Ørsted
Q3 2024 earnings call
Transcription

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Mads Nipper

Good morning, good afternoon, everyone, and thank you for joining our earnings call.

During the third quarter, we have continued the progress of our business plan and achieved a number of significant milestones, including CfD awards for 3.5GW in the UK, favourable contract settlements for Ocean Wind 1, and signing of a partnership agreement.

We continue to see solid operational performance across our fleet of assets and good overall progress on our construction projects, though we have seen some unexpected challenges impacting the construction of one of our US offshore projects.

Looking at our financials for the third quarter, our underlying business continues to perform well, and our operational portfolio has delivered strong earnings.

EBITDA, excluding new partnerships and cancellation fees, totalled 4.4 billion in Q3 of 24, and earnings from offshore sites amounted to four billion.

The reported EBITDA for the first nine months amounted to DKK 23.6 billion, an increase of 22% over last year. And EBITDA, excluding new partnerships and cancellation fees, increased by 12% to DKK 17.2 billion.

Based on these solid nine-month earnings, we have narrowed our 2024 EBITDA guidance to DKK 24 to 26 billion, once again excluding new partnerships and cancellation fees.

During the quarter, we've commissioned 550MW of renewable capacity, bringing our total portfolio to 18.2GW. In the US, we successfully commissioned the final part of the Old solar project, Old 300, and the full 471MW Mockingbird solar project.

We also added to our construction portfolio, with the final investment decision on two US onshore projects, with a total capacity of 500MW.

A key milestone was the award of 3.5GW of offshore wind in the UK, Allocation Round 6, and thereby securing inflation-linked offtake for a 1.1GW share of the Hornsea 3 project and the 2.4GW for the Hornsea 4 project.

We're very satisfied with the outcome of the auction and, with the added capacity, we move closer to our ambition of 22 to 22GW offshore capacity by 2030.

As announced at our Capital Markets update, we plan to deliver around DKK 70 to 80 billion proceeds from partnerships and divestments in the years 24 through 26.

We expect that these proceeds will be approximately evenly split over the three-year period, and we are progressing well on this plan, supported by the recent transaction and a number of ongoing processes.

Last week, we announced the divestment of a minority stake in four of our operational UK offshore assets to Brookfield. While Brookfield has acquired a 12.45% minority share of Hornsea 1 and 2, Walney Extension and Burbo Bank Extension, Orsted will retain 37.55% ownership interest in these assets.

The proceeds of 15.7 billion are a significant contributor to our farm-down program and, at the same time, we have ensured a high level of value retention with the transaction, which we expect to close before the end of the year.

The agreement includes a unilateral option for Orsted, providing us with the opportunity, but no obligation, to repurchase the assets between two and seven years after the closing at a pre-agreed price.

We see it as an attractive option to have that call option that we can exercise, ensuring that we maintain a level of strategic and financial flexibility, as well as value upside.

Regarding the farm-down of Greater Changhua 4 in Taiwan, our dialogue with Cathay Life Insurance is progressing according to plan. Cathay has obtained the approval from the Taiwanese Financial Supervisory Commission for the acquisition of a 50% ownership stake, which marks the last significant milestone prior to signing of the transaction, which we expect to happen before year end.

In August, we shut down our last coal-fuelled CHP plant, the Esbjerg Power Station in Denmark. This marks the end of a chapter in our green transformation and is the last major step on our journey to meet our industry-leading, science-based target of reducing our Scope 1 and 2 emissions intensity by 98% by 2025. Going forward, our entire energy generation will essentially be fossil-free.

Let me turn to the developments across our US offshore portfolio.

We have taken important steps to de-risk the ceasing Ocean Wind 1 project as we have finalised the negotiations of the cancellation of several supplier contracts, with outcomes significantly better than we had assumed last year when we made our provisions for the project cancellation costs.

As a result of these favourable settlements, we have reversed more than DKK five billion of cancellation fee provision during the third quarter, which has had a positive effect on reported EBITDA.

Additionally, we have found further equipment that can be used in other projects in our portfolio, which had a minor positive effect on the provision as well.

We have recognised a net impairment loss of DKK 0.3 billion in Q3, driven by updated assumptions regarding market prices for our US portfolio, as well as increased cost and a challenge relating to the installation of the offshore substation monopiles at Revolution Wind. These developments were partly offset by the decrease in the long-dated interest rates.

Let's turn to slide four, where I will give a status on our construction projects, starting with Revolution Wind.

At Revolution Wind, we continue to make progress on the onshore and offshore construction, and have currently installed 52 turbine foundations, nine turbines, and 20 array cables. Since taking FID last year, the project's risk picture has been evolving. With our direction and our team on-site, Eversource continues to manage the onshore substation work, and there are no new developments in this area. We continue to expect to follow the updated construction timeline, with the onshore work going as the project's critical path.

Additionally, we have extended the contracted period for one of our installation vessels using an option we had secured earlier. This does come with higher than anticipated costs, but from a risk and project execution perspective we see it as the appropriate step to take. These installation vessel costs are incorporated into the impairment we have booked in this quarter.

We are managing a challenge with the installation of one of our offshore substation monopiles. It is a complication related to the piling of the monopile into the seabed, leaving the monopile in a position where, although it has been safely driven to the target depth, it may not be suitable for use as currently installed.

The cause is likely to be related to the resistance within the seabed soil, which is an extremely rare occurrence that we have only seen very few times in our experience of installing more than 2,000 monopiles. The offshore substation monopile is in a safe and stable position and, using our extensive experience, our team are assessing the root cause and establishing the best path forward for the project.

The offshore construction activities, including foundation, turbine and array cable installations, are continuing as planned and we do not expect to change the commissioning date of the project.

As a result of this complication, we are expecting additional costs to complete the project, which despite these developments still holds a positive value from an absolute life cycle IRR level, as well as an attractive forward-looking return.

