

Ørsted
Covid-19 update
25 March 2020, 15.00 CET

Operator

Hello and welcome to the Ørsted Covid-19 update. Throughout the call all participants will be in listen only mode and afterwards there'll be a question and answer session. The meeting will end no later than 15.45 CET. Today I'm pleased to present CEO Henrik Poulsen and CFO Marianne Wiinholt. Please begin your meeting.

Henrik Poulsen

Thank you and good afternoon everyone and thank you for joining this call at short notice. I'm sure you have all read the announcement that we released this morning.

I will spend just a few minutes on a few introductory remarks and then we'll move to Q&A.

The world is indeed in uncharted and unpredictable territory. The Covid-19 pandemic is having a severe impact on our lives, livelihoods and societies at large and it is against this backdrop of uncertainty that we today wanted to provide you with an update on our operational and financial situation and give you an overview of the risks related to Covid-19 which could potentially impact our business.

The health and well-being of our employees and their families remains our top priority. Before anything else we want to make sure that our employees stay safe and healthy and that we support the efforts to contain the spread of the virus. Under these challenging circumstances. I must say I have been very impressed with our employees' ability to adapt quickly to the new situation and overcome the many sudden obstacles related to travel restrictions, working from home and other preventive measures. The dedication and professionalism of the whole Ørsted team makes me both optimistic and grateful and gives me comfort about Ørsted coming through this crisis in the best way possible.

Now turning to the business let me start by saying that our business model remains very resilient and operations remain stable. This allows us to maintain our financial guidance for 2020.

In particular, I will highlight that our asset base is fully operational at normal availability rates. This goes for our offshore and onshore wind farms, our heat and power plants in Denmark, our supply businesses and our trading operations.

Our construction projects are all progressing according to plans.

There is a risk that key suppliers get delayed and that our own personnel are constrained by the travel restrictions put in place in many countries, but so far we have been able to find solutions to the challenges.

Due to our extensive hedging program we also remain largely shielded in the short to medium term from the current extreme market volatility and we see limited risk of being materially impacted by a decrease in gas and power prices as well as the volatile currency rates.

I also want to make clear that our liquidity reserve is sized to support our significant investments in renewable energy projects for quite some time even in stressed scenarios. Before the crisis we took advantage of the very strong funding markets and prefunded future cash needs so we today can support our operations and investment program through 2020 and 2021 without further funding.

Although Ørsted remains stable and risks are relatively contained we do remain vigilant about the unfolding global crisis and we have identified a number of risks which we systematically monitor. I'm sure all of you have read our announcement so let me just highlight a few of the key factors that could potentially impact our business.

As mentioned, travel restrictions and quarantined employees may impact our ability to keep our site operations and our internationally staffed service operations vessels fully manned. This may over time impact the availability of our wind farms but we see no Covid-19 related impact on availability so far.

Travel restrictions and quarantines may likewise impact our suppliers' ability to deliver critical components to projects currently under construction. We are in close contact with all key suppliers and monitor the situation on a daily basis. Our construction projects continue to progress according to plan and with embedded contingencies that to a certain extent can mitigate potential delays.

The negative economic impact of the global crisis also increases credit risk on key suppliers, counterparts and customers. However, the majority of our income is rooted in very strong investment grade, state owned or state guarantees entity, guaranteed entities and to a lesser extent utilities and corporates. This will support our resilience during the macro economic downturn which we must expect.

We also get questions regarding increased risk of negative power prices in the look, in the light of lower power demand and how we are exposed in such scenarios. Power demand has certainly decreased in the markets most affected by the virus but so far power demand in our coal markets in Germany, the UK and Denmark are much less affected and we cannot detect any change in the occurrence of negative prices. In a scenario where more subdued power demand for longer we could potentially see an increase in the number of hours with negative prices, but as we are partly compensated we assess the overall impact to be limited.

Turning to our development pipeline we remain dependent on public authorities to progress the permitting and consenting of awarded projects and development sites and to progress the maturation of regulatory frameworks including upcoming tenders and auctions. Such processes could potentially be delayed due to travel restrictions, people working from home and government stakeholders being occupied by crisis management. To mention a specific example, we have seen executive orders signed by several US governors regarding mandates to require non-essential employees staying home due to the Covid-19 situation. We could see impacts to timelines from delays to our geo-physical and geo-technical survey campaigns that are planned to start this spring and we are currently working with local and state elected officials on the best path forward.

We activated our corporate crisis management organisation after the outbreak of the virus. This organisation is headed by the Executive Committee and chaired by me. We will maintain the corporate crisis management organisation in place for the time being to steer the company through this unfolding and unpredictable crisis.

