OMV Q2 2020 Conference Call – Q&A Transcript

OMV published its results for January–June and Q2 2020 on July 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**

**Asset disposals**

**Question by Mehdi Ennebati – Bank of America:**
The first one regarding the asset disposal program. So you've announced the issuance of Hybrid Bonds of EUR1.5 billion, which will happen in the third quarter. Is this related to difficulties regarding your asset disposal program announced a few months ago? And do you still feel comfortable with the full realization of that asset disposal program by the end of 2021?

**Answer by Reinhard Florey:**
The hybrid announcement that was given yesterday is in no whatsoever context of our disposal program not working in the way as we have announced, as this is still the case and fully on track. The hybrid bond as such is an important diversification of our financing portfolio, as it is partly also an equity measure. Strengthening the equity and strengthening liquidity is in these times specifically important and part of our risk management in general.

It is also the case that it is an instrument that due to its almost perpetual nature has the possibility to strengthen the balance sheet as such and give us the long-term stability, which is very much to be seen in the context of our Borealis acquisition and in these times, it’s a measure of risk management to take at least in the portfolio as such. So in absolute magnitude, we will increase our exposure to hybrids. In the relative share of our financing portfolio, we will be about the same.

**Answer by Rainer Seele:**
Of course, we still feel very comfortable that we will realize the EUR 2 bn in divestments until end of next year. We are well on track with the two divestment projects, which are well known to you. So let's wait until year end, whether or not we can successfully execute these two projects and then you will get the next story.

**Question by Henry Tarr – Berenberg:**
One on the sales processes, they’re ongoing, which is great. I wonder whether you could comment on whether the current crisis has impacted either prices or interest across the portfolio?

**Answer by Rainer Seele:**
The current crisis situation from my point of view did not really impact our negotiations. So we think that we can manage to get a good price in the market. What we do see, and that's the only impact of the crisis, is that we might have some delay in finalizing the transactions because one-on-one meetings weren't possible especially in the hot phases of April and May. So a little bit of a delay in the execution, but as we speak about the impact on interest and prices, just remember 40 companies showed up for the German retail network. I think that's not a negative impact on interest. It was surprisingly much more than we anticipated.
Green Deal
Question by Thomas Adolff – Credit Suisse:
I think the first one is for Rainer. You grew up with gas pipelines and you're very fond of gas, generally speaking, so in your view is the Green Deal missing a link here, what's your take on that?

Answer by Rainer Seele:
I can't agree more. Of course, we are missing a link to natural gas in the Green Deal the European Commission has set up. Yes, I agree with the long-term targets defined – it doesn't matter whether you talk about 2040 or 2050. We have to climb up the mountain, but we also have to agree, what are the first steps, especially if we have such a long lasting journey in front of us.

And the first step, we really can substantially reduce CO2 emissions, if we switch from coal to gas. And I would like to see a bit more brave politicians, supporting the initiative that we step out of coal and that we are guaranteeing for security of supply, that we are mixing natural gas based power generation with renewables. This is the way which has demonstrated a big potential if you look into the U.K. They really made a huge progress and if the Green Deal would copy only part of it, we would see lots of progress in the short term.

And we all discuss now what is going to be in the long term and how much money you would like to send into that. I think the short-term potential is enormous and that's the reason, why I see natural gas, especially in the short and mid-term not so depressive. Right now, I think the market is so well over supplied and we are digesting two mild winters in the market. But there are waiting better times. I am convinced the future of Europe is natural gas in the short to mid-term. I can smell the potential. And that's the reason why I think that our strategy is absolutely clear, that we should focus on natural gas.

Regulatory framework
Question by Michele Della Vigna – Goldman Sachs:
You indicated that there's a need for a good regulatory framework in order to support decarbonization, particularly carbon capture and synthetic renewable fuels. I was wondering, what form you think you would like those incentives to take. Do you think the best thing would be a strong CO2 pricing or perhaps regulated prices for clean hydrogen or mandated renewable synthetic fuel? What do you think would be most helpful for Austria and for the EU as a whole?