This is an evolving situation and we are still evaluating all options but have incorporated a prudent cost estimate into the impairment calculation and we have increased our contingencies accordingly.

For our German program, we are working on the final pieces of commissioning at Gode Wind 3. All turbines at the project have been installed, and 21 out of the 23 turbines have been fully commissioned. The remaining two turbines are undergoing final testing, and we expect to commission the full project in the very near future.

At Borkum Riffgrund 3, all monopiles have been delivered and installed, which has been one of the supplier contracts that we have monitored diligently and worked on mitigating actions. 85% of the turbines are installed and our part of the constructions are fully on track. However, we have been informed by the German transmission system operator that the grid connection will be delayed and, therefore, first power is not expected until Q4 of 2025, with commissioning in Q1 2026.The delay of the grid compensation will be compensated according to market regulation and, therefore, there is no impact to the value creating of the project.

In Taiwan, we are progressing the construction of Greater Changhua 2b and 4, with the installation of the offshore substation about to commence. The fabrication of foundations and cable are progressing well, and the turbine foundation is delayed. Installation is expected to start in the first half of 2025.

At our Sunrise Project, we are progressing the onshore construction work according to updated schedule, and the offshore installation is expected to commence in 2025. The project is progressing on a tight schedule as we work towards commissioning at the end of 2026 or first half of 27.

As I mentioned, we have secured offtake for the Hornsea 3 project with a 1.1GW award in the recent Allocation Round 6, which also resulted in the capacity of the project to increase to 2.955MW.

In Onshore, the construction of our European and US portfolio is progressing well, with construction work ongoing in Germany and Ireland.

We have an attractive pipeline of onshore development projects, and recently took FID on two US projects with strong value creation and expect to bring further projects to FID in the coming quarters to support our continued growth in our onshore business.

With that, let me hand over the financials to you, Trond.

Trond Westlie .

Thank you, Mads. And good afternoon, everyone. For the third quarter results, let me start with slide five and the EBITDA for the quarter. For the presentation, all numbers are quoted in Danish krone.

For the group, we realised a total underlying EBITDA of 4.4 billion. Total EBITDA, including impacts from cancellation fees, is 9.5 billion. Let me walk you through the main earnings developments for the quarter.

For our Offshore sites, earnings were around the same level as last year. This was driven by ramp-up generation, higher prices on our green certificates, and improved earnings from our power trading activities.

These effects were offset by the divestment of London Array in 2023, as well as lower wind speeds and availability due to the planned outages.

Earnings from our existing partnerships were slightly lower compared to last year and were mainly related to constructional work in Borkum Riffgrund 3.

Lastly, as expected and reflected in our guidance at the start of the year, we have incurred higher costs as a result of internal spend on ceasing execution of projects and have recognised the higher share of costs being expensed.

For Onshore, earnings increased by almost 200 million due to ramp-up generation from new assets that have been commissioned.

Within Bioenergy and other, earnings from our combined heat and power plants increased by around 100 million as a result of higher heat generation, and compensation from an agreement for keeping three of our Danish power stations operational until August.

Within the gas business, earnings decreased as we recognised temporary positive effects from revaluation of our gas storage in 2023, which was not repeated to the same extent this year.

Finally, we have continued to work through the contracts relating to Ocean Wind 1 and, during the quarter, we have reversed cancellation fees of 5.1 billion due to better than assumed outcomes of the contract settlements.

Turning then to slide six, our net profit and ROCE. As part of our Q3 2024, we have recognised a net impairment loss of 300 million related to our US portfolio. The main driver is our negative impact of updated assumptions regarding power prices and costs.

These updates were partly offset by a decrease in the long-dated interest rate in the US during the quarter, leading to a lower weighted average cost of capital levels across our US portfolio. The effect from the decrease in interest rate led to an impairment reversal of 2.4 billion.

Let me walk you through the project specific developments.

For Sunrise Wind, we reversed 1.5 billion, driven by the impact from the lower interest rate. The positive accounting impact from completing the acquisition of the 50% share in the project at a price below our recoverable amount was countered by adjustments to the tax base impact and a consideration of the market appetite in relation to a potential future farm-down. Furthermore, there was a negative impact from the updated assumptions for power prices.

For Revolution Wind, we incurred an impairment of 1.2 billion in the quarter. The offshore substation monopile challenge that Mads mentioned and the extended vessel charter have led to an increase in the expected cost of the project.

In addition, we have reassessed the risks related to the offshore scope of the project, leading to higher contingencies being added. In addition, we have lowered our assumptions for the future power prices. Finally, updates to the power price assumption in our US onshore portfolio has resulted in impairment losses of 500 million.

Let me remind everyone again that as we have had to recognise impairments on these projects in the past, any changes to the business case, including movement to the interest rate, are likely to lead to further adjustment to impairments as there is no headroom.

At the same time, it is important to keep in mind that once the projects are operational, they will contribute with significant earnings and cash flow throughout their lifetime.

The adjusted net profit totalled 400 million, where the difference to last year primarily driven by exchange rate adjustments to our net financial income and expenses.

Our reported net profit was 5.2 billion, driven by the significant positive EBITDA impact from the reversal of cancellation fees relating to Ocean Wind 1.

Adjusted for impairments and cancellations fees, our return on capital employed came in at 11.5%, which is in line with the number for Q3 23.

The reported ROCE landed at 8.1% and was primarily driven by a lower EBIT as a result of the impairments and the cancellation fees over the last 12 months. Then let's turn to slide seven, our net interest-bearing debt and credit metrics.

At the end of the third quarter, our net debt amounted to just shy of 63 billion. With our cash flow from operating activities supported by our operational earnings, it was more than offset by payments of settlements related to Ocean Wind 1 contracts and a cash outflow relating to construction of Hornsea 3 transmission assets.

For the first nine months of 2024, we have had a cash outflow of 5.9 billion relating to cancellation fees from Ocean Wind 1, of which 1.8 billion was in the third quarter.