Let me end these introductory remarks by saying that although the immediate and direct impact of the crisis on Ørsted for now is limited we cannot afford to be complacent about the situation we are

in. We will stay on our toes and we will manage our risks and I am convinced that we can keep the company stable and in good shape through the crisis while also keeping the Ørsted team healthy and safe.

On that note I will now open up for questions.

Operator please.

Operator

Thank you. If you would like to ask a question please press star two on your telephone keypad now. That's the star key followed by the number two to ask a question. There'll be a brief pause while questions are being registered.

Our first question comes from Kristian Johansen from Danske Bank. Kristian you are now unmuted, please ask your question.

Kristian Johansen

Yes. Thank you. So for your onshore business you have two projects scheduled for completion in Q4 this year. In the event that these projects are delayed into 2021, does that mean you will lose your tax credits?

Henrik Poulsen

We currently see continued good progress on the two projects, Willow Creek and Plum Creek, so for now we have no expectation that they will not be completed before the end of this year. If they step into 2021 we'll have to wait and see what the situation is. There are ongoing discussions in the US as to whether there should be an extension of the of the period on the safe harbour regulations that basically would allow projects to still maintain their existing tax credit even if there are some small delays potentially up to a year. It's a situation that we currently consider low likelihood, Kristian, and even if it were to occur there is I think a reasonable hope that there may be some changes to the framework that would allow everyone in the US to be slightly delayed in light of this situation.

Kristian Johansen

Ok, that's quite clear. Then my second question is regarding your farm down of the Changhua 1 & 2a project. To what extent has the current crisis impacted your negotiations with potential partners?

Henrik Poulsen

They have not been impacted. That process continues and it is still well on track.

Kristian Johansen

Ok thank you.

Henrik Poulsen

The project is also still well on track in terms of construction and fabrication progress.

Operator

Thank you, Kristian.

Operator

Our next question comes from Deepa Venkateswaran from Bernstein.

Operator

Deepa, you are now unmuted, please go ahead.

Deepa Venkateswaran

Thank you. I had one bigger picture question and one more smaller. The bigger picture I was just wondering what your views are Henrik on how you see governments respond to the green, you know do you see green stimulus or do you actually see governments take a pause because there are more pressing problems and it's quite likely also that emissions would be much lower. So how do you see this change, your vision of this green world?

And the second question just in terms of the under-construction projects you already mentioned Taiwan and the onshore wind. Would you be able to just talk about other critical projects? I'm guessing Borssele 1 and 2 and Hornsea 2 just what stage they are, and then how much of a delay can you kind of still accommodate in their schedules so that everything is still on track?

Henrik Poulsen

Thank you Deepa. It's at this point in time, it's of course difficult for me to predict exactly how this is going to impact the political support for the green transformation. There are a couple of things you could point to; one is it's obvious that we have a near-term crisis here which we need to deal with as a global society, and it's obviously quite natural that that all forces are mobilized behind sort of fighting the corona virus. Now with that said the climate challenge is not going to go away, and even if there will be a temporary reduction in emissions due to the economic downturn emissions will climb back as the global society comes back to a more normalized situation which will again accentuate the need for more a long-term systematic reductions of global CO2 emissions. So we are facing a pressing and severe challenge in terms of climate change and it's obviously not going to go away. So I don't have concerns about whether there will be a focus on climate change once we have managed our way through this Covid-19 situation. It's also quite clear that there will obviously and are being very extensive stimulus packages released all around the world and we see more and more political demand for these packages being spent on something that point towards the future as something that will help future proof society for coming generations and we see more and more political calls for some of these stimulus programs to be invested into among other things green energy and I have only a few hours ago been invited by the EU Commission to join a session on this topic. So it also goes to show that people are aware that if we have to spend a lot of money to revitalize global economies post Covid-19 we might as well spend them wisely and I'm quite convinced that politicians will agree that spending them on green energy is a smart thing to do.

In terms of the more specific project status. On Borssele 1 & 2 we are in good progress. We continue to install foundations and array cables at the moment and we have good visibility on the turbine production as well, so at the moment we have roughly two thirds of all foundations in place at Borssele, so we are making good progress and are still optimistic that we could get this project completed before the end of this year.

At Hornsea 2 same situation. Fabrication of the critical components is underway and well in progress and there obviously we are not yet in extensive offshore installation but we are basically seeing the fabrication being well on track.

