

OMV Q2/17 conference call - Q&A Transcript

OMV published its results for January – June and Q2 2017 on August 10th, 2017. The investor and analyst conference call was broadcast as a live audio- webcast at 11:30 am CEST. Below is the transcript of the questions and answers session, by topic, edited for readability.

OMV Group

1. Strategy

Question by **Marc Kofler - Jefferies**

I wanted to ask Rainer about the overall strategy as we are just starting to see a material improvement in the underlying operations of the business. Since you took over and became CEO, how far would you now say that the company is in terms of the progress that you're hoping to make around the big strategic moves at the company that you've been making? And I suppose I'm really thinking about that in the context of the balance sheet. It strikes me that you still have lots more firepower, if you were looking to further change or further develop the strategy. Just wondering if you can give an update on that, please, and particularly the parameters that you would judge any incremental Downstream, new FID's or project expansions?

Answer by **Rainer Seele:**

I'll try to make it short because what you are asking is a main topic we will have in March next year when we have our strategy day. I would say the vast majority of the strategy I have agreed and worked out with my board colleagues 2 years ago is more or less done. All what is remaining is the 2 projects in Russia. And all the other projects we have mentioned are more or less realized. Yuzhno Russkoye and the asset swap is the remaining part of our strategy. And that's the reason why we have invited you for the strategy day next year because we will discuss with you what is the next story of OMV. And you are absolutely right that this will be also on the focus of how do we balance the company, especially in these 2 years, with the difficult oil price environment, that we are benefiting from the integrated structure. So it will be a Downstream storyline. In between, we will work a little bit to come up with more details on Downstream.

2. Nord Stream 2

Question by **Mehdi Ennebati - Societe Generale**

You intend to lend roughly EUR 285 million to Gazprom for the construction of Nord Stream 2. I wanted to know if the payments will be made before the end of the year, or could it be postponed because of the U.S. sanctions?

Answer by **Rainer Seele:**

We have done the first tranche payment on Nord Stream 2. The next payment will depend on the progress of Nord Stream 2 Company with the construction of the pipeline and they will have a call. To give you a guidance, I wouldn't expect a cash call from Nord Stream 2 before end of the year.

3. CAPEX

Question by **Mehdi Ennebati - Societe Generale**

A question on your CAPEX guidance of EUR 1.8 billion for the full year 2017, as you only spent EUR 700 million in the first half. What is the reason of such a CAPEX acceleration in H2 2017, especially given that the U.S. dollar is weakening compared to the first half?

Answer by **Rainer Seele:**

We haven't spent so much in the first half year, so we have to improve our activities. But it's usual, year-by-year, that you will get your bill from your contractors especially at the end of the year. So we expect the CAPEX spending in the second half to be higher than in first half year. But you are right that there is a reduction of some project activities. I have mentioned in my speech that in Romania, some projects were postponed or will not be realized, but there is a major impact of the delay in Nawara in Tunisia. We see some strikes in the neighborhood of our fields and the production areas. That's the reason why we are going to have a delay of the realization of Nawara project, and that's the reason for the shift of Tunisian CAPEX from 2017 into 2018.

4. Tax rate

Question by **Henri Patricot - UBS**

Your tax rate increased from 20% to 35% from Q1 to Q2. You said it's an increase of the production in higher tax countries. When I look at your production disclosure, production has gone up in Libya and actually down in Norway quarter-on-quarter. And the oil price was also down quarter-on-quarter. So I was wondering if there was anything special that will explain the higher tax rate in the second quarter? And what the guidance for the rest of the year, assuming the oil price stays pretty close to where it is at the moment?

Answer by **Reinhard Florey:**

The tax rate in Q2 is actually triggered by a couple of facts, some of them normal course of business, some of them also extraordinary effects. The fact that we have a shift from our revenues and our operating result from countries where we are paying lower taxes or are tax shielded into countries where we have higher taxes have the reasons that, first of all, in Austria, we had less result due to the turnover in Schwechat from our Downstream activities. And secondly, that we have higher volumes, both in Libya and in Norway, where we have high tax rates. So this, of course, has an effect. And while we are confident that we will keep up along with the volumes in Libya and in Norway, that effect therefore will stay. Of course, the effect from Austria will be reversed because we have been starting the operations full steam again. But we also have 2 smaller extraordinary effects that I'll just give you some information on. One is indeed on Norway, where we have taken some accrual on the tax side for discussions that we are currently having on intercompany charges. And this is in the amount of some EUR 15 million. And we also had a reduction of tax receivable in Tunisia that is in the local currency of dinar. This dinar has depreciated quite significantly. And this also has an impact of some EUR 15 million. So those are two effects that you cannot expect to be continued in the quarter 3 and quarter 4 this year.

Question by **Henri Patricot - UBS**

So the tax rate is going to be closer to 30% in 2017?

Answer by **Reinhard Florey:**

Yes, I think this conclusion is right. We will be at around 30% or slightly lower if we are looking for the full year.

5. Cost-saving target

Question by **Joshua Stone - Barclays**

You talked about the EUR 250 million improvements in OPEX. Perhaps can you say how much you had already achieved? And then, is there any potential to do more in 2018?

