



## OMV Q3 2017 Conference Call – Q&A Transcript

OMV published its results for January – September and Q3 2017 on November 9th, 2017. The investor and analyst conference call was broadcast as a live audio- webcast at 11:30 am CET. Below is the transcript of the question and answer session, by topic, edited for readability.

### OMV Group

#### 1. Capital allocation

Question by **Matthew Lofting – JP Morgan**

On capital allocation and if you could talk about how you see the order of priorities from there especially given the geared balance sheet starting point that you referred to. And I guess in some ways sort of taking 1 or 2 of the previous questions and putting it together in terms of if you could just talk a bit more holistically around how you see the preliminary framework around 2017 cash return given the strength of year-to-date cash generation and then balancing that against where you see the ambitions of the management team around both inorganic and organics or CAPEX requirements on a 2018-plus view.

Answer by **Reinhard Florey:**

Well, the priorities regarding capital allocation are as I've mentioned it in my summary for quarter three. So first priority, of course, is the CAPEX to support our project. The second is strategic acquisitions. The third is dividend payment, and the fourth is that we will also strengthen the balance sheet. As we have already a very strong balance sheet, of course, you can see it exactly in that order. And well, more generally, I think, of course, there are ambitions of OMV to grow the company, to take opportunity if there are positive possibilities in the market. But our ambition always is towards value. We are not lured into any topics where there is still some doubtfulness about that. We also do not tend to be overoptimistic regarding the market environment. So we'll look at everything very carefully, but we will also not hesitate if there are opportunities that make a perfect fit and an opportunity for value increase for the company. You were asking about 2017 cash return to shareholders. The dividend policy, of course, and the dividend itself will be determined after the full year 2017. So I will not pre-empt anything there. But I would like to still reflect our dividend policy that we have newly engaged on in 2017, which says based on the dividend that we have paid for 2016 of EUR 1.20, that we anticipate to progressively grow the dividend according to what we see in our cash flow and profitability development in the company.

#### 2. CAPEX

Question by **Hamish Clegg – Bank of America Merrill Lynch**

You've guided us to EUR 1.7 billion for the full year number. You have reached EUR 1.1 billion after 9 months, which implies quite a large step-up in the fourth quarter especially when you've done around EUR 400 million on a quarterly basis. Are you telling us that your CAPEX is going to be EUR 600 million? And could you outline which projects or why it's going to be that much higher in the fourth quarter according to your guidance? The proportion of your CAPEX going on your Upstream, you've guided us towards 75%. Are you still happy with that?

Answer by **Reinhard Florey:**

Indeed, we are guiding for close to EUR 600 million CAPEX in quarter 4, as the math clearly gives it. That comes from increased activities in Romania, in Norway, but also in Austria. We do have our exploration and near-field drilling activities in place. We have ramped that up with several more rigs that we are planning to drill on. So this is the reason, and we are quite confident that we are having this level then in Q4. There is also in Downstream a retail refurbishment that we are adding in our program, and this adds also up to the expected EUR 600 million.

Question by **Giacomo Romeo – Macquarie**

You lowered your CAPEX guidance again for 2017, and I was wondering how you're thinking in terms of 2018 and what sort of figure this can move to.

Answer by **Reinhard Florey:**

Regarding CAPEX 2017, as I have explained, the guidance that we have given, that has no impact that we are expecting anything less in 2018. So we stick with the expectation that we are around the EUR 2 billion, and this is something which has not changed and is also not adversely affected. As I said, there are even some spillover effects that we are expecting from 2017. So I think this is, for modelling purposes, a good figure.

### 3. Nord Stream 2

Question by **Henri Patricot – UBS**

On Nord Stream 2, it seems like there's bit of a higher risk of this project not going forward given the changes in Germany and EU regulations. So I was wondering what would be the impact on your gas business if the project doesn't go ahead and what would happen to the financing you have provided to the project at this point and that you should provide over the next few months.

Answer by **Reinhard Florey:**

Honestly, we wouldn't directly see it like that. We feel that from a legal side with the clarifications that have been put on the table by the Secretary of State, we feel that OMV's position rather is confirmed and strengthened. Of course, many topics still to be discussed in that area, but we are very much committed to this project. We are confident that this will go ahead. And if your question is whether the situation where Nord Stream 2 is inhibited or anything like that would have a negative impact, we are not thinking really of that scenario because we think it's an extremely important project for Europe's energy supply. But as you see that our engagement there is a purely financial engagement. We feel that there is strategic benefit from that, but that is not something that would threaten our profitability in any way. But as I said, we are fully committed to this project because it has a high benefit not only to Europe, but also to the OMV ability to supply more gas and a stable gas supply to our customers.

### 4. Tax Rate

Question by **Giacomo Romeo – Macquarie**

Can you provide an update on your tax rate guidance for the full year given that you had a very low tax rate this quarter and whether your previous indication still stands.

