

DONG Energy Q3 2016 Presentation

Operator

Welcome to this call for DONG Q3 2016 results. This call including Q&A will end no later than 12 o'clock. I now hand over the word to CEO Henrik Poulsen. Please go ahead.

Henrik Poulsen

Thank you and good morning everyone. Welcome to this Q3 presentation. I am here today with our Group CFO, Marianne Wiinholt. Let us just dive straight into the presentation. If you turn to page 3, you will see here that Q3 was a good quarter with improvement in all key metrics. The Group continues to develop positively and according to our strategic and financial plans. As you have noted we have announced that the decision has been made to initiate a process with the aim of ultimately exiting from our oil and gas business. This should be seen in the light of DONG Energy's strategic transformation towards becoming a global leader in renewables and also a wish to ensure the best possible long-term development opportunities for our oil and gas business. We are in an early stage of exploring market interest in the asset working with J.P. Morgan as an advisor.

Moving on to the financial highlights for Q3, our reported EBITDA increased by 7 % to DKK 4.8 billion driven by continued strong growth in wind power coming from construction gains and also on top of that a positive effect from another settlement of a gas purchase contract during Q3. Underlying EBITDA increased by 5 % in the quarter and underlying EBITDA is up by 24 % for the first nine months of 2016. Return on capital employed for the past year has jumped to 15 % compared to 8 % a year ago and we have also seen a significant increase in net profit for the third quarter coming in at DKK 3.3 billion, which is an improvement of DKK 2.9 billion Y/Y. The increase was driven by higher EBITDA, lower depreciation and the divestment of the gas distribution grid which contributed DKK 1.3 billion to the result.

Free cash flow for the third quarter came in at DKK -1.9 billion. This compared to DKK -5.4 billion in the third quarter of 2015. The main contributors to the improvement of DKK 3.5 billion are the increased EBITDA, field funds tied up in working capital, lower tax payments due to lower Norwegian earnings, and gains on divestments.

Our investment level remains stable during the quarter with gross investments coming in at DKK 5.6 billion of which DKK 4 billion went into the offshore wind business. Interest-bearing net debt declined 35 % from DKK 9.2 billion at the end of 2015 to DKK 5.9 billion at the end of September 2016. Our credit metric FFO/adjusted net debt remains very strong. It increased to 58 % by the end of the third quarter, up from 35 % a year ago, which means that we remain well above our target of being around 30 % on this important credit metric.

At group level, the third quarter has been in line with our expectations and we maintain our outlook for 2016 of DKK 20-23 billion of EBITDA and gross investments of DKK 18-21 billion.

Let us move into the business units. I will cover Wind Power and Marianne will cover the other three business units.

Starting with Wind Power on slide 4, during the third quarter we have been granted development consent for the Hornsea 2 project by the UK government, which enables the project to participate in upcoming CfD auctions. The project is located 89 km off the Yorkshire coast and has a capacity of up to 1.8 GW. We remain quite excited about the long-term potential of the Hornsea zone. At Race Bank, we use two custom-built track vehicles and we successfully managed to lay the export cable in the sensitive coastal marsh area of Race Bank and the remaining export cable laying for the offshore portion of the project is also progressing according to plans. The last milestone to be highlighted is the installation of the world's first

offshore 8 MW at Burbo Bank Extension. So far half of the 8 MW turbines have been installed. When all 32 turbines are installed, Burbo Bank Extension will add 258 MW of capacity to the existing 90 MW at the original Burbo Bank wind farm. On the operational side, the German TSO, TenneT, is working with its supplier to fix the onshore cable fault at Gode Wind 1&2. It will expectedly take until March next year before the repair work has been completed as also reported earlier by TenneT. The cable is not part of DONG Energy's construction responsibility and we are to a large extent compensated by the transmission system owner for the lost revenue. However, we are only compensated at 90 % of the feed-in tariff and the TSO can deduct the first ten days of outage from the total compensation. Compared to a situation with a stable grid connection, these deductions result in a net loss to DONG Energy of a few hundred million Danish kroner in the third quarter. This net loss will be significantly smaller in Q4 as we have already taken the vast majority of the up-front deductions in the third quarter. And let me just emphasise that the grid outage does not materially change the strong life-cycle business case of Gode Wind 1&2 compared to the FID business case. The project execution team has outperformed on other parameters thereby more than compensating for the impact of the grid outage.

We are in the process of farming down Race Bank and Walney Extension. Brexit cost a delay to the Race Bank process as we had to just step back and realign on the impact on the currency with the potential buyers of half of the asset, but we are now making good progress on both of these farm-down projects and we continue to see strong investor demand for our assets. We expect to complete one of the farm-downs in Q4 2016 and one in 2017 or both of them during 2017. Our full focus remains on value creation and getting to the right transaction for our shareholders rather than a specific time line and we remain very comfortable with the value creation in our projects.

