

OMV Q2 2019 Conference Call – Q&A Transcript

OMV published its results for January–June Q2 2019 on July 31, 2019. 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.

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OMV Group

M&A

Question by **Josh Stone - Barclays**:

You recently signed an MOU in Indonesia on the petrochemical sector. I wonder if you could talk about that and what you're looking at? Are you leaning more towards sort of greenfield or brownfield opportunities in petchem? And any insight into potential timing of when a decision might be made, would be great.

Answer by **Rainer Seele**:

Well, Josh, the MOU which we have signed in Indonesia, let me call, is in a very embryonic stage. So we have just started the discussion, and we will look together with Mubadala into that project. When we are talking about a project, we are talking about an investment project and new capacities. And that's the main interest we do have. From a strategic point of view, we would like to create a captive market behind our 15% shareholding in ADNOC refining. In ADNOC refining, what we are doing to invest into the complex will create lots of naphtha. And naphtha, we need to find a captive outlet. As we see crackers on the site, being ethylene crackers, of course, we would like to have a captive naphtha demand behind our engagement in ADNOC Refining. And that's the reason why we, together with our partner in Abu Dhabi, are looking for a captive market. And one of the potential markets in Asia could be Indonesia. We will look into that together with our partner. And I would say when we have a higher maturity, I would present firmer numbers to you. It only tells you that petrochemicals are getting a higher weight in our activities, but following our execution of our strategy, this was just planned. As you remember, we would like to double the petchem capacities. And that's one option we have created in our portfolio.

CAPEX

Question by **Peter Low – Redburn**:

You've kept full year CAPEX guidance unchanged at EUR 2.3 bn. That implies a step-up in spending in the second half. Can you give us any color on what is causing that?

Answer by **Reinhard Florey**:

This is Reinhard, Peter. Regarding the step-up of the spending, you're right that we have been proportionately lower than our anticipation for the full year in the first half. But that is also a little bit of OMV's pattern in spending; that we have the first 2 quarters, traditionally on a lower level of CAPEX spent compared, if we are talking organic CAPEX, of course, compared to the third and fourth quarter. Why is that? Because, of course, the activities start in the new year. Regarding E&A activities, there we are a little bit behind our overall development that we foresee. We have also seen that we have less spending as normally anticipated because there is the delay of the Neptun project, and we have positive developments, both in Abu Dhabi as well as in Malaysia, that some of the spendings are lower than anticipated, as well as delayed or shifted to the second half or even part of that into next year. So in total, we still believe in the EUR 2.3 billion as we have anticipated, and there will be some catch-up effect in the second half.

Gearing

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

I just wanted to follow up, I guess on sort of the strategic view and the sort of 2025 plan. It looks like you're moving ahead sort of well ahead of expectations on deals and prices and the closing of deals as well. I was wondering when, I guess on your sort of gearing targets for year-end, now the deals are beginning to close this year, given good performance on gearing in the second quarter, where you expect that to be around year-end now, given the outlook? And I guess when we should perhaps expect some update on what your thoughts are on sort of additional shareholder returns in the future, and perhaps where you'd like that to be?

Answer by **Reinhard Florey**:

Alwyn, you are very right that we are very well progressing in our 2025 plan. Regarding the gearing, by the end of second quarter, we are at 21% gearing, which leaves us very good headroom also considering the expected good cash flow generation for the third and fourth quarter, still this year. So that we expect that with the acquisition that is now closed in July on the Abu Dhabi side, we will still manage to be at or slightly below 30% gearing, including the IFRS 16 effect. This assumes that we will not be able to close Achimov 4/5 deal, ultimately, in this year. That may be shifted to early days in 2020, but that's still not out as we are on the final negotiation side with Gazprom, and that's actually progressing well. Regarding the general expectation on the organic CAPEX, we still are in the situation that we follow our EUR 2.3 billion target of organic CAPEX in 2019 and to continue with a spend of EUR 2 billion to EUR 2.5 billion for the years to come.

Tax rate

Question by **Irene Himona – Societe Generale**:

Any guidance, please, on the cash tax rate either for the full year or the second half?