Answer by Rainer Seele:
I'm more talking about a framework and it starts how European politicians are responding to CCS. What I do see is that we are all driven by the fact that we don't like CO2. We only support technologies, initiatives where CO2 doesn't come out as a molecule. And I think that's only one side of the medal.

I think we should send some money into that. But we should not ignore that CO2 is a molecule we might handle differently. And then it comes to CCS and CCU. And from my point of view, CCS is not welcome in Europe. I see so many bans of different members of the European Union. It's not allowed to even think about CCS in France, you cannot do that in Germany, you can't do that in Austria. So it's a very long list. And I think it's the same story, I mentioned with the U.K. when it comes to natural gas as a potential to reduce our CO2 emissions. It's the same story, I can tell Brussels to look into Norway, which are ready to support, to grant and to approve a big CCS project in their country.

We can technologically manage this. We can guarantee for security, we can guarantee for proper investments - everything. So what I would like to see, of course, is that the European politicians agree that this technology is not banned, that this technology is welcomed, because it has a potential - as the industry is telling everybody in Brussels - to substantially contribute to reduce our CO2 emissions. So therefore, I also would ask, if this technology is being applied that they might subsidize this initiative.

The CO2 price - you know my view. I'm a market man. I don't want to have a regulated CO2 price, I would like the market to determine what is the price of CO2 - it's working. Currently, we see that the CO2 price is increasing in all our plans, and I can see also from other companies they are calculating with higher CO2 prices and the market will determine the price. But besides the CO2 pricing, I think we also have to create a premium market, if we go for some clean products, where we do get a brand, which come from CO2 free production.

CO2 targets
Question by Alwyn Thomas – Exane BNP Paribas:
First up from me, just on your carbon emissions target. I know you haven't committed fully to Scope 3 neutrality or intensity reduction by 2050, like some of your peers. Perhaps after the Borealis acquisition is closed, is that something that's on your mind and considering whether to implement Scope 3 type longer-term targets?
Answer by Thomas Gangl:
Coming back to your Scope 3 target question and Borealis, I think overall, we have defined the target now for 2025 for our product portfolio. And this is a very important step because we, of course, need to have targets for the long term, but it's very important that we get started with the things we can do, that we can show that there is a step forward and there is progress in finding a way to do that and to reach the targets.

The products from Borealis, they are typically ending up not in incineration, so there is no CO2 production from that. And therefore, I think here Scope 3 target is more talking about gasoline, diesel and those products. And here clearly for the long-term view, we are working in different areas to develop technologies to realize that. I think there is a lot ongoing, we're working together also on a European level in Fuels Europe, in defining the way forward. We have together also come up with a vision - Vision 2050 - where we see where we could land and this is giving the clear signal that there are possibilities. But now the next step is to make sure that we reach the target for 2025, that we develop the technologies and then we can define more granular steps on how to get there in 2050, I would say.

Question by Joshua Stone – Barclays:
And then secondly, following up on the net zero by 2050. I have noticed unlike some of your peers, you haven’t mentioned the use of forestry projects to get to net zero. Is that something you might consider in the future or is it simply you don’t see a need for these sorts of projects?

Answer by Rainer Seele:
Forestry projects are also part of it, yes, but it's not in the first priority list. So it might come later. We have some smaller projects we have in mind, but we are focusing on the big steps we see in our operations and not in forestry projects.

Gearing target
Question by Henry Tarr – Berenberg:
And then just on gearing, is there any change to your view on the gearing target so looking out two years? So assuming all of the divestments come through, you would hope to be back in sort of a normal range within your target by the end of next year?