Our Q3 power generation amounted to 1.3 TWh in the third quarter of 2016, which is the same as the third quarter 2015. The increased generation from new offshore wind farms was offset by slightly lower wind energy content and slightly lower availability. Please be aware that we do not include production from Gode Wind 1&2 in this production number when the wind farm is off grid even if we are being compensated based on a theoretical production volume.

For the third quarter, it is also worthwhile highlighting that the project development costs have doubled compared to the third quarter 2015 based on investments mostly going into the continued development of the Hornsea zone and into our market entry expansion in the US and Taiwan so these are obviously investments in our long-term growth.

In terms of financial performance, the third quarter EBITDA increased by 19 % in Wind Power y/y driven by higher activity on construction contracts for partners, primarily Burbo Bank Extension.

Moving on to slide 5, here you see that year-to-date with energy content is 8 %-points below 2015 with 2016 being a below-average year where 2015 was an above-average year. When the energy content obviously fluctuates and historically for Wind Power's portfolio full-year deviations have been within a range of +/- 4 percentage points relative to an average wind year. We also expect wind energy content for the full year 2016 to be within this band of 96 to 104 albeit towards the lower end of that range. The difference between an average wind year at index 100 and a year like 2016 where we will be towards the lower end of the band comes to a few hundred million DKK of EBITDA on a full-year basis, just to give you a sense of the year dimensions. I should also say that Q4 is off to a solid start in terms of wind energy content.

Now moving on to our Wind Power construction programme at slide 6, with the recent tender award at Borssele 1&2 in the Netherlands, we are now progressing a construction programme covering 7 projects with a combined capacity of 4.4 GW which compared to current installed capacity of 3 GW. The

construction programme is well on track with all projects progressing as planned except Gode Wind 1&2 which as previously mentioned has been delayed due to a cable fault outside our construction scope. Beyond the projects in an advanced state of construction that I commented on earlier, i.e. Gode Wind, Burbo Extension and Race Bank, we also see good progress at Walney Extension where onshore civil works have commenced and also Hornsea 1 where most major supplier contracts have been signed. Hornsea 1 we can say already now will have the highest share of local UK content that we have seen to date and this is a testimony to the continued successful expansion of the UK offshore wind supply chain. This very sizable build-out programme is a strong platform for DONG Energy's continued efforts to industrialise our approach to offshore wind and drive down cost of electricity. We increasingly see all parts of the offshore wind value chain proactively coming forward with innovation and cost reduction initiatives that allow us to further enhance the competitiveness of offshore wind.

Parallel to the construction programme, we are actively shaping our pipeline for the period beyond 2020. On page 7, you will find an overview of ongoing and upcoming auctions and tenders where we on a case by case basis decide whether to participate. Over the coming roughly 18-21 months we expect to see 8 auctions and tenders within our core markets. As the presentation outlines, we expect two auctions in the UK, two in Germany, two tenders in the Netherlands including Borssele 3&4 where the bid deadline was in late September this year. One tender in Denmark where the bid deadline is today and an auction in Massachusetts. We had a strong project pipeline available for the auctions where we should decide to participate. Furthermore, the state of New York and the Federal Agency Bureau of Ocean Energy Management recently announced an upcoming tender for an offshore wind concession giving the winner an opportunity to develop a project of up to 800 MW off the coast of Long Island. We see this as another quite exciting sign of the offshore wind market along the eastern seaboard of the United States beginning to really move forward. Last but not least we also see clear signs of the Taiwanese offshore wind market progressing. We are in the process of maturing our own market enter strategy in Taiwan and remain fairly excited about the opportunity. On that note, I will hand over the word to Marianne.

0.14.29

Marianne Wiinholt

Thank you, Henrik. And also good morning from my side. If we then move on to Bioenergy & Thermal Power on slide 8. We inaugurated the biomass-converted Studstrup CHP plant in October this year. This conversion has been ongoing since the summer of 2014 and included reconstruction of the silo, the conveyor and boiler and this enables the plant to use wooden pellets instead of coal and hence supply CO₂-free heat to 225,000 residents in Denmark's second largest city, Aarhus. The biomass-conversion of our other two CHP plants, Avedøre 1 and Skærbæk CHP, is progressing according to plan, which is also the case for the construction of the REnescience waste treatment plant in the UK. On 30 August we received the Copenhagen Maritime and Commercial Court's ruling in the Elsam case. The court ruled in favour of the Danish Competition Authorities and claimed that Elsam abused its dominant position in the market for wholesale of physical electricity in western Denmark in the period 1 January 2005 to 30 June 2006. Based on the ruling's premises we have decided to appeal to the High Court. Right now we are awaiting the Court's response whether the case will be handled in the High Court or referred to the Supreme Court.

Power generation went up by 182 % due to better spreads while heat generation went down 27 % due to the warm weather. EBITDA increased by 100 million to a negative of 100 million in the first quarter of 2016. The green dark spread has improved significantly from -5.6 €/MWh to 5.4 €/MWh. The improved spread combined with running a very lean business and the conversion of our thermal fleet to firing with biomass will ensure that we will regain long-term profitability of the thermal business. We expect to reach a positive free cash flow by 2018.