Answer by **Reinhard Florey**:

Regarding the tax rate, you have seen that we came out in second quarter with a clean tax rate of 39%, and with an effective tax rate of 38%. This comes despite of higher volumes from Libya, where we have high taxes; on the other hand, with a very good contribution from the downstream side, where we have an average lower taxes than in upstream, that made up for that and kept our tax rate below 40%. We still would guide for the full year at a full year tax rate of at or slightly below 40% for the group company. That's also why we call it trading because we are operating at the different hubs. And if you look into the price differentials at the different European hub prices, that's called TTF versus the CEGH hub prices. And given the fact that we do have an infrastructure in place that we do have different sources of import volumes at different locations, we have to play with that overall picture to optimize it. It only makes sense to start these kind of trading activities if you have a certain size of the portfolio. With small nitty gritty, you can't optimize this trading. But given the fact that we have a very big portfolio, that's also one of the reasons why we have intensified our efforts to increase our market share in Germany and the Netherlands, because we have a very strong, high sales volume in natural gas in Southeastern Europe, whereas the volumes in Northwest Europe are going to increase substantially, just also to create that arbitrage potential in trading in our natural gas business.

Verbund cooperation

Question by **Christopher Kuplent – BoA Merrill Lynch**:

A wider question, Rainer. It wasn't so long ago at your Capital Markets Day that you said, don't call me a utility. And we've now seen a cooperation with Verbund where way you are, I guess, investing in power projects. And I wonder how much, whether you can give us an idea whether that, over the coming years, is significantly increasing in CAPEX and what the strategic rationale is behind that cooperation?

Answer by **Rainer Seele**:

Chris, I'm going to be short, as you started to quote me, yes, telling me that I don't want to be a utility. You're absolutely right. I, of course, will not say anything in contradiction to that. I will clearly say the following: OMV is not striving to become a power company. We have burned our fingers and we have lost a lot of money, and we have identified that we have not the DNA, neither in power trade nor in power generation whatsoever. So the cooperation with Verbund is not a new business activity in our overall portfolio. It is an optimization of our energy costs for our production site in Austria. With that cooperation, we can substantially reduce our power costs, and we're talking about 10% of the power demand we have in our operations here in Austria, we can substantially reduce the cost. And the reason is because we are producing the power next to our operation, and we don't have to pay anything for the infrastructure. So no entry exit fees, and it's purely an economic optimization. That's what's first running in my head when we are talking about the project with the photovoltaic investment. We are not talking about bigger substantial investments into power generation. But OMV has an interest, and that's more in combination in the context of sustainability that the majority of the power we are using in our operations is going to be clean power. In some countries, we have not an energy mix like in Austria, and it has a different dimension. And that's the reason why we have also announced that OMV was touring with Verbund into the regions where we are an active producer, and maybe one of the other projects we are doing together. And we are sharing the costs because OMV could also invest a 100% and enjoying then the lower energy cost on 100% basis. But we have said because it's not a strategic business, we are joining with an electricity company, and then we can also optimize, because they do have the DNA in power trade in case we have oversupply of renewable powers in our photovoltaic project, for example. So all in all, I'm still the same. I haven't changed my mind, Chris.

Question by **Christopher Kuplent – BoA Merrill Lynch**:

Very clear, Rainer. So that to me sounds like any CAPEX related to this cooperation with Verbund, we should treat very much as organic CAPEX within your divisions.

Answer by **Rainer Seele**:

And it's an extremely small number, yes.

Upstream

Production outlook

Question by **Henri Patricot – UBS**:

On the updated production target for the full year, so slightly below 500, can you just comment on the drivers of this change in the guidance? And whether there are any implications we should have in mind for next year for next year for 2020?

Answer by **Johann Pleininger**:

Regarding production targets. So what you have seen is in the first quarter, we have produced 474,000 boe. In Q2, we increased the production to 490,000 boe, resulting in a H1 2019 production of 482,000 boe. What you can expect is Q3 will be similar production as in Q2, so plus/minus 490,000 boe. Q4 should go up with the production regarding Nawara will come on stream; Russia, the winter season should come in, meaning Yuzhno Russkoye should go up with the production. And what we expect is also that we bring earlier than anticipated Go-La-Ba [Gorek, Larak, Bakong] in Malaysia on stream. So this will push the production at around 500,000 boe or beyond 500,000 boe, and that's what you could expect. And also for 2020, production beyond 500,000 barrels per day.