In total, we have now reversed more than six billion and, as a result of our settlements, we have around three billion left of the provision and expect to close out more towards the end of the year.

For the quarter, our gross investments totalled $9.8 billion, driven by our investment into the construction of our renewable project portfolio. In September, we executed an early redemption of the remaining hybrids, with the first reset date in November in line with standard market practice.

In terms of net debt position, I want to highlight that the proceeds from the minority transaction with Brookfield is not reflected in our third quarter accounts and, therefore, the benefit from this transaction will come during the fourth quarter as we expect to close the transaction before the year end.

Our key credit metric, FFO to adjusted net debt, stood at 13% at the end of the third quarter. Compared to last year, the decrease was primarily driven by lower FFO as a result of payments related to the supplemental contracts, as well as a higher net debt position.

However, our FFO and net debt for 2024 will expectedly be better than what we assumed at the beginning of the year, given the favourable contract settlements related to Ocean Wind 1.

As we shared in February, the ratio is expected to be lower for the full year of 2024, before starting to recover towards the targeted level, above 30%, by the end of 2026.

Then going to slide eight, our non-financial metrics. For the first quarter of 2024, our taxonomy-aligned metrics were in line with expectations.

Renewable share of energy came in at 97% compared to 92% for the same period last year. Development was driven by ramp-up generation in offshore, higher wind speeds, as well as lower coal-based generation.

For our renewable share of energy generation, we have seen an increase driven by higher share of renewable projects coming online, combined with a decrease of coal-based generation.

Additionally, the shutdown of our last coal-based, combined heat and power plant puts us on our target of essentially having fossil-free energy generation by 2025.

On safety, we are encouraged to see another reduction in the number of recordable injuries, both for our own and contractor employees.

And, finally, going then to slide nine, our outlook for 2024. As Mads mentioned in the beginning, our solid financial performance for the first nine months have led us to narrow our full year EBITDA guidance of 24 to 26 billion from previously 23 to 26 billion.

Compared to our full year expectations for the earnings mix at second quarter, we now expect lower earnings for the bioenergy and other business as a result of lower volumes coming from the delayed Tyra gas build, and less favourable development in our gas at storage, as well as lower earnings for our combined heat and power plant business.

Our level of gross investments for 2024 is now expected in the range of 36 to 40 billion, which is a reduction of eight billion compared to our expectations at the last quarter or second quarter. This is due to timing effects across our project portfolio as significant milestone payments are expected to move into next year.

And with that, we will now open for questions. Operator, please.

Operator

We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question, you may press star and two.

Questioners on the phone are requested to disable the loudspeaker mode while asking a question. Anyone who has a question, may press star and one at this time.

Our first question comes from Peter Bisztyga at Bank of America. Please go ahead.

Peter Bisztyga

Good afternoon. Thank you for taking my question. I'll just do one for now. So I wanted to explore the risks to Sunrise and Revolution Wind should basically Trump win the presidency this week. I presume it's likely we'd lose the bonus ITC as a minimum, and I think your impairment tables now show that that would be nearly a five billion Danish kroner impairment.

But do you have any concerns that the administration could move to delay or even block construction, either indirectly or directly, on these projects? So, for example, by refusing to defend some of the legal cases that have been filed against BOEM with respect to Revolution. I'm interested in your views. Thank you.

Mads Nipper

Thanks a lot, Peter. So let me remind everyone that the two under construction projects we have in offshore, Revolution and Sunrise, are both fully permitted. Since this is the role that the federal level is playing, this is something where we have not changed that risk outlook at all and we are confident that that the construction can move ahead.

Peter Bisztyga

Sorry, can I just follow up? There is a possible risk you could lose the bonus ITC on those, is that correct?

Mads Nipper

We do not assess that as a material risk. We are assuming 40% and this is something we expect to be firmed up in terms of the energy community credits, so we see immaterial risk of that happening.

Peter Bisztyga

Good. Thank you very much.

Operator

Our next question comes from Jenny Ping at Citi. Please go ahead.

Jenny Ping

Thanks very much. A couple of questions from me, please. Just going back to the transaction with Brookfield, I just want to understand, what conversations have you had with regards to the FFO net debt definition, given that it's now going to be effectively a minority stake treatment? Is that still included, so does it artificially boost your FFO net debt numbers, given it’s done on a consolidated basis?

And then linked to that, obviously with the call option in place, it can be seen as you've just taken out a loan to repair the balance sheet for the time being. Are there any insights you can give us on the pricing of the buyback of the assets, or what rate you're paying in effect for that loan?

And then lastly, I noticed that it's very much of a buyers’ market today in some of the assets. There's a lot of assets coming up for sale. I know you've got a balance sheet fix to make, but is there any aspiration to acquire some of these assets that are coming up for sale to bolster the longer-term plans and growth profile of Orsted? Thank you.

Trond Westlie

When it comes to the Brookfield transaction, as we do with all our farm-downs and transactions, we of course evaluate all the different structures and the elements to each one of them. When it comes to this transaction, we are selling 25% or 24.5% of our part of the asset and, as a result of that, not more than that is taken into consideration as such.

For all the transactions, it is important to us to look at the FFO multiple relative to where we are because we are in a transition, and we need to strengthen part of our balance sheet. So that of course is part of it, but that is not the driving force for the structure of the transaction as such.

Mads Nipper

I can comment on your last question, Jenny. In terms of the assets for sale, we are fully focused on executing on our strategy. We will of course assess options, but we have no specific plans or need to reach the ambitions that we set out at the plan that we launched in February.

Jenny Ping

Thank you very much. Sorry, Trond, if I can pin you down a bit in terms of the FFO net debt. So you will do it on a group basis? There's no minority adjustment as a result of the minority share that you no longer own?