If we then turn to the next page where we show the progress in the biomass conversions of our Danish CHPs and the REnaissance plant in the UK. The Studstrup CHP was, as I mentioned, successfully inaugurated last month and the Avedøre 1 CHP plant is now ready for testing and we expect the conversion to be finalised in Q4 this year while the inauguration of Skærbæk will take place expectedly in the first half of 2017 and also here the testing has just begun. The biomass conversions and the new heat contracts are expected to contribute to doubling our EBITDA from heat generation from 2015 to 2017.

The construction of our REnaissance plant in the UK is more than half way through and we are at the moment preparing for the biogas turbines to be tested. REnaissance will be the first full-scale waste energy plant treating unsorted household waste with a waste treatment capacity of 120,000 tons per year.

If we then turn to page 10 and Distribution & Customer Solutions, two events should be highlighted. First the successful renegotiation of yet another long-term oil and gas purchase contract which brings the lump sum payments related to the renegotiations up to DKK 3.8 billion in 2016. In total, renegotiations with three counterparties have been completed this year. Secondly, worth noting is the divestment of our gas distribution grid which was completed in Q3. The divestment resulted in a gain DKK 1.3 billion and the gain is exempt from tax and will not be part of the EBITDA.

Looking at financial highlights, EBITDA increased by DKK 1.5 billion primarily due to the lump sum payment and improved margins due to the renegotiations.

If we then turn to page 11, Oil & Gas, the restructuring of the business is well in progress and in Q3 Oil & Gas delivered strong operational performance. Cost performance has improved significant in the first 9 months. Total cash spent decreased by 36 % Y/Y and this means that we now expect Oil & Gas to be cash flow positive in 2016 where we previously expected it to be cash flow negative.

As mentioned at our last presentation, we signed an agreement to divest our stakes in the Norwegian fields, Trym, Ula, Tambar, Tambar East and Oselvar for 70 million US\$. The deal is still pending the Norwegian authorities' approval and it is expected to be closed in Q4. The UK gas fields Edradour and Glenlivet are on track and progressing to go on stream in 2017. Edradour and Glenlivet will increase the UK volumes and hence support the significant contribution from our second largest field, Laggan Tormore, which in Q3 produced 1.8 million BOE. Oil & Gas production declined 25 % in Q3 Y/Y and that was mainly due to the lower volumes from the Ormen Lange Field as the last catch-up volumes from the redetermination were received in Q1 2016.

EBITDA was down by DKK 1.2 billion and ended at DKK 2.4 billion. The decline was driven by the lower production mainly gas, and also lower gas and oil prices, which was only partly compensated by the hedges - as we conduct the hedges after tax. Hedges contributed with a positive effect of DKK 0.7 billion.

Free cash flow was positive in Q3 and improved by DKK 1.3 billion due to lower tax payments in Norway and also lower gross investments which were only partly offset by the lower EBITDA. This was the last slide on the performance of our business units and now I will continue with hedging on slide 12.

On the left side of the slide, you see our accumulated energy exposures from the last quarter of 2016 to the end of the third quarter of 2021 before and after hedges. Oil is hedged at \$80 per barrels in average for 2016 and 2017 and around \$60 for 2018.

Gas is hedged around 20 €/MWh for 2016 and 2017 and around 18 €/MWh for 2018. On the right-hand side, you see our currency exposures on a rolling 5-year horizon. Brexit has caused an increased interest in

our pound exposure. Our gross pound exposure consisting of the net cash flow from the expected power generation from the farm-downs from investments net of local sourcing and interest on the 30 % of our corporate bonds denominated in pounds amounts to DKK 53 billion at the end of Q3.

After hedging, this exposure is reduced to DKK 15.6 billion for the 5-year period.

The pound sterling exposure is largely fully hedged for 2016 and 2017 at 9.5 DKK to the pound and in 2018 also largely significantly hedged at an average of 9.3 DKK to the pound. USD and NOK exposure is fully hedged. A further 10 % de-evaluation of the pound versus Danish kroner will reduce our cash flow by DKK 1.6 billion accumulated for the first coming 5 years.

Then if we turn to slide 13, here you can see the expected value of hedges to be transferred to EBITDA at group level and for Oil & Gas.

The values are calculated based on the forward curves at 30 September. We have included the hedge values for FX, power, coal, gas and oil. We expect a positive of DKK 1.1 billion from our current hedges for the last quarter of 2016 and then further for 2017 we expect a transfer of DKK 3.4 billion.

And then please move to the last page, slide 14. We maintain our guidance on Group EBITDA in the range of DKK 20-23 billion for 2016. The spread of the range is primarily due to the uncertainty of the timing of the next farm-down. As Henrik also mentioned, we expect to complete one farm-down in Q4 2016 and one in 2017 or both during 2017.

