OMV Q1 2020 Conference Call – Q&A Transcript

OMV published its results for January–March and Q1 2020 on April 29, 2020. 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**

**Cash neutrality**

**Question by Michael Alsford – Citi:**
I appreciate it's a very volatile environment, but could you perhaps give some guidance on where you see cash neutrality in 2020 post dividends in terms of oil price? I think from my calculations, it looks like it's below $40, but I would like maybe some confirmation from that.

**Answer by Reinhard Florey:**
Just to give you an idea about cash neutrality after dividends. I think this is, in these days, really in an integrated business, a difficult number to provide. Therefore, we have abstained from giving this number. Because if you take just the like-for-like with the number that we have given in 2018 in our strategy of USD 25, that, of course, was still at a time when we had a little bit more of an oil exposure. And on the other hand, of course, all the healthy assumptions when it comes to gas prices and when it comes to downstream margins and all that.

As we have to live more or less, as Rainer also indicated in his outlook, on site level to see the impact of less demand, it would not be very wise to give you advice here. All I can say is you can see that we still have very strong levels regarding our resilience on the free cash flow breakeven also from the first quarter, where you can see that we came out with a very healthy free cash flow. That is also the case if you discount the effect of net working capital. Because the net working capital effect is a real cash effect, of course. But on the other hand, if you estimate prices at the year-end or in average to go up again, you will lose some of this benefit again. If not, if you think that this would come out with lower prices, then you would stay more or less at where you were by the end of the quarter. Therefore, there is very high volatility in this number. So therefore, I don't think it's the right measurement to do that as an outlook for the year right now.

**Question by Bertrand Hodee – Kepler Cheuvreux:**
I understand that for 2020, you refrain to give a number or an outlook for the organic cash neutrality point. But can you share with us where do you see OMV in 2021? In terms of organic cash neutrality point and any, I would say, other thoughts around this projected organic cash neutrality point whether it is CAPEX number, whether this includes Borealis. Borealis being fully consolidated or not. So just wanted to have your view on where do you see OMV in 2021 when all this dust will have settled?

**Answer by Reinhard Florey:**
Just to give you a little bit of a flavor here. Why I was a little bit evasive in my answer on Michael's question in the beginning of the call, is the high volatility that you have here. Just to give you a number in comparison, if you take Q1, our free cash flow breakeven oil price would have been minus USD 30. Then you can see this doesn't make sense in this volatile times, as we are seeing very different impacts from dividends coming in from the different impact between downstream and upstream and the balance in there. So please give us the chance to discuss, as you also proposed, more post-Borealis situation. And there, I can assure you that our
target is clearly with the full consolidation of Borealis and with the ability to come to a situation of a normal comparable market envi-
ronment again, whether this is in 2021 or in 2022 that we even beat our cash flow breakeven of USD 25 that we have given in 2018.

**CAPEX cuts**

*Question by Michael Alsford – Citi:*
Further reduction in CAPEX announced today. I was just wondering whether you could perhaps give a bit more color as to where that reduction is coming from.

*Answer by Rainer Seele:*
Well, the reduction in CAPEX, what's really behind it is a big share of the CAPEX reduction is in our retail business. We have had plans to build some retail stations in Bulgaria, for example. And we are not building those stations. That's it. So the current business is not impacted. Especially as you can see that the consumption is not on a 100% level, this will not impact our Downstream business.

**Gearing**

*Question by Matthew Lofting – JPMorgan:*
First, just on the cash cycle and gearing. Given the sort of the near-term outlook dynamics and uncertainty that you've talked about, can you give us a sense of where your hard feeling is on leverage inclusive or post absorbing the Borealis transaction? And depend-
ing on disposal execution, what determines how long you're comfortable carrying gearing above the target threshold?

