OMV Q2/16 conference call - Q&A Transcript

OMV published its results for January – June and Q2 2016 on August 10th, 2016. The investor and analyst conference call was broadcast as a live audio- webcast at 11:30am CEST. Below is presented the transcript of the questions and answers session, by topic.

FINANCE:

1. Dividend policy

Question by **Haythem Rashed – Morgan Stanley**

My question really is perhaps a little bit more for Reinhard and his views, just actually on his last area of focus on the slides, around financial priorities. I just wondered if you could talk a little more about how you are looking at balancing shareholder return versus maintaining a strong balance sheet in the current environment over the next six to 12 months.

In particular what I really want to discuss, or would love to hear your thoughts on is the dividend policy, whether you think the 30% payout ratio is something that is consistent with this, or whether you are looking at it from a slightly different perspective. As I say, whether for you gearing is really the priority at the moment, as opposed to shareholder return.

Answer by **Reinhard Florey**:

Of course, we mean what we say in terms of financial priorities. That is that the strengthening of the balance sheet is something that is important in the industry as long as there are challenges out there. But our focus on cash flow should very much be targeted at enabling us to provide a significant and appropriate dividend also going forward.

What does that mean? That means that the target and policy that we have in place of the 30% is something that we stick to. On the other hand, we have clearly said that we are not going to go in our cash flow after dividend to a negative value.

This means in order to do that our focus is on operative cash flow and the ability to limit our CAPEX, in order to be able to pay the dividend.

That is also why we are focusing so much on the self-help programs with cost savings, where we have now increased our target.

So we stick to the policy in place and we are confident that also the target of being at a positive or break-even cash flow after dividend is intact.

2. Working capital

Question by **Haythem Rashed – Morgan Stanley**

Just a very quick follow-up to understand if there are any working capital tailwinds that we should be expecting in the second half of this year, given you've had a bit of a benefit in the first half, if you don't mind.

Answer by **Reinhard Florey**:

Regarding your working capital question. We had in Q2 definitely a positive impact from working capital. We have also to see the seasonality of our business when it comes to gas storage, where we certainly are, again, going down over the summer and picking up before the winter. But working capital will be also strongly in the focus of our efforts to optimize and be most efficient.

In that sense, while the working capital will probably not trend positively in the second half, we still would have a positive impact for the full year in total.

3. Cost reductions

Question by **Henri Patricot – UBS**

One question on the cost reductions. Why have you been able to reach your target earlier than expected? Where are the additional reductions of EUR 50 million coming from more precisely?

Answer by **Reinhard Florey**:

The cost reduction efforts have, of course, been taken with a high rigor in OMV and when we go out with a promise, we want to keep it, and we have aligned the organization very much behind this target.

Now, our teams have done fantastic work and we have progressed faster, but also more in depth, and specifically in the area of procurement where, of course, we have a quite significant spend. We see opportunities and we see that the main parts of the additional savings will come from procurement, but also from effects of restructuring taking the organization to the adequate lean competitiveness that we have, as well as from abilities to optimize systems and processes throughout the Company.

BUSINESS DEVELOPMENT:

4. Gazprom asset swap

Question by **Michael Alsford – Citi**

I just wanted to get a sense as to the Gazprom asset swap. I know you say that the negotiations are ongoing, but I don't know if you could provide a bit more color as to what the steps are we should think about as to needing to be finalized before, I guess, announcing the deal.
And if it's related at all to the sanctioning of Nord Stream 2 or is it completely independent?

Answer by **Rainer Seele**:

Well some more details on the asset swap. We had a little bit of delay, because Gazprom needed more time in the data room to make up their mind about the different assets we do have in the North Sea. Given the complexity of our asset base, they just need more time to finalize their evaluation.

What we have now in our plan is that, in September, we will continue our negotiations with Gazprom. We do have an agreement that we would like to sign a basic agreement until year-end.

This is going to be the starting point for us to implement the swap transaction, which means that we need something like a year or two for closing the deal given the fact that we do have a long list of approvals from different authorities awaiting us in Russia as well as in Europe.

As we have explained in our first conversation with you, on the asset swap, is that we are targeting in our agreements with Gazprom an integrated cooperation along the entire value chain.

We both have an understanding that we don't want to exclusively work in upstream or exclusively work in downstream. We do have both the same kind of understanding that we would like to have both. That's why we have an interest to finalize all deals we do have in the pipeline with Gazprom.