And we also maintain our expected gross investment range which is DKK 18-21 billion for 2016. Our return on capital employed expectations for both Group, Wind Power and Distribution & Customer Solutions remain unchanged. The same goes for the expected cash flow positive timing for Bioenergy & Thermal Power. We have actually mentioned now we expect Oil & Gas to be cash flow positive also already in 2016.

Then Henrik this - I give the word to you

0.26.32

Henrik Poulsen

Yes, this concludes the presentation and we will be happy to take any questions you have.

0.26.39

Operator

Thank you very much. Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad. That is 01 on your telephone keypad. Please note that you are limited to asking two questions per round. Please hold until we have the first question.

And the first question comes from the line Casper Blom, ABG Sundal Collier. Please go ahead your line is open.

0.27.09

Casper Blom (ABG Sundal Collier)

Thank you very much. As could have imagined my first question relates to farm downs. You mentioned the Brexit and movements in the Sterling exchange rate have had an impact on the timing of the farm down of Race Bank. Could you give a little more flavour to this? What is sort of the economic impact for you guys in terms of changing the structure of the farm down following the lower exchange rate? That is my first question. And then my second question relates to the gas purchase settlements in the distribution division.

Are there any more lump sums coming up that we should sort of try to factor in in future quarters? That is my two questions, please.

0.27.58

Henrik Poulsen

All right, thank you Casper. Let me start out on the farm down and Marianne will come back to O&G. On the farm down, I obviously - I cannot go into a lot of detail about ongoing negotiations and what has been going on previously in that process. But it goes without saying that Brexit and the impact it had on the currency obviously meant that we had to take a step back together with the potential buyers of the asset just to reassess the implications. What you have to bear in mind is that we have hedged our exposure on the farm down proceeds so we are well covered on the impact on the Sterling Pound exchange rate also in this transaction.

0.28.43

Marianne Wiinholt

Yes and then to the question on the renegotiations. We are now through all the major renegotiations. We will continue to see some renegotiations also going forward but we do not expect any significant further lump sum payments. This is just small adjustments expected in the future.

0.29.09

Casper Blom (ABG Sundal Collier)

Okay, thank you. Henrik just to sort of be clear regarding the farm down and the impact of the Brexit there. Should I understand your statement as if you are sort of economically that there are no changes for you guys following these renegotiations? Is this how we should understand it?

0.29.27

Henrik Poulsen

I will put it this way, Casper, that we remain quite positive on the value creation potential of these farm downs including the Race Bank farm down.

0.29.41

Okay thank you

0.29.44

Operator

Thank you very much and moving on to the next question in line. Kristian Godiksen with SEB. Please go ahead your line is open.

0.29.53

Kristian Godiksen (SEB)

Thank you. First of all I was wondering what is dragging down your guidance as you upgrade guidance on both oil and gas and also expect a few hundred million higher lump sum payments and I think the same goes with how you are able to reach the high end of the EBITDA guidance for Wind Power taking both the low wind energy content and cable faults on Gode Wind 1&2 into account. That was the first question and secondly if you could comment on your potential divestment of the Oil & Gas - how far are you in the process? Will there most likely be asset sales as we saw in Norway? Or full divestment and what is your thinking regarding Hejre and the significant amount of unrecognised tax assets?

0.30.41

Henrik Poulsen

Thank you, Kristian. In the guidance as you also highlight, there are obviously a number of things that impact the total performance of the group, including the factors that you also refer to but overall we feel quite good about the guidance and the range. It goes without saying that the range very much is a - or the final outcome so to speak will very much be influenced by whether we do complete a farm down in 2016 or whether they will both be completed in 2017. That is of course still the biggest swing factor in the range that we have in our guidance.

0.31.22

Kristian Godiksen (SEB)

Obviously, but on - if I just may, on the range of the EBITDA guidance specifically for Wind Power I guess you also had this guidance outline before the cable faults and the low wind energy content. How are you still able to reach the high end of that guidance range?

0.31.39

Henrik Poulsen

Again, the direction guidance that we provided for the BUs as part of the IPO process we see no reason for changing that. When it comes to wind power again the range that we provided during the IPO process and where we ultimately would come out is obviously again not least for Wind Power particularly dependent on whether we will do a farm down in 2016 or not, but we see no reason for changing the direction guidance that we have provided.

0.32.11

Kristian Godiksen (SEB)

Okay.

0.32.13

Henrik Poulsen

With the Oil & Gas process, we are still sort of early days so it would be premature for me to start speculating in what kind of transactions or what kind of structures we could foresee. We are still in the early process of testing market interest and engaging with potential counterparties so we are still at a point in time where I should not start any speculation on what the ultimate outcome would be. I hope for your understanding that it would be too early.

0.32.45

Kristian Godiksen (SEB)

Yes, fully understandable. Thanks

0.32.49

Operator

Thank you very much. Moving on to the line of Mark Freshney with Credit Suisse. Please go ahead. Your line is open.