*Answer by Reinhard Florey:*
I think the question about leverage is one that we cannot see only in the context of 2020. You have seen that we have given you at the moment when we announced this transaction and also the way we are going to finance it, a guidance that we want to achieve by the end of 2021 again, a return to our target levels regarding our gearing. Now to be very frank with you, in the times of COVID-19 with demand being low, this will be a challenge. However, we are, of course, not giving up on that target because it shows clearly that we are giving us 12 to 24 months to return to normal levels of financial strength for which OMV, I think, has quite a good reputa-
tion.

Now this means that in 2020, of course, we will see a higher gearing. And this is also very natural. But therefore, it was very im-
portant to us to show you also today how strong we are in the gearing starting from Q1. Because I think the very good cash flow and the very good profitability from Q1 showed that we are able to manage this kind of financial stability exactly in anticipation of the execution of this great and very beneficial transaction. And this will happen this year. And therefore, we'll see some elevated gearing level this year, and we'll try to return to normal then by the end of next year.

*Question by Peter Low – Redburn:*
Can you provide a reason as to why you've changed the disclosure to be a pre-lease measure that you're now looking at rather than kind of the post-lease metric?

*Answer by Reinhard Florey:*
First of all, I think there are some reasons just for the comparability and the visibility regarding the history also. We have given al-
ways a gearing target for OMV pre-IFRS 16. Now the IFRS 16 is clearly the majority part of the leasing because that has made the big change. So after the new IFRS regulation, we cannot even differentiate anymore between finance lease and the operating lease. But the real increase that came on our balance sheet was clearly with the operative lease. So we have kept also this differenti-
tation to say this is what is pre-lease, this is what is including leases. So we are fully transparent on that. So we are not hiding any-
thing from you.

But why? There is also a clear, from a financial theory, a clear reason for doing this. If you take the nature of leases, this means that you are much more flexible in keeping the debt or leaving the debt. Because they are linked to specific assets that you also might be able to dispose of. You do not have these kind of long-term bindings in the contract that you would have, for instance, with a bond. If you issue a senior bond, then you keep it until the run time is there and maturity is reached. In leasing contracts, the standard forces you to attribute to your accounting, the probable lifetime of that, but that does not mean the contractual. So therefore, you are in a different way. And therefore, we think that you are much more flexible on that. That you could more easily shed that. And therefore, we are seeing that the long-term debt, the long-term gearing is more of a relevant for us.

**Dividend**

*Question by Sasikanth Chilukuru – Morgan Stanley:*
I was just wondering if you could comment on the dividend, the one that's been announced for 2019 and to be paid in 2020. I was just wondering if there's any risk with that being announced ahead of the AGM in September?

*Answer by Reinhard Florey:*
On the dividend, I think we have been very clear on commitment to our dividend policy. Our dividend policy is very clear, that we
intend to raise our dividend year after year or keep it at least at the level of the previous year. And this is what our intention is. And for the moment, there's also no deviating attitude for us regarding a proposal to the AGM in autumn.

**Asset disposals**

Question by Sasikanth Chilukuru – MorganStanley:
When do we expect or when do you expect to have a definitive agreement on the two divestments that you have outlined? Is it more a first half event or it's second half event?

Answer by Rainer Seele:
For both disposals, I think we will have an agreement until year-end. For the transportation business, maybe earlier because we are already in exclusive negotiations, then for the retail network in Germany.

**Upstream**

**Natural gas prices**

Question by Mehdi Ennebati – Bank of America:
Regarding realized gas prices, you said that Romania, Malaysia and New Zealand declined less than in Europe. What about the coming quarters? Do you expect these natural gas realized prices in those countries to decrease significantly due to some time lag impact, for example, or lower demand or anything else? Or do you expect them to remain resilient compared to the European prices?

Answer by Rainer Seele:
The realized gas prices from the other countries, some of them are fixed prices. But the gas price in New Zealand, for example, is partially indexed to the methanol price. So it's following a different price curve than the hub prices. So what I'm saying regarding the realized gas price in the second quarter, we might see less of an impact than what's going on here in European pricing, but for the second quarter, my outlook for the gas price is lower than the gas price we have seen in the first quarter. So I wouldn't call a EUR 11 per megawatt-hour, at least not in a summer quarter. But if you look into the gas trading business, in the second quarter, we also will benefit from the summer/winter spread in storages.

