



OMV Q1 2018 Conference Call – Q&A Transcript

OMV published its results for January–March 2018 on May 3, 2018. The investor and analyst conference call was broadcast as a live audio- webcast at 11:30 am CEST. Below is the transcript of the question and answer session, by topic, edited for readability.

OMV Group

M&A

Question by **Ilkin Karimli – Credit Suisse**:

So you're basically hitting your production targets. Can we now assume that M&A going forward will be focused more on the refining and on gas?

Answer by **Rainer Seele**:

Well, Ilkin, yes, we are focusing also M&A activities on downstream. That's clearly the case, but we will continue also M&A activities in upstream. First of all, we have said that until 2025, we will have EUR 5 billion for Upstream M&A activities. So if I sum it up, I'm not at EUR 5 billion. So therefore, there is something more to come. And given our priorities this year, there will be next transaction in M&A, and that's of course, finalizing our asset swap. So I have to prepare myself to drink vodka in 2018, because we would like to finalize it. And this is a very important transaction for us, because this is more or less the project which would bring our production guidance to the 600 kboe/d, which we are targeting until 2025. So if we are successful, and that's my production guidance, then we should meet also the 600,000 barrels per day, of course, earlier than 2025. But it is up to the development in Siberia. So therefore, I have to say, yes, we are continuing with M&A activities in both, but the budget for upstream is not a bit smaller than for downstream.

Question by **Marc Kofler – Jefferies**:

I just wanted to follow-up on a few points, please. Rainer, you talked about still being very active in both the upstream and mid-downstream when it comes to acquisitions. I'd be interested if oil price moving up to \$75 type of region year-to-date if that's had any impact on the relative merits in your mind at least in terms of upstream versus downstream and the opportunity there for inorganic news?

Answer by **Rainer Seele**:

Marc, I agree with you. If the oil price is currently on the rise, the window of opportunities in upstream M&A market is going to narrow. And we have to calculate it, but if we are talking about the oil price impact in the M&A market, we are talking in the first instance the impact in the oil asset market. So that's why I think OMV has also gas assets and gas production, which might be interesting to us. So that's the reason why, I think, the oil price will have an impact in the M&A markets. And given the fact that we have been and is typically already very active in the M&A market upstream. And given the fact that the pipeline we do have the OMV in the upstream business is already pretty nicely loaded, I agree with you when the oil price will go up, and the window of opportunity in downstream should have better projects in the pipeline.

Hybrid bond

Question by **Yuriy Kukhtanych – Deutsche Bank**:

Why did you decide to redeem the hybrid bond?

Answer by **Reinhard Florey**:

Why did we redeem the hybrid bond. I mentioned that we had quite high level of 6.75% of this hybrid bond. Now as we are closing into the call date that has happened in April, we decided that we would call the hybrid. We have also issued that there is the opportunity for us to again enter into a hybrid bond up to a volume of EUR 500 million if we think we would need that. And that certainly also provides us to go into better conditions than the conditions we had with the old one. So in that sense, I think, it's very reasonable, given the financing cost that we had for this hybrid bond.

Tax rate guidance

Question by **Henri Patricot – UBS**:

Just on the guidance you've given on the tax rate, because tax rate was 35% in the first quarter. You mentioned coming in the low 30s for the full year, with an oil price of \$68, above the average in Q1. So my question is how come the tax rate will be lower across the year when the oil price is expected to go up for the remainder of 2018 that's just given.

Answer by **Reinhard Florey**:

Regarding the tax rate, I think, what you have to take into account that, of course, there has been a certain shift in Q1 to the high tax countries in upstream. And we will have a little bit more of a balancing effect also with downstream kicking in then again after the turnaround of Petrobrazil in the second half of the year, and therefore, we see that the tax rate in general will be at the low 30s as we indicated.

Dividend policy

Question by **Ilkin Karimli – Credit Suisse**:

On your dividend policy, if my understanding is correct, the future growth depends on your earnings and cash flow visibility. So the new deals that you are doing, you're adding base plus stable long life cash flows. So any chance you can comment on how you see the dividend evolution going forward after the deals that you have announced?

Answer by **Reinhard Florey**:

Regarding the dividend policy, we have announced an updated dividend policy in the context of our new strategy. And as we are now executing the new strategy, the dividend policy, of course, will be exactly as indicated, which will be a progressively rising dividend policy, which will keep the dividend at least at the level of the previous year or, and our aim is to increase it progressively.