Answer by **Reinhard Florey:**

I have mentioned that the comparably low clean tax rate of 19%, that we showed for Q3, has some specific reasons, which are not entirely in our business, but specifically also have to do with the amount that we have received as a dividend from the Pearl environment which comes already as a net effect to us. Of course, that has a positive impact on that ratio. However, year-to-date, we are at around 24% clean tax rate, and we anticipate around 25% for the full year and that has not changed in the context of Q3.

Question by **Oleg Galbur – Raiffeisen Centrobank**

I understand the impact of a barrel payment and the high Downstream earnings on your third quarter tax. But now with the Libya having stronger impact on the Upstream earnings, could you please explain to us how are the Libyan-related taxes and royalties impacting your operating result and your income tax?

Answer by **Reinhard Florey:**

In Libya, we are having a profit-sharing agreement, and this is a very special topic. And this means that we are receiving, according to this contract, volumes that we can also then market and ship. Of course, for the purposes of accounting and the purposes of showing, we are grossing that up with the tax rate, which means, in principle, that we are paying tax in barrels. But of course, this is not comparable, so therefore we are applying a comparable tax rate. The tax rate in Libya is 65%, and therefore the barrels are accordingly being grossed up. This is the normal way that you can then also compare it and also have a sustainable modeling of that with this respective tax rate, and this is also how we record that.

## 5. Gearing

Question by **Marc Kofler – Jefferies**

Can you talk about how you expect the group gearing level to move from what is a very low level at present, not so much Q4, but then I guess into 2018 as well, please?

Answer by **Reinhard Florey:**

Yes, we have reached a very impressively low level on gearing at the moment. However, our long-term gearing guidance that we give is still in the range of some 30%. Of course, it has to do also with the ambitions that we have in terms of developing OMV further and we are also applying growth opportunities in our portfolio. So in total, we think that having taken the chance of very good cash flows and more or less filling a little bit our war chest for the times to come is a very positive development for OMV. But we do not see this kind of gearing rate as we have today as sustainable rather than the value that we have given as guidance.

## Upstream

### 1. Russia

Question by **Joshua Stone – Barclays**

I've got a question on the Yuzhno deal set to close end of the year. You guided towards around EUR 200 million of dividends from the "Trader" profit. And I wonder, with the latest increase in prices, whether or not that number could be a little bit higher. And then from a modeling standpoint, is it fair to assume the same level of earnings as dividends from the Yuzhno trade?

Answer by **Reinhard Florey:**

In general, we stay with the guidance that we have given on Yuzhno Russkoye. We don't see that there is speculation reasonably done that there will be major deviations from that neither to the up nor to the down side. And I think for the modeling, you can, as you assumed, take this into account as a dividend.

Question by **Tristan de Jerphanion – Kepler Cheuvreux**

You confirmed that Yuzhno Russkoye is expected to close by year-end. And if I'm not mistaken, the transaction will be retroactively effective as of January 1<sup>st</sup> of this year. Is this still the case? And if yes, could you please highlight how this will be reported in Q4 2017 in terms of the 100,000 barrels per day net to OMV production and earnings both at equity accounted and consolidated levels?

Answer by **Reinhard Florey:**

Regarding the Yuzhno Russkoye situation and the retroactive effect, of course, this is reflected in the transaction value as such. So with that being then the closing, in the closing value, all these kind of effects will be compensated. But the reflection of the volumes to be booked here, this is as of the point of closing, we will report these kind of volumes in there, and the level of roughly 100,000 barrels is the right one. This has also been confirmed by Rainer Seele.

Question by **Henri Patricot – UBS**

On the asset swap with Gazprom. We've seen some reports potentially lower MET (Mineral Extraction Tax) for projects in Russia, such as the Achimov field potentially. I was wondering if that could delay the signature because obviously that would make that field more valuable, so maybe you need to offer a larger stake in your assets in Norway or some sort of cash payment to Gazprom from the swap.

Answer by **Reinhard Florey:**

We are progressing there alongside the agreements that we have. So we are in a very good partnership there, and we do not see that there is reason to change any of the ideas, any of the agreements that we had so far. This is the basis for how we are going forward, and this is how we expect this deal also to be signed and then closed by the end of 2018.

## 2. Romania

Question by **Michael Alsford – Citigroup**

I just have a question on Romania and the current tax proposals there. So based on the current proposals, could you perhaps give some color as to the potential impact to your onshore operations in Romania? And then also, how do you see the impact to offshore potential gas developments that you have, clearly domino, given the proposals that are outstanding today?