Question by **Lydia Rainforth – Barclays**

Coming back to the asset swap with Gazprom, if I could. Given that we are seeing a lot of volatility within the oil market at the moment and that the views what the long-run oil price will be, vary quite significantly across investors and across industry participants. How do you actually protect the value for OMV, in terms of if it's going to take two years to actually close a deal? Are you looking at putting some form of link to the oil price into the deal that you're doing with Gazprom?

Answer by **Rainer Seele**:

Well, I agree with you that volatility is the natural environment we have to live with in our industry right now. But as we speak about the deal, two things are important for us.

First of all, we would like to have a valuation of both assets, based on our long-term oil price scenario. Especially as we speak about Achimov IV/V, we expect that first production will start something around 2019. The current volatility is really not impacting or guiding us in our negotiations.

As we are going to speak about the gas production in Russia, I would say 30% of our production is condensate and, therefore, is reflecting the oil price scenario we do have. Of course, we do have a gas production then coming with Achimov IV/V, which is based on our gas price forecast.

I don't see an oil price index as a future pricing model for gas in Europe. As we are targeting in our negotiations that we would like to have a net back to the European gas prices for some gas we are producing, first of all, we have to get that done in our negotiations.

Secondly, I think, the European gas price will more or less, it's a matter of time, de-link from the oil price.

5. Divestment projects and use of proceeds

Question by **Thomas Adolff – Credit Suisse**

I want to start with disposals if you don't mind. You've done 30% in Rosebank. I believe Jaap used to say, when he was at OMV, that you would do 10% to 20%. I wanted to better understand why 30%, so a bit more. And why you still went ahead, despite the fact that your book value was significantly higher than was realized.

But if we continue with disposals, excluding Rosebank, you seem quite confident on Gas Connect; I agree. You seem very confident on Petrol Ofisi; let's see. Turkey looks a bit tricky. But the bottom line is between now and the end of 2017, you will get a lot of cash in from these disposals, and your gearing ratio already is at 29% below your soft ceiling of 30%.

Coming back to the first question, I kind of wanted to better understand the balance between distribution and reinvestment at some point in the future.

And regarding the latter on reinvestment, what does OMV have to reinvest outside of Achimov? If you can remind me.

Answer by **Reinhard Florey**:

Very briefly on the disposal, I think the scope of the disposal with of 30% is very much in line with what we have in our strategic target. In order to reduce the exposure to quite investment heavy, but on the other hand also strategic exposure. So we are not out of Rosebank, we are still there with 20%.

We think that we received a fair valuation given the current market condition. We received a good structure and also a very good and reliable partner with Suncor in this project.

So in that sense, the write-downs, the impairments were just a consequence of the changes that we see in the environment and in the schedule of this project which was still different in the assumption of what we have in our books.

Just to clarify, of course, the impairment did not only look at 30% but at our remaining 20% as well.

Regarding the other disposals, GCA, Petrol Ofisi; processes are on track. Of course, Turkey has lived through quite difficult times, but our business model in Petrol Ofisi is not impacted by the situation. We are also seeing that the current performance of Petrol Ofisi stays stable. So we are going ahead with the divestment process with good confidence.

Answer by **Rainer Seele**:

Thomas, one remark from my side on your questions. First of all, I think it's a good track record that especially in these days where it's not pretty easy to sell a big investment project to the market, that we reached out a 30% stake being farmed out, than rather 10% to 20%. So the lifting we do have and the financial flexibility coming with that, supporting our cash flow, is substantial.

Coming back to your question, what do we do with the money? First, let's collect the money, and then we are going to tell you what we are going to do with the money.

6. Libya and Yemen

Question by **Marc Kofler – Jefferies**

I just wanted to focus on the upstream and the guidance, which I noticed still excludes Yemen and Libya. I think in recent weeks the industry seems to have been warming up a bit more in terms of potentially resolving some of the outages in both countries.

Given your operations there, I was hoping perhaps for an update on the assets themselves. And then, if you saw any possibilities of some liftings before year-end in either country.

Answer by **Rainer Seele**:

Marc, we are still planning with no production from both countries, neither Yemen nor Libya, until year-end. But I share your view that there is some warming up, especially in Libya.

We do see our operations in very good conditions, so we don't have any damages in our operations. But we have limitations as far as to speak about the logistics.

Some pipelines are not in good shape and have been destroyed during some military activities in the neighborhood. In one of the two export terminals -- we are exporting via Zueitina and Ras Lanuf. One is also not in operation, as we speak about the capability to restart the export terminal capacities. So we would be limited to one terminal the day we can restart our operation.

As we speak about the fields, well, everything is in good shape. We can restart, but it will depend whether or not export capacities are going to be available for OMV.

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