Trond Westlie

Well, it has of course got to be recorded as a minority interest in both the P&L and the balance sheet. But, other than that, what you alluded to was the discussion we had around FFO to net debt as a condition to the transaction as such, and that has not been any driving force. It's more an overall transaction together.

We have also, as you mentioned, the option which is not in the money as such. It's more an element of flexibility that we actually find very interesting relative to the position we are in today.

Jenny Ping

Okay. I might follow up with the IR team because I don't think it's super clear but thank you.

Operator

Our next question comes from Deepa Venkateswaran with Bernstein. Please go ahead.

Deepa Venkateswaran

Thank you. I'm probably going to also follow up on the same point. So you've mentioned that the deal has a high level of value creation. Because of the accounting, you're not obviously able to quantify the book gains.

Would you be able to provide an indication of, what was the book value of the assets of your stake that you're selling so we can work it out? As from our assumptions, roughly, maybe it's DKK five billion book value. Maybe you could say if we are way off.

Secondly, the call option. Right now you say it's not in the money. Presumably, if you exercise this after four or five years, the cash flows from the assets have run off further. They're already five years old I think on an average now, so presumably this valuation already reflects that runoff value, etc. What would be the circumstances under which you will buy them back?

Maybe you could just help explain on what circumstances you might buy them back. Is it power price assumptions, interest rate changes, or your balance sheet being in a better position in a few years? Could you just help maybe explain that? Thank you.

Trond Westlie

Regarding the transaction, we have looked at it. We are looking at this transaction to be recorded when we close it and then we target that in the fourth quarter as basically a minority sale where we are not looking at the book values, and we haven't really looked at the alternative way of booking it. So, as of now, I cannot give you any guidance on that.

Going forward, the option value is of course an element that we're looking for the flexibility and the dynamics. As I said, since it's not in the money today, I guess that relates to what you can look at, when you actually look at the market price development and so forth in the UK market going forward. And that's basically what the triggers then will be.

Deepa Venkateswaran

Okay. So it’s then a higher bar price or something of that sort. Okay. Thank you.

Operator

Our next question comes from Casper Blom at Danske Bank. Please go ahead.

Casper Blom

Thank you very much. Also a question regarding the Brookfield transaction. You sold down now part of the, I would say, operational assets and selling below the 50%. You've also said in the past that doing so was probably part of the farm-down plan you presented in the early part of this year.

Are we now done with that part of the plan, or should we expect that there could be additional farm-downs of parks where you today own 50%? Thank you.

Mads Nipper

Thank you, Casper. We have very deliberately not given details of the transaction or the farm-down plan that we launched in February, and that is to retain full flexibility to ensure that we pursue the farm downs that are most attractive for us.

So we are not going to give any specific guidance on it, but you could say overall, as we also communicated, the simplified, standard model of farming down 50% and then there are select cases where we would also sell minority shares of operational assets.

The one thing that we did mention, and this is still likely to happen, is a sale of a minority share of West of Duddon Sands. We did talk about that in February and that is, therefore, something you can still expect to happen.

But any further comments on the details will not be made because that would take away flexibility for us to pursue the most attractive farm-down options.

Casper Blom

That’s very clear. Thanks a lot, Mads.

Operator

The next question comes from Harry Wyburd at BNP Paribas. Please go ahead.

Harry Wyburd

Hi, everyone. Thanks for taking my question. So I wanted to turn to the five billion writeback you made on the cancellation fees. I'm interested to know what you'd spend that additional headroom on.

Would you just bank it as lower debt ratios? Would you want to use that money to reduce the number of farm-downs you do, or even increase perhaps your organic capex plans?

I guess the five billion on its own is not an insignificant amount of money, but I'm also interested from a more general sense, if other things go better from a cash perspective in future, where you have a preference of putting in any incremental balance sheet dollar that you get. Thank you.

Trond Westlie

Well, I think we're very happy that it ended up this way and that the team that has dealt with resolving the situation we had in Ocean Wind has come as far as they have.

Having said that, and also as you alluded to, five billion is a big amount of money. But if you look at the proceeds level that we're actually looking for in 24, 25 and 26, it is around about this 70 billion level.

So, in that sense, it helps us in the pressure of this, but it's not a significant number in the overall funding of our business plan towards 26 or 2030. So I don't think this result actually takes us to a position that we want to elaborate on priorities going forward on that measure.

Harry Wyburd

Okay, fair enough. Thank you.

Operator

Our next question comes from Alberto Gandolfi at Goldman Sachs. Please go ahead.

Alberto Gandolfi

Hi, and thank you for taking my question. I'll stick to one. I just wanted to ask you, what percentage of Sunrise and Revolution, US projects in general, what percentage of equipment or services are imported?

The reason I'm asking is because, just in case we assume a levy is imposed by a new administration, I was wondering, do your contracts foresee any passthrough? I guess the answer is not, right, because you basically have a contract.

I'm just trying to gauge the risk here of, I wouldn't call it a trade war, but incremental levies maybe delaying the delivery of the equipment and leading to more impairments, or perhaps increasing the costs of what you are developing.

Again, I know it's a what-if question, but if you could help us navigate understanding the contract and what percentage is imported, it would be really helpful. Thank you.

Mads Nipper

Thanks a lot, Alberto. I can't give you the specific percentage because we simply don't have that top of mind. As we told, we are actually quite well advanced on the construction of Revolution. 53 out of around 65 monopiles have been installed, nine turbines, and a lot of the equipment is already there. So, in that sense, you can assume that the outstanding there would be relatively limited.

And then, if there is, and, again, this is pure speculation, but there would be an implementation period, which we are convinced that, should that even happen, that this would be something there where there would be a period to ensure that the effect is, in any instance, even in a worst case scenario, quite manageable.

Alberto Gandolfi

That's actually helpful. Thank you so much, Mads.

Operator

Our next question comes from Rob Pulleyn at Morgan Stanley. Please go ahead.