Answer by **Reinhard Florey:**

I think we have to differentiate there between onshore and offshore. The progress that we are seeing in onshore is clearly slower and will come to an end, clearly, later than the offshore as we see it from today. Therefore, I will not comment on the onshore side because this is something where we are still at a preliminary stage in our negotiations and do not have all the proposals on the table in that. On the offshore side, progress has been made. I think it is important that with the offshore tax environment, also the foundation for a potential FID on our Neptun project is being led, this is very important that we find conditions which are acceptable there and this is in the final stages. Romania has come up with a proposal there, which is currently in the parliament, and we'll see how that will be finalized. So whether this still is finalized this year or beginning next year, we are not entirely sure. So we are seeing there positive topics.

## 3. Kurdistan Region of Iraq

Question by **Hamish Clegg – Bank of America Merrill Lynch**

You've included the Pearl number in your clean adjusted number. I wonder why you did that given it's not likely to be a recurring item at all.

Answer by **Reinhard Florey:**

This is not because it's a recurring effect, but it's an operative effect. This has very much to do with the operative investments that we have done in the previous years in our activities in the Kurdish region of Iraq. And therefore, as this has been also booked negatively in the clean operating result, the respective dividend that we are taking from there is classified as dividend and therefore is also justified in this context.

## 4. New Zealand

Question by **Marc Kofler – Jefferies**

Given oil price is back in the \$60 and everyone's feeling a bit more comfortable in oil markets in general, how does that impact your view on your assets in New Zealand? And can you just remind me there, how you feel about that in terms of are they core, noncore going forward?

Answer by **Reinhard Florey:**

New Zealand is a very good contributor of cash to our business. It may be distant to our headquarters, but still we are very knowledgeable and very much engaged in this country. I have a very good team there. Whether that's core or noncore is maybe not the question for the moment. Rather, it is the situation that we have a good run there. It's a fantastic team. We are providing good results, and therefore they have our full support.

## 5. Production cost

Question by **Hamish Clegg – Bank of America Merrill Lynch**

Year-to-date looks like you've achieved a finding and development cost per barrel of \$9. Is this something that we can see going forwards?

Answer by **Reinhard Florey:**

I think we are in a situation where we are very confident that this is a stable situation and that we can even improve on that level given the expectation that also our Russian projects will close and have a positive impact on that as well.

## 6. Realized Gas Price

Question by **Mehdi Ennebati – Societe Generale**

The natural gas price is going up in Europe. Do you think that your realized natural gas price will reflect this increase? I am asking because in Q4 2016, your realized natural gas price did not reflect the increase in the spot natural gas price in Europe probably because of increasing consumption from household in Romania. So I just wanted to know if you will still be penalized by this, this year or not.

Answer by **Reinhard Florey:**

Regarding upstream natural gas prices, we are seeing that the realized gas prices are developing more or less in line with that, however, always at a lower rate. So we are not expecting that the full increment of a positive development of the natural gas prices also will affect our realized gas prices because there are some effects, as you have mentioned, specifically also in the Romanian environment where we have some different development. But in general, we feel that we also can participate from that positive development.

## Downstream

### 1. Downstream Gas

Question by **Mehdi Ennebati – Societe Generale**

On the gas and power division. You said that you benefited from the increasing clean spark spread at Samsun and Brazi power plants. I wanted to know if the current increase in the natural gas price that we are having in Europe is negatively impacting your spark spreads and if that would negatively impact the operating results from those power plants for the quarters to come particularly Q4 and Q1.

Answer by **Reinhard Florey:**

In general, the spark spreads are developing very positively specifically in our Romanian market environment. This is also something which we do not see that there is a negative impact from rising gas prices specifically as there is an increased power demand. And we are currently seeing also from the seasonality that we would not expect Q4 or Q1 to be affected negatively. But of course, these are also quite short-lived cycles, so we have to monitor how the developments are there. But currently, we feel that there is strong performance coming from that.

Question by **Tristan de Jerphanion – Kepler Cheuvreux**

It's my understanding that Q3 benefited from a one-off receipt from some instruments regarding the temporary shutdown of Brazi power plant last year. So first small question, do you think we could see more of that in the coming quarters? Or was that just a one-off? And second, you had quite a lot of one-offs in the last quarters, both positive and negative. Is it possible that you could give us a hard normative guidance for 2018 and beyond excluding, of course, potential one-offs?

Answer by **Reinhard Florey:**

Yes, there was a EUR 17 million onetime effect from an insurance payment on the Brazi gas power plant. We had reported about the difficulties that we had with our transformers there and that the gas power plant was not working. That is an insurance case, and that has now been mainly settled. We are not expecting more topics to come from that. So we see that in this dimension clearly as one-off in Q3.

Question by **Tristan de Jerphanion – Kepler Cheuvreux**

Just coming back on Downstream Gas. If you have a recurring guidance for earnings on a non-one-off basis?

Answer by **Reinhard Florey:**

We do not guide 2018 right now. This will be done after our full year and also some more detail coming in the course of our Capital Markets Day that we will have in March.

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