Neptun

Question by Matthew Lofting – **JP Morgan**:

Around Romania, if there's an update on negotiations with the government on the offshore fiscal framework, implications for the status of Neptun and also if you have any comment on recent reports out of Romania that Exxon could be considering exiting the project?

Answer by **Johann Pleininger**:

So you have seen there were some changes also in the government. So we are still negotiating and discussing with the government about terms and conditions for the offshore for development of Neptun. So far, we haven't got any official information from Exxon Mobil, neither from the government if there is any change in the shareholding of the project. So if we get this, then we will come back to you.

Exploration

Question by **Michael Alsford – Citi**:

If you don't mind, if you can remind us what you're up to in terms of exploration activity. I say that the budget's gone up a little bit for this year. I know you were drilling quite actively New Zealand, but if you could maybe provide a broader update and to the resource potential that you're targeting would be great.

Answer by **Johann Pleininger**:

Mike, regarding exploration, as you know, we did some acquisition in the recent times. So this would require also that we have a bigger exploration portfolio than we had some 2 years ago. So we will invest also some exploration money in Southeast Asia, together with Sapura. This is already included here. So we are drilling some wells in Malaysia, and we will start our drilling campaign in New Zealand in the second half of the year, where we see some big potential in the Taranaki Basin and Great South Basin. So this is mainly the reason why we increased our exploration budget. This is according to our acquisition, and this is also according to our production increase, yes, because we're producing right now, 500,000 barrels. Some years ago, where we spent EUR 300 million, we were producing 300,000 barrels. So this is, I would say, going hand to hand, we saw growth in Upstream.

Hydrocarbon sales volumes

Question by **Bertrand Hodee – Kepler Cheuvreux**:

Looking at your Slide 13 where you're making a bridge of the upstream operating performance. When we look at production, it was up Q-on-Q by 16,000 barrels per day. That's roughly plus 1.4 million boe. Then we understood that you recovered from the under lifting of Libya volumes in Q1. So that's another 1.4 million boe, sorry for the long calculation. And I noted that Q2 versus Q1, you mention plus 6 million boe in sales. You ended up in Q2 with an over lifting position, so that we should assume that Q3 sales should be down with stable production?

Answer by **Reinhard Florey**:

Let me give you just the indication, because if you take just Q2, then of course, you see over lifting in terms of the number of liftings in Libya, because we were catching up liftings from the first quarter. So in first quarter, while still producing for a month, we were not

able to do any liftings. So those liftings have been shifted into Q2. So therefore, there is proportionate in Q2 a higher number of liftings in Libya. Other than that, we do not expect that we have any disproportionate situation in Q2.

Question by **Bertrand Hodee – Kepler Cheuvreux**:

Okay. But sorry, but maybe I did not understand, but you had 15,000 barrels per day of production in Libya in Q1. So that's roughly 1.4 million boe. And you indicated that Q2 versus Q1, your sales volumes is up 6 million. So I don't get it. There is a gap of 3 million here. Sorry but I need to understand because otherwise, I will not be able to fix the model.

Answer by **Reinhard Florey**:

But just take into account, we have Malaysia, we have Abu Dhabi, we have Aasta Hansteen, 3 areas that have not been fully ramped up in Q1 that came in with capacity in Q2. So there is a couple of effects also contributing to this increase.

Answer by **Johann Pleininger**:

Yes, maybe more in detail. So Libya is, of course, one reason where we had no production in first 2 months, we started up in March, which was producing then beyond 30,000 boe. Aasta Hansteen, we had a delayed production start-up. Aasta Hansteen is producing right now or after 2 months, also with 20,000 boe per day. We had also some difficulties in New Zealand with our pipeline repair. So New Zealand is producing also since Q2, above or around 40,000 boe per day. And what we ramped up also is UAE, which is producing right now, constantly around 22,000 boe per day. So I think we had a weaker Q1, and Q2 was then already, including Aasta Hansteen, including full production in New Zealand, including full production in UAE. Maybe this explains.