Rob Pulleyn

Hi, thank you. I'm going to shift gears, given lots of questions on the existing topics already. I observed from one of your slides that in Poland, Baltica 2 is now pending FID, I suppose it was pending FID before, rather than being indicated that it was a 2027 COD.

I was wondering what's changed. Is there any material capex spent which may lead to some impairments there? If you could add a little bit more colour, that would be super helpful. Thank you.

Mads Nipper

Very happy to, Rob. No, there are no changes. We are in exactly the same situation as we have talked about before and there are no changes to the expected schedule.

We are working towards an FID, with the main outstanding being the project finance for our partner, PGE, whereas the EPC parts of the projects are well progressed and also without any negative surprises, with our current knowledge.

So, there is no material news on that and we hope to work towards that FID towards the very end of the year.

Rob Pulleyn

Okay, thank you.

Operator

The next question comes from Jingjie Yang at UBS. Please go ahead.

Mark Freshney

Hello, good afternoon. Sorry, it's actually Mark Freshney from UBS, but thank you for taking my questions. Firstly, on Hornsea 4, clearly a very large increase in the strike price. What are your indications on costs telling you, and how do you sit within the WAC to 150 plus 300 bips return?

My second question is just on wind speeds. We're now three and a half or almost five years into a period in which wind speeds seem to have been structurally lower. I understand that you've commissioned work on this and you've done your own work to try and understand this.

But what confidence do we have that many of the existing assets, which were built on a business case with a given IRR and a given wind speed and load factor, what certainty can you give us that those load factors still stand? Thank you.

Mads Nipper

Thanks a lot, Mark. You'll be unsurprised to hear that we're not going to comment specifically on the value creation of Hornsea 4 and also, therefore, where it sits in the range of 150 to 300 basis points relative to WAC.

But, as we said before, we are satisfied with the value creation of the projects and, since the award, it has progressed further as we planned.

Also specifically on the cost we are not going to give you any details, but, as you'd expect, which is also why the price came in higher, the per megawatt capex is higher than it than it was for Hornsea 3, which was contracted maturely before the steep end of that of curve. But we are satisfied with the returns of both projects.

In terms of the structurally lower wind, we are actually not, at least where we have our offshore assets, seeing a structurally lower wind this year. It's very, very close to normal wind speeds and it was also close to last year.

So, therefore, we have no concerns that where we have by far the majority of our assets that we are looking at. We had one really challenging year in 22, but 23 and 24 so far has been very close to normal, if I don't remember mistakenly. As a matter of fact, this year has been a tad above normal winds.

Mark Freshney

Okay. Thank you very much. Very interesting.

Operator

Our next question comes from Dominic Nash at Barclays. Please go ahead.

Dominic Nash

Good afternoon. Thank you for taking my questions. Can I ask two questions? Firstly, on your capex numbers where I think you've dropped 2024 guidance by 20%, which seems quite a big drop this late in the year. I think you said it's to do with timing.

Can you just remind me again, your capex numbers, is it based on an accrual or on cashflow basis and will that reverse in future years?

The second question I've got is, I was intrigued by what's going on in, I think it was in Sweden yesterday when I think the government basically has cancelled a whole bunch of offshore wind projects for security reasons.

Is this going to be a trend that we might see throughout the whole of the Baltic in light of the Russian threat and then, whilst you look around the rest of the world at some other assets, I think potentially in maybe even Taiwan, if Taiwan wants to be able to see what goes on beyond their radar?

I'll be intrigued to see what your thoughts are on offshore wind and security. Thank you.

Trond Westlie

I'll take the easy part of your questions. On the capex side, yes, it is on a cashflow basis. The second part is also a yes, that it's the timing element and, therefore, the cashflow then are going to be pushed forward to the later years.

Mads Nipper

I'd be happy to comment on the defence considerations and specifically in Sweden but let me start by saying that we fully understand the concerns of the Armed Forces and the government in Sweden to ensure that security concerns are taken seriously indeed.

That said, Orsted actually has considerable experience in working with other Baltic Sea countries on collaborating with governments and Armed Forces in terms of actually utilising offshore wind farms in a constructive way towards strengthening defence.

I can't go into detail, but we are one of the few developers who actually have NATO cleared personnel to work very specifically on solutions that can help, and we have that both in Denmark, in Germany and in Poland.

Given our dialogues with these governments, we have no reason to believe the direct question you have, whether those security concerns will be something that will spread further, to be something that stops or slows down offshore wind.

Dominic Nash

Okay, thank you.

Operator

Our next question comes from Olly Jeffery in Deutsche Bank. Please go ahead.

Olly Jeffery

Hi. Thank you. I just wanted to return to the Revolution Wind. So, two questions on that. One is, can you give a breakdown of the 1.7 billion additional impairment in this quarter? What is that split between vessel monopile issue and other issues that there might be?

And then, I know that you're saying that there's no risk as it currently stands to the commissioning date of that project in 2026. But I just wanted to understand that, if you continue to have problems with installing the monopile for the substation, how much time effectively do you have to resolve that before that 2026 date might come as a concern?

And then finally on Taiwan and that sale, can I confirm that you're confident that the proceeds at closing and the proceeds of that will come through by the end of the year, or are you just hoping to get the deal done with proceeds coming next year? Thank you very much.

Trond Westlie

On the changes to the project, it is really the elements coming in on Revolution. Basically, as Mads said in his introduction, it is the vessel that has come to closing of the agreement, together with the monopile challenges that we have looked at and are in the midst of the mitigation evaluations relative to how to solve it.

Those are the elements, together with a review of the project, when it comes to the offshore part on the contingencies that we have catered for, so those are the elements that go into the 1.7 billion. Further than that, we are not going to be very specific.

Mads Nipper

Let me comment on the risk of further schedule impacts. We don't we see that risk currently, Olly, and that is because the critical path in terms of the schedule of the projects is on the onshore substation.

So, therefore, the current assessment is that, even in a conservative scenario, the installation of monopiles will not be something that we foresee will impact the overall schedule.

