

## OMV and Sapura Energy form a Strategic Partnership Conference Call – Q&A Transcript

OMV held a conference call on the newly formed strategic partnership between OMV and Sapura Energy. The investor and analyst conference call was broadcast as a live audio- webcast at 1:00 pm CET on November 9, 2018. Below is the transcript of the question and answer session, by topic, edited for readability.

### General

Question by **Chris Kuplent - Bank of America Merrill Lynch:**

We're all aware that Sapura was trying initially to perhaps IPO these assets. How have you found, if you can give us a little bit of context, Rainer, how have you found the bidding environment in general, as you were looking to expand in a new region for yourself? How many regions did you look at, and what in the end made your choice?

Answer by **Rainer Seele:**

Well, let me start first what we did here in-house, over several months. We started something around February this year, and we have screened more than 1,500 assets in the Asian market. We have screened more than 100 companies, and we ended up with Sapura. One of the reasons we have chosen Sapura was, first of all, it's a very young asset base, with a positive growth perspective in the company. The second, we have realized that Sapura is a partner who fits into the business culture of OMV. We know Sapura as a partner in our exploration assets in New Zealand, and we got to know them in that partnership, and that's the reason why Sapura is not a newcomer or a new partner in this respect. It is a company we do know since quite a while, and when we realized that Sapura was initially planning to go for an IPO, and then we were sitting together, and we were discussing whether or not a partnership could be a better solution for Sapura as well as for OMV. The third point is that this is a company which we think has not only a good-quality asset base; they are also interlinked into the region, and especially the good relationship with Petronas is a value we have seen when we have chosen Sapura.

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

Regarding the pricing, the EV of the transaction. Do you agree that if we consider that you pay USD 540 mn to get the 50% stake, plus, let's say, you take half of the debt, meaning USD 175 mn, plus the potential USD 85 mn payment, we are talking about an EV of USD 800 mn, which is in line with what was announced by Sapura Energy a few months ago.

Answer by **Rainer Seele:**

Okay. Mehdi, the purchase price is USD 540 mn for the 50% stake, correct. There is an additional purchase price, a conditional payment, in case we see an increase of the value. The enterprise value is USD 1.25 bn plus USD 350 mn of debt. The USD 350 mn is nothing else than an inter-company loan from Sapura Energy to Sapura Upstream. OMV is going to manage the refinancing of the USD 350 mn, which is the 100% number. Whether this is going to be, most probably an inter-company loan, therefore, as we are going to fully consolidate Sapura Upstream, it has no impact on our cash flow, no visible impact on our debt and on our gearing.

Question by **Giacomo Romeo - Macquarie:**

I believe Sapura earlier today discussed that this entity will exclusively operate in the Asian region. Can you please talk a little bit about these exclusivity agreements, and how future interest in assets from OMV will have to go through this entity, and what are the details behind this exclusivity?

Answer by **Rainer Seele:**

Well Giacomo, we do have a joint understanding that the Asian region, and now we are speaking about the upstream activities of OMV, we will use the expertise of Sapura Upstream. Especially also, that we are using, let me call it an Asian joint venture with an Asian brand, to expand into the region. This is one of the major advantages I see in this strategic cooperation. You know, we are a newcomer in the Asian market as an upstreamer. Sapura is well connected, especially they do have a very strong relationship with Petronas. They know the basins, and that is the reason why we will use more and more the expertise also to extend the activities in the Asian market. But now, Giacomo, we are really talking about future activities which are not top-ranked on my agenda. The top-ranked topic on my agenda is just spend money and develop these nice assets that we can get more cash flow, because we are now committing that we will be cash flow positive already in 2020. It will be an investment case in 2019, and we will have nice cash in our files already when we talk about 2020. So I'm not really focusing with the first priority on an extension of the cooperation in the Asian market. I'm really focusing now that we are going to manage the company to the better, that we are going to deliver more cash.

Question by **Jason Gammel – Jefferies**:

Will there be any OMV employees actually seconded into the Sapura organization, or will the management of that organization simply continue as it has been?

Answer by **Rainer Seele**:

As we want to fully consolidate the company, we have to demonstrate that all the conditions to fully consolidate are also met, which means that we, of course, will second our management into the company. But, honestly speaking, I'm very much impressed about the scientific skills the company has. They have really, extremely good experts, especially when you look into the track record of their exploration activities. I think it was nine out of 11 wells they successfully drilled, and that was the reason why we do have that prime assets in the Sarawak region. So, yes, we will second our people. We also will take some people maybe from Sapura Upstream into OMV Group, so that we have an exchange of expertise. It's very important for us that OMV also takes care about the financial situation of the company, explaining you why OMV is now managing the inter-company loan.