Production outlook

Question by **Thomas Adolff – Credit Suisse**:

On your longer-dated production target of 600 kbo/d. I was wondering whether that is achievable without Neptun? And whether you have other option within the portfolio today that could offset the potential loss of Neptun if the economics just don't work.

Answer by **Johann Pleininger**:

Regarding our 2025 target, what you see already that we have achieved already in June, the 500,000 barrel. So next year, as I mentioned before, we'll go beyond the 500,000 barrel. This would include already Nawara and this would include the increase of production, partially in Malaysia. But in Malaysia, as you know, we are producing right now around 13,000, 15,000 barrels per day. So we will go up next year beyond 30,000 boe. And the target for Malaysia is until 2023, 2024, to go beyond 60,000 barrels per day with the current portfolio, which does not include any exploration success, neither in Malaysia, nor in Mexico, where we have some good prospects and leads with Sapura OVM. Another reason is Achimov, we will close the deal until end of the year, beginning of next year. This would deliver also a plateau production until 2025, 2026, of 80,000 barrels per day. And if you make the math where we are right now, 500,000 in with Nawara; in the first step with Malaysia in, it will go beyond 500,000. Then plus 70,000 barrels, 80,000 barrels from Achimov. And then more than doubling from next year's production, what we expect in Malaysia, 20,000 barrels to 60,000 barrels or beyond 60,000 barrels we are easily already at the 600,000 barrels per day. So if in addition Neptun will come on stream and what we expect right now, if we take FID next year, Neptun will come on stream around 2024, 2025, this would mean another 70,000 barrels per day. So Neptun, for us, we see already as an upside. We would achieve the 600,000 barrels, most likely without Neptun.

Question by **Thomas Adolff – Credit Suisse**:

And you don't assume any declines in your portfolio?

Answer by **Johann Pleininger**:

We assume also declines, but what I have not mentioned here is that we see some potential in other areas. And of course, this is already included. But what I have not mentioned is, for example, in Nafoora, if we develop Nafoora field in Libya, so this will bring additional barrels there. With discovery in Norway, which we will bring on stream. I'm not talking about Wisting, because Wisting would take maybe a little bit longer; Hades & Iris, which we can easily bring on stream before 2025, which is not in this calculation, which would cover the decline.

Downstream

Business outlook

Question by **Josh Stone - Barclays**:

A question for Thomas, congratulations on your new role. I was wondering if you could talk about how you see OVM's downstream business today and what your priorities are over the next several years?

Answer by **Thomas Gangl**:

Thank you, Josh, for the congratulations. It's really great to be in this round. How do I see downstream today? I'm very proud of what we have achieved over the last years. When you look back in terms of utilization on all of these KPIs, I think we have done

quite some work on improving and stepping up. Also in benchmarking, we have a strong position achieved. So we are in a very healthy position and well positioned in Europe. What is on the long run there? I mean you know our strategy, obviously. So we are driving the portfolio more towards the petrochemicals. You have seen the ISO-C4 investment decision, which is one of these steps to drive that more into petchem and also jet fuels. These are the topics where we still see a lot of growth potential, even in Europe. And we are looking beyond Europe, of course. And it's a perfect day to talk about it because today, we have the closing of the Abu Dhabi deal that's adding 40% in the refining capacity, more than 7 million tons. So this is compared to our existing asset base, quite significant, and we are looking beyond that. So those topics will be on my agenda. That will be investments in our existing refineries, but also looking into opportunities beyond that.

Macro environment

Question by **Jason Gammel – Jefferies**:

I was hoping to ask a little more on a macro basis. You made reference to your commercial and retail operations in the downstream oil business doing well as a result of the tightness in refined products from the Druzhba issue. Would you expect that, that tightness is going to continue into Q3? Or has that essentially resolved itself?

Answer by **Rainer Seele**:

First of all, the commercial and retail business, we're expecting also a strong contribution from commercial and retail business in the third quarter. I don't see a sign that there will be a slowdown of the performance, but it's less driven by the pipeline, the Druzhba contamination. It's more driven by the water level in the Rhine. We see, of course, a very nice spread in Southern Germany. And this spread, I still see also in the third quarter. So I also would say that commercial and retail business. The indication is a good one. It's also supported by the driving season. The driving season, the holiday season is a season I like. Second most, I like the winter season because it's cold. But the driving season is really bringing good numbers into commercial and retail business. And I also would like to pay your attention that roughly 40% of the profits we are generating in that business is non-pure business, yes, which is an increasing number.