Question by Bertrand Hodee – Kepler Cheuvreux:
The outlook on European natural gas is quite ugly, to say the least, right now. Do you have a view on 2021 for natural gas in Europe?

Answer by Rainer Seele:
Well, to be honest, it depends on the winter. It will depend very much on the winter. It will depend on whether or not Asia is coming back with higher consumption and less cargoes will move into European gas market.

From my point of view, the gas prices in 2021, shall I tell you an honest answer? I really don't care. I'm busy to think about 2020, and it already creates me a headache to think about the gas price in 2020.

So for 2021, I do hope that we will see a recovery, then we will see higher prices. And especially if Saint Peter is sending us a blizzard, an ice blizzard for 3, 4 months, then it will be much, much higher.

**Production outlook**

Question by Michael Alsford – Citi:
Further reduction in CAPEX announced today. How might that impact the production outlook in the Upstream business into 2021?

Answer by Rainer Seele:
It's in all regions where we are going to reduce mainly also in Romania. My production guidance is 440,000 to 470,000 barrels per day. There is no real major impact from this CAPEX reduction in my forecast. The range of the 30,000 barrels per day is just depending on Libya, whether or not this is coming back, and a potential impact from OPEC quotas, which will be implemented in some regions where we are operating. So no impact from the CAPEX reduction on our production forecast.

Question by Thomas Adolff – Credit Suisse:
On production, I understand the Libya part, so going from 500,000 to 470,000. I understand directionally why it might be lower because of the OPEC+ cuts. But it's quite a big cut from the 470,000 to the 440,000 potentially. And UAE contributed 22 kboe/d in the first quarter. And otherwise, you produce a lot of gas in Malaysia. So perhaps you can talk about your bear case of 440,000 and where these cuts are coming from, please?

Answer by Rainer Seele:
Well, working on the 440,000. Of course, you're right, Libya is good for 35,000 barrels per day. That's what we have produced in
average and what was in our plan for 2020. Then we will see further production cuts, more or less in all the regions. One is in the UAE. The UAE, I think, made an announcement that this will be a low double-digit percentage. Then we will see a reduced production also in Malaysia. Because one of our projects, because we have pipeline restrictions, will not come on stream on time.

We have a reduction of our gas production in New Zealand because our main customer has had to reduce his utilization of his chemical plant. And we have, of course, in Romania, a natural decline, which is coming in because we have also cut the CAPEX spending in Romania. You might remember, I also said if we’re going to reduce the CAPEX, the response in Romania is a little bit quicker. And therefore for the decline I also gave a range in Romania between 3% and 5%. We’re expecting that we also will see cuts upcoming in Norway.

Now I’m talking about the bottom line, the 440,000. We are expecting it could happen. This is a little bit the kind of words I have to use what I’m saying so. So this is more or less the scenario. We have only maintenance reduction from our production in Russia. So there is no production cut for gas. We are talking about mainly oil, as an impact. We will see a lower buildup of gas production in Tunisia. So I can tell you, in all the regions, a good story. And if you sum it up, you will get to the 440,000 in the bottom line scenario.

**Question by Alwyn Thomas – Exane BNP Paribas:**

I wanted to have another go at the CAPEX to production relationship and how you see that. I mean, I understand the points you’ve made around the sort of the limited impact on this year’s production range from the lower CAPEX. But given OMV’s exposure to higher decline, CEE basins, et cetera, what’s the anticipated implication of lower spend today for future volumes into 2021 and 2022?

**Answer by Rainer Seele:**

I’m going to tell you what was my thinking when you raised the question. I thought I wish my Board colleague, Hans Pleininger, will be here because he can give you really a solid answer in your question. So very honestly speaking, I don’t have the numbers. He might have it. And I only give you a little bit of a qualitative answer on your question.

