure cash flow perspective it is kind of irrelevant?

1.17.01

Marianne Wiinholt

It is, all the DevEx we spend ourselves is expensed but when we acquire project rights from others, which we have not done to a large extent, but then we capitalise it. We need to do that from an accounting perspective.

1.17.15

Deepa Venkateswaran

But this is already spent so in November 2017 you already spent the DevEx on Hornsea 1 and..

1.17.21

Marianne Wiinholt

Yes yes

Deepa Venkateswaran

Okay, thank you.

1.17.27

Operator

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

1.17.53

Casper Blom

Thank you. Just a little bit of nitty gritty follow-up here by the end of the call. In your DCS division, Marianne, you touched upon the market division being impacted by the changes you did last year and I note that it came in at a small negative EBITDA contribution this quarter. What should we expect from markets going forward? Should we sort of return to a little positive number each quarter or what is the expectation going forward? And then finally a little bit of an irritating question, probably, but with regard to your wind energy content of 75% in the quarter, it comes in a touch below a reference Q3 and looking sort of back at the last 7-8 quarters or so there has been quite a lot of quarters where wind energy content has been below the reference. Is the reference simply too high or is it just bad luck?

1.18.31

Marianne Wiinholt

Yes, first your first question on DCS. At the last quarterly call I went into details with the fact that we had a positive impact in the first half year from hedging these summer/winter spreads on our gas storages and we foresaw that we would have negative impacts in the second half and this is what you see in this quarter. Actually you also saw the same negative effect in the same quarter last year but then you have this positive other effect from this portfolio optimisation. It is not something that you should expect going forward that it necessarily goes that way. It might as well go the opposite way so that you have a negative effect from this hedging in the first half and a positive in the second but we have had now for the last two years this impact. But going forward I think the best you can assume is a positive each quarter because in a way it is difficult to predict the hedging impacts. It depends on the price development.

1.19.40

Henrik Poulsen

On the second question, Casper, yes, absolutely we have seen some quarters with wind energy contents being below a standard reference year. We still firmly believe it is a matter of statistical uncertainty but we will of course on an on-going basis we will double check the underlying assumptions to make sure that it is a robust model. In 2015 for the full year we were 3 points above a standard year. Last year we dropped to 7 points below and this year we are probably looking at a year that will come in around 95-96 for the full year as we see it right now. If it is any comfort, and again we should be very careful of looking at months and quarters, but I can tell you that I have just seen the October numbers this morning and October was quite windy I can say so for now we certainly believe that this is a matter of statistical uncertainty over the years.

1.20.40

Casper Blom

Okay so you are sort of, the partners that you are discussing with in the farm down negotiations for example, they are still believers in normal reference? It is not something that is sort of being questioned? It can be explained by statistical uncertainty still?

1.20.55

Henrik Poulsen

And be explained by long-term statistical uncertainty our partners they make their own assumptions on all kinds of input parameters, including wind energy contents but I believe they share our view on what is sort of the normal wind year model to be used here.

1.21.13

Casper Blom

That's great. Thanks a lot.

1.21.15

Operator

Thank you. And there are no further questions at this time. Please go ahead, speakers.

1.21.20

Henrik Poulsen

Thank you all very much for joining this call and have a continued great day. Bye-bye.