



OMV held a conference call on the sale of OMV Petrol Ofisi and the acquisition of 24.99% stake in Yuzhno Russkoye gas field. The investor and analyst conference call was broadcast as a live audio- webcast at 10:30 am CET on March 6, 2017. Below is the transcript of the questions and answers session, by topic.

STRATEGIC RATIONALE:

Question by **Marc Kofler – Jefferies**

Rainer, a lot has changed in the Company since you became CEO, in a relatively short period of time. Assuming a successful completion of this transaction, is it fair to say all the big strategic cards which you planned on playing when you first joined the Company, will have been played?

Answer by **Rainer Seele:**

Marc, we have done a lot to restructure our portfolio. If you look back, within one year we are talking at least about three big deals we have closed with our transactions.

Is there more to come? Well, first of all, we have to finalize our swap transaction, which makes us really busy, which is also a transaction in billion terms. We are also working hard to find a solution to participate in the Nord Stream 2 pipeline project. Afterwards, give me some time to think about a new surprise for you.

Question by **Matt Lofting – JPMorgan**

Could you talk about how you are thinking about the risk management on country-specific capital exposures, and what the right levels for OMV are going forward?

Russia is obviously now becoming a core hub for the Company. I'm wondering whether you're now getting towards the limit of the capital exposure that you're comfortable putting into Russia? Or whether we should expect you to continue to look to further build out the position, alongside screening opportunities in Iran and UAE, that you've talked about previously?

Answer by **Rainer Seele:**

What we have done over the weekend is to substitute our risk position in Turkey with a new position in Russia. From our judgment point of view, the risk we are associating with Russia is lower than the risk we do see right now in Turkey.

If you read the press, how the political relationship between Europe and Turkey is developing, I see it contrary to the first dynamic. I do see in the political European arena, that they are restarting the dialog with Russia.

All the risk about Russia is related to the political remaining risk in the conflict around the Ukraine. So let's wait and see how this is going to develop.

I was with the Wintershall 10 years in Russia. We have been always paid, we have had always a fair system, and we have had lots of success in Russia. As a country by itself, given the framework they operate, it's very, very reliable.

We have acquired now a cash cow. We have no real big CAPEX commitment towards Russia.

The moment we are going to close the deal with Gazprom on Achimov we will have committed EUR 900 mn of CAPEX for the development of Achimov IV/V, and this is over a period of five to seven years. If we take into account that we have EUR 2 bn as a budget for each year, we are not talking about a substantial investment we are dedicating in our portfolio towards Russia.

We will now close our deal with Gazprom and then we will wait and see whether or not new opportunities arrive knocking at the door.

We are very much driven by costs: what is the value if I operate in the country where I have extremely low political risk, but I have production costs of USD 80 per barrel? We have to take both into account, especially that we are driving our portfolio towards low-cost production.

In a short version, we have not reached our limit in our portfolio.

Question by **Mehdi Ennebati – Société Generale**

Trying to compare the two Russia projects you are involved in, in your view, which one proposes the highest rate of return?

Answer by **Rainer Seele:**

I like both, equally. You can't compare it, because the nature of the two projects are totally different.

When we talk about the Yuzhno Russkoye field which we acquired, you will get immediate cash. We will use the cash we generate from Yuzhno Russkoye to be invested for future production from Achimov. So both, in combination make sense.

As we speak about Achimov we are not talking about a dry gas fields, like Yuzhno Russkoye, one-third of the production is condensate which is a high-value product.

Both returns from these projects are excellent.

Question by **Thomas Adolff – Credit Suisse**

With respect to concentration risk and risk exposure: ultimately managing a relationship is driven by performance as an operator and the relationship, good or bad, will be determined by that. But within the risk exposure it's also about the stability of the fiscal regime. The performance you can manage, the latter you can't, and it's a function of external factors which can change the fiscal regime, either because you didn't do a good job as an operator, or because the country needs money.

In the eyes Gazprom, or in the eyes of any NOC that you're considering partnering with or deepening your relationship with, can you just remind me what OMV brings to the partnership other than money?

Answer by **Rainer Seele:**

I think that what makes us special is that we build an integrated partnership with Gazprom, that we are creating a partnership where, on the one hand side, we will be invited to work with Gazprom in their country, in Russia. If you look how many companies are invited to be a partner of Gazprom, we are talking only about a handful, and OMV is one of them.

On the other hand, we invited Gazprom to partner with OMV in Europe. And in between, we are partnering in all the different elements of the value chain, from upstream towards mid-stream, with the Nord Stream 2 pipeline, until we've reached our customers in the market.

Therefore, I think we should not pick only one project to discuss what kind of value OMV is bringing into the partnership.