Question by **Matthew Lofting – JP Morgan**:

Just on downstream, I mean, I think we should congratulate you on strong results against difficult macro variables. Can you talk a bit more about where you think the company outperformed the market and also expectations in the quarter and how meaningful that ability to monetize the Druzhba related market tightness was to the quarter?

Answer by **Thomas Gangl**:

When you look into the figures, you see that we had an extremely good utilization. This is, of course, something that helps a lot. And this in combination with some market effects. And here, I would say, there are always market effects. So there is the Druzhba pipeline, there is the Philadelphia refinery, there is the Rhine level, which is now, again, down, so they can load only 80%. And indication is that next week, they will go down maybe even to 70%. So there are always some chances to gather additional profits. And I think this is something we have done in the past, and we will continue with that.

Gas prices

Question by **Jason Gammel – Jefferies**:

On downstream gas. We did see, obviously, a lot of weakness in the European hub prices. You referenced the resilience in your own price as a result of less exposure to those hubs. But how do you actually see the macro developing? It seems like we could be in an oversupply situation for a relatively long period of time in Europe as regards gas.

Answer by **Rainer Seele**:

The downstream gas, the macro. What I see is, you talk about only one side of the medal to be honest, Jason, and you are talking about the demand side. When I talk about the demand, I first of all would say it's a little bit depending, and we both have to sit and wait a little bit what's happening in Germany. The step-out of coal and that climate discussion when Germany said we are supporting the Nord Stream 2 pipeline project because we need more gas because for the change of the energy mix in Germany, we need more gas. So if this switch from coal-to-gas is coming earlier, I would have different view on the market, on the demand development in the European gas market. Second the situation we do see right now in Europe is more or less not the demand development in Europe per se, it's also the very weak market in Asia, sending some cargoes into our market which we haven't anticipated in our plans. Do we have to deal with a longer oversupplied market? I think that the import demand of the European gas market will increase further than the demand in the market by self. So the decline of the gas production level in Europe is much, much stronger. Sometimes, I also read in the press that some companies are hesitant to further invest into additional production. We need that gas in the market besides all the climate discussion. So that's the reason why I think in short term, we have to sit and wait how the climate debate in all over Europe will result into potentially higher demand in gas. If this is going to happen, I think we are talking about a healthy gas market. If this is not going to happen, I'm hoping for a sharp and quick decline of European gas production. That's the only thing which can help.

Question by **Christopher Kuplent – BoA Merrill Lynch**:

Would I be right, just looking for confirmation that as we have been able to observe that your achieved gas price has obviously improved the discount relative to the European spot price, that that is a trend that should continue as more and more gas production is coming online that has nothing to do with the European spot price?

Answer by **Rainer Seele**:

Yes, you're absolutely right, as we are investing into new gas, for example, in Asia, in Malaysia, this has nothing to do with European hub prices. And therefore, the trend you have described is correct.

Question by **Thomas Adolff – Credit Suisse**:

Just if you don't mind reminding me how much of your gas production is linked to spot prices, how much contracted? And on the contracted portion, how does the pricing formula roughly work?

Answer by **Rainer Seele**:

I regret that I can't give you more specific information about gas prices and our contractual formulas. We have secrecy agreements. I only can say that 40% of our contractual agreements are linked to European hub prices. And when I say European hub prices, I'm talking about different hub pricing from TTF, NBP to CEGH, you find it all in our contractual contracts, but I can't give you any more information about the pricing formulas. And I hope on your understanding.

Petrochemicals result

Question by **Peter Low – Redburn**:

Just on your petrochemical earnings. They've been very resilient, especially versus peers, you've been citing soft industry margins. What would you attribute your outperformance in that area to?