Answer by **Reinhard Florey:**

Regarding our cost-savings target, we are very confident that we'll reach, and not only reach, but even surpass the EUR 250 million in savings potential in comparison to 2015 cost base. So this is going on very well and measures are kicking in and are implemented on all areas. So in that respect, we think that the impact will be there. Regarding 2018, there is not a single year where we are not gearing for our costs and where we are not trying to improve our efficiencies. But of course, this will also, on the absolute figure, depend very much on the change in our portfolio as you might see. But on the comparison basis that we have with 2015, of course, we are trying to continue this very successful journey.

Upstream

1. Russia

Question by **Mehdi Ennebati - Societe Generale**

You say that the sanctions will have no impact on Yuzhno Russkoye and Achimov IV/V project. I just wanted to know if you were expecting to export some natural gas from Achimov IV/V to Europe via Nord Stream 2. I am asking the question because Achimov IV/V should have been started roughly at the same time as Nord Stream 2.

Answer by **Rainer Seele:**

As we speak about Achimov IV/V, we do have and we are negotiating the terms with Gazprom right now. We are targeting an agreement with Gazprom, similar to what we do have in place also for Yuzhno Russkoye, which means that our activity in Russia is going to end up in a wellhead business. So we are selling the gas at the wellhead to Gazprom and the gas will move into their big pot, and I don't care where they are selling the gas, they have to pay for the price under take or pay terms at the wellhead. So we don't have any marketing risk or logistic risk coming with our activities, neither in Yuzhno Russkoye nor in Achimov IV/V.

2. Production volumes in 2018

Question by **Michael Alsford - Citigroup**

Can you give some sense to the building blocks into 2018 regarding the production decline rates for the mature assets in Austria and Romania? Also, can you give us some sense on the building blocks to get us towards an 2018 number? I appreciate Russia, obviously, is a big part, but if you could talk about the existing business, that would be very helpful.

Answer by **Rainer Seele:**

What I can tell you is that in 2018, as we are expecting the closing of our transaction with Uniper, 100,000 barrels per day come on top of our production. So this is a trend from 330,000 to 430,000 barrels per day. This is the best estimate I can give you today. The 430,000 barrels per day are expecting that we have production in Libya also of 20,000 barrels per day. Give us some time whether or not second half is really kicking in like the first half in Libya. We are more and more convinced because the production is pretty stable. And we might go up, there is an upside potential because, right now, we are producing around 24,000 to 25,000 barrels per day. So let's see how much of shutdowns we have to put into our calculation. Next year the production level will be something around 430,000 barrels per day.

Question by **Michael Alsford - Citigroup**

And there is no rule change to the view on decline rates within the base business, still as previously?

Answer by **Rainer Seele:**

Yes absolutely, the small decline in Romania, which we have discussed already. Other than that, nothing changed there.

Downstream

1. Refining margins

Question by **Matthew Lofting - JP Morgan**

A question on Downstream, you've referenced the strength of refining and petrochemical margins through what's been a very good first half. Could you discuss your views in terms of the repeatability of that strong first half divisional performance? And specifically within that, how much of the circa EUR 800 million Downstream Oil EBIT came from petrochemicals, given that you're sort of guiding petrochemical margins lower in the outlook for the second half?

Answer by **Manfred Leitner**:

We know already for July, and to a certain extent for August, thus we are having a little bit of an advantage here. We will most probably have lower margins in the second half of the year. But at the end, we will come out, more or less, at an indication of USD 5 per barrel refining margin for 2017. This would be close to 10% higher than last year. As far as the petrochemical margins are concerned, we have seen a very, very strong second quarter, this has been mainly supported by a lot of outages, a lot of turnaround in crackers, especially in Europe. This is over now. They will flatten out, but at the same time we will not be very far away from the average in the first 6 months for the whole year. If the oil price, and this is always a topic when we have the discussion about integration, is not really shooting up, then I do not see any reason why demand would go down next year. I think this is a very good basis for significantly better refining margins that we have been accustomed to seeing during the last couple of years. The petrochemical side in the second quarter had been impacted by 2 things. One is that we had that extended turnaround in the Schwechat refinery, with most of the EUR 80-85 million impact in the petrochemical part, as it was the main focus of the turnaround. The second one is a little bit less contribution by Borealis. This is mainly coming from a very low fertilizer economic environment as well as from certain inventory effects, accumulated over a couple of months due to declining prices. Also, in Borealis there is a certain operational problem within the unit in the Abu Dhabi refinery. The propylene coming from that unit, the feedstock to Borealis, is currently out and this is having a negative impact on the result as well.

DISCLAIMER

This presentation contains forward looking statements. Forward looking statements may be identified by the use of terms such as "outlook", "believe", "expect", "anticipate", "intend", "plan", "target", "objective", "estimate", "goal", "may", "will" and similar terms, or by their context. These forward looking statements are based on beliefs, estimates and assumptions currently held by and information currently available to OMV. By their nature, forward looking statements are subject to risks and uncertainties, both known and unknown, because they relate to events and depend on circumstances that will or may occur in the future and are outside the control of OMV. Consequently, the actual results may differ materially from those expressed or implied by the forward looking statements. Therefore, recipients of this report are cautioned not to place undue reliance on these forward looking statements. Neither OMV nor any other person assumes responsibility for the accuracy and completeness of any of the forward looking statements contained in this presentation. OMV disclaims any obligation and does not intend to update these forward looking statements to reflect actual results, revised assumptions and expectations and future developments and events. This presentation does not contain any recommendation or invitation to buy or sell securities in OMV.