Answer by Reinhard Florey:
The gearing target of around 30% gearing excluding leases will stay upright. This is our long-term target and we also have the ambition that in two years’ time as you have mentioned, end of ’22, we will reach this target again. It is important for the financial stability that we also are able to display this kind of stability, this kind of ambition, because we can see in a cyclical industry that of course having these kind of reserves, this kind of headroom has clearly benefited our company in the way how we digest the growth and opened up opportunities to enrich our portfolio.

Of course, we will see a higher gearing level by the end of this year after the closing of the Borealis transaction. And Borealis is also on a profitable organic and inorganic growth path as you have seen. But this is something which stays as an ambition for the group, and we will not change this target.

Question by Sasikanth Chilukuru – MorganStanley:
The second question I had was just a clarification on your leverage targets. You've reiterated it needs to be around 30% by the end of 2021. Does this include the hybrid issuance as well and whether it was always in the plan? If you could just comment on that?

Answer by Reinhard Florey:
Regarding the leverage target. I mentioned that we feel quite confident that in 2022, we will reach the 30% again. And of course, this is something that has to include all the measures that we are currently taking in terms of also portfolio changes with divestment, but also assuming that there is a slight recovery of the business environment.

But nevertheless, the countermeasures that we have taken both in terms of CAPEX reductions, OPEX reductions, in terms of portfolio shift that we have announced, as well as I think the very good cash performance that we are still showing even in the difficult environment we are currently having, makes us confident to reach that.

Dividend proposal
Question by Henri Patricot – UBS:
The first one is around the decision to cut the dividend proposal to EUR 1.75 from EUR 2. I wonder if you could elaborate on why you made the decision because at the last results call, I didn't get the impression that this was likely and you've actually been more resilient than expected in the second quarter and intend to raise a hybrid. So just want to get a sense of why you decided to revise that.
**Answer by Reinhard Florey:**

First with regard to the dividend, I think the clear message that we have given is that we stay within our dividend policy and there is no change of our dividend policy. Yes, of course, the times are tough and require measures to make sure that there is no financial overstretch of the company. But for us it is important that it is acknowledged, EUR 1.75 is a proposal, has been the record dividend of last year, and we are keeping it exactly at this level. So it is both a signal to say, we appreciate very much our shareholders and our shareholders’ requirements to be also rewarded and on the other hand we take care of the company’s way to the future because of course the environment this year is not that strong.

**Risk of impairments**

Question by Henri Patricot – UBS:

And secondly, I wanted to ask about the risk of impairments and the long-term macro assumptions. You took some impairments for the short term earlier this year, but you haven’t changed the long-term assumptions, so I was wondering if you’re still comfortable with these? And you mentioned a possible impact of revisions in your report. Can you give a sense of timing? If there would be a revision, when could that take place?

Answer by Reinhard Florey:

Regarding your question of risk of impairments. We have not adjusted our long-term views on the development of the oil and gas prices. The reason mainly is that we are in a situation where we cannot see the current market environment as the normal one for the future. There are so many uncertainties and so many special factors that are currently distorting the levels of the prices, so that it is at the moment very hard to see through that, that there is really a long-term change of the environment from our point of view.

So therefore, yes, some uncertainties remain and we will always reconsider the situation if there is any kind of major change. But for the moment, we don’t see that and we stick to the assumptions that we have in our views.

**CAPEX guidance**

Question by Sasikanth Chilukuru – MorganStanley:

The first one was related to the CAPEX for 2020. It’s now reduced further to EUR 1.7 bn and compares to the EUR 2.4 bn that was guided at the start of the year. I was just wondering, when we look into 2021, whether you will be able to take this underlying CAPEX savings into 2021. I appreciate this Borealis CAPEX coming on top of it. But if you could just comment on what drove the latest change in CAPEX reductions as well as if you could comment on the 2021 CAPEX levels including or excluding Borealis?