First, if I see the CAPEX cut also running into ’21, I think the most sensitive region is Romania, and we might see there is stronger decline coming up. What I have discussed with Hans so far is that I tested him, are we coming back to the 500,000 barrels, which is the first number, we have always proudly mentioned when we talked to you in ’21. Yes, but it depends really on the environment. Are we going to see then further production cuts? Or what is the OPEC quota? So there are so many ifs.

But reading between your lines, I think this is not my major concern when I’m thinking about what is the next journey OMV is sailing. It’s more the question, what is the mid and long-term impact on OMV’s production level? And then we are not talking about mainly the cuts we have taken this year. Then we are talking about whether or not we would acquire the two big projects into our portfolio, which means are we going to acquire Achimov IV/V and do we have then the financial muscles to go for that? Secondly, are we going to take then FID for Neptun? So these are the two projects determining whether or not we will have really a visible impressive ramp-up of our production in upstream.

So in a nutshell, I would ask you, Matt, to ask a question again in our next call when Hans is present. I hope he will say no ramping any potential increase in the coming quarter?

**Answer by Rainer Seele:**

My view on petchem for the second quarter, I’m expecting and what I do see right now in the market is that petchem margins stay healthy in the second quarter. So the first quotes you can see in April are encouraging as to enjoy our business. The petchem business right now is benefiting from the high volume quotes from packaging. This will continue into the second quarter. And as the corona crisis is asking for more hygiene standards, especially the polypropylene, so the propylene will benefit from that because the masks which are produced are based on our polypropylene. So looking into second quarter, I would say petchem looks good in the second quarter.

Third quarter, I do hope that petchem in Europe will then benefit from the automotive and construction industry coming back. That’s a topic of volumes. So I see a healthy demand for ethylene and propylene in the two quarters to come.

On the other hand, as you know, it’s one side of the medal. We have to look at both sides of the medal. On the supply side, we see
that we have roughly 25% of the capacity shut down in petrochemicals. The steam crackers, especially those which are backed by quotes from the automotive industry, are shut down right now. We see that especially the reducing utilization in the refineries is reducing the propylene supply into the market because the FCC plant is not running with high propylene volumes. So all in all, I have to say, healthy demand. I see with C2 and C3, supply is reduced. That's my more or less healthy outlook for petrochemicals for Q2 and also a little bit less in Q3.

**Middle distillate hedges**

**Question by Jason Gammel – Jefferies:**
Can you give a little more detail on the financial instruments that were used for the middle distillate margins that had a very healthy contribution to the results in the quarter. And then perhaps also how long those extend out?

**Answer by Reinhard Florey:**
Jason, regarding the financial instruments on the middle distillates. To be honest, these are hedges that we have very much on the product level. The hedges are being executed in a way that we try to optimize the market environment that we envisage. Therefore, in the effects that you have seen, we have positive effects for just working with these hedges that have an effect actually in all quarters of this year. So there is an effect that even if some have been sold, some have been newly bought, we have a relatively equal effect of those in a positive way to be expected also for the coming quarters. So that stabilizes our results to a certain degree. And of course, it's not all products. As you say, it's middle distillates mainly. But it stabilizes part of our result very nicely over the next quarters also from the Downstream business.

**Question by Jason Gammel – Jefferies:**
If I could just have one follow-up on the middle distillate hedges. I think it's fairly clear, but just to make sure there's no financial instruments related to crude oil in those hedges?

**Answer by Reinhard Florey:**
No, absolutely not.

**Refined product demand**

**Question by Jason Gammel – Jefferies:**
My question is related to refined product demand in your retail markets. Can you talk about the level of year-over-year declines that you've seen there? And it's probably way too early, but the trajectory of how that demand could potentially come back.

**Answer by Rainer Seele:**
Regarding the retail volumes, I have 4 product groups: jet, down by 95%; gasoline, down by 60%; diesel, down by 30%; heating oil, up by 5%. These were the numbers a week ago. Since there was a reopening, especially here in Austria, I will give you the current numbers: jet, minus 95%; gasoline, minus 40%; diesel, minus 20%; heating oil, well, the season is not there anymore.