This is also because we are well progressed. We have installed the majority of the monopiles already, so we cannot see that that is something that would have a schedule risk either.

For Changhua 4, this is one where we do expect the signing, if I understand your question correctly, both the signing and also a closing very close to New year. So it is expected this year but could potentially be into early next year.

But that's the schedule and, since the last regulatory hurdles have been overcome, we are very confident that it will happen at around that timeline.

Olly Jeffery

Okay. Thank you very much.

Operator

We continue with Helene Kvilhaug Brøndbo, DNB Markets. Please go ahead.

Helene Kvilhaug Brøndbo

Hello. I also had some questions related to his quarter's impairments. Since the offshore part has already been asked about, I thought I could go into the onshore one.

So I was wondering if you had any details on how much of those impairments relates to what you define as higher costs and how much to lower prices, and what costs are up?

My second question relates to the farm-down on Sunrise. How do you see this progressing? Do you think that, I guess both the supply chain issues in the US, as well as the supply demand balance of projects with a lot of projects to be sold in the US now, how has that impacted farm-down or the acquisition appetite?

Trond Westlie

When it comes to the impairment on the onshore, there are two elements that drive the effect of that during this quarter. It's the interest rate effect that has a positive element, and the second thing is more a technical element, that it's relating to our adjustment of long-term market prices.

That is a pure technical element because it is an impairment done basically on the financial derivative coming out of a contract on one of our onshore assets that drives the reduction on an NPV on the project.

As a result of that, it's really, effectively, a technical downturn, even though it is a hedged accounting element, and that is basically coming out as a 700 million Danish kroner adjustment. That's one element. So there is no cost element that drives the impairment elements on the onshore. It's a pure technical, in our view, the adjustment to the impairment.

On the Sunrise follow-up, the market is of course challenging. In the market, we have seen the changes. We are, as usual, planning our process very diligently and are doing our sounding on the investors. But, of course, as you're saying, the more negative trends coming out of the US market, of course it will challenge our way to go forward.

But, as we see it now, we haven't changed our view on the likelihood of being able to farm-down going forward. But of course it's election today, so many things could happen. But, as of now, we have not changed our views and our plans relating to farm-down of Sunrise.

Helene Kvilhaug Brøndbo

Thank you.

Operator

Our next question comes from Meike Becker in HSBC. Please go ahead.

Meike Becker

Thank you so much for taking my questions. If I could come back, please, to the asset rotation on the farm-down program. As you have guided throughout the year, it's going faster than expected, but is the quality as expected, or better or worse? I guess with the first round of deal announcing with the minority treatment, that is difficult to assess.

Would you be willing to talk about 2030 net income expectations? You have given guidance on an EBITDA level, but internally I'm sure you have a view on your net income expectations for 2030 as well.

Would you be willing to share with us if, relative to your in-house expectations, without saying what the numbers are, is it better? Is it worse? Or, is it similar to what you said on the EBITDA range, the same? Thank you.

Trond Westlie

In relation to our targets that we have for 26 and 30, we are working towards those numbers. As of now, we are moving towards those guided targets that we have given. We see it more naturally to actually give you updates on our longer-term targets once a year than just because of elements coming into every quarter.

So, as a result of that, swe actually do think that we are not giving you any updates on the 26 and 30 targets. As of now, they're still our targets. It's still within our working space. So, as of now, we do not have any other updates than to say that 26 and 30 is firm.

When it comes to the specificities that you're talking about, about minority interest, we haven't really considered the effect of those and that is also dependent on the farm-down processes that we are going to do going forward. So, all in all, I see this as a more holistic overview that we're not going to do on this quarter call.

Meike Becker

Okay. Thank you.

Operator

Our next question comes from Ingo Becker with Kepler. Please go ahead.

Ingo Becker

Thanks very much. Good afternoon. On the Brookfield transaction, a question, please, as well. The price you got of 37 Danish krone per kilowatt does actually look good versus the 44 you achieved on average in the previous 50% farm-downs.

I'm just wondering if you can share if your own assessment for these projects in general have changed, or if your own internal IRR calculations over time have remained the same, and you would explain the roughly 17 percent drop in the price. And, again, I don't think this is a lot for a five-year period on average, whether that's sheer passage of time or whether other things have changed.

And also, if maybe that type of farm-down where you keep consolidating a 50% stake so it doesn't cost you any EBITDA, you get cash in, and during that funds flow operation actually improves, if we might see that again? Or, more often, it's not a viable way of doing a farm-down, also maybe with other projects?

The other questions I had would, please, still be on the Swedish situation. You have commented on that. I'm just wondering if here is a new element included, as you mentioned that you are generally in talks with governments on defence issues.

My understanding so far was that you might use your monolith towers, certain radars or something. Here, it seems to be the case that the Swedes are actually worried that the wind parks prevent the detection of unfriendly actions, rather than itself being the target.

Is there a new element here, or have you come across these worries in other situations before? Is it really Swedish, Russian specific? Thank you.

Trond Westlie

When it comes to the value of the assets with Brookfield, we agree with you, that we think the transaction is value accretive and financially attractive. The change from before is, of course, that the interest rate has changed. Together with that, the CFD period is shortened and, as a result of that, there's more emergent risk coming into the valuation.

So, all in all, there are elements going into this, but the transaction, as we see it, as per today's market conditions, we see actually a very high level of value retention. So, all in all, a good transaction for us.

When it comes to the elements, so going forward, whether it's going to be a minority interest or proportional consolidation, that depends on where we actually see value creation in the different transactions and what counterparts we're going to have. So, it really depends on the elements in front of us.

We actually do think the value of the transaction and the financial attractivity for us and the value retention are the biggest drivers, and that's what we're going to look for. So it's difficult to give you guidance on where it's going to be, but it's not unnatural for a company of our size to have some minority interest in there.