Answer by Rainer Seele:

Well the CAPEX in 2020, where we’re going down to EUR 1.7 bn given the strong growth for development of OMV in the past, this is let me call it a budget in an emergency situation. And with the EUR 1.7 bn, we really reached the bottom. If we cut further, I think it will have a bigger impact on our production numbers. So that's why we carefully did it stepwise. The further reduction from EUR 1.8 bn to EUR 1.7 bn is partially a shift of CAPEX into 2021.

So we will go with a bigger wave into 2021. But we prepare our company that in 2021, we might see also a very slow recovery of global GDP. And therefore, I will repeat our CAPEX guidance for the future. You remember that the CAPEX guidance without Borealis is something between EUR 2 bn and EUR 2.5 bn. Including Borealis we have now upgraded it to a range between EUR 2 bn and EUR 3 bn. So EUR 3 bn is the max CAPEX budget we are defining including Borealis.

**Upstream**

**CO₂ reduction targets**

Question by Jason Gammel – Jefferies:

And then the second question I had was related to the upstream CO₂ reduction target. You mentioned that portfolio change would be part of that reduction. Can you talk about which of the assets in the upstream portfolio are the most CO₂ intensive?

Answer by Johann Pleininger:

So our baseline we set in 2010, we’ve achieved the 20% reduction until 2020, so ahead of schedule and we want to achieve 30% until 2025 based on 2010 actuals. Which means we had in 2010 0.4 tons of CO₂ per ton oil equivalent of production and this should go down by 60% until 2025, will be in the range of 0.14, just to be clear what the target is.

What we have achieved so far is mainly via new technology, improving our processes, renewing of old facilities also mainly in Romania, for example compressor stations, but also gas to power, which we've been implementing. Also in Austria we have a closed system from the well down to the refinery where is no CO₂ emission anymore in our operations in Austria. So that's how we are going ahead and that's what we are pushing for, for further modernization, this is one thing.

The second topic is portfolio optimization and here we have been starting already with two projects which we will divest, which will have a significant impact also on the CO₂ emissions in upstream. One is in Maari in New Zealand, where we still do some flaring
and the other one are our assets in Kazakhstan, which are not the most modern facilities. So here also we will see a strong reduction of our CO₂ footprint. So these are the two assets which we have in mind right now. The other ones, which might come, I can't talk about right now as you can understand.

**Norwegian tax change**  
**Question by Raphaël Dubois – Societe Generale:**  
The first one is on the implications of the Norwegian tax changes that were announced earlier this month. So I was wondering if you could help us better understand, what it could mean for OMV Norge and especially Wisting?

**Answer by Johann Pleininger:**  
I take the first question regarding the Norwegian tax impact especially on the projects. We see right now we made early calculations on the new regime, and we will see that we have a 5% to 10% rate of return improvement on a single project and this is true for Wisting and this will be true also for Hades and Iris. So that's the impact. The one precondition is that we will have to go for FID - final investment decision - before end of 2022.

**Russian domestic gas price**  
**Question by Raphaël Dubois – Societe Generale:**  
And the second question is on the domestic Russian gas price. I was wondering, if you could confirm whether or not they had been increased from early July on as planned by regulation.

**Answer by Rainer Seele:**  
Raphael, thank you for the question about Russian gas prices. Because this is something I really like to share with you. I thought I will not see the day where I would say that the prices in Russia are higher than the prices in Europe. Unbelievable. So that's one of the reasons why there is a stability. So right now, we are getting a higher price for the gas we are selling in the Russian market than in Europe, and you're absolutely right. There has been a new round of regulated prices. I don't know, whether we call it regulated. It's a state set price. But what I would like to ask you is to look into the different industry segments. There is not a price for all industries. It's in different industrial regions and you have to look into the different industrial regions where the price is set.

**Downstream**

**Borealis**  
**Question by Mehdi Ennebati – Bank of America:**  
And the second question related to Borealis, so Borealis have been negatively impacted by the shutdown of a steam cracker in Sweden. Can you tell us more about that, what happened and when do you expect the production to come back to normal in Sweden?

