

## DONG Energy A/S

### Transcript :: DONG Energy to divest its upstream oil and gas business

Operator

Dear participants. Welcome to this conference call regarding DONG Energy's divestment of the oil and gas business. DONG Energy CFO Marianne Wiinholt will go through the specific details of the transaction and then we will open up for a Q&A session. I now hand over the line to Marianne Wiinholt. Please go ahead.

Marianne Wiinholt

Thank you. And thank you all for joining this call. We have today agreed to divest the entire share capital of DONG Exploration and Production A/S to INEOS. We are very happy to finalise this divestment which will complete the transformation of DONG Energy into a leading pure play renewables company. Since we made the decision to divest our upstream oil and gas business in November 2016, we have worked actively to secure a full exit of the oil and gas business and to secure the optimal conditions for the long-term development of the oil and gas business. With this deal we have obtained just that.

Furthermore, we have secured a visible path to liquidity and we expect to close the transaction in Q3 2017.

If you then go to slide 3. Looking into the key financial elements of the deal, it includes an unconditional payment of DKK 7 billion, a contingent payment of DKK 1 billion related to the Fredericia stabilisation plant as well as a contingent payment of DKK 0.7 billion which is subject to the development of the Rosebank field.

As part of the deal, INEOS will acquire DONG E&P A/S and then take over the decommissioning liabilities of around DKK 7 billion. INEOS will assume the financial exposure of the O&G business as of 1 July 2017, which means that DONG Energy will retain the cash flow generated in O&G until this date.

The free cash flow in Oil & Gas was DKK 2.1 billion in Q1 2017, including positive effects from hedging. As part of the deal, DONG Energy will retain all hedge contracts related to the O&G business where the market value at the end of Q1 2017 was DKK 1.9 billion.

Part of these hedges will run off in the second quarter of 2017. For accounting purposes, the O&G business will continue to be classified as discontinued operations in DONG Energy's accounts until closing of the deal.

The transaction is expected to result in a gain on sale of enterprises of approximately DKK 2.5 billion. To get to this gain, you should use the capital employed of O&G which at the end of Q1 2017 amounted to DKK 2.2 billion.

To this capital employed you should add the reversal of part of the Hejre provision in connection with the Hejre settlement which we made earlier this quarter. In addition, you should take into account the recycling of reserves under equity to profit and loss of around DKK 0.7 billion. We have also made provisions related to tax, exit of insurance pool etc. which should be deducted to come to the gain.

Also, you should deduct DKK 0.2 billion related to the Hejre stabilisation facility as this is also included. This will be described in further details below.

The gain will be presented as part of net profit from discontinued operations in DONG Energy's Financial Statements and the net debt reduction as a consequence of the deal will be DKK 5 billion at the time of closing.

If we then move to slide 4, there are a few further details to the deal which are worth noting. The transaction includes vendor loan notes, which implies that of the total unconditional payment of USD 1,050 million a total of USD 250 million will be paid over a period of 3 years from closing the transaction.

Out of the USD 250 million, USD 150 million will be paid in equal portions of USD 50 million in 2018, 2019 and 2020, respectively, and the remaining USD 100 million will be paid in 2020 or earlier subject to FID on Hejre.

A total of USD 150 million of these vendor loan notes are interest-bearing and they will therefore have a positive impact on the net interest-bearing debt at the time of closing.

Taxes and capex creditors as of 30 June 2017 of around DKK 1.5 billion will be deducted from the consideration payable to DONG Energy as these items relate to the activities up to this date.

As I mentioned before, the deal also includes a contingent payment of USD 150 million related to the stabilisation plant at Fredericia which will be paid by INEOS to DONG Energy over a 10-year period starting between 2019 and 2021. DONG Energy, on the other hand, will pay an amount of DKK 1.2 billion to Oil Pipe which is assumed to be paid over a 10-year period also.

The net deficit of these two payment streams, which is DKK 0.2 billion, is included in the gain statement as I mentioned earlier.

The closing of the transaction is conditional upon regulatory approvals and certain other third-party approvals. The transaction does not change DONG Energy's previously announced outlook for 2017 as Oil & Gas is presented as assets held for sale and discontinued operations and O&G results are therefore not included in the EBITDA.