Question by **Tamas Pletser - Erste Bank**:

Regarding the management of this company, do I understand correctly that you will delegate the CFO to the joint venture?

Answer by **Rainer Seele**:

I haven't mentioned that this is the CFO. We have not finally agreed on the different positions, but Tamas, as I said that we would like to have the biggest impact in the financing and the financial situation of the company, I have some lovely eyes for it.

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

Looking at your financial targets for 2020, would you need to do more deals and options to reach these targets?

Answer by **Rainer Seele**:

I don't need any deal, neither Sapura nor any additional deal, to meet my 2020 target, because the 2020 target I will meet in a few weeks from now, at the end of this year. We have already mentioned that the 500,000 barrels per day production, which we have targeted for 2020 will be in reach at the end of this year. It's the exit production rate. So all we are discussing right now, Yuriy, is already working on the second target of 600,000 barrels per day, which is scheduled to be met in 2025. If we continue to be so busy and if we are successful with Achimov IV/V next year, then the 600,000 barrels per day target may also be met very much earlier, like we have shown and demonstrated this with the 2020 target.

## Tax

Question by **Oleg Galbur - Raiffeisen**:

Could you talk a little bit about the taxes? What kind of taxes will the JV pay on the current and future production? Is it ROTA type of taxes, or is it based on production-sharing agreement?

Answer by **Rainer Seele**:

Well, it is, of course, a production-sharing agreement we have in place, and the government take – I don't give you the specific tax number for our assets, but the government take in Malaysia is something between 60% and 80%.

## Capex

Question by **Josh Stone - Barclays**:

On the CAPEX, you talk about EUR 500 mn per year, or over the five years. Is it fair to assume EUR 100 mn a year, or is it more front-end-loaded than that?

Answer by **Rainer Seele**:

When we are talking about the CAPEX profile, if you remember what I have said. First of all, the EUR 500 mn is a 100% figure, so my share is 250, just to be quite clear. If you look into the CAPEX profile, I only can say, well, there is no linear 100 every year, but that's not the case for any development project I have seen so far, to be honest. And if you remember what I have said in the beginning, we will be cash flow positive in 2020 and not in 2019. Maybe I have a little bit of a bigger cake to swallow in 2019.

Question by **Matt Lofting - JP Morgan**:

Just coming back to CAPEX, can you just elaborate on how much of the EUR 500 mn relates to the SK408 asset? Is there any allowance for Mexico within that balance? And then, just to be clear, post the deal, can Sapura now finance its share of the spend, or is there any agreement for OMV to carry any of their share?

Answer by **Rainer Seele**:

Well, Matt, I can't give you a figure for SK408, but I can say that the majority of the CAPEX we spent is for SK408. And especially the production jump we are going to see is coming from SK408, so that it's the main asset we have to spend the investment money. There is no carry for their share, Sapura Energy's share, in any agreement we have so far. They have to finance their share, we

have to finance our share, and especially the transaction they have now with OMV, I think it is a fresh backwind for them, that they can better organize also the financing of the mother company.

## Natural gas pricing

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

Regarding the pricing of the natural gas. So, you produce the natural gas. You sell it to the LNG complex facility, which makes it LNG. I wanted to know regarding the pricing of the natural gas that you sell, you have a kind of correlation to the LNG price, which might go up in the following year.

Answer by **Rainer Seele**:

The LNG pricing is a pricing of the production at the Bintulu plant, and we do have a pricing reflecting the market prices in Asia.

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

I mean, when you say reflecting the prices in Asia, the LNG prices in Asia, you mean?

Answer by **Rainer Seele**:

Yes, absolutely. It's LNG, Mehdi, of course.

Question by **Tamas Pletser - Erste Bank**:

Is the market of the natural gas you will produce, is there any risk with the relationship to Petronas and their LNG? I think you just partially answered to this question, but do you have any long-term agreement on this?