**Answer by Thomas Gangl:**  
I would like to answer the question about Stenungsund Borealis incident they had in May. So what we know now is they have done the incident investigation, so there was a fire and they have started immediately also with planning and repairing the unit. The impact from a financial point of view is not very big because they have a good coverage for property damage and business interruption, so there is a certain impact in Q2, but for Q3, this will be covered by the insurance. And we expect them to come back in Q4 with production. They've done a tremendous good job to keep the polyethylene units running. So the polymer units are still running and they have to rebuild some areas in the cracker. So all that is well on track and the good news is that from a financial point of view, there is not a very big impact.

**Question by Matthew Lofting – JPMorgan:**  
And then secondly, just turning to Borealis, obviously not quite deal completion yet, but a few months on from deal announcement. Could you update us on sort of current thoughts around synergy potential, how your sort of view is evolving around synergy opportunities with Borealis?

**Answer by Thomas Gangl:**  
Borealis synergies, we are well on track. Teams are working, about 500 people from Borealis and OMV are working out the synergies. Looks very promising. So, happy to present it later when we have then the closing.

**Question by Tamas Pletser – Erste Bank:**  
I just got one question, regarding Borealis. You mentioned in this report that you had a significant inventory loss. Can you elaborate a little bit how much was it and in the future when you consolidate Borealis, can we expect the CCS figures from this company or would you stick to the current accounting?
Answer by Reinhard Florey:
The inventory loss, actually the revaluation that we had to do in the inventory that Borealis is showing, is simply a consequence of dropping prices. So that means that you have to, of course, adjust to the moment when you account for, and that is then triggering these revaluations which you have to also run through the P&L.

So this does not mean any kind of change of policy. It is simply that the value chain within Borealis is around two months long. So this means that if you feed in material it takes between one and two months to finally produce the end product. And this, of course, then has quite a potential for fluctuation in the inventory valuation. When there's a consistent drop in prices, then of course, you will see that consequence here.

So this is the way how it looks, when it comes to accounting of Borealis. Of course, Borealis will undergo a purchase price allocation, a PPA. And this PPA will determine ultimately the way how it is consolidated and with what values it is consolidated, which will be according to the purchase price that we pay in the acquisition. Other than that it will be fully consolidated and this is the biggest change of course in our overall accounting.

**Downstream Gas result**
Question by Thomas Adolff – Credit Suisse:
Specifically to gas in the second quarter, downstream gas that is. I wonder, if you can go into a little bit more detail on a quarter-to-quarter basis, what has really driven that strong contribution? Now, we’ve heard from other companies say that trading was a bit more difficult, but you say trading was good. Obviously, you have a strong contribution from storage. I don’t know, what specifically you’re doing there, but working capital was actually a positive contribution. So if you can give a bit more detail that would be great.

Answer by Rainer Seele:
Quarter-on-quarter, what was really special in natural gas? Well, part of it I explained in my presentation. I'm surprised by myself that our sales team could manage to increase our market share in all markets despite the corona pandemic situation. We are not talking about a growing market in terms of demand, we are talking about a market where we are capturing market share from competitors and we did it successfully. So the volume of the gas portfolio is increasing. And therefore, the bigger the portfolio is, the bigger our opportunities to optimize our portfolio, which means that we can squeeze out the potential to increase our average margin.

When we look into Q2, an enormous increase compared to the previous year’s quarter, and the main reason is the positive summer-winter spread we could see in the market. And the positive summer-winter spread means that we could sell storage capacities with a higher price in the market, we could lock in the summer-winter spread at very attractive terms. And I haven't seen that so often in my gas business life, that you really can make a hell of a lot more money with storage than with selling and trading the gas.

So the gas storage business will also positively be impacted in the third quarter, because in the third quarter we also could manage to lock in positive summer-winter spreads.