Answer by **Rainer Seele**:

All right. Peter, part of our secrets I would like to keep, why we are so successful in petchem, yes. So I try to answer your question a little bit in a philosophic way. One of the reason is, if you look into the performance of petchem, you'll have to look into, first of all, the utilization rate of different companies. In petchem, we were close to 100% utilization. So our operations were running without any second of interruption. The second point is, what is the feedstock for your crackers. Some of our competitors their cracker went into maintenance, stabilizing, of course, the ethylene/propylene prices in Europe, and that was a very positive demand call on our petchem business. And secondly, the cracker feed, we are very much naphtha base. When you talk about Burghausen, is a petchem naphtha site. And therefore, we benefited from the low prices in naphtha, whereas our competitors, if they are running a higher share of ethylene could not benefit from the lower naphtha prices. All in all, we have to say that especially OMV has, of course, one specialty of a further integration down the value chain. And that's, of course, the benefit from Borealis, yes. We are not only the producer of the monomers, we have also the polymer business and Borealis performed very nicely. As far as I can see the first weeks in Q3, we don't see any signals that I should change my outlook I have presented to you that the petchem business, we confirm that this is a healthy environment.

ADNOC Refining

Question by **Henri Patricot – UBS**:

I wanted to know on the refining, you just closed the transaction. Has there been any change in your views on the contribution from the business, given recent changes that we're seeing in the market of the crude market and then also oil products outlook?

Answer by **Rainer Seele**:

Our view on ADNOC refining in Abu Dhabi hasn't changed. So you can see what we have said earlier, this year, 2019, we see only a small positive contribution into our numbers. I repeat that on average, we do see a dividend yield out of our participation which is at least 10%. So this will not start this year because this year, we are not expecting to get any dividend payments. So this will contribute then in 2020. And I have to say that this is an average indication for you because we have to invest into the refinery to upgrade the integrated margins, and this is still ongoing in the next years. So I wouldn't expect that the dividend yield of 10% will start on the first day.

Question by **Yuriy Kukhtanych – Deutsche Bank**:

On Ruwais refinery particularly, so considering China slowdown and the increasing risk of Chinese refineries supplying more oil products to international markets, do you still see plain vanilla valuation of Ruwais refinery acquisition as value-accretive for your minorities? And perhaps you can talk a little bit more about the dividend guidance that you provide for Ruwais. What is the implicit refinery margin in that guidance? And what's your floor for the refinery margin in order to execute that dividend guidance?

Answer by **Rainer Seele**:

Well, first of all, in principle, we have said, we take a break in any kind of acquisitions. It doesn't matter whether we talk downstream, petchem or any acquisition on the moon. I have no further acquisitions, yes. We have to take a break. We would like to recover from the big money Reinhard has transferred today into the pocket of ADNOC and therefore, we would like to take a break to

consolidate, especially our balance sheet. So that's a clear message as we speak about M&A activities. When we talk about the refining margins, I have to make reference to the confidentiality agreement we have signed with ADNOC. It really gives me not a big room to give any indications what we have signed. All I can give to you, Yuriy, is what I have said earlier, is the dividend yield we have agreed with ADNOC can make reference to give you an idea to evaluate our shareholding in that refinery project.

Trading performance

Question by **Irene Himona – Societe Generale:**

You oversee marketing and trading directly. Could you perhaps give us a sense of the importance, the contribution of trading to the Q2 results, and if you have any particular ambitions? It's a business that is making some very meaningful contribution to other companies downstream.

Answer by **Rainer Seele:**

Irene, I'm very sorry, but we are not releasing any numbers in particular about the contribution of trading activities. But I would like to elaborate a little bit on your question about the importance of trading. As you can see, we have closed our transaction with ADNOC this morning. It's not only a 15% share in the refinery and the assets, it's also a 15% share in a trading and marketing company. So we will be engaged with the roughly 70% of the Ruwais volumes being exported into the different markets, and we have to bring trading know-how into the joint venture because we think that we can stretch the dollar in the refinery. And this is not only the sales of the product, I think we can contribute with our oil trading expertise enormously into that cooperation. Because we are used to create a good Bordeaux in our refineries, whereas in Abu Dhabi, we are operating only with single merlot grapes. That's the reason why we have this high-priced Abu Dhabi crude in the refinery, and we would like to mix it a little bit, and then we can optimize the feedstock basis of the refinery. Giving you an idea that this is a part of very important trading. So it will go into the overall result. But to give you a precise number for that, it's very, very difficult. It's an important contribution in natural gas trading.