Answer by **Rainer Seele**:

Well, Tamas, first of all, I think there is no risk in the relationship with Petronas as we speak about the marketing of LNG. If you look into the numbers of the utilization rate of the LNG Bintulu facility, you will find out that they urgently need gas from the region. Each single molecule you have, with the daylight, they will, with a big appetite, knock on your door to get that molecule. So, it's a win-win combination. As we speak about Petronas working together with Sapura, and as they are partners in all the fields, yeah, and all the assets in Malaysia they're operating, they both have an interest that the production will be monetized. So, there is a long-term agreement and a long-term cooperation, of course in place, but given the fact that there is a win-win situation in the utilization rate of the LNG liquefaction plant, I think it tells you that the contractual framework is one thing, but that the commercial understanding of this cooperation is convincing us.

Question by **Bertrand Hodee - Kepler Cheuvreux**:

Coming back on the question that was asked by Mehdi before on your transfer gas price agreement on the Bintulu plant, can you give us a clue of what kind of discount should we think compared to LNG landed price?

Answer by **Rainer Seele**:

Bertrand, Bertrand, the second question is a question I wish I couldn't hear, yeah? So, I cannot make any comment on prices and on discounts and so on. So, no. I can't give you any clue about the transfer gas price. None of our competitors, by the way, is doing.

## Production and Development

Question by **Jason Gammel – Jefferies**:

Regarding SK408, phase two. Can you talk about whether phase two has actually reached FID, and if not, what steps are necessary to bring it to that point?

Answer by **Rainer Seele**:

As to speak about Sarawak SK408, we have no FID so far for phase two. The production startup will be in 2023, so we have no public timing for FID.

Question by **Josh Stone - Barclays**:

Could you say or comment what gas production you expect from phase one of SK408, at peak?

Answer by **Rainer Seele**:

Josh, I do regret that I can't give you the production numbers for phase one. All I can say is, in your calculation, go for a gradual ramp-up over the next years, and we are peaking in 2023 with the 60, so six times higher.

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

I understand that production targets are based on both commercial and contingent or technical reserves. And just my question is, how well priced are these technical reserves? You know, how many wells would you build, and what understanding do you have

about this area that will be producing for the phase two production targets? And if you could just talk a little bit more about available infrastructure and perhaps how many wells will you need to drill in the next two or three years.

Answer by **Rainer Seele**:

As we speak about the development concept in the region, I really would like to ask you to have some patience. When we have closed the transaction and when Hans is back from Kuala Lumpur, I will listen more carefully to him. He and his team have spent weeks in data rooms, and they have checked the development concepts, they have discussed in more detail with the experts in Kuala Lumpur, so we don't want to release any details on the development concept so far. Also, given that we don't have taken FID so far. When we have done FID, we might come back on your question and give you a little bit more insight. All I can say is that we are convinced that we have a high-quality asset base and that we have a very professional development concept, because we are now ready to commit to a certain production contribution in 2023, and, if my team around Hans was not convinced, we wouldn't do that.

Question by **Chris Kuplent - Bank of America Merrill Lynch**:

Just coming back on SK408, the 260 million barrels of oil equivalent of cumulative production you quote. Can you put that into context? Because, on your plateau rate, that doesn't give you a very long reserve life, so perhaps you can explain to us how long that plateau you expect to last, and how decline rates will look like in the late 2020s.

Answer by **Rainer Seele**:

All right. Chris, first of all, I can't give you any additional information on SK408, as we speak about the plateau. I again have to repeat myself. The day we are going to have FID, after that, we are going to give you more detailed information on SK408, because we really have to prepare the setup, and I want to avoid to be in any conflict with any information I release today when we are going to have FID, because it's a substantial investment project. So I really would like to ask you about your understanding. It's not that I don't want to answer your question in detail, it's just because we have not taken FID so far.

Question by **Chris Kuplent - Bank of America Merrill Lynch**:

Okay, understood. But, Rainer, does that mean the 260 is a very early estimate? It could yet go up?

Answer by **Rainer Seele**:

Yeah, of course. And of course the reserve numbers are going to change. Because the reserve number, each well you are drilling, Chris, the reserve number is being adjusted. Our evaluation is based on the 260.

Question by **Bertrand Hodee - Kepler Cheuvreux**:

Out of the 260 million boe of reserves you estimate over the life of the field, can you split it between the current producing assets, which are currently producing 10,000 boe/d, and the development assets, which is mainly the SK408?

Answer by **Rainer Seele**:

As we speak about the 260 mn boe of reserves, I was thinking how I can be of help. When we talk about the producing assets right now, with the 10,000 boe/d, it's a fraction, it's a fraction of the 260 mn boe reserves. So the vast, vast, vast, vast, vast majority of the 260 is the reserve base for the investments we are doing to boost the production to the level of 60,000 barrels per day.