Russia – Ruble depreciation

Question by **Yuriy Kukhtanych – Deutsche Bank**:

Regarding the ruble depreciation in Russia. What impact on unit production cost and broader financials do you expect from depreciating currency in Russia?

Answer by **Reinhard Florey**:

The ruble depreciation is something that is very much in the context of the overall change that we have in the currencies. We have seen a higher depreciation there as we are currently seeing the business model of Yuzhno Russkoye only partly in rubles and partly also in Western currencies, the impact that we are seeing is minor.

Answer by **Johann Pleininger**:

Yuri, regarding your question on production cost, we are not talking about single field production cost. But what you can assume in Russia for production cost on gas fields, that they are below USD 2 per boe, and we are exactly in the same range.

Hedging

Question by **Matthew Lofting – JPMorgan**:

You talked earlier in the presentation around that sort of the hedging losses within the upstream result for Q1. To what extent OMV's hedged on a forward basis through to year-end? And conceptually, why, given the strength of the cash flow and balance sheet position, you even say hedging is necessary at this point?

Answer by **Reinhard Florey**:

Yes, you're right. There have been some hedging losses in Q1. The reason for hedging actually for us is that we are still as we are in a strategy of growth, protecting our cash flows. So this is not at all a speculative hedging policy. It is a protective hedging policy. And to your question, we are more hedged in the first half of the year 2018 than in the second half of 2018. So there is less of attention in that respect with rising oil prices in the second half.

CAPEX Outlook

Question by **Matthew Lofting – JPMorgan**:

If I adjust Q1 CAPEX for the cash outflows related to Nord Stream 2 and the prepayment on New Zealand. I mean it looks like the run rate was light versus before the full year guidance of EUR 1.9 billion. Can you just talk about how much of that's related to phasing versus continued capital efficiency benefits or gains that are ultimately sort of driving enhanced downside against the sort of the EUR 1.9 billion for the full year?

Answer by **Rainer Seele**:

We reconfirm the EUR 1.9 billion CAPEX guidance for the year 2018, Matt. This is also including additional CAPEX, which is coming with the acquisition, for example, of the Abu Dhabi concessions. Again, we said that the Abu Dhabi concessions will come with a rough indication around \$150 million this year. And we are absorbing the \$150 million within our budget so that we stick to the EUR 1.9 billion for 2018.

Upstream

ADNOC Concession

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

Two quick ones please on ADNOC and especially the ramp-up of the concessions. So you said long-term plateau production will be above 40,000 boe per day, net OMV, likely you'll reach a little beyond 2020. Could you please give us some colors on the ramp-up period, please and what should we expect in terms of production for this year and 2019, please? And secondly, quick one, does OMV have the ambition to become asset leader on the SARB and Umm Lulu concession or not?

Answer by **Johann Pleininger**:

Tristan, I would like to answer most of your questions. So you are right, 40,000 boe per day we're expecting by 2021. Second, regarding the ramp-up phase, what we're doing right now, we have shut in Umm Lulu to do commissioning of oil-driven facilities on Cirkum Island. So that's the reason why Umm Lulu is not producing, because Umm Lulu started up the production in 2016. So towards the end of the year, in Q4, we will start our production on Umm Lulu again, and SARB will come on stream. What you can expect for 2019 is around 20,000 boe per day, average production in 2019; and as I said, 2021, 40,000 boe. Regarding asset leads, yes, we applied for the asset leads, but this will be decided by ADNOC and will be announced by ADNOC.

Question by **Henri Patricot – UBS**:

Just want to follow up on ADNOC I wonder if there's any indication you can give us on the cash flow contribution from the asset.

Answer by **Reinhard Florey**:

This is Reinhard. Regarding cash flow contributions from the Abu Dhabi project, what we are able to disclose for now that we will have positive cash flows as of 2019, and they will remain positive clearly for the last time of the project.

Russia - Achimov

Question by **Mehdi Ennebati – Societe Generale**:

Can you just please make an update on Achimov? Where are we there in terms of approval from different parties?

Answer by **Johann Pleininger**:

Regarding Achimov, we are speaking to a project time line. We are negotiating still the project and no change. We want to close the project until end of the year.

Question by **Mehdi Ennebati – Societe Generale**:

And regarding the approval from the different parties in Russia and Norway, can you tell us how this is going on?

Answer by **Rainer Seele**:

We haven't started any approval process yet.

New Zealand

Question by **Marc Kofler – Jefferies**:

In terms of the New Zealand Shell acquisition, can you just say briefly how some of the political or rather some of the comments you had from politicians there about the future of oil and gas industry, how that impacts your thoughts from these assets and indeed, if there's any impact there about the Great South Basin exploration potential?