**Question by Michele Della Vigna – Goldman Sachs:**
Going back to operating working capital, I was wondering, as demand drops in the second quarter, whether there was the risk that you would see a material increase in the amount of inventory at your refineries as you wait effectively for the market to restart in the third and fourth quarter?

**Answer by Rainer Seele:**
Well, first of all, I think we will see another buildup of inventories, especially now in the second quarter. We still have some capacities available, as we speak about diesel. The main topic I would like to raise here is the specification you need to have with the different products. That's why we have highest storage capacities for diesel because the quality stays for longer. We have only limited jet capacities, but we have changed the process structure in our refineries, so that we are now nearly fully cracking jet into monomers and a little bit of diesel. Gasoline was and is still a problem. But if you remember, Michele, what I have said about the gasoline and diesel consumption, gasoline is coming back. And next week, on May 4, there is another lifting of the restrictions here in Austria. And then I hope that people have enough from staying in their flats and that they are going to drive as much as possible. That's the best storage I can get.

**CO2 certificates**

**Question by Michele Della Vigna – Goldman Sachs:**
Congratulations on a very strong set of results in a difficult quarter. First of all, referring to the monetization of some of your CO2 credits. I wanted to understand if perhaps you could quantify that impact and go through some of the thinking behind the decision there, and how much you still retain of credit after that?

**Answer by Reinhard Florey:**
First of all, this impact came in Q1. There is not much more impact from that to be expected in the quarters to come. We are not specifically quantifying, but I can give you assurance that it's a mid-double-digit million effect that we had in Q1 from this. Your question
was, do we have to buy certificates? I can assure you there is, be it in the western part or be it in the eastern part, at the moment, for this year, no requirement for us to buy CO2 certificates. And therefore, we will handle that more according to the market development that we see on CO2 prices.

**Refinery utilization**

**Question by Henri Patricot – UBS:**
I wanted to get a sense of what the bottleneck is for your refining utilization, given the guidance of around 80% for the year. It sounded like it's more down to gasoline demand rather than jet, which you've managed to reduce very substantially. So the delta here, at what pace does gasoline demand comes back for rest of the year?

**Answer by Rainer Seele:**
What is the bottleneck with the 80%? Absolutely, it's jet. Especially when we talk about our refinery in Germany, there is nearly no diesel and gasoline I can talk about. So it's jet. And we are running now at the Burghausen refinery our petchem units on a 100% utilization. Okay, I'd never say 100%, it's 99%. So this is fully used, and that's really setting the limits and the bottleneck over there. So it's definitely jet.

If we look into the refinery in Austria, and it's also the case partially, to a less extent, in Romania. The main problem there is jet and gasoline. Gasoline is the real issue. Diesel, I have a bit brighter outlook because heavy traffic will come back especially when the border lines are going to be opened, then diesel demand will come back earlier.

**Question by Peter Low – Redburn:**
On the refinery utilization, given you're guiding to 80% for the full year and that the 1Q average was 94%, does that mean you're going to be lowering utilization below the current 80% level in the coming weeks in order to achieve that kind of year average?

**Answer by Rainer Seele:**
Peter, 100 points, you catch me. You made good math today. I agree with you because we have said it's more than 80%. You're right. It is a conservative number. Given the uncertainty with our outlook, especially with the demand, we have been more on the cautious side. You're absolutely right. And my answer is, yes, it's more than 80%.

**ADNOC Refining**

**Question by Henri Patricot – UBS:**
On ADNOC Refining, I was wondering if you can give us some guidance around on both utilization for the year for ADNOC and also any impact on the CAPEX program over there, given the more challenging environment?