What we can say is both parties do like to intensify their cooperation. As we speak about Yuzhno Russkoye, of course, OMV will benefit for being part in an operating company in Siberia where we can expand our technological footprint towards drilling wells in the permafrost regions. We will benefit from that.

But don't underestimate what a reliable partner from Europe means for Gazprom. I'm not talking about how much money I put on the table, whether or not I'm going to pay my bills at the right time; I'm talking about a partner who is also a good partner in difficult times. And we are not facing the easiest times, as we speak. The relationship we have as partner to Gazprom is highly valued by them.

Question by **Thomas Adolff – Credit Suisse**

In terms of technology or asset swap opportunities, Gazprom can pick many companies, to be honest with you. I guess your expertise might be more in mature places. What you're saying is that for Gazprom, export of gas is key and the European market is key, and because you are a European Company that

manages a lot of gas, you are a reliable partner, that's the most important part for this partnership. Is that a fair summary of how I should think about the relationship?

Answer by **Rainer Seele**:

I agree with you partly. But as we speak about the technological competence of OMV, I think you see our Company not in the right picture. Hans will give you more insight.

Answer by **Johann Pleininger**:

I would like to give you some examples where our technical capability compares with other companies. I think we are a world-class operator in the oil and gas fields.

To give you some examples of our capability: we hold the world record in onshore shallow drilling horizontal wells in Suplacu, we have established a world record for a floating horizontal drilling rig in the Barents Sea. We are holding several world records and European records in casing drilling.

This is a confidence which we have developed in our core areas and which we will bring to the table with the cooperation with Gazprom. I think we are a partner that is also very valuable for Gazprom.

ACQUISITION PRICE AND FINANCIALS:

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

Could you confirm exactly the EV paid for the Russkoye assets, given that in the announcement you talk about the USD 1.85 bn, plus cash on the balance sheet. Also, how do you reconcile the USD 200 mn dividend you talk about with what Uniper said as EUR 175 mn of EBITDA?

Answer by **Rainer Seele**:

The USD 1.85 bn we paid is more or less the purchase price: you have to deduct the transportation cost, and then you come to USD 1.814 bn, which is the purchase price, deducting the transportation cost. As we speak about the net cash position, this is around USD 60 mn. We have USD 60 mn in the Company, and we will pay them the USD 60 mn, so this is netted. It has no real impact at all.

As we speak about the acquisition price, Lambert Energy Consultancy Company has made a calculation that we paid between USD 3-3.5 per barrel on 2P reserves. This is the average acquisition price paid also in other transactions you have seen in the Russian market in the last two or three years.

On a flowing barrel basis, we have USD 18 per barrel, which is one of the lowest acquisition prices I have seen from Lambert Energy, if you compare it with the latest transactions we have seen in the Russian market.

We are not calculating EBITDA. What we can say is we have looked into our numbers and you should use USD 200 mn as dividend payments to calculate our deal.

Answer by **Johann Pleininger**:

What you should know is that we have contracted volumes and around two-thirds you can consider the reserves as proven reserves. This is because the Cenomanian layer is developed already. One-third will be booked over time as proven reserves as well. So it's a little bit better than 2P reserves.

Question by **Lydia Rainforth – Barclays**

Regarding the purchase price paid, how are you looking at it in terms of the investment? Should I be thinking about a 11% dividend yield and that's the criteria that you were thinking in terms of price? Or is there a higher IRR/NPV number that we should be thinking about from a wider reserves and strategic side? This is just in terms of the criteria you use when looking at the valuation.

Answer by **Rainer Seele**:

We don't communicate our IRRs country by country, as you may know. But we only give you one indication, which says that OMV is targeting a double-digit rate of return overall. Every project has to meet our criteria. So all I can say is it's a double-digit percentage.

Question by **Mehdi Ennebati – Société Generale**

You provided USD 200 mn cash dividend from the Yuzhno Russkoye project for mid-term, what does mid-term mean? What gas price do you use to get these USD 200 mn dividends? Additionally, post 2018, will your CAPEX remain at EUR 2 bn?

Answer by **Rainer Seele**:

Dividends payments in the amount of USD 200 mn are expected mid-term and mid-term means three-to-five years. For gas price I will give you some guidance that we are looking into the forward prices. Regarding CAPEX, that is correct.

Question by **Haythem Rashed – Morgan Stanley**

For the dividend income you've given medium-term guidance, is there any sense you can give us in terms of what that could be nearer term? With 2018 are you likely to get two dividend payments in one because the transaction is dated as of January 1, 2017. This is in terms of understanding the phasing of the cash flow.

Answer by **Rainer Seele**:

We get in 2018 the dividends from the 2017 financial year. Continuously, you should calculate with USD 200 mn year by year; that's the dividend inflow.

