

OMV AG

Rating Type	Rating	Outlook	Last Rating Action
Long Term IDR	A-	Stable	Review - No Action 8 November 2017

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Financial Summary

(EURm)	Dec 2015	Dec 2016	Dec 2017F	Dec 2018F
Gross Revenue	22,527	19,260	22,679	23,900
Operating EBITDAR Margin (%)	14.6	17.6	22.7	18.6
FFO Fixed Charge Coverage (x)	9.5	8.0	10.1	8.9
FFO Adjusted Leverage (x)	2.5	2.4	1.9	2.0
FFO Adjusted Net Leverage (x)	2.1	1.9	1.1	1.4

Source: Fitch

OMV AG is a mid-size integrated oil and gas company focused on central and eastern Europe. It maintains conservative through-the-cycle leverage that differentiates it from larger, more diversified peers. In 2017 OMV has improved its upstream operations through the USD1.7 billion acquisition of a 24.99% stake in the PJSC Gazprom (BBB-/Stable) majority-owned Yuzhno-Russkoye gas field, which brings up to 100 thousand barrels of oil equivalent per day (mboepd) of low-cost production to OMV. We expect that in 2018-2020 OMV's funds from operations (FFO) adjusted net leverage will comfortably meet rating guidance.

Key Rating Drivers

Conservative Leverage, Positive FCF: In 2016, OMV's FFO adjusted net leverage was 1.5x lower than the median for oil & gas peers rated by Fitch 'A-' and higher. OMV has maintained a conservative financial policy through the cycle; its leverage has been in line with the median value for the 'A' rating category and within the rating guidance. This was especially evident at end-2016, when a number of similarly-rated oil & gas peers reported significantly higher leverage, above the median values for their rating categories and above rating guidance. We expect OMV to continue maintaining the conservative leverage that positively differentiates it from Fitch-rated peers.

Yuzhno-Russkoye Acquisition Positive: On December 1, 2017, OMV announced the closing of the USD1.7 billion acquisition of a 24.99% stake in OJSC Severneftegazprom (SNGP), which owns and operates Yuzhno-Russkoye natural gas field. Yuzhno-Russkoye's gas feeds Gazprom's Nord Stream pipeline to Germany. OMV will also own 99.999% in JSC Gazprom YRGM Development (YRGM), a gas trader. OMV's attributable share in SNGP's gas output will be sold to YRGM at cost plus. YRGM will subsequently re-sell the gas to Gazprom under a take-or-pay contract, 50% at Russian domestic netback and 50% at German input netback prices.

The deal brings 100 thousand barrels of oil equivalent per day (kboepd) of low-cost production to OMV, to around 400kboepd. The company estimates that post-Yuzhno-Russkoye closing its average costs would stay below USD10/boe. OMV estimates its share of dividends at about USD200 million per year over the next 3-5 years, which it plans to direct to fund its share of Gazprom's Achimov IV / V capex.

Achimov, Other Upstream Assets: On 1 April 2016 OMV announced an asset swap involving a 38.5% stake in OMV's Norwegian assets in exchange for a 24.98 per cent stake in Gazprom's Achimov IV/V formation at Urengoy. According to OMV, Achimov IV/V will be launched in 2019 and will deliver a high plateau production for over 20 years. In addition, OMV expects to increase production in Libya on newly acquired stakes in PSAs and a stronger partnership with the Libyan national oil company.

Downstream Withstands Falling Margins: We forecasts OMV's refining margins to average USD4/bbl in 2018-2019 as in line with our through-the-cycle refining margins expectations. These margins incorporate the improved refining assets mix as OMV has retained better-performing or recently upgraded assets such as Petrobrazil.

Equity Credit Maintained: Based on our discussion with management, we understand that the short tranche hybrid note (Perp-NC6) issued in December 2015 provides support to the capital structure in the long term and will be replaced in due course. We will therefore continue to apply 50% equity credit without time limit in line with our methodology (Non-Financial Corporates Hybrids Treatment and Notching Criteria, dated 27 April 2017). We earlier treated 2026 as the effective maturity due to the lack of the replacement language.