Answer by Elena Skvortsova:
I just wanted to add to what Rainer has already mentioned. And a couple of things, one is the strong performance of the East with regards to gas and the Northwest Europe as well. And in Northwest Europe where there was a significant strategy change and repositioning, we have gone after the large industry customers and city works contracts, which we benefited from getting as a result of the fact that we operate as an integrated company and this is something that is definitely appreciated by our customers.

In addition to the summer-winter spreads that Rainer was already talking about, the team has managed very closely the supply of course, to make sure that we have adequate amount of supply for all of our larger customers. And we see now that the smaller and mid-sized customers as well are getting a lot more interested in working with us now that we have gotten a foothold with the larger customers in these markets. Germany, Belgium, Netherlands, I would reiterate again based on what Rainer has presented earlier, and of course, Austria.

**Refining margins**
Question by Michele Della Vigna – Goldman Sachs:
The first one is about refining margins. They’re clearly very tough at the moment. I was wondering whether you think we’re going to see another wave of refinery closures in Europe. The one that happened in 2011 to ’14 actually proved to be very, very positive for the margins in the following five years, and it feels like this is an industry that is ripe for restructuring.

Answer by Thomas Gangl:
Refining margins, you’re right, they’re really on a low level. We've seen even negative margins the last month. And this is something which is not very healthy for the refining business and we have seen utilization going down quite significantly all over the place. And we also saw that some refineries were not able to manage their stock, so they had to shut down due to issues with balancing between inflow of crude and outflow of the different products. So this is something where the industry is heavily challenged and the forwards do not look very bright as well, so we see a certain recovery, especially as also the crude price went down a bit the last
But we will not see a quick and full recovery of what we have thought that the margins will be last year. Last year, we had the bright outlook of the sulfur reduction in Bunker Fuels. So everyone was thinking this will be a very great year for refining. It's the other way around, it's a challenging one, and you're right, this is really the chance for a step which is needed anyway. We have too high capacities in European refining business. We have a lot of refineries which are not really very efficient – old smaller refineries. And there is a good chance that some of them will just not be able to continue to operate.

On the other hand, we know that it's also important to understand that for some countries where they have only one refinery, they will not give up very easily. We know that there are political topics as well, if you look back to what we have seen in France. So it's really something where it needs a lot of pressure that someone is shutting down. What we see now there are some refineries which are sold at the moment. There is a good chance that the one or the other might not be running as a refinery anymore, it's more like a depot or biorefinery. That's sometimes the way out that the companies see, not just closing down the entire site. So I agree this is a great chance. If the refining margins stay longer on that level, definitely there will be a change in the structure in the market.

Impact of GCA sale

Question by Alwyn Thomas – Exane BNP Paribas:
And my second question, if I could just ask actually a little bit on the sale of your gas infrastructure to Verbund, you've shown in this quarter and potentially next quarter the benefits of having storage and gas infrastructure along with your trading business. I guess, my question is, are you able to maintain that next year without those businesses and how does that make you think?

Answer by Rainer Seele:
Well, when I made a comment on the very positive development of our gas trading business, I haven't mentioned transportation at all. The transportation was not the big upside we managed in the second quarter. So when we divest the business, of course, the contribution from transportation will be not in our figures anymore. But we are talking about a smaller sizable number, but anyhow from our point of view a declining contribution because the contribution from the transportation business will be determined by the regulator and not by us. That makes a difference in the nature of the business.

Can we repeat the good performance also in the next years to come in natural gas trading? I would say it depends, of course, how are the summer-winter spreads especially, but can we use our big secret of success in the two summer quarters? Yes, because we are not divesting our storage capacities. We are only divesting the pipeline capacity, the pipelines and not the storages. The storages will remain in our portfolio.

Petrochemical margins

Question by Jason Gammel – Jefferies:
First of all, I wanted to ask about the very modest lowering guidance for petrochemical margins based on what you were saying about refining margins and seeing that feedstock costs are going to remain relatively low. So is that a function of end demand still being relatively weak? And just within that, are you still able to divert a lot of your jet fuel production into petchem feedstock?