I will now hand over to question and please go ahead.

0.07.11

Operator

Ladies and gentlemen. If you have a question for the speakers, please press 01 on your telephone keypad and please hold until we have the first question.

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

0.07.28

Deepa Venkateswaran from Bernstein

Thank you. I have three questions. The first one is on what is your expectation on free cash flow from the oil and gas business for the first half of 2017 including the impact of any hedges which you will close or any other liabilities that you have towards this business presumably excluding the 1.5 and the second question I wanted to ask is, you mention that there is like a 5 billion impact on accounting net debt. Could you just help us reconcile that number with the sales consideration

and presumably this does not include sort of the impact on the decommissioning liabilities which is part of your economic debt but presumably not the financial debt. Thank you.

0.08.15

Marianne Wiinholt

Yes. On the free cash flow from Oil & Gas for the first half I cannot give you an exact number because basically we don't know, but as I said the number for the first quarter was 2.1 billion. That was an extraordinarily high cash flow so you cannot expect a similar cash flow in the second quarter so significantly less in Q2 than Q1 but more precise I can unfortunately not be. If we then go to the hedges, what we will do as we have now signed this transaction is that we will start locking in the value of the hedges that in a way will belong to us, but the cash flow from these hedges will come over a period of time so some of it will come in 2017, some of it will come in 2018 and some of it will come in 2019. So you will not see an immediate effect from us locking in the value of these hedges. It will come over time.

0.09.16

Deepa Venkateswaran from Bernstein

But you will realise the full value of..

0.09.17

Marianne Wiinholt

We will realise the full value, yes. And then your second question was on the accounting net debt. Yes I can help you reconcile that one. You start with the unconditional payment of the USD 1,050 million corresponding to DKK 7.0 billion. Then you should deduct the payable taxes and capex costs which was I said it was DKK 1.5 billion and then you deduct the vendor loan notes of DKK 250 million which we do not get immediately but we get them over the three-year period but then you add again 150 out of the 250 that is DKK 1 billion, that is the interest-bearing part of the vendor loan notes and then you come to approximately DKK 5 billion.

0.10.18

Deepa Venkateswaran from Bernstein

Okay, the non-interest bearing part of the vendor loan, can you please explain what do you classify that as?

0.10.26

Marianne Wiinholt

That is just a net working capital item

0.10.29

Deepa Venkateswaran from Bernstein

Okay, okay. Okay so that means the decommissioning is a separate impact so when we look at the...

0.10.36

Marianne Wiinholt

When I talk about net debt it is the accounting net debt. It is not the economic net debt. Yes.

0.10.43

Deepa Venkateswaran from Bernstein

Okay, thank you, that is really clear.

0.10.47

Operator

Our next question comes from the line of Kristian Godiksen from SEB, please go ahead. Your line is now open.

0.10.53

Kristian Godiksen from SEB

Hi, thank you, a couple of questions from me as well. Firstly, does INEOS take over all litigation relating to the oil and gas business, also including the Fredericia stabilisation plant as the matter seems to be an asset transaction? Secondly, just if you could confirm that all tax-related matters are included also regarding potential impact on international joint taxation. And then thirdly, if you could confirm that the Fredericia payment is contingent on development on Hejre or otherwise confirm which other contingencies that are in there. I will start off which those. Thank you.

0.11.34

Marianne Wiinholt

Yes. On your first question, this is not an asset deal. It is a share deal so they basically take over the company with all the claims and what is in the company. There are special carve-outs. I think I will start by explaining the Fredericia stabilisation plant. The way it is done this payment related to Fredericia is that it is not dependent on an FID on Hejre. But it is dependent on the capacity being available in 2019 for Hejre, but even if they don't decide to build Hejre, INEOS will still be obliged to make the payment. We consider it extremely unrealistic that the capacity should not be there and that is the reason why we have included this full contingent payment into the gain statement. So it is contingent, but we consider it so unlikely that we basically have dared to take the full amount into the gain statement.