Same can be said about Changhua 1 & 2a. We have currently a lot of focus on this on the big steel structures. We have as you know we have a jacket foundation suppliers both in Taiwan and in South Korea and we also have pin pile manufacturing going on in both countries and we have throughout recent weeks and the past few months in both Taiwan and South Korea been able to sustain production all along. We have had to develop a few work arounds to overcome some of the travel restrictions we face but it has been impressive to see how people have come up with new ways of working together even when they can't travel. This for instance includes us moving towards video-

based quality assurance inspection where we have some of our specialists from Europe dialling into video conferences and doing quality assurance work on the steel structures directly out of Copenhagen, and we are quite comfortable with these solutions that they are quite manageable. So overall fabrication well on track and that goes essentially for all components for Changhua 1 & 2a as well.

In the US, Sage Draw is drawing towards completion and we are hoping that we will complete the Sage Draw onshore wind farm within a matter of weeks. It should be essentially within 1 to 2 weeks, so that's pretty much done.

We continue to see good progress on both Plum Creek and Willow Creek. Plum Creek being more advanced and there we are receiving and installing turbines at the moment.

And then last but not least we have the large Permian solar farm where we have more than 100 people on-site at the moment obviously working under all of the guidelines and regulations to keep them safe but basically getting everything ready for the site to soon start receiving solar panels coming in from the Far East, mostly from Vietnam and there we also have good visibility on the supply chain.

So, we remain all around. So far, we are cautiously optimistic that we will be able to continue to progress all of these different construction projects.

Obviously, there are risks as we have highlighted in today's announcement and as time goes by the risk picture may change. If it changes materially we will obviously keep you informed.

Deepa Venkateswaran

Thank you, that was very detailed. Thank you very much.

Operator

Thank you. Again, if anyone would like to ask a question please press star two on your telephone keypad now. That's star key followed by the number two to ask a question.

Next question we have is from Matthew Phillips from Fidelity International. Matthew, you are now unmuted, please ask your question.

Matthew Phillips

Afternoon, Thanks. Thanks for the update.

Just a quick question on issuance. You said that all your CAPEX and construction programs are covered for both this year and next with the liquidity you have on hand. Does that mean you don't plan to issue in the next year or do you think markets would have calmed down? Could you see Ørsted coming to the market at some point in the next sort of 12 to 18 months? Thank you.

Marianne Wiinholt

Yes, we have liquidity for the next two years with the CAPEX programme as we have laid out but also taking into account the Radius and B2C and lightning proceeds that we expect to get later this year. We cannot rule out that we will go to the market over the next two year, but we will see, and we will probably do that but we will see when the time is right for that.

Matthew Phillips

Ok, thank you.

Operator

Thank you, Matthew.

Our next question comes from Sam Arie from UBS. Sam you are now unmuted. Please go ahead.

Sam Arie

Thanks for this call. I have a similar question but relating to farm down. I'm just wondering if you could comment on how you see the appetite for farm downs in the current environment. Are your current negotiations proceeding exactly as expected or are there or have there been any delays or anything that makes you think that farm downs might be more difficult to get completed in the environment? Thank you.

Henrik Poulsen

Thanks Sam. We haven't seen any changes in terms of the dynamics around farm downs. As you all aware we are in an active process on farming down Changhua 1 and that process is very much on track and I think everyone in that process are quite comfortable with the progress we're seeing at the project, so no changes as far as we can tell.

Sam Arie

Okay thank you very much. Good to hear.

Operator

Thank you Sam.

Our next question comes from Marcus Bellander from Nordea. Marcus you are now unmuted. Please go ahead.

Marcus Bellander

Thank you. Just a quick one. I'm wondering if there is any market volatility is benefiting your trading unit in any way. Should we expect a strong trading result in Q1?

Marianne Wiinholt

No Marcus, we could probably benefit from it but we have chosen to reduce the risk in our market trading because we think with the current volatility that's the prudent thing to do. So we are doing very well in the area but we are not taking on additional risk twice the contrary we are reducing risk.

Marcus Bellander

Understood. Thank you.

Operator

Thank you.

Our next question comes from Kristian Johansen again from Danske Bank. Kristian you now unmuted. Please go ahead.

Kristian Johansen

Thank you. Just to follow up on your hedging. So, as I understand it your I mean in terms of your merchant exposure that is pretty much fully hedged for this year. Can you just help me to what level you are hedged for 2021 and 2022?

Marianne Wiinholt

Yes. So we are more or less fully hedged both for 2020 and 2021 and then we are also to quite a large extent hedged into 2022. So in that respect we are in a very good position.

Kristian Johansen

Okay, that's quite clear. Thank you.

Operator

Thank you.

And our final question comes from Deepa Venkateswaran from Bernstein. Deepa, you are now unmuted. Please go ahead.