Nord Stream 2

Question by **Yuriy Kukhtanych – Deutsche Bank:**

On Russian gas transmission via Ukraine. Could you please update us, how do you think about Gazprom and Naftogaz transmission deal? And how will it progress following the recent, very unusual elections outcome in Ukraine, and how different outcomes may affect your business?

Answer by **Rainer Seele:**

It's very difficult to give you an answer because I'm not sitting at the table. And I don't have any crystal ball where there's a Gazprom player telling me anything how this is going to progress. I think you have to talk to these guys sitting at the table and negotiate, they can give you a more precise idea what's really going to happen. From OMV's point of view, we are supporting a continuation of the gas transit in the Ukraine for different reasons. First of all, we would like to back and finance the Nord Stream 2 project because it's a diversification of the import route and not a substitution of existing import routes. Then the security of a situation wouldn't be increased and in favor of the European market. The second is we would like to keep that second route because the vast majority of the volumes we are right now importing into Austria is coming via the Ukrainian transit route. So therefore, as every second cubic meter of gas here in Austria is coming via that route, we do have a certain interest that this route will be busy also in the future. What I can see is all what I read in the newspapers, and I don't want to repeat it, but I think what I can see is that now it is, of course, a very successful development that the parties have decided to sit together again and to restart the discussion on booking the transit. Do I expect that this will be a deal signed tomorrow? I don't think so. I think the way they are talking, they have to find the right language to talk to each other, and it will take time.

Question by **Michael Alsford – Citi:**

Just on Nord Stream 2, apologies if I missed it, but if you could maybe update on the progress of the project and how you see it playing out for the rest of the year?

Answer by **Rainer Seele:**

Michael, in terms of Nord Stream 2, around 70% of the pipeline is already constructed. The construction works are continuing according to plan. We do see no real time delay. We are now constructing the pipeline. The two ends will meet the territorial waters of Denmark, and we are waiting for the last remaining permit from Denmark. This decision will decide about the timing. Right now, we are within plan and time. We don't see to change our timeline and our time expectation for first gas in. We are planning with the first gas in end of this year, so at latest 31st of December. So Nord Stream 2, we have also continued financing in the second quarter of this year. We have now a total finance volume of EUR 687 million, end of second quarter. The financing will be reduced for the remaining quarter, as we see only pipe lay activities left, the vast majority of the project is financed, and the biggest cost position is, of course, the production of the pipes. The pipes are all on the site, and we have only 30% of pipe lay activities left. The concept is that we are going to build until the Danish waters, and then we have 130 kilometers in that economic zone which we are going to build the day we are going to receive the permit from the Danish authorities.

Retail business

Question by **Thomas Adolff – Credit Suisse**:

I think you mentioned on the conference call that about 40% of the retail earnings come from the non-fuels business. I wondered whether you can drive that higher? And if so, is it 50%, 60%? And how do you plan to achieve that?

Answer by **Rainer Seele**:

We don't have any target setting about a share we would like to have as non-fuel business. But I would like to elaborate your question a little bit further to give you some information, what is really going on. On the one hand side, we have some activities where we would like to increase the share of non-fuel business. We have a very strong interest, especially as we talk about the OMV stations where, to change them more and more into service stations. So which means that besides the shopping business, we have an interest also to introduce something like banking business or that you can sign for your car insurance, for example. And we have lots of partners knocking at our door, that they would like to cooperate with us, especially taking the change happening in the mobility that also one or the other e-car will stay for 20 minutes, recharging the battery. The average time staying is increasing, and then the business might increase as well. So the upside potential. The upside potential for fuel business is coming from our discount stations. And what we are heavily investing now at discount stations, as this is a very successful business model we have introduced in the Southern German market, for example, with in cooperation with Aldi and Hofer in Austria. We also would like to expand this as a business model towards the Eastern European countries. And this will, of course, increase our fuel business in retail and commercial. So all in all, on both sides, we do have an upside to increase that business as it is a very profitable business, it comes more in the focus of OMV also to spend further money in that business segment.

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