Rating Derivation Relative to Peers

Rating Derivation versus Peers	
Peer Comparison	OMV (A-/Stable) is smaller than its A-category EMEA peers such as BP plc (A/Stable) and Eni SpA (A-/Stable) by upstream production volumes. The smaller size is compensated, in our view, by OMV's upstream focus on countries in OECD and the EU (94% of production in 2016), through-the-cycle leverage commensurate with the median 'A' category rating, and its strong long-term shareholders. At end-2016, OMV's FFO adjusted net leverage was 1.5x lower than the median leverage for Western oil & gas companies rated by Fitch at 'A-' and above.
Parent/Subsidiary Linkage	We rate OMV on a stand-alone basis despite a 31.5% stake held by Austrian government due to the fact that the company operates wholly commercially. We note, however, that stable ownership helps OMV maintain a conservative credit profile and supports its rating.
Country Ceiling	No Country Ceiling constraint was in effect for these ratings.
Operating Environment	No Operating Environment influence was in effect for these ratings.
Source: Fitch	

Rating Sensitivities

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action

- Positive rating action is unlikely given OMV's limited upstream profile and smaller size relative to its larger and more diversified 'A' category rated EMEA peers.

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action

- FFO adjusted net leverage above 2x and FFO fixed charge cover below 8x on a sustained basis.
- Failure to meet oil and gas production targets, higher than expected expenditure or delays in delivering upstream projects in Russia and the MENA region or significant adverse changes in taxation, licensing and regulatory regimes in OMV's main markets.

Liquidity and Debt Structure

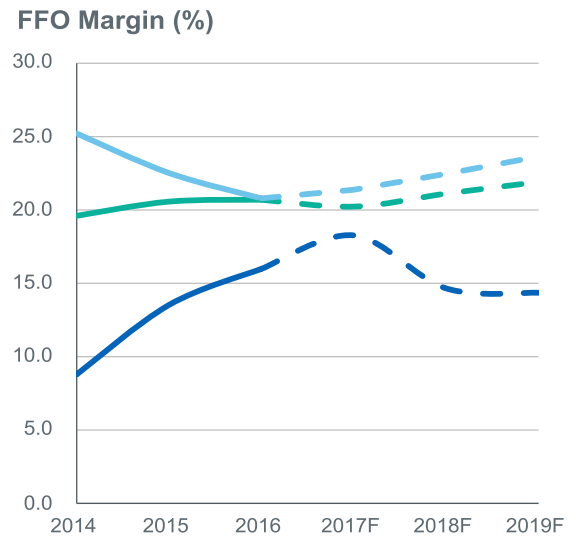
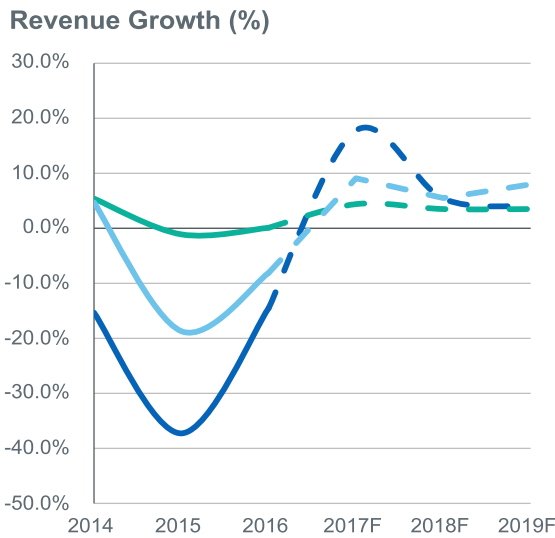
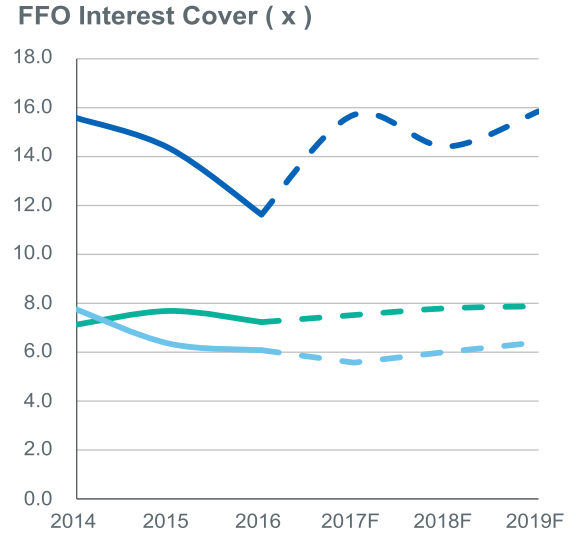
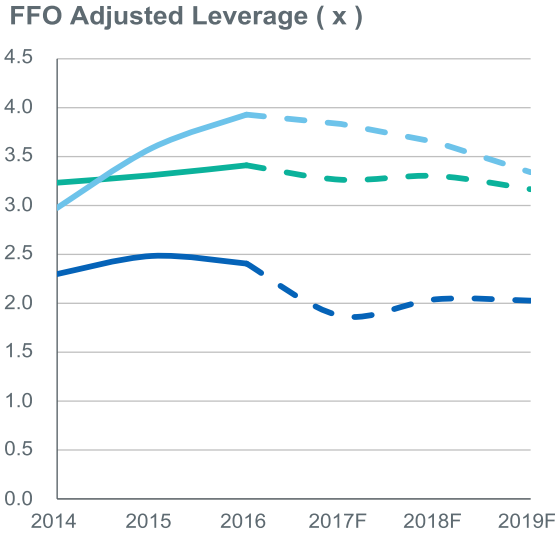
Healthy Liquidity: OMV's cash balance at end-September 2017 of EUR4.6 billion comfortably covered its short-term debt maturities of EUR0.2 billion; plus its undrawn committed credit facilities totalled EUR3.5 billion.