Deepa Venkateswaran

Thank you. I had a question on the German subsidy free project and I was just wondering how you feel about it now given their power prices and carbon prices or and do you still see appetites from corporates to embrace these kind of contracts and do you also see any implication from the oil price meltdown on maybe future competition from the oil majors as you're competing in auctions? Thank you.

Henrik Poulsen

Thanks Deepa. It's quite evident that with the very low gas prices, CO2 prices, fossil fuel prices in general we see an impact on power prices all around Europe at the moment. We'll have to wait and see how power prices basically come back to what we would expect to be more normal long-term levels once we on the other side of this Covid-19 crisis. So right now I think it's quite unpredictable exactly where we are going to be on power prices in half a year or a year from now and we don't have to make any decisions on the German zero subsidy project anytime soon, We're still progressing the project, we're still talking to corporates about potential PPAs, but I think for now everyone understands that you put things a little bit aside and focus on the crisis and once things normalize I would expect including that the power prices will expectedly normalize again. We'll take a fresh look at the project, but for now I can say we have certainly in no way given up on the project on the contrary.

Deepa Venkateswaran

Ok, and then the oil majors.

Henrik Poulsen

On the oil majors, again, it's a little unpredictable depending on what angle you take. The fact that they get much lower prices on their existing core business will that drive them to accelerate the strategic shift towards renewable energy or will they in fact come under increasing financial pressure basically leading to them having to cut back on their investment programs. I could probably take slightly different angles on what this will mean in terms of the oil majors engagement in future auctions. So again, I would I would probably be careful of not trying to predict exactly what it's going to mean. I think we'll have to just work out through this crisis over the coming months and see where the world comes out on the other side. But that certainly goes for the oil majors. I could come from different angles and come to different conclusions

Deepa Venkateswaran

Okay. Thank you so much.

Henrik Poulsen

Thanks Deepa.

Operator

Thank you, Deepa.

Our next question comes from Sam Arie from UBS. Sam, you are now unmuted. Please go ahead.

Sam Arie

Thank you again. Seems like this is going to be a quick call so can't resist the opportunity to ask another question.

And you've obviously said in the past that you might have M&A opportunities going forward. And I'm just wondering I'm sure you're very close to the market but can you comment at all on how the M&A landscape looks and I'm wondering is there a particular pipeline of developers that are more interested in now than finding a buyer than they might have been a few months ago. I'm not sure you know if the crisis creates any opportunities for you in that sense so interested in your comment. Thank you

Henrik Poulsen

Thanks Sam. I'd say right now we're very focused on maintaining full business continuity across our operating sites and our construction projects and that's our primary focus, and then obviously the safety and health of our of our staff. So we're not spending a massive amount of time on M&A at the moment as you would imagine. Whether this situation whether we on the other side of this crisis will see more M&A opportunities, more developers that might be looking for a safe harbour and someone to team up with, we'll just have to wait and see. Again I would be careful of not trying to make too many predictions about what the world will look like on the other side of this crisis. I can only say we obviously have strategic flexibility and also the balance sheet to act if there are very good opportunities in the market at some point but it's not a primary focus for us right now.

Sam Arie

Of course, of course. Thank you for your comments. That's helpful.

Henrik Poulsen

Thanks Sam.

Operator

Thank you, Sam.

Our next question comes from Elchin Mammadov from Bloomberg Intelligence. Elchin, you are now unmuted. Please go ahead

Elchin Mammadov

Hello everyone. I just have a quick question. It's a variation on what's been asked before but slightly different. Again, assuming we are entering into a deep recession. What do you think, I mean again everyone's focus is on the oil major, but what do you think the likes of Macquarie, CIPs and other infrastructure investors who are turning to developers are going to do? Do you expect them to increase the activity or you don't expect major change?

Henrik Poulsen

Again, it's very difficult to predict. I think a lot of this will depend on how fast we come through this crisis and how fast we return to more normalized commodity pricing, interest rates etc. and we get more visibility on what's ahead. So again, I'd be careful of not trying to put myself in the place of Macquarie or the major infrastructure funds. They still have an abundance of capital that they want to deploy. Whether they will have more or less appetite for our sector again I don't want to start predicting it right now, we'll have to wait and see.

Elchin Mammadov

Thank you.

Operator

Thank you. That was our final question. I will hand back to you Henrik Poulsen, the CEO, to finish today's call.

Henrik Poulsen

All right. Once again thank you all very much for dialling in at short notice and also thank you for the questions. Much appreciated. And most importantly take care and stay safe and talk to you soon. Bye bye.

Operator

Thank you. This now concludes today's call. We thank you for joining. You may now disconnect.