Mads Nipper

I'll happily comment on the Sweden question, which is an extension from before. So we have not come across, in our dialogues with other governments and Armed Forces, the situation where applying radars or other technology, sonar technology or other technologies should be an additional concern. On the contrary, with the knowledge I sit with today, this is an isolated Swedish view.

Ingo Becker

Okay. Thank you.

Operator

The next question comes from David Paz at Wolfe. Please go ahead.

David Paz

Hi, good morning. Thanks for taking my question. can you hear me okay?

Trond Westlie

We hear you.

David Paz

Okay, thank you. Just thank you for all the detail on Revolution. Just maybe a couple follow-up questions. With the monopile issues you identified and the vessel extension, are those things that arose in recent weeks, or…? I believe you mentioned something on potential vessel extension in the past, but is it just something that's more new or something that's been percolating?

And then, how will you be providing progress updates on the, I believe you characterise it a rare occurrence? How do we know it's successful, and is there an operational project that that has had this issue to which you can point? Thank you.

Mads Nipper

Thanks a lot. So, the issue, we have mentioned before that we are working on potential further mitigations on the projects to protect the schedules and also balancing the risks of the projects and how to best mitigate these.

Now, this extended vessel lease is one that has come at a higher than anticipated cost and that is a negotiation that has been closed very recently, so, therefore, that is new.

Likewise, the monopile issue is actually very recent and it is something where this has happened within literally the last couple of weeks, which is also why we had an early but a prudent assessment of what the expected costs and impact of that can be.

In terms of the second part of your question, how to provide updates, we will obviously do that in our quarterly calls, but it is new information. To the best of our current knowledge, we believe we have taken a prudent approach and, like Trond said, we have also generally taken a risk review and updated our contingencies for the project.

You also asked about whether this monopile refusal has happened before. As I briefly mentioned in the introduction, it has happened twice before with over 2,000 monopiles installed and, therefore, it is extremely rare that it happens. So this is not something where we see an extended risk, but it is something in this type of EPC project that can happen, but on very, very rare occasions only.

David Paz

Okay. And just the higher costs, more related to the vessel than this monopile refusal issue, I presume. Is that correct?

Mads Nipper

Now, we are not going to share the split, as Trond said, of this. We won't go into the details of the different pockets, but the three categories are the vessel, the monopile refusal expected cost, and the higher contingencies and power price assumptions. Those are the boxes and there will be no further specification of that.

David Paz

Okay. Thank you.

Operator

We continue with some question follow-ups, starting with Casper Blom.

Casper Blom

Just a quick one. Thank you. You mentioned that you had updated your power price assumptions and that had some effect on the US business. If you could maybe elaborate a little bit on what you've changed and what your new assumptions are, if you would be happy to share that.

And also maybe a little bit more insight to your methodology of wanting to do this. Is this something that you've decided to do for some reason, or is it part of an ongoing process? Thank you.

Mads Nipper

Thank you, Casper. It's a fully standard process where, with a certain interval, we update our long-term power prices and, therefore, we also accordingly update the view on the business cases. When a project is in impairment territory, any change to that project will obviously become visible in our accounts.

In this case, the update of the longer-term power prices has meant a decrease of the US power prices, which is as opposed to Europe where the update has actually not brought a further decrease. So this is an isolated issue and it's fully part of a standard operating procedure that we have done for a very long time and see prudent to do at a certain interval.

Casper Blom

Understood. Just as a follow-up, maybe just because I'm curious, but when you when you take these views on the longer-term power price, are these analyses that you do yourselves, or are you applying an average of external consultancies, or what's the process? And is there a reason for deciding on a higher power price in the US?

Trond Westlie

Well, this is a process which we have. It is fairly thorough. We have a good group of people that are very into the details of the development of the market prices in the territories that we are, and we have a thorough process within the business.

Of course we use all the benchmarks, external benchmarks as a part of it, but of course also that we have a separate view on it. So we have a thorough process, we have both a quarterly and an annual process on this, and that is very much our own work that we do for ourselves and do not disclose to anyone.

Casper Blom

Okeydokey. Thanks a lot.

Operator

Our next follow-up comes from Peter Bisztyga at Bank of America.

Peter Bisztyga

Hi, it's Peter Bisztyga here again. So I just wanted to follow up on the Revolution Wind construction process. Is it fair to say that, given that you've now got over 80% of the monopiles installed, the turbines are going up, most of the equipment's on-site, you've now got the vessel contracted...

Okay, you've had a one in 1,000 issue on one monopile, but hopefully you won't have two of those. Is it fair to say that the window for further operational impairments has narrowed considerably here? Or are there any other significant known unknowns that we need to be aware of that could throw up a problem in the next few quarters?

Linked to that question, do you think that the contingencies you've made for Sunrise Wind are adequate, given the problems that you've had so far at Revolution? Thank you.

Mads Nipper

Yes, happy to comment on that. You're right, Peter. Despite these recent challenges, we are well-advanced in the construction of Revolution.

Also, it gives me reason to mention that, despite this monopile installation challenge that we are facing right now, as opposed to some other project disruptions that have happened in our industry, construction is continuing full speed at the same time.

So there is no disruption of the further turbine monopile or turbine installation process, or array cable installation process. That continues at full speed at the same time, which is also why, to the question I got before, is that we do not think this introduces any material risk of further project delays.

So with 80% of the monopiles installed and turbine installation also happening and picking up in speed, this is, everything else equal, is being de-risked and, therefore, is something, with the current contingencies, we feel good about.

But that's it, we can never say that there are no risks left in a project until it's done. But we do feel comfortable with the current knowledge that what we have now makes this a robust project.

In terms of Sunrise Wind, yes, we are of course assessing that all the time. As we said, what impacted us last quarter and, therefore, also the overall project timeline onshore in Revolution, that is fully on track for Sunrise.