Then you asked about the taxes. Historic claims related to taxes that is an obligation that we take on ourselves and that is why I said when I went through the gain statement that you should take into account that we have made a provision for these potential tax issues that we have related to earlier years.

0.13.20

Kristian Godiksen from SEB

And IJT is there anything there?

0.13.22

Marianne Wiinholt

Not really a significant impact for the group. No.

0.13.32

Kristian Godiksen

All right. Then if I could have maybe a follow-up. I just .. on the oil pipe, is that 100% owned by you already now and it is hence only an internal transfer? And then maybe just lastly on more – yes, not so much of a household question but more how many did you negotiate with or how many bids did you receive on the oil and gas business? And lastly what is your view on the feasibility of the Rosebank field?

0.14.03

Marianne Wiinholt

Yes, your first question was on the ownership of the oil pipe. Yes we own the oil pipe now but as part of the political agreements we will divest the oil pipe to Energinet.dk and we expect to do that within 2017. So basically you can say that it is a payment we make to an external party. You should

consider it like that. So we get 1 billion approximately from INEOS and we pay 1.2 billion to Oil Pipe meaning Energinet.dk you should consider and then the net of that is this DKK 200 million.

0.14.48

Kristian Godiksen

Marianne, can you explain to me why the discrepancy between the price between ..

0.14.55

Marianne Wiinholt

That is an equalisation matter. That is the way it ended up in the negotiations. On the process, sorry I cannot give you any more details on how many have been in the process. But I can just say that we are very, very happy with the buyer and it is also very positive for the O&G staff.

0.15.23

Kristian Godiksen

All right and the feasibility of the Rosebank? Your view on that?

0.15.31

Marianne Wiinholt

I can't really say anything there. It will very much depend on future oil and gas prices and I am not the one to guess on future oil and gas prices. So, but it is – that is definitely a strong field with very good reserves so if oil and gas prices are not – or here it is oil prices – are not too low then it will probably be a very strong case for the buyer.

0.16.00

Kristian Godiksen

Okay, so it is NPV positive with current spot prices?

0.16.05

Marianne Wiinholt

Not with current spot prices. I think you should have a bit higher prices than current spot prices.

Kristian Godiksen

Okay, thank you Marianne. Okay.

0.16.14

Operator

Our next question comes from the line of John Musk from RBC. Please go ahead. Your line is now open.

0.16.21

John Musk

Yes, good morning everyone. Just two questions. Firstly, on the tax losses, sorry the tax assets that you had within the E&P business. Was there anything paid for those and if not it seems they are now just lost to you. And then secondly, can you just give a broad indication on the impact of the disposal on your credit metrics?

0.16.50

Marianne Wiinholt

Credit metrics. Yes. The first one, the tax losses. It is hard for me to say how much was paid for the tax losses. I believe that there was some value attributed to the tax losses in Denmark because basically you can build out the Hejre Field without having to pay tax probably at any time due to

the tax losses. But exactly how much I can't say. And yes, you are right the tax losses are lost for DONG Energy after this transaction.

And then your second question was on the..

0.17.33

John Musk

Credit metrics

0.17.35

Marianne Wiinholt

On the credit metrics yes. It does not significantly impact our credit metrics. Oil & Gas has been cash flow positive so the FFO contribution from the business has been strong so we consider it neutral I would say to the credit metrics.

0.17.59

John Musk

Okay. Thank you

0.18.02

Operator

Our next question comes from the line of Sam Arie from UBS. Please go ahead. Your line is now open.

0.18.09

Sam Arie

So hi, good morning everybody and thank you. Actually my question was the tax losses question which we just had so that is covered I think. What I would ask in addition is just coming back to the contingent payments they sort of talked about some of the ins and outs. Can you just give us a sense of the I guess your confidence that those contingent payments will be received then for would you say 100% confidence that those will be received in full, or what sort of risk that you put around that. That is all. My other questions have been answered already. So thank you.

0.18.44

Marianne Wiinholt

Yes, if I should just comment a bit again on the contingent payments we consider the contingent payments related to Fredericia stabilisation plant very firm and on Rosebank it is the opposite. There is significantly more uncertainty related to Rosebank so they probably are not taking the same approach.