0.32.56

Mark Freshney (Credit Suisse)

Hello, I have two questions. Firstly, on the credit ratings and the credit targets. Is it expected that a sale of the oil and gas business would that in your conversations with the rating agencies would that be expected to take you to stable or even result in an increase in your credit rating. And just secondly, I accept the recent tenders that have taken place but you know we have not had an announcement from the government yet but are your views on whether returns are currently coming out and do you notice, do you feel that anybody - any of your competitors are bidding sub-WACC returns?

0.33.51

Marianne Wiinholt

If I start with the credit rating. Divestment, potential divestment of Oil & Gas. It is not certain that that will impact the rating. We have this negative outlook from Moody's and that negative outlook has to do with the farm-downs. They have said that they would like to see more proof of the farm down models and actually they are concerned around the oil and gas. It is not what is driving the negative outlook. We do not at all see a chance to be upgraded - that is not what we are looking for and that is not what we could foresee.

0.34.37

Henrik Poulsen

When it comes to the reason that wind power tenders and return levels for sort of competition reasons I would not go into discussing specific return expectations or return levels given that these are obviously competitive tenders and auctions that we are part of. What I would say however is that when you take the most recent tender, the Borssele 1&2 project which we won in July, we take an approach of essentially adding a spread to our cost of capital that reflects our demand for value creation on a given project so for us the way we ultimately determine our bit levels is a matter of adding a particular spread on top of our cost of capital to make sure we get to the value creation that we are looking for in such a project. So that is the approach we are taking. That is the approach we took at Borssele 1&2 and we will continue to be quite focused on making sure that we extract the value creation in such bits and also going forward. When our competitors would be going sub-WACC, I obviously, I have no insight in that and I should not be commenting on that.

0.35.52

Mark Freshney (Credit Suisse)

Okay thank you

0.35.57

Operator

Thank you very much. Moving on to the line of Timothy Ho with Morgan Stanley. Please go ahead. Your line is open.

0.36.06

Timothy Ho (Morgan Stanley)

Hi good morning. Two questions from me on the oil and gas business. The first one was how do you think internally about the potential usage of any consideration that you'd receive there and secondly I know you did not want to comment on specifics about the deal but I was wondering if you can say whether the mandate that you granted to your advisors would include considering business combinations such as why you would bring your assets to a new entity and become minority shareholder or do you rule out structures that should also want to divest the catch. Thank you.

0.36.47

Henrik Poulsen

In terms of use of consideration in a potential transaction again I will have to say it is premature. We should wait and see what kind of transaction we end up in and what proceeds we are left with. And obviously at that point we would also need to again make sure that we carefully think through the priorities of protecting our credit ratings and of course also making sure that we continue to make the value creating investments that we have available to the company before starting considering other use of the proceeds

so I think we should cross that bridge when we get there. It is simply too early to start speculating about the use of consideration.

When it comes to the potential transaction structures I will say that we maintain an open mind here in terms of what kind of combinations or transactions we could engage in but it should be absolutely clear that our ultimate objective is to exit the business and get to liquidity. Whether that is instant liquidity or not that is something that we will have to wait and see but there should be no doubt that we are targeting liquidity at some point in that process.

0.38.08

Timothy Ho (Morgan Stanley)

Okay, thank you

0.38.12

Operator

Thank you very much. Moving on to the line of Deepa Venkateswaran with Bernstein. Please go ahead. Your line is open.

0.38.19

Deepa Venkateswaran (Bernstein)

Thank you. I have one additional question on the E&P division given that you have IPO'ed quite recently I was just wondering what led to a change in strategy from going to running the business down for cash to now exiting it. Is it really the commodity environment or did you think that it may complicate your IPO story? And a second question is sort of related to a previous question but if you look at the recent result I think there was one in Denmark which Vattenfall won for Vesterhav Northern Sea which cleared at around a price of 64 Euros. Obviously, your Borssele tender at 73 proceed in the market to be lower so I just wanted to understand do you actually see such a seismic shift in the cost of new projects or whether there might be any other reason to explain such low spread prices. Thank you.

0.39.16

Henrik Poulsen

On the decision to initiate an exit from oil and gas, it is no secret that it is a consideration that we also explored a year ago ahead of the IPO at that point. We concluded that it was not the right timing nor the right market to pursue a potential transaction and we ultimately brought O&G into the IPO. We have spent the past 12-15 months restructuring the oil and gas business and the oil and gas management team and the entire organisation in O&G has done an outstanding job in really bringing down costs, bringing down total cash spend, restructuring the business to focus on high-quality, low-cost assets in the portfolio and today we probably have one of the lowest break-even businesses in the entire Greater North Sea Area. And we believe it is such a strong business by now and in an even stronger position than a year ago, which also means that we are moving into the market with some confidence that there will be interest for such an asset so that is the main explanation why we are moving forward now. When it comes to the development in cost of electricity for offshore wind I would rather not comment specifically at the bid level brought forward by our competitors in the recent Danish near-shore tender. That is not really for me to comment on. But I would make a broader statement of saying that there is no doubt that offshore wind is on a curve towards still lower cost of electricity. The technology is becoming more and more competitive and in particular over the past couple of years we have seen some pretty significant improvements. That also came out in our winning bid at Borssele 1&2 where we took the cost of electricity down into the 70s per MWh, high 70s Euro that is per MWh and that was obviously a bit of a breakthrough for the entire industry demonstrating that we have come a long way. This is the result of the entire offshore wind value chain really chipping in with cost reduction initiatives but also new innovation constantly allowing us for

