OMV Conference Call
March 12, 2020

OMV increases share in Borealis to 75% – Q&A Transcript

OMV and Mubadala Investment Company signed an agreement on March 12, 2020 that will give OMV a controlling stake in Borealis, one of Europe's leading petrochemical companies. OMV will acquire an additional 39% from Mubadala, increasing its stake to 75%. Mubadala will retain a 25% interest. The closing of the transaction is expected by the end of 2020 and is subject to regulatory approvals. An investor and analyst conference call was broadcast as a live audio– webcast at 11:00 am CET. Below is the transcript of the question and answer session, by topic, edited for readability.

OMV Group

Borealis deal rationale

Question by **Thomas Adolff – Credit Suisse**:
This deal came kind of out of the blue, perhaps you can talk about how this deal came about?

Answer by **Rainer Seele**:
How came the deal across? Well, we have started a discussion with our second largest shareholder on our next strategy moves, which we also have explained to the financial markets, how to react on the changes in the environment that we have to prepare for a low carbon world. And out of this discussion, we mentioned that we would like to shift OMV's portfolio towards a more sustainable petchem business and we have discussed some ways how to do that.
And during the discussion that came up that Borealis might be right vehicle for the next step of the development of OMV's portfolio. And then, after a while, it came to a situation that this was seen by both partners as a win-win situation. On the one hand side, the Mubadala Investment corporation is supporting the new strategic move of OMV towards petrochemicals, and on the other hand, they are focusing their participation in OMV group with their shareholding, they do have in our company directly.

Question by **Joshua Stone – Barclays**:
Firstly, you've talked about the transaction repositioning OMV to a lower carbon world. Can you talk about why increasing exposure to polyolefins is the right way for OMV to do this? And to what extent are you comfortable with the risk of reducing demand for the single-use plastics?

Answer by **Thomas Gangl**:
When you look into the overall portfolio of chemicals, then you will find that ethylene and propylene is a very big portion. And then, if you follow them further down the line, you will find out that polyethylene and polypropylene is the big portion. It's 2/3 of that volume again. So, this is the big volume actually, which is playing a major role in the future.

And if you look then into the different sectors where plastics and these special products are used, then you will find out that exactly those areas, which are so important in these days and for the next development, they are only possible with these type of materials. You can look into each and every prognosis, you will find there's a huge growth for demand and it's coming not only from population growth. It's also coming from living standard. So these two topics, will not change and so we see there a very good future for those products.

And in addition, if you look into our portfolio from today, you will see that this is highly linked to our activities that we are doing now. So we see an extremely good combination extending our value chain, a huge part of our chemicals is sold to Borealis today already. So that's prolonging the value chain we can do an end-to-end optimization for our sites, where we are next to each other. So there are a lot of good reasons to go in this direction.

Divestment plan

Question by **Michael Alsford – Citi**:
Firstly just to talk a bit about the disposal plan. Could you maybe give a little bit more color as to sort of how much of that disposal target is relating to Upstream assets, if you could?

Answer by **Rainer Seele**:
Well, out of the EUR 2 bn, the majority is coming from Downstream assets and I'm going to tell you why. If we look into the M&A markets right now, it's reflecting what I have said what we do see right now in our business. We do see that upstream assets are facing a low oil and gas price environment. So the priority of our divestment program these days is not an Upstream.

This doesn't mean that we might not kick off one of the other process, but the fast track transactions we would like to bring in the market because the environment is now so positive will be in Downstream. That's why we have made also this morning the two announcements of two Downstream assets, we would like to sell into the market.

Question by **Thomas Adolff – Credit Suisse**:
Just going back to the EUR 2 bn of disposals. Can you talk about the risking of the EUR 2 bn? So, for example, if you've identified EUR 3 bn in your target EUR 2 bn that's kind of a good risking and we can be relaxed about your targets. And perhaps also comment on the EBIT contribution from the German retail sites if that's possible?

Answer by **Rainer Seele**:
Your question on risking is a little bit a new idea for me. I never have practiced it. We do have a clear understanding what kind of assets we would like to sell. We have started now a transaction and we do have already received a positive feedback in the market. So, the first assets at the divestment of the regulated transportation business, we are already in exclusive negotiations with one party. So, we do have an idea. If I would give you now a risk assessment on this yes, I would say, it depends whether or not we are going to agree on the price, then we might have to go a new round, but the response in the market on the asset is a healthy one.

The same we expect also with the retail network, we would like to sell in Germany. I'm sorry I don't release the EBIT contribution on single assets. This is something we haven't done. But what I would like to pay your attention is that especially in retail, we do see now the highest increases of our margins, since we are running the business, a very, very positive development. And from my point of view, we are now starting a sales campaign at the top of the business performance.

So that's why, I am expecting also a healthy response of interest in the market for the second asset. And this is only a qualitative answer on your question, I don't like to answer it in numbers, but this gives me the comfort that I might surprise you Thomas, with a quick answer like I did with the acquisition of the Borealis shares.

Question by **Henri Patricot – UBS**:
I was just wondering if they are perhaps some parts of Borealis that are maybe not as good a fit as the rest of the OMV portfolio with the strategy, that could be up for disposal after completion of the transaction?

Answer by **Rainer Seele**:
Henri, that's an option we will only follow-up when we have also finalized the deal. So after closing this would be an option that we will look into the portfolio. Between the lines, you might refer to the fertilizer business. This business is right now enjoying the low gas price environment, performing very nicely. Borealis was planning or was trying to sell the business when it was on the down-cycle and it was impossible. This is something we will discuss after we have closed the deal. But our preference is divestments from our OMV portfolio and we have mentioned two divestments today, there is more to come.