Debt Maturities and Liquidity at FYE16

Debt Maturities	(EURm)
2017	260
2018-2021	3,055
After 2022	3,932
Total debt	7,247
Liquidity Analysis	(EURm)
Unrestricted cash	1,869
Committed banking facilities	3,569
Available undrawn portion	3,569
Total Liquidity	5,438
Fitch Forecasted 2017 FCF (post dividend)	1,414
Short-term debt	260
Liquidity score [x]	26.3
Source: Fitch	

Trends and Forecasts

OMV AG — A- median — Oil&Gas median —



Note: Including Fitch expectations
Source: Fitch

Definitions

FFO Adjusted Leverage: Total Adjusted Debt with Equity Credit divided by Funds From Operations [FFO] + Gross Interest (Paid) - Interest Received + Preferred Dividends (Paid) + Operating Lease Expense for Capitalised Leased Assets.
 FFO Interest Cover: FFO + Gross Interest paid minus interest received + Preferred Dividends paid divided by Gross Interest Paid + Preferred Dividends Paid.
 Revenue Growth: Percentage growth in revenues since previous reporting period.
 FFO Margin: FFO divided by Revenues.

Key Assumptions

Fitch's key assumptions within our rating case for the issuer include:

- Brent oil price of USD52.5/bbl in 2018, USD55/bbl in 2019, USD57.5/bbl in 2019 and in the long term
- Refining margins at USD4/bbl

Financial Data

(EURm)	Historical			Forecast		
	Dec 2014	Dec 2015	Dec 2016	Dec 2017F	Dec 2018F	Dec 2019F
SUMMARY INCOME STATEMENT						
Gross Revenue	35,913	22,527	19,260	22,679	23,900	24,884
Revenue Growth (%)	-15.3	-37.3	-14.5	17.8	5.4	4.1
Operating EBITDA (Before Income From Associates)	4,137	3,153	3,238	4,968	4,265	4,352
Operating EBITDA Margin (%)	11.5	14.0	16.8	21.9	17.8	17.5
Operating EBITDAR	4,265	3,282	3,387	5,143	4,450	4,545
Operating EBITDAR Margin (%)	11.9	14.6	17.6	22.7	18.6	18.3
Operating EBIT	1,079	-2,006	-660	2,268	1,465	1,552
Operating EBIT Margin (%)	3.0	-8.9	-3.4	10.0	6.1	6.2
Gross Interest Expense	-169	-304	-261	-282	-261	-241
Pretax Income (Including Associate Income/Loss)	946	-1,909	-230	1,986	1,204	1,312
SUMMARY BALANCE SHEET						
Readily Available Cash and Equivalents	649	1,148	1,869	3,370	2,459	2,905
Total Debt With Equity Credit	6,970	7,219	7,204	7,204	6,579	6,579
Total Adjusted Debt with Equity Credit	7,994	8,251	8,396	8,607	8,058	8,119
Net Debt	6,321	6,071	5,335	3,834	4,120	3,674
SUMMARY CASH FLOW STATEMENT						
Operating EBITDA	4,137	3,153	3,238	4,968	4,265	4,352
Cash Interest Paid	-215	-223	-287	-282	-261	-241
Cash Tax	-569	-371	-55	-695	-421	-459
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	-191	13	215	152	-80	-80
Other Items Before FFO	-28	398	-58	0	0	0
Funds Flow From Operations	3,156	3,048	3,079	4,143	3,503	3,573
Change in Working Capital	117	-58	-289	-214	-76	-62
Cash Flow From Operations (Fitch Defined)	3,273	2,990	2,790	3,930	3,426	3,511
Total Non-Operating/Non-Recurring Cash Flow	0	0	0			
Capital Expenditure	-3,834	-2,978	-2,022			
Capital Intensity (Capex/Revenue)	10.7	13.2	10.5			