**Answer by Rainer Seele:**
So on ADNOC Refining, okay, there was an impact by turnaround and a decline in demand in April. The utilization rate of ADNOC was around 60%. We see a ramp-up in the next two months. For the second half of the year, we estimate that the utilization rate will be higher. Why is it so? And I think that's a success, Henri. You might remember what I always have said last year, it was always: we have problems with the FCC, problems with the FCC, technical problems and so on and so on. Now I'm really more optimistic that we could use the maintenance shutdown to bring back reliably the FCC plant and it's also important for us because the propylene from there we also need.

Regarding CAPEX guidance, I really feel sorry that ADNOC is giving us some limitations to give you an answer.

**Question by Thomas Adolf – Credit Suisse:**
Going back to ADNOC. You received a dividend of EUR 34 million. And I wondered whether you can comment on the EUR 34 million, is it a semiannual or quarterly dividend on last year’s earnings, presumably? Or what's the dividend policy? Why this EUR 34 million?

**Answer by Reinhard Florey:**
The EUR 34 million we received here are also partly an adjustment or call it compensation, still in context with our purchase price that we paid for the participation in last year. So very honestly, I'm rather conservative on the prospect of dividends from ADNOC Refining for this year. Given the situation that they had a large turnaround still throughout the full Q1, that there will be topics ramping up, that there is in the Asian market still some difficult market conditions. I'm not worried about long-term dividend prospects. I think this is a fantastic asset. This is very much geared towards markets that may be even the first ones to open up again in greater dimension. But however, for 2020, I'm there rather conservative.

**Question by Thomas Adolf – Credit Suisse:**
So this EUR 34 million, just to confirm, is a compensation for having had bigger issues on the FCC, which was essentially meant to
Answer by Reinhard Florey:
That's not exactly what I said. I said it’s in context with our purchase price. The conditions about that, of course, have been confidential. But now there is more or less everything settled.

**Downstream Petrom**

**Question by Joshua Stone – Citi**:  
Firstly, looking at the Downstream result, the contribution from Petrom looks particularly strong in the quarter. I was wondering if you can talk about the main drivers there and how much of that you think is repeatable?

**Answer by Reinhard Florey**:  
Regarding the Petrom Downstream results. Yes, you're right. They have been strong. And in the Downstream side, there have been contributions from all three areas there. So from the gas business, from the downstream refining business as well also from the power plant that we have there. We are actually seeing that specifically also the demand in energy in Romania is still on a high level, and we're seeing that some outages from other facilities have benefited the gas-fired power plant that we are seeing here. So in that respect, we are actually seeing that there is a potential that the Downstream results in Petrom remain on a continuously high level.

**Rhine river level**

**Question by Joshua Stone – Citi**:  
I noticed the Rhine River has been getting a few more headlines about potential dryness or drying up. And I wonder if you're seeing any early signs of any boost to the commercial business from that? Or if that's something you're looking at?

**Answer by Rainer Seele**:  
I like every sign of hope also with the Rhine River, but I'm afraid I'm not a member of your club. What I need is that the Germans are lifting the restrictions and the Germans are going to start driving more their cars. This is more helpful because if we're getting less supply via the Rhine River, it could be easily compensated that one of the guys running the other refineries is increasing its utilization rate, and then the effect is minor. That's my view on it. The Rhine River will have a positive impact if we really will see a stronger demand in the market. If there is less imports coming from the north and the south, it easily can be compensated by a higher run rate of the refineries in the region.

**Borealis acquisition**

**Question by Alwyn Thomas – Exane BNP Paribas**:  
If I could just circle back to the Borealis acquisition. I think since you announced the acquisition, I think generally investors are becoming a little bit more comfortable with the strategic fit, obviously, with your existing business. But I think some of the key questions I've had, particularly in the last month or so, have been around the company's relationship with Mubadala and Abu Dhabi. And I just wanted to ask you directly, how did you ensure you paid fair value for it and kept the transaction at arm's length and just how you manage that sort of complex governance relationship with Mubadala?