fast installation, higher capacity components, both turbines with higher capacity cables with higher capacity bigger blades, bigger installation vessels, stronger and more stable installation vessels so you can really cut across all the different components of an offshore wind farm and we currently see good progress for the entire industry.

0.42.03

Deepa Venkateswaran (Bernstein)

Thank you

0.42.07

Operator

Thank you very much and moving on to the line of Jørgen Bruaset with Nordea Markets. Please go ahead. Your line is open.

0.42.15

Jørgen Bruaset (Nordea)

Thank you very much. Two questions from my side, first of all are you able to give some flavour on how you think about the long-term potential in the US market with respect to the US presidential election? And just more nitty-gritty on the oil and gas business in terms of the cost base how should we think about the exploration cost when modelling cash flow in two years? Thank you.

0.42.45

Henrik Poulsen

Right, on the opportunities in the US, we are quite excited about the development in Massachusetts and the fact that offshore wind is now a carved out part of the new energy bill and as you probably know we would expect the first auction in Massachusetts to take place within the next year for a minimum size of 400 MW of offshore wind and we have a project available to potentially join such an auction so that is very sort of a tangible, significant first step forward in the US for offshore wind and as I mentioned earlier we now see the state of New York auctioning off leasehold rights off the coast of Long Island, which potentially over time could result in the first major offshore wind farm in the state of New York so we see quite tangible steps now of offshore wind progressing in the US along the eastern seaboard and we could also see further states along the seaboard potentially joining the offshore wind game over the coming few years. So all in all we remain cautiously optimistic and somewhat excited about where the US is going right now. The US presidential election obviously, it could potentially have some impact but obviously again it is way too early to say anything about that. We will be a lot smarter in about 24 hours from now as to where that is going to come out. But I think it is important to bear in mind that the states along the eastern seaboard, not least the states of New York, New Jersey and the New England states they all have each sort of their long-term energy mix challenge that they need to deal with regardless of who is the president of the United States of America. So I think all of those states will continue to look for solutions and offshore wind is increasingly a highly competitive renewables solution that I think they will consider regardless of who is the president.

0.44.55

Marianne Wiinholt

Yes and then to your second question. The exploration costs going forward. You will see very, very limited exploration costs. We have had some few committed wells and that is the cost you see in the Profit and Loss, but going forward, you know, it will be very, very, very limited.

0.45.14

Jørgen Bruaset (Nordea)

Thank you very much.

0.45.18

Operator

Thank you very much and moving on to the line of Kristian Johansen with Danske Bank. Please go ahead. Your line is open.

0.45.26

Kristian Johansen (Danske Bank)

Yes sir, thank you. First question just on the farm down proceeds again and we have got the British pound hedge - to clarify, did you say that the proceeds from the Race Bank farm down you have already hedged that?

0.45.44

Marianne Wiinholt

Yes that is right.

Henrik Poulsen

That is correct, Kristian. Yes.

0.45.48

Kristian Johansen (Danske Bank)

And how does that look for the Walney Extension and the Hornsea project. Are they also hedged?

0.45.53

Marianne Wiinholt

We have partly hedged Walney, not fully hedged. And we have not hedged Hornsea proceeds from the farm down.

0.46.03

Kristian Johansen (Danske Bank)

Okay, that is very clear. Then again, a follow-up to what you said earlier on the Gode Wind. Can you just repeat in terms of the negative impact on earnings in Q3 and Q4 from this Gode Wind delay. How are you impacted?

0.46.19

Henrik Poulsen

Yes. What I said is that we are compensated for the majority of the lost revenue, but we are compensated at 90 % of the feed-in tariff and TSO has a right for certain deductibles where they can deduct 10 days for this type of disruption before the compensation payments kick in. There is a cap on an annual basis of such deductibles only going to 18 days so that is where it caps out and we have taken those days of deductibles in Q3, which means they will not be recurring in Q4 so in other words the share of lost revenues that has been compensated in Q3 will as a percentage be somewhat lower than in Q4. In Q4, we will be widely compensated because we have very few additional days of deductibles left in Q4. In Q3, the net loss from the deductibles and the 90 % compensation of feed-in basically means that we have lost a few hundred million Danish kroner of EBITDA in Q3. In Q4, we would expect a smaller impact given that we have taken these deductibles up front. A somewhat complicated explanation but I hope that made sense, Kristian.