Common Dividends	-458	-417	-361			
Net Acquisitions and Divestitures	341	0	291			
Other Investing and Financing Cash Flow Items	-1,643	73	139	0	0	0
Net Debt Proceeds	2,265	1,300	-98	0	-1,000	0
Net Equity Proceeds	0	0	0	0	0	0
Total Change in Cash	-56	968	739	1,501	-911	446
DETAIL CASH FLOW STATEMENT						
FFO Margin (%)	8.8	13.5	16.0	18.3	14.7	14.4
Calculations for Forecast Publication						
Capex, Dividends, Acquisitions and Other Items Before FCF	-3,951	-3,395	-2,092	-2,429	-3,337	-3,065
Free Cash Flow After Acquisitions and Divestitures	-678	-405	698	1,501	89	446
Free Cash Flow Margin (After Net Acquisitions) (%)	-1.9	-1.8	3.6	6.6	0.4	1.8
COVERAGE RATIOS						
FFO Interest Coverage (x)	15.6	14.3	11.6	15.7	14.4	15.9
FFO Fixed Charge Coverage (x)	10.1	9.5	8.0	10.1	8.9	9.2
Operating EBITDAR/Interest Paid + Rents (x)	11.9	9.4	8.3	11.6	9.8	10.3
Operating EBITDA/Interest Paid (x)	18.4	14.2	12.0	18.2	16.0	17.8
LEVERAGES RATIOS						
Total Adjusted Debt/Operating EBITDAR (x)	2.0	2.5	2.3	1.6	1.8	1.8
Total Adjusted Net Debt/Operating EBITDAR (x)	1.8	2.2	1.8	1.0	1.3	1.2
Total Debt with Equity Credit/Operating EBITDA (x)	1.8	2.3	2.1	1.4	1.6	1.5
FFO Adjusted Leverage (x)	2.3	2.5	2.4	1.9	2.0	2.0
FFO Adjusted Net Leverage (x)	2.1	2.1	1.9	1.1	1.4	1.3

How to Interpret the Forecast Presented

The forecast presented is based on the agency's internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch's rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch's forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch's own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch's own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch's own internal deliberations, where Fitch, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch may update the forecast in future reports but assumes no responsibility to do so.

Rating Navigator

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OMV AG

Corporates Ratings Navigator
Oil & Gas Production

Factor Levels	Sector Risk Profile	Operating Environment	Business Profile					Financial Profile			Issuer Default Rating
			Management and Corporate Governance	Diversification and Environmental	Proved Reserves	Cash Flow Cycle	Production Size	Profitability	Financial Structure	Financial Flexibility	
aaa											AAA
aa+											AA+
aa											AA
aa-											AA-
a+											A+
a											A
a-											A- Stable
bbb+											BBB+
bbb											BBB
bbb-											BBB-
bb+											BB+
bb											BB
bb-											BB-
b+											B+
b											B
b-											B-
ccc											CCC
cc											CC
c											C
d or rd											D or RD

Operating Environment

aa	Economic Environment	a	Strong combination of countries where economic value is created and where assets are located.
aa-	Financial Access	aa	Very strong combination of issuer specific funding characteristics and the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
b-			
ccc			

Diversification and Environmental Risk

aa	Diversification	a	Upstream Oil companies with more diverse projects or stronger integrated. Less vulnerable to price volatility, less exposed to cost overruns and production delays.
aa-	Environmental Risk		
a+			
a			
a-			

Cash Flow Cycle

aa-	Free Cash Flow	a	Mostly positive across the cycle.
a+			
a			
a-			
bbb+			

Profitability

a	FFO (\$)	bbb	\$4 billion
a-	Capex/CFO (%)	a	<100%
bbb+			
bbb			
bbb-			

Financial Flexibility

aa+	Financial Discipline	aa	Publicly announced conservative financial policy. Track record of strict compliance.
aa	Liquidity	aa	Very comfortable liquidity; no need to use external funding in the next 24 months. Well-spread debt maturity. Diversified sources of funding.
aa-	FFO Fixed Charge Cover	aa	10.0x
a+	FX Exposure	a	Profitability potentially exposed to FX but efficient hedging in place. Debt and cash flows well-matched.
a	EBITDAR/(Gross Interest Expense + Rent)	bbb	9.0x