So, that is one critical bottleneck and we also do see that there is no news on the monopile deliveries. We are still on plan that we announced in the last quarter for that monopile supply. So yes, with our current knowledge, we do feel that that is an appropriate level.

Peter Bisztyga

Very good. Thanks very much.

Operator

The next question comes from Mark Freshney in UBS.

Mark Freshney

Hello. Thank you for taking my question. Mads, just strategically thinking, in the 2030s, given that essentially your pipeline through to 2030 is basically almost fixed down, beyond 2030, the areas which have served you well, which is UK and Germany, you've basically run out of seabed or consented seabed that's high quality, which is arguably a good position to be in.

But you're very much at the mercy perhaps of the US, Taiwan, but you don't have particularly much consented seabed and you'd be competing for bundled rights and projects and contracts. So my question is, what are the options for dealing with this and how do you think about beyond 2030?

Mads Nipper

Thanks a lot, Mark. You're right that with the awards on Hornsea 3 and Hornsea 4 we essentially have got to where we would need to be by 2030. We retain options open until then, but for now this would be something that would bring us there on the offshore side.

We are developing new opportunities in the UK, so, for example, on Isle of Man. And of course we'll be watching also closely what are upcoming seabed auctions from the Crown Estate and watch out what would be a good and opportune time to also potentially acquire new real estate there. But this is something we would be watching and we are in no rush to secure that.

Being at the mercy of the US and Taiwan is a bit of a harsh word. We actually see both markets as very attractive. But bear in mind that the centralised auctions of which, for example, Denmark, Germany, Netherlands, Belgium, these are options where you don't need to have the proprietary seabed.

The last couple of auctions in Germany we have not found attractive, but we also have a number of additional projects in our pipeline, such as the 1.6GW Greater Incheon in Korea. We've got an almost 5GW lease in Australia and we will, of course, continue to watch out for opportunities, along with the significant remaining part of the Lease Area 500 in the US.

So we do feel, on balance, that with a combination of an expected high amount of centralised tenders and an attractive pipeline, that we can choose the most attractive options against that we are in good shape going into the 2030s.

Mark Freshney

Thank you very much. Very clear.

Operator

We continue with a follow-up from Harry Wyburd in BNP.

Harry Wyburd

Hi. Thanks, everyone. Thanks for taking another follow-up. So I'm not sure to what extent you'll be able or willing to comment on this, but I wanted to ask about Equinor taking their stake in you.

I'm particularly interested, given that there's an element of irony, because you're obviously trying to raise a lot of funding and then they come in and take a big secondary stake in you.

So, were there any discussions with Equinor before them taking a stake about perhaps whether they would look at buying some assets off you instead of buying you, or even take a primary stake, which obviously would solve funding issues?

Does the presence of Equinor change how you think about managing the business and the balance sheet looking forward, and could they be a partner for capital raising or funding via asset sales in future? Thank you.

Mads Nipper

You're very right, Harry. I will not comment specifically on the changes related to our shareholder base. We became aware of Equinor's increased ownership share following only their announcements to the public market. We remain fully focussed on executing our strategy and delivering on our mid and long-term targets, and it's not for us to comment on Equinor's potential intentions.

Harry Wyburd

Okay. Thank you.

Operator

Our next follow-up comes from Dominic Nash in Barclays.

Dominic Nash

Hi, and thank you again for a follow-up question. This morning, the UK NESO published their Clean Grid 2030 program. I don't know if you've had a chance to look at it, but I just thought I'd ask you what your thoughts were and the opportunities to Orsted.

On that as well, the zonal pricing in the UK, are you for or against zonal pricing in the UK and what impact would that have on Orsted? Thank you.

Mads Nipper

Thanks a lot, Dominic. You're right in your assumption that the day has been a little bit too busy for us to read that material. I propose you pick up the dialogue with IR and we'd be happy to share our views.

Dominic Nash

But zonal pricing has been around for a long time. Do you have a view on that one?

Mads Nipper

Not one that we'd share at this stage.

Dominic Nash

Okay. Thank you.

Operator

Our next follow-up comes from Deepa Venkateswaran in Bernstein.

Deepa Venkateswaran

Thank you so much for allowing a follow-up. Actually, I wanted to go back to something you said earlier, Mads, about a potential tariff in the US being phased in. So, right now obviously Revolution Wind is very advanced, but Sunrise you're just going to start.

Could you maybe explain what you think a construct of a transition phase might be, and would there be any way to get some of the equipment over to the US from Europe earlier? I don't know if your turbine supplier is even manufactured, but maybe some ideas on what this transition might look like. Thank you.

Mads Nipper

Thanks, Deepa. No, this was pushed on a question of what might happen only. We do not have any specific scenarios. But, just saying that, for Revolution that's to a very large extent imported.

For Sunrise, we would feel comfortable with the current schedule of the project. That with what, even in the case of this, would be introduced, which again is purely speculative, then we would feel that this is something that can be managed with what would be expected to be efficient. But we have no specific hypothesis or knowledge around that that we can share.

Deepa Venkateswaran

All right. Okay, thank you.

Operator

Our last follow-up for today's conference comes from Olly Jeffery in Deutsche Bank.

Olly Jeffery

Thank you. I just wanted to ask about the three billion provision you still have on Ocean Wind, given the large cancellation fee reversal you've had in Q3. Given whatever those provisions are specifically for, to what degree do you have any confidence that we might see a further cancellation reversal in Q4? Is that a realistic probability or not, given the nature of what these provisions are for? Thank you.

Trond Westlie

Thank you. The estimate that we have taken this quarter is of course our best estimate of how we're going to end up. As a result of that, that's of course why we have the three billion.

The reason for mentioning the three billion is really to show that we've actually come down to such a low level that the concern around winding up Ocean Wind is coming to very much a close, and that was really the reason for mentioning the three billion.

Mads Nipper

Thank you very much. Since there are no further questions, I just want to thank you very much for your questions. Your engagement is always appreciated. I wish you a good and safe day.