Question by **Henri Patricot – UBS**

On the CAPEX profile, I'm trying to reconcile what Uniper was saying about additional CAPEX requirement for production in the mid-term with what you've been saying about the USD 20 million. Should we assume that this is very much front-end loaded as you develop the Turonian layer, and falls down even much lower the USD 20 million later on?

Answer by **Johann Pleininger**:

For the lifetime until expiry of the license, it will be less than USD 20 million per year. We will decide at the end of this year if we will make the final investment decision for the development of the Turonian layer.

The Turonian should go on-stream with the first economic production in 2021. Until then, we will spend some money for drilling, but it will not be more than USD 40-50 million per year in this mid-term phase. And then, later on it will go down substantially, so that we arrive at below USD 20 million per year in average, until expiry of licenses.

Question by **Bertrand Hodee – Kepler Cheuvreux**

In order to understand the structure and value of the deal, can you split the USD 200 mn dividend between the two streams: Gazprom and the Trader?

Answer by **Rainer Seele**:

As we speak about the value of the deal, first of all, there is high value for us that we could acquire cheap reserves with cheap production costs. So it's part of our replenishment strategy.

And if you look back, Bertrand, we have spent in exploration over the last years EUR 600-700 mn per year, which we could reduce to half at around EUR 300 mn. That's also part of the value, that we could acquire the barrels, in the range of USD 3-3.5 per boe.

Secondly, this acquisition it will bring down our cost base.

As we speak about the structure of Yuzhno Russkoye production, 50% of the gas we are selling is indexed to the European gas prices and we are not heavily depending on one market, especially the Russian gas price.

Thirdly, as we speak about the structure from Yuzhno Russkoye, most of the dollar income is from the Trader who sells the production. So the Trader is fully consolidated and is really running the numbers.

Question by **Bertrand Hodee – Kepler Cheuvreux**

Coming back to your production costs, given that it will be treated as equity accounted, we won't see that in terms of production costs, right?

Answer by **Rainer Seele**:

Yes, that's correct. But if you really would like to have the big picture of OMV, you should take it into account.

Question by **Michael Alsford – Citigroup**

Can you just confirm what the cash-in will be from the OMV Petrol Ofisi deal in the third quarter? I wanted to know what you'll receive in terms of incremental cash versus the headline price that you've announced.

Answer by **Manfred Leitner**:

The cash coming to the OMV Group will be, as indicated already, EUR1.368 bn, less EUR 81 mn. The EUR 81 mn refers to a sales price that will be transferred from OMV gas and power to buy out the gas entities from the Petro Ofisi Holdings. The difference will be the cash into the Group, which is EUR1.287 bn.

PRODUCTION AND RESERVES IMPACT:

Question by **Thomas Adolff – Credit Suisse**

As you see the business today, and whatever potential acquisition you're planning for the near term, where do you see production evolve by 2025? In this context, how do you think about oil versus gas by 2025?

Answer by **Rainer Seele**:

Hans has given you a little bit of an idea where we are going to be in 2025: he was talking about a 450,000 barrels per day company. But do we sit back and do nothing until 2025? I don't think so. We will prepare the Company for value-added growth.

Right now, we do see projects in our pipeline which will bring us 450,000 barrels per day. It's a little bit depending on how much North Africa will kick into our numbers.

But we have now changed our position in Libya. With the large transaction, where we have acquired the shares from Occidental, we have now the potential to build a 50,000 barrels per day production in Libya, which is bringing Libya as a core by itself.

As we speak about our production volumes from Russian, right now, if you take the increase from 320 to 420, we are talking about one-fourth of our production which is associated with Russia. That's more or less a pretty good site in our portfolio.

If there are other opportunities, let's wait and see how we will balance our portfolio. We might grow then also in other regions. But, as an orientation, one-fourth to one-third is more or less the production volume we do have in our mid- to long-term plans.

The split between oil and gas production will be now in favor of gas: 60% will be gas.

We don't make it a secret that we do like gas, because the long-term outlook for gas looks a bit more positive than for oil. We're talking about a global growth in gas, whereas we are talking long term about a global decline in oil demand. That's why we have a clear strategy that we would like to go for gas.

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

The reserves number you talk about in terms of 580 million barrels of oil equivalent, is that a reserve number, or a 1P reserve number? I noticed it was a bit lower than what Wood Mackenzie forecast, which is closer to 750 mn barrels of 2P.

Answer by **Johann Pleininger**:

We have in contract terms guaranteed 610 bcm. We have been producing already around 215 bcm until end of 2016, so what's left is around 400 bcm. One-fourth, 25%, is for OMV. This is 100 bcm. Calculated on boe basis, this is the 580 mn boe. That's what we have contracted.

Because the Cenomanian layer is the producing right now, and thus is fully developed, you can consider at least two-thirds as P90 reserves.

Because the Russian system does not have the P50 and the P90 reserves, the proxy is two-thirds P90 and one-third P50 reserves.

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