Management and Corporate Governance

aa+	Management Strategy	a	Coherent strategy and good track record in implementation.
aa	Governance Structure	aa	No record of governance failing. Experienced board exercising effective check and balance to management. No ownership concentration.
aa-	Group Structure	aa	Transparent group structure.
a+	Financial Transparency	aa	Financial reporting of exceptionally high standards.
a			

Proved Reserves

bbb-	Reserve Base (boe)	bb	0.4 billion-1.5 billion
bb+			
bb			
bb-			
b+			

Production Size

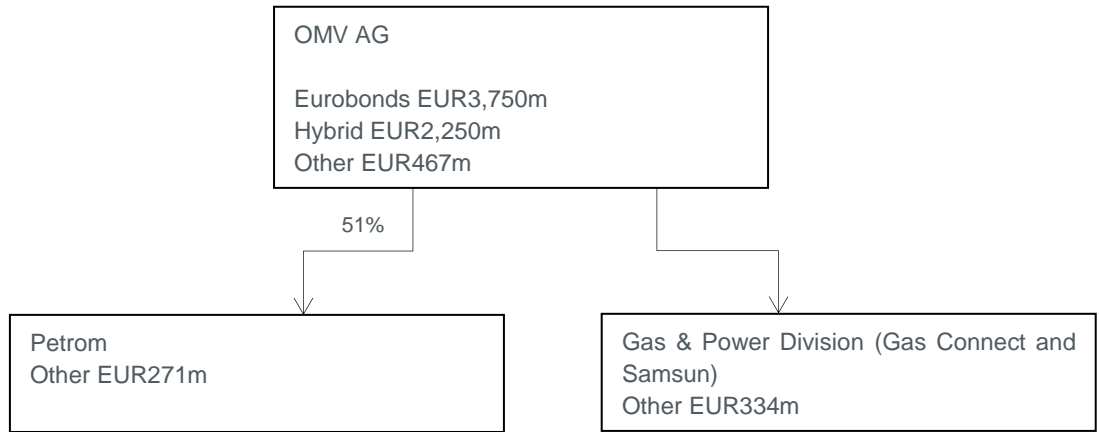
a-	Production (thousand boe/day)	b	<75
bbb+			
bbb			
bbb-			
bb+			

Financial Structure

aa-	Lease Adjusted FFO Gross Leverage	a	2.2x
a+	Lease Adjusted FFO Net Leverage	a	2.0x
a	Total Adjusted Debt/Operating	a	2.0x
a-			
bbb+			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Simplified Group Structure as of end-September 2017



Source: OMV

Peer Financial Summary

Company	Date	Rating	Gross Revenue (EURm)	Operating EBITDAR Margin (%)	FFO Fixed Charge Coverage (x)	FFO Adjusted Leverage (x)	FFO Adjusted Net Leverage (x)
OMV AG	2016	A-	19,260	17.6	8.0	2.4	1.9
	2015		22,527	14.6	9.5	2.5	2.1
	2014		35,913	11.9	10.1	2.3	2.1
BP plc	2016	A	173,620	11.4	4.1	4.3	3.3
	2015		204,728	11.3	5.0	3.5	2.5
	2014		291,234	9.3	6.4	2.8	1.8
Repsol, S.A.	2016	BBB	34,556	12.1	4.1	4.3	3.3
	2015		39,582	10.4	3.5	5.1	4.5
	2014		45,433	6.3	2.8	5.2	2.8
Eni SpA	2016	A-	56,693	17.9	4.7	5.3	3.8
	2015		73,538	18.7	7.4	3.4	2.5
	2014		109,847	16.5	9.3	2.4	1.6