0.47.53

Kristian Johansen (Danske Bank)

It did very much. And just a follow-up. This compensation, is that part of the EBITDA?

0.47.59

Henrik Poulsen

Yes, that goes to EBITDA

0.48.02

Kristian Johansen (Danske Bank)

Excellent, thank you very much.

0.48.06

Operator

Thank you very much. And moving on to the line of Jenny Ping with Citi. Please go ahead. Your line is open

0.48.13

Jenny Ping (Citi)

Good morning guys. Two questions from me. Firstly, it is just strategically I know all the options are still open in terms of the the use of price feeds for the oil and gas business but I am feeling it is a straight forward gas sale cash sale. Would you be able to confirm that the use of the cash whatever it ends up being will not actually change your view on and your strategy in terms of farm down decisions going forward i.e. with all that cash sitting on the balance sheet is there a risk that you actually say we confront the ongoing programme without further farm downs? And then secondly just going back on the last questions in terms of the Gode Wind 1&2 impact. I understand you are bringing a lot of the days and the caps up front to be taken in Q3, but given Gode Wind 1&2 was only a partial year contribution a few hundred million Danish kroner EBITDA impact sounds like a quite high number and looking at page 31 of your report accounts on exhibit 6 I can only see 24 million of compensation coming through in Q3. Can you clarify whether there is another line where potentially this income, this compensation could be booked. Thanks.

0.49.54

Marianne Wiinholt

Yes first to the last question. It goes to this other line under Other Income, so you have two lines. Compensation and Other and it is included in the Other.

0.50.10

Jenny Ping (Citi)

Right, okay all 255 million

0.50.13

Marianne Wiinholt

Yes, for the quarter, yes.

0.50.16

Jenny Ping (Citi)

Okay thank you

0.50.17

Marianne Wiinholt

And then back to the other question.

0.50.21

Henrik Poulsen

Yes. On the use of the proceeds again, Jenny, it would simply be premature to start speculating on what it exactly will mean and how we are going to use the proceeds and any impact of farm downs, I mean, clearly for now we do not see any impact on the farm downs strategy as we have also reiterated today. We are in the process of farming down Race Bank and Walney Extension so I would not expect any impact on the overall strategy from this, but again let us wait and see where we end up with the transaction before we start spending the money so to speak.

0.50.55

Jenny Ping (Citi)

Thank you.

0.50.58

Operator

Thank you very much. Moving on to the line of Marcus Bellander with Carnegie. Please go ahead. Your line is open.

0.51.06

Marcus Bellander (Carnegie)

Thank you. My two questions are first what decides whether you will participate in a certain tender or not. That list you showed of tenders is still helpful but why aren't you participating in all of them automatically? And then the second, a bit of a detail question. Between construction revenue, the construction EBITDA margin was down a bit in Q3 compared to Q1 and Q2. Why is that? Thank you.

0.51.45

Henrik Poulsen

On the decision to participate in a specific tender or auction it is obvious it is something, as I said, we decide on a case-by-case basis whether to join and our considerations would obviously be quite sort of tied into what we already have in the pipeline and how our pipeline is generally shaping up. How much capacity we have for a given timeframe so we would be looking at that. We will also obviously be looking at other sort of portfolio considerations across our entire portfolio of market opportunities to see what are sort of in our view the better opportunities for DONG Energy given the capabilities we have and where we believe we can offer the most differentiation to competition so considering a bigger pipeline, the portfolio of opportunities and where we can add the most value - those would be key considerations.

0.52.44

Marianne Wiinholt

Yes and then to your next question. This construction gain; it is difficult to compare the margin quarter by quarter because included here in this construction revenue and construction gain is also the OFTO 0.53.01 because actually it is also something we construct on behalf of others and the margin on OFTO is basically zero because there you just get the cost covered so depending on the mix between the real construction contracts for our partners and the OFTO it is very difficult to compare and also these construction gains they are quite lumpy quarter by quarter so it is difficult to predict.

0.53.32

Marcus Bellander (Carnegie)

All right, understood. Thank you

0.53.39

Operator

Thank you very much and moving on to the line of Ian Turner with Exane. Please go ahead. Your line is open.

0.53.44

Ian Turner (Exane)

Good morning everybody. Can I just ask you if you saw returns going down in the auctions and tenders that you are looking at? I mean could you see yourself getting into a stage where you decided that you would not farm down assets anymore because the projects you already had on your slate had a much better return profile than new projects you could win in a more competitive environment?

0.54.08

Henrik Poulsen

It is a good question, Ian, and it is not where we are right now so we don't see that choice ahead of us any time soon as far as we can tell at least but it is a fair consideration. Should we come to such a situation it would certainly be something we would have to consider carefully how to create the most value out of our capital. But right here and now we continue to bid in auctions and tenders making sure that we bid in a disciplined manner where we constantly maintain demands on our value creation opportunity and so far we have a pipeline full for the next 5-6 years with projects that are all creating value for the company so for now it is not a key consideration but you are making a valid point should that situation one day arise.