Answer by Rainer Seele:
So the petchem margin. Well, I have not so much concerns on the demand side. Even there, I would say, there's a more positive trend because consumption from automotive industry might increase in the second half of 2020.

What I can see is that the supply side might be an issue in the second half, because first of all, the propylene from FCC plants, as the run rate of refineries will go up, is also going up and there will be a higher supply of propylene.

And the second is that, ethylene crackers - the same story with ethylene - not so much concern on the demand side, but more on the supply side, because some ethylene crackers are coming back from maintenance and therefore the availability is on a higher scale. That's why we are little bit more cautious for the C2, C3 margins.

And the third argument and then I'm done. The third is, of course, we have to wait and see how the naphtha prices will develop into the second half. And I only can advise that we are altogether a bit more cautious and that's the reason why we are little bit more cautious on the petchem margins for the second half.

Jet fuel

Question by Jason Gammel – Jefferies:
Just back on the jet fuel, are you still primarily diverting that into petchem feedstock?

Answer by Thomas Gangl:
So first of all, we have to keep in mind that the share of kerosene, which is then used for producing jet fuel in the overall portfolio when you distillate crude, is not a very big one. So the total volume is not that big and the situation that we had when there was the
lockdown, there was nearly no jet fuel needed at all, so we have had a reduction of 90-95%, and this was the situation where many refineries had troubles to store the volumes.

As we are now having some volumes which are going into the jet fuel business already, this has relaxed a bit. But it's important to understand that this possibility to shift, is a flexibility that's not there for most of the refineries, not at all. Because you need to have an integrated petrochemicals business, so you have to have a refinery and a petchem unit and you have to have a cracker which can use middle distillates for cracking. This is definitely not the case for the crackers which are using ethane as a feedstock. And just to give you a rough number for Europe, for example, we have around 80 refineries and only 20-25 have a petchem integration. So only those are in principle able to use that flexibility and then still you have to check whether those are able to crack middle distillates as well, or just naphtha. And we do it whenever it makes sense for us. So when demand is lower and the value of jet or kerosene is low, then we shift jet or kerosene into the cracker. So we are very flexible on that and it definitely helps us to not get in trouble with storage capacities.

**ADNOC Refining**

**Question by Peter Low – Redburn:**
The first was just on ADNOC Refining. You said that performance was restricted in the quarter by the unplanned delay of maintenance. This would appear to be the latest in a series of operational issues. How confident are you that the performance of the plant can meet the expectations you had when you acquired it? When should we assume it is operational?

**Answer by Thomas Gangl:**
Let me start with ADNOC Refining. We really were worried last year about the technical issues that we had at the FCC unit because this is one of the core units for conversion. And as you know, the refinery is a huge one, so the FCC is a huge one as well, it's really a big machine. We were able to, with the help of OMV, ENI, and collaboration with other partners, and of course ADNOC Refining, we were able to find a technical solution to get rid of this issue. So that's something we're very happy that we have been able to do that, and this was done in the turnaround. The turnaround was prolonged, yes, that's correct. But that has less to do with this technical topic. Just imagine everything there, when you talk about units or stuff required or whatever, it's always with multiplying by several times than what we are used to. And when we had the turnaround we had thousands of people in the refinery and we had that in the COVID situation.

And also imagine the situation, this refinery you cannot just enter as you typically know that from European refineries. There is a military zone and you have to have special registration, so that is also transporting those thousands of people in a COVID situation was a big, big challenge. And they had a lot of COVID cases, of course. So this was really not easy to manage and taking that into account they managed it pretty well.

And from a technical point of view, the units are now on a very solid basis. So we see them operating, we've been running at 100 plus. Of course, without the impact on the demand side, we would run them higher and we can run them higher, so we have done the test. So from a technical point of view, we are on a very good base now and I'm not worried that we could not run the units higher.