Source: Fitch

Reconciliation of Key Financial Metrics

Fitch Financial Adjustments – Summary Financials

OMV AG

	Reported Values 31 Dec 16	Sum of Fitch Adjustments	Preferred Dividends, Associates and Minorities Cash Adjustments	Hybrid Adjustment	Cash Adjustment	- CORP - Factoring	Other Adjustment	Adjusted Values
Income Statement Summary								
Revenue	19,260	0						19,260
Operating EBITDAR	3,387	0						3,387
Operating EBITDAR after Associates and Minorities	3,387	215	215					3,602
Operating Lease Expense	149	0						149
Operating EBITDA	3,238	0						3,238
Operating EBITDA after Associates and Minorities	3,238	215	215					3,453
Operating EBIT	-660	0						-660
Debt & Cash Summary								
Total Debt With Equity Credit	5,276	1,928		1,116		812		7,204
Total Adjusted Debt With Equity Credit	6,468	1,928		1,116		812		8,396
Lease-Equivalent Debt	1,192	0						1,192
Other Off-Balance Sheet Debt	0	0						0
Readily Available Cash & Equivalents	2,069	-200			-200			1,869
Not Readily Available Cash & Equivalents	0	200			200			200
Cash-Flow Summary								
Preferred Dividends (Paid)	0	0						0
Interest Received	26	0						26
Interest (Paid)	-168	-119				-16	-103	-287
Funds From Operations [FFO]	2,864	215	215					3,079
Change in Working Capital [Fitch-Defined]	-203	-86				-86		-289
Cash Flow from Operations [CFO]	2,661	129	215			-86		2,790
Non-Operating/Non-Recurring Cash Flow	0	0						0
Capital (Expenditures)	-2,022	0						-2,022
Common Dividends (Paid)	-464	103					103	-361
Free Cash Flow [FCF]	175	232	215			-86	103	407
Gross Leverage								
Total Adjusted Debt / Op. EBITDAR* [x]	1.9							2.3
FFO Adjusted Leverage [x]	2.1							2.4
Total Debt With Equity Credit / Op. EBITDA* [x]	1.6							2.1
Net Leverage								
Total Adjusted Net Debt / Op. EBITDAR* [x]	1.3							1.8
FFO Adjusted Net Leverage [x]	1.4							1.9
Total Net Debt / (CFO - Capex) [x]	5.0							6.9
Coverage								
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	10.7							8.3
Op. EBITDA / Interest Paid* [x]	19.3							12.0
FFO Fixed Charge Coverage [x]	10.0							8.0
FFO Interest Coverage [x]	17.9							11.6

*EBITDA/R after Dividends to Associates and Minorities

Source: Fitch

Fitch Adjustment Reconciliation

Reconciliation of Key Financial Metrics for OMV

(EURm)	31 Dec 16	31 Dec 15
Interest bearing loans and borrowings	7506	7608
+ Factoring and securitisation	812	726
- Equity credit	1115.5	1115.5
= Total debt with equity credit	7,203	7,219
+ Total off-balance sheet debt (8 x long-term leases)	1,192	1,032
= Total lease-adjusted debt (a)	8,395	8,251
Reported cash	2,069	1,348
Restricted cash	-200	-200
- Cash and equivalents (unrestricted)	1,869	1,148
= Net lease-adjusted debt (b)	6,526	7,103
Cash flows from operating activities (as reported)	2878	2834
+ Reversal of Interest paid	168	166
- Reversal of Interest received	26	78
+ Reversal of Taxes paid	143	310
- Reversal of Tax refund	88	61
- Reversal of dividends received from equity-accounted investments	217	84
Change in balance of factoring (input as positive or negative depending on direction)	-86	227
Coupon on hybrids (reclassified from dividend to interest)	102	42
Net cash from operating activities (adjusted by Fitch)	2,874	3,356
- Net finance charges (d)	244	130
- Taxation paid	55	249
+ Dividend received less dividends paid to minorities	215	12
= Cash flow from operations	2,790	2,989
- Change in working capital (including change in factoring)	-289	-58
= Funds flow from operations (FFO) (e)	3,079	3,047
Long-term (LT) leases (g)	149	129
FFO adjusted gross leverage (x)		
Gross lease-adjusted debt / (FFO + net finance charge + LT leases) (a/(e+d+g))	2.4	2.5
FFO adjusted net leverage (x)		
Net lease-adjusted debt / (FFO + net finance charge + LT leases) (b/(e+d+g))	1.9	2.1

Source: Fitch based on company reports

Full List of Ratings

	Rating	Outlook	Last Rating Action
OMV AG			
Long Term IDR	A-	Stable	Review - No Action 8 November 2017
Senior unsecured rating	A-		
Subordinated rating	BBB		
OMV Finance Limited			
Senior unsecured rating	A-		

Related Research & Criteria

[Oil Prices Likely to Remain Below USD60 for the Long Term \(October 2017\)](#)

[Updating EMEA Integrated Oil Companies Forecasts \(October 2017\)](#)

[Fitch 2018 Outlook: EMEA Oil & Gas \(November 2017\)](#)

[Corporate Rating Criteria \(August 2017\)](#)

[Parent and Subsidiary Rating Linkage \(August 2016\)](#)

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