0.19.09

Sam Arie

Okay thank you.

0.19.13

Operator

Our next question comes from the line of Timothy Ho from Morgan Stanley. Please go ahead. Your line is open.

0.19.19

Timothy Ho from Morgan Stanley

Hi, good morning. Three questions from me. The first was how you are considering the use of these proceeds in your future capital allocation decisions. The second one is to what extent does this de-risk the funding needs for the pipeline through to 2020 with this consideration coming in? And does it reduce the need for the next kind of couple of farm-downs? And thirdly, is there a figure for the amount of 2P reserves that result along with the construction? Thanks very much.

0.19.52

Marianne Wiinholt

Yes, on the capital allocation decisions, actually when we had the Capital Markets Day we already in a way counted in that we would divest Oil & Gas during 2017 and what we said at that time still holds true. And that is that we would continue the green growth and most of the investments will go into offshore wind and we also opened up for this not farming down and that is something we are still considering so basically I will just say that this was exactly as expected when we had the Capital Markets Day, also the transaction amount of this, around DKK 7 billion, also very much as expected. So no change there.

On 2P reserves, it is.. we had a 2P number in the Annual Report and of course it is up to the buyer to evaluate what they consider 2P reserves, so it is not for me in a way to comment on that.

0.21.06

Timothy Ho from Morgan Stanley

Okay, thank you.

0.21.11

Operator

And I remind you that if you want to ask a question you will have to press 01 on your telephone keypad now. Our next question comes from the line of Jens Thomsen from Jyske Bank. Please go ahead. Your line is open.

Jens Thomsen from Jyske Bank

Thank you, good morning. I assume that you would be able to take out at least one of your hybrids with the increased equity that you get from this transaction. I guess that you will have an equity increase of the 2.5 plus 7 so what are your plans here? It is true that you will have the ability too if you choose to?

0.22.04

Marianne Wiinholt

We see hybrids as a permanent part of our capital structure so we have no plans to change anything there. We have opened up for the fact that we actually will have excess investment capacity if we look a bit into the future but hybrids are not something we are looking into. We could potentially, if we don't find value creating investment opportunities, look into more dividend share buy-backs etc. but hybrid – it is not something we are considering.

0.22.34

Jens Thomsen from Jyske Bank

Okay and the jump of dividend that is not in the pipeline either?

Marianne Wiinholt

As I said, we are considering three things. First of all, the main priority is to do value creating investments and then we will see in the near future. There are a lot of auctions coming up so we will see in a way what will be the future build-out after 2020 and that will of course be important to

see how much excess investment capacity we have. Then number two priority is to look into the farm-downs and then the third is dividend share buy-backs and it is too early to say. For us it is very important to see what kind of pipeline we will secure over the next period in these upcoming auctions.

0.23.29

Jens Thomsen from Jyske Bank

Thank you very much. Thank you.

0.23.33

Operator

And we have a follow-up question registered from the line of Kristian Godiksen from SEB. Please go ahead. Your line is now open.

0.23.40

Kristian Godiksen

Thank you. Just two short ones. Firstly, could you comment on what the interest is on the vendor notes? And then secondly, I was just wondering have you been in contact already with the rating agencies regarding the divestment of the oil and gas business? Thank you.

0.24.00

Marianne Wiinholt

Yes. The interest is 4.3% and you ask whether we have been in contact with the rating agencies and yes we have.

0.24.15

Kristian Godiksen

Okay, sorry for not being clear then and then I was hoping you maybe would answer and give some flavour on what their view on this transaction was now that you are, yes don't have the oil and gas business anymore?

0.24.27

Marianne Wiinholt

First of all, it is too early to say for them also. They need just to form their view and have all the data and it is up to them to comment on that, not up to us.

0.24.38

Kristian Godiksen

Okay, okay. Thank you.

0.24.43

Operator

And as there are no further questions registered I will hand back to the speaker.

0.24.48

Marianne Wiinholt

Yes, we are very happy to finalise this divestment which completes the transformation of DONG Energy into a leading pure play renewables company and we thank you for your interest and have a nice day.