Of course, we need to take also into account for running higher we need to sell all the products. There is a big part of the yield structure going into jet fuels, there is naphtha - a dominant product, so this is not an easy situation. But the technical story and the turnaround I think that's now well done.

**Question by Joshua Stone – Barclays:**
First, just a follow-up on ADNOC. The trading joint venture is in the setup phase, maybe talk about what still needs to be done there and when you think that will be operational?

**Answer by Elena Skvortsova:**
We have seen a slowdown in progress of setting up the venture due to COVID and due to the crisis. And I think you understand this too that the travel and getting into the countries and closed borders definitely contributed to that. However, we are positively under way and we're almost back to plan to the original plan of where we need to be. We definitely are aiming at making sure that the ADNOC global trading is operational by the end of the year and we're well under way.

**Downstream retail**

**Question by Peter Low – Redburn:**
The second was just on downstream retail result. You cited strong retail margins in the release despite the weak demand environment. Given the fixed cost base and lower volumes to your retail sites, I might have expected lower unit margins. Can you perhaps just walk us through the dynamics that allowed you to realize those strong margins there?
Answer by Elena Skvortsova:
I'll take the second question and considering my time here on board, I'm very happy if the colleagues would contribute as well. With regards to retail and the strong margins, yes, definitely strong margins in the first half of the year. There is obviously a delay of passing the cost or rather pricing to customers. So what we're looking to see is that we're looking to keep up the margins as much as possible, although we think that there probably is likely to be some softening in the outer part of the year.

However, having said that, what I want to really focus on is maybe some of the reasons behind the margins in the first half of the year. And this is similar to what Thomas said, I want to give really strong appreciation to the team members who have worked through the COVID situation. Well first, we saw significant reduction of volumes at the filling stations, but we also were able to pivot and operated all of the stations pretty consistently throughout the COVID crisis as well as even added to the offering that we have. So the name of the game for us going forward is going to be to continue making sure that we bind the customers to us, with customer loyalty tools and initiatives as well as keeping the cost containment in the forefront.

Decarbonization
Question by Matthew Lofting – JPMorgan:
First, just on the new decarbonization agenda. Looking at the comments on refining and blending. Could you talk more about the operational capacity and procurement process around OMV's ability to blend more bio and waste product into the refineries and the extent to which meaningful investment may be required over the medium term to further high grade that capability?

Answer by Thomas Gangl:
Regarding bio, I would like to add recycling and using waste based stuff here. So these topics are really something where we are in the front runner position. On one hand, I would like to talk about the co-processing. We have started quite early and have been one of the first companies in Europe test processing some bio stuff in the refinery.

Because we are convinced that adding the bio stuff at the end of the process or just blend it in is one option, but we are very limited on that for further reducing the CO2 footprint which is at the end of the day the target of these initiatives. So we have a project in preparation for co-processing in Austria. That's something which is well advanced. We're working together also with catalyst companies to make that happen. That would bring us really a big step forward in bringing in biomaterial into the refinery, process it and ending up with the product which is the same quality as we know it from the fossil material. So that's something where we are heavily working on it, and it's in our plans to realize that project.

And the second one is, what we are doing with recycling and using our ReOil process - plastic to oil, plastic to plastic. We believe that chemical recycling will play a major role. And we see that the impact from CO2 reduction is significant. Just looking at the full process from using waste material instead of using oil, we are reducing the CO2 footprint in the magnitude of minus 45%, so that's giving a big advantage. We are in talks on one hand for sourcing of this waste material. We have gained quite some knowledge on also preparing the feedstock for that unit and also to be able to process more complicated feedstock. So it's something that's very important in terms of feedstock price level. And with that, I think we have the technology available. We are scaling up that technology and we can have an advantage with that. Because the issue of using the waste material is getting bigger, and there are not too many technologies available at the moment.

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