0.54.59

Ian Turner (Exane)

Thank you.

0.55.04

Operator

Thank you very much and moving on to the line of Kristian Godiksen with SEB. Please go ahead your line is open.

0.55.11

Kristian Godiksen (SEB)

Thank you - just a comment on a follow-up. You have touched upon your FX exposure in the presentation but could you give some further information on your natural hedge for the UK part regarding the share of OPEX and CAPEX being denominated in British pounds now that all the revenue will be denominated in British pounds. And then secondly, if you could comment a bit on when to expect the first power on Gode Wind 1&2 and also maybe comment a bit on the share of compensation and how much this will impact your EBITDA compared to if it was fully up and running? Thank you.

0.55.50

Marianne Wiinholt

Yes, I will take the first question. The natural hedge pound hedge - the vast majority of our Opex is denominated in pounds. On Capex, the picture looks a bit different. Even if we get a higher and higher degree of local content, for example the Hornsea project we expect 50 % local content there is still quite a significant part being invoiced in Euro, denominated in Euro. We are working to get a larger and larger share into pounds, but for now it is still quite a significant - the majority is Euro or Danish kroner on the Capex side, but on the Opex side

Kristian Godiksen (SEB)
The majority?

0.56.34
Marianne Wiinholt
The majority of Opex is pound.

Kristian Godiksen (SEB)
And the majority of Capex is still in British pounds?

0.56.40
Marianne Wiinholt
Yes.

Kristian Godiksen (SEB)
Okay, thank you

0.56.48
Henrik Poulsen
When it comes to the loss on the Gode Wind grid outage I would say that we have by the end of Q3 we have taken more than half of it already and whatever remaining impact there would be would come obviously during Q4 this year and Q1 of 2017 but we would in Q4 and Q1 have a higher share of compensation compared to the lost revenue due to the explanation I gave before about the upfront deductibles being taken in Q3 so I said that we had already lost a few hundred million Danish kroner on the grid outage on a net basis year-to-date and we expect the amount year-to-date to be more than half of the total potential loss so I think that is as close as I can come to it, Kristian.

0.57.48
Kristian Godiksen (SEB)
Okay, fair enough. Thank you.

Operator
Thank you very much and moving on to the line of Mark Freshney, Credit Suisse. Please go ahead. Your line is open.

0.57.57
Mark Freshney (Credit Suisse)
My questions have been answered thank you.

0.58.03
Operator
Thank you very much. In that case moving on to a follow-up question from Deepa Venkateswaran with Bernstein. Please go ahead. Your line is open.

0.58.11
Deepa Venkateswaran (Bernstein)
Thank you very much. I had a follow-up on my previous question so considering the cost reduction that you see for projects like Borssele - is it fair to say that projects like Hornsea will also benefit given that the timing is not that different? So does that then create any kind of regulatory or political risks given that Hornsea obviously has been given a much higher price? Can you just elaborate on that? Thank you.

0.58.39

Henrik Poulsen

The Hornsea contract was awarded to us 2½ years ago or more and obviously at that point or since then we have seen the cost of electricity coming down but it is a contract that we took on at a point in time where we did not have that type of visibility and we have also obviously contracted parts of Hornsea at an earlier point in time so we cannot say that we on all accounts have been benefitting from the continued cost-out in the industry on the Hornsea 1 project. So we cannot really compare the Hornsea 1 project to the most recent tenders where we have been able to take in a number of additional cost-out improvements that we were not able to take into Hornsea 1 so you have to bear in mind that we are talking about 2-3 years of timing difference and a lot has happened in the meantime so I don't think that anyone should feel uncertain about the Hornsea contract. On the contrary, we have all indications that these contracts are as firm as ever. I think everybody recognises that these contracts were won in a competition at a point in time where a lot of players did not want to take the contracts at the levels - at the subsidy levels where we ultimately took them. And doing so, DONG Energy assumed a lot of strategic and financial risk when you four years back in time. A risk that nobody else in the industry wanted to take on and in doing so we led the industry forward industrially and I would also claim that by doing so we have been instrumental in now driving the cost of electricity reductions that we see materialising over the past year to two years. So all in all I think we are being for taking significant strategic and financial risks three years ago on the Hornsea 1 contract.

1.00.43

Deepa Venkateswaran (Bernstein)

Thank you.

Operator

Thank you very much. This concludes today's Q&A session and with this I would like to return the conference call back to the speakers.

1.00.54

Henrik Poulsen

Yes, let me just round it off with a closing remark saying that when I look across our portfolios of operating assets, construction projects and pipeline opportunities I am very pleased with the performance of the company. We are currently constructing 12 major assets across the divisions and all 12 construction projects are very well on track. We have very few and fairly minor issues across this significant portfolio of assets and projects, which is obviously critical to the current and future performance of DONG Energy. As such the company continues to make a lot of progress strategically and financially. On that note, let me just thank you for your interest and support and have a continued good day.