Question by **Henri Patricot - UBS**:

How should we think about some of the abandonment costs for these assets? Any risks around that? Thank you.

Answer by **Rainer Seele**:

The question of abandonment costs is not a topic on our table, because we are talking about really very young assets. We are just investing into the production, into the fields, so that I will not lose any time discussing too much abandonment liabilities or abandonment costs waiting us. It is a very fresh young company with a very, very fresh asset base.

## OPEX

Question by **Chris Kuplent - Bank of America Merrill Lynch**:

Can you put OPEX per boe, OMV has been very vocal about reducing its group OPEX per boe upstream, into context with what you see SK408 comparing against?

Answer by **Rainer Seele**:

The OPEX per barrel. The production we are estimating to get mid/long term from Malaysia will perfectly fit into our strategic target that we are below 8 USD/boe. Well, we have right now an OPEX which is around 7 USD/boe. What I can tell you is that this number will not go up in the mid/long term, because of Malaysia.

## Upside potential

Question by **Matt Lofting - JP Morgan**:

On exploration, I think you flagged towards the end of your comments, Rainer, a sort of upside to the 260 million barrels. What are the key assets, steps, timings, around the program to realize any of that upside? Thanks.

Answer by **Rainer Seele**:

The upside I was talking about is mainly the upside in Mexico, but if you look into the exploration asset in Mexico, if we really would like to pay for it, and that's the contingent payment I have mentioned with up to \$85 million, we have to be convinced that there is a commercial discovery coming with Mexico. If there is no commercial discovery, my upside will be diminished substantially and my payment will be diminished substantially. So then, we might end up with something in between the 540 and the 625.

Question by **Henri Patricot - UBS**:

The first one following up on the potential upside and looking at the oil assets, which it seems like they are relatively mature assets, given the production targets you mentioned. Is there any possibility for you to increase the recovery rate, or just too close to the end life?

Answer by **Rainer Seele**:

Henri, to be honest, I will not focus on oil there. The story and the perspective of this transaction is gas. We will turn the company, which is now a little bit of an oil company, into a more or less purely gas company. We will not waste our time focusing on any oil assets in their portfolio in Malaysia, because it doesn't make sense. The potential I get from this tiny nitty-gritty oil production is so low that I will focus myself with our enhanced oil recovery projects to other fields in our portfolio, where it really makes more sense to demonstrate a real impact on our numbers.

## Synergies

Question by **Josh Stone - Barclays**:

In the press release, there is some mention of synergies. I was hoping that maybe you could just elaborate on where you see those synergies. Thank you.

Answer by **Rainer Seele**:

As I said, Sapura impressed me a lot as an operator in the region when we discussed their exploration success. What we can now freshly inhale into the company is our world track record in developing assets. So I think the next phase is, if you would like to increase the production from a level of 10,000 to 60,000 barrels per day, it will be a proper, a very proper project management in executing the necessary investments into the gas fields. I think that's one of the expertise we will bring in it, and the synergies is we will manage cash flow better. If you look what we have done the last two or three years, impressively good cash flow management, and that's, I think, something we will bring into the company. Can you put a tag on that? I can't give you a number, but it gives me the comfort that the commitment we are going to take today, that we develop the production to a level of 60,000 barrels per day, comes in with a higher probability.

Question by **Jason Gammel – Jefferies**:

In New Zealand, just trying to understand the future potential of synergies you might enjoy there, provided that you discover oil and gas there. Are those exploration assets that you acquired now closely located to existing assets? Any potential for significant, or for some, synergies?

Answer by **Rainer Seele**:

Honestly speaking, there are no synergies in New Zealand. The shares of Sapura in our assets is in assets operated by OMV already. We are acquiring these assets, the majority from Shell. I wouldn't claim any synergies as we speak about the assets in New Zealand. We do see some synergies in Australia, because the blocks Sapura has acquired is adjacent to the existing two blocks of OMV in Australia. And these two blocks, we have had two discoveries, but we had no commercial discovery because of the size of the reserve base, and given the fact that there are some adjacent blocks coming with Sapura, we might come up to a critical reserve base that a development project would be possible. So there is a synergy potential I can see, but whether or not it really would kick in, it's really pretty early to give you a real firm answer on that.

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