**Answer by Reinhard Florey**:  
As you can imagine, that related party transaction, and Mubadala as a shareholder in OMV is clearly classified as a related party, has been under total scrutiny from a governance perspective. And you can be sure that with fairness opinions, with very strong valuation cases that we did with sensitivities up and down, we are absolutely certain that the price that we are paying is a fair one. Don't forget that we have announced that there will be some EUR 700 million of synergies within the next 5 years that will come to the benefit in 75% in our case. Because this, of course, will be a very good opportunity to get much more efficient and much more tighter integration to the benefit of the business. And that, of course, goes very much to the benefit of the shareholder. So therefore, from a formal side, absolutely, you can be assured that things have been probed also, of course, from the Supervisory Board. If it comes to the prospect to say how much this business will develop now in the near future, I can tell you, it's an extremely stable, extremely cash-generative business. However, it also has growth opportunities in markets that really have a prospect to be another good leg for them to enter markets like U.S. as well as Southeast Asia. And the transaction in U.S., where they acquired another 25% of the Baystar facility, has just been concluded. And I think this is another great success that will safeguard the rich cash generation for the future of this company.

**Answer by Rainer Seele**:  
Just wanted to comment on top what Reinhard has said. What is the value of Borealis? We see that especially in times of this COVID-19 crisis, the flexibility I have explained to you in our refineries with a high utilization rate. And now I’m talking about the integrated value. We couldn't run that without Borealis. Borealis is our captive market behind our refinery even in times when we can't find a buyer for jet. Borealis is a company which has a much, much broader product spectrum than other competitors who are, let's say, to a vast majority, depending on the automotive industry. Looking into Borealis performance as we talk about the business and how other companies are impacted by COVID-19,
I can see a real robustness. We are not talking about like my retail network with volumes going down overnight by 50% to 80%. So what we are gaining is a flexibility, a relatively stable captive market, especially with Borealis. I think that Borealis, as we speak about their business plan, also given the framework for the next years to come, I see Borealis, with their business especially as they are standing on 2 legs in Europe and in the Middle East, Asia, I think that there is a stability really coming with that.

So I see that value, which is in integration. And I think given the current business environment, Borealis is performing on an impressive level compared also to their competitors. And we are benefiting from a very reliable captive market.

**COVID-19 impact**

**Question by Alwyn Thomas – Exane BNP Paribas:**
The impact of COVID-19 on downstream in general and particularly in Europe. I just wanted to get your thoughts on how you see what the potential structural impact could be to downstream in Europe, some of the nuances there, and how you prepare the business for that.

**Answer by Rainer Seele:**
The impact COVID structural in Europe Downstream, that's a difficult question. What I see in Europe is consumption is coming back only slowly. And this is customers' behavior. This is what the ordinary people on the street have changed. There is so much fear to be infected that people need to have a convincing story that they are not afraid about a virus infection. So my picture tells me, well, Europe will come back the day we do have a vaccination. Then we are back to normal, then I think we are back also really spending our holidays on one of these beautiful beaches somewhere.

So what I'm saying is, I think COVID-19 has a huge impact on the aviation industry. Air traffic needs a little bit of an eternity to come back to the level we have seen in '19. When I say eternity, it's not lasting forever, yes, but I think we are talking about nearly 2, 3 years. That's my view.

What is changing is, I think people, especially in the first weeks, will avoid public transportation. And I hope they take their car and not the bicycle. So individual transportation, just it's in the mindset of the people, will get a priority.

What else do I see? I think that people and especially the industry, health care and packaging will benefit from COVID. Health care in each sense, doesn't matter what we talk about pharmaceuticals and so on. And I think that especially the new standards on hygiene in daily life, will determine the customers' behavior when he's going for shopping.

The third and last point I want to make is, especially in European refining. Low cost and flexibility will determine the success of the players in the industry. Maybe some of the shutdowns are not coming back, that would be good for the market because we have seen since decades an oversupply and refining in Europe. But I'm afraid that low cost and flexibility will be even more important in the refining business in Europe.

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