Answer by **Johann Pleininger**:

Marc, regarding New Zealand. First of all, the transfer of the assets from Shell to OMV, everything is going very well. We got also support from the politicians. Your question is referring, as I assume, regarding the exploration, which was announced just recently from the government that they are not going for the next tender on exploration licenses. From our point of view, regarding Great South Basin, first of all, this has no impact at all. It has no impact on existing licenses, neither on production licenses nor on exploration licenses. We are in a very good position in New Zealand. We are having around 50% of all available exploration licenses in New Zealand. So even if there would be a tender of licenses right now, we would not go for it because we have sufficient licenses for the next 10, 15 years to explore. So we don't see any impact on our business, not on the production assets, as well as on the exploration activities.

Norway Hades & Iris

Question by **Michael Alsford – Citi**:

I just wanted to get a sense as to what your follow-up plans are in Norway following the recent exploration success there.

Answer by **Johann Pleininger**:

Mike, the question regarding Norway, and I think you're addressing your question regarding Hades & Iris, the exploration success which we had just recently there. So what we're doing right now is we are evaluating the volumes. We give the range between 40 million and 240 million boe from both prospects. This was 1 well, 1 in the lower horizon and 1 in the deeper horizon. What we're doing right now is we are planning the next phase, which is the appraisal phase. So those volumes, we need to get more certainty on it. And in order to confirm it, we go for the next appraisal phase there.

Neptun

Question by **Michael Alsford – Citi**:

If you don't mind, just finally, I don't know if there's any update on Neptun and any gas price discussions regarding that project.

Answer by **Johann Pleininger**:

Regarding Neptun, it's still in time. So we are planning for FID in the second half of the year, and we still plan for first gas in 2021.

Production Outlook

Question by **Mehdi Ennebati – Societe Generale**:

Regarding your production guidance of 500 kboe by 2020. So taking into account the assets acquisition from New Zealand and Abu Dhabi, it looks like you should reach this guidance by 2019. And regarding 2020, thanks to the ramp-up from Abu Dhabi production, you should be materially higher than 500 kboe even if we take no contribution from Achimov. So can you please tell me if I am missing something there or if I am too much optimistic? Second question regard with, again, the asset acquisition in Abu Dhabi. I wanted to know if you will be able to deduct the purchase price or part of it from the taxes so this could materially improve the economics of those fields, which are already good in my view.

Answer by **Rainer Seele**:

Well, thank you, Mehdi. Well, your question is an easy one. That's the reason why I'd take it. You are following the picture, yes? When we presented the strategy on the Capital Markets Day, of course, the 2 acquisitions were not firm at that time. Given your calculation, I agree with you that we might reach the 500,000 barrels per day earlier than 2020, so that's correct. And then 2020, if one or the other project also will kick in successfully, I agree that we will outperform the target of 500,000 barrels per day. So 2020, at least 501,000 barrels per day production of OMV. So your second question, you have answered yourself. So your second question, we don't give any guidance on taxes and depreciation deducted because of confidentiality agreements we do have with ADNOC. Please understand that.

Downstream

Downstream Gas

Question by **Michael Alsford – Citi**:

Clearly, this is a smaller part of the business, but the Downstream Gas was pretty strong in Q1/18. I mean, clearly, I know it was a good trading environment, given colder weather. But I was wondering whether you can maybe talk about whether some of that has to do with the changes you've made in that business in terms of its efficiency and I guess, access to customers.

Answer by **Rainer Seele**:

First of all, if we remember what we have said, what is really needed to make our Downstream Gas business profitable again, it was a clear story. We need higher volumes to make the infrastructure busy, which we have booked some years ago. And the problem was that we had full basket of capacities we had to pay for, but we had no customers to deliver the money and to monetize the costs for the infrastructure we have booked. Given the fact that we have seen pretty high volumes, especially in the first quarter, the costs we have for infrastructure, we could pass on to customers more than the quarters before. And secondly, you are absolutely right. The real majority of the profitability in Q1 was really the extremely good trading environment with lots of volatilities. We have seen price spikes up to EUR 30 plus per megawatt hour. It's a dream coming true from St. Peter if we get these price spikes in the market. And of course, the region optimization, especially that we can go for the arbitrage between the hubs, that's one of the reasons why OMV is more Europeanizing the gas trading business, especially towards the West. We do have a real strong position already in the East, but extending our trading activities towards the West where we do see the liquid trading hubs is offering us such a trading upside potential, which would result then also in better numbers of profitability. So I hand over to Hans.

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