CAPEX guidance

Question by **Mehdi Ennebati – Bank of America**:
I will ask a question please on the CAPEX guidance for the group post 2020, so you told us that in 2020, you should be at

EUR 2.2 bn. But you also told us that Borealis' CAPEX in 2020 and 2021 should be EUR 1 bn. Can you just guide us on the CAPEX for OMV in 2021?

Answer by **Reinhard Florey:**
Mehdi this is Reinhard speaking. Regarding the CAPEX guidance, I think you got it exactly right. So from the EUR 2.4 bn that we had planned for organic CAPEX in OMV, we will reduce by EUR 200 mn in 2020 to EUR 2.2 bn. Borealis will have around EUR 1 bn for the year of 2020 as well as '21, but don't forget as Rainer has mentioned that, there's also a EUR1.3 bn acquisition. So the EUR1 bn is around organic CAPEX specifically through the enhancement of the plant in Kallo (Belgium), very specifically higher CAPEX there than the average CAPEX that we see in Borealis of EUR 0.5 bn. So, the average CAPEX of EUR1 bn for 2020 and 2021, you have to add around EUR1.3 bn for acquisition CAPEX in Borealis as well.

Question by **Mehdi Ennebati – Bank of America**:
And if I may, please just regarding the group CAPEX guidance for 2021, can you guide us please after the acquisition of Borealis?

Answer by **Reinhard Florey:**
The group CAPEX, I can guide you about what OMV CAPEX has been. So, we had said that OMV organic CAPEX will be at a maximum level of EUR 2.5 bn and you can be sure that we are striving not to use the maximum. However, we also will be restrictive on additional acquisitions as you may see deleveraging and dividend payments will be the priorities.

Question by **Bertrand Hodee – Kepler Cheuvreux:**
I wanted to double check if I understand well the mass around Borealis free cash flow this year. So if I understand, where you are, you will will have EUR 1 bn of CAPEX plus around EUR 0.6 bn of funding for the Baystar. So that would mean EUR 1.6 bn of total CAPEX, which means that there is a high probability that Borealis will thus be free cash flow negative before dividend this year. Can you confirm this math and if that will be taken into account into the adjustment price or not?

Answer by **Reinhard Florey**:
Bertrand of course, your math is right. That's why I mentioned explicitly also the acquisition CAPEX for the two years. Whether the Baystar part is exactly 50% or not, I think this cannot be anticipated. I personally would expect it rather on the higher side in the first year than in the second year. But the logical consequence of that would be that in the first year, there would be a negative free cash flow and in the second year, there would be a positive free cash flow.

Purchase price: Borealis
Question by **Mehdi Ennebati – Bank of America**:
Another question as well regarding the price USD 4.7 bn. Okay, it should be completed by end of 2020, if I understood well. I would like to know if the Borealis CAPEX for 2020, which will be around EUR1 bn, will be added to the USD 4.7 bn price or not?

Answer by **Reinhard Florey**:
If you now talk about the USD 4.68 bn of the purchase price, the purchase price is the price effective at the moment of closing. Of course we will take over the balance sheet as it is by then. So this means, if acquisitions have happened before that, the balance sheet will be loaded with that. But also the assets will be worth more. So therefore this is no change in the purchase price. Therefore the only adjustment to the purchase price that will happen by the time of closing will be about the dividends, which are, of course, when they are distributed before closing, will be distributed in the 36%, 64%, whereas this will be adjusted to our 75% share after that.

Gearing outlook
Question by **Mehdi Ennebati – Bank of America**:
Can you guide us on your financial charges post the acquisition of Borealis, please?

Answer by **Reinhard Florey**:
Regarding the financial charges, I think what you can see is that, of course, we will finance this transaction and this will ultimately also increase our level of debt. However, I'm very much convinced that in these times, we still have access to very attractive rates of lending in the market, be it on bonds, be it on direct loans with banks or be it on hybrids. All are still open and available in the market and at very attractive rates regarding our ratings.

Question by **Sasikanth Chilukuru – Morgan Stanley**:
I just want to understand the impact of the acquisition itself and the full consolidation of Borealis on the gearing level. So if you could comment what it could be at the end of 2020 post completion?

Answer by **Reinhard Florey**:
Regarding your question on gearing level. There is of course the reason why we have been guiding on the 2021 gearing level, because this gives us the possibility to more or less put in force all of the levers that we have laid out to you in countermeasures to de-

leverage. So it is both the postponement of investment, it is the reduction of CAPEX, it is the divestments that we have the synergies, and of course, the financing mechanisms.

So all of that will contribute to a level, where under normal circumstances, we would see ourselves in a position to come close to around 30% gearing excluding leases back at the end of '21. Of course, if there are unforeseen effects in the course of the volatility of 2020, we don't have an exact crystal ball about that. So, we are more or less assuming coming back to a normal course of business during the year 2020.

However, the leverage of the company will of course be in a gradual way improving with the speed of our countermeasures. So there will be some measures which will come very fast and Rainer has explained that there are two of the larger divestments already triggered, and this is a process that we that we expect also to come in fast and of course the postponement of a 2020 investment into 2022 also kicks in already in 2020. So, all of that will contribute so that the immediate impact that you see from the magnitude of the transaction will also be mitigated to a certain degree in 2020. And by 2021, we have set ourselves a very ambitious target.

Question by **Thomas Adolff – Credit Suisse**:
Let's say this deal would have completed at the end of 2019. Prior to this deal, you're gearing was 28% if you had completed it at the end of the year. Where would gearing have gone up to $4.7 bn acquisition and the net debt et cetera?

Answer by **Reinhard Florey**:
Of course, when you're talking gearing, you cannot just add up the debt, you also have to put in the equity. And to have a precise number on the equity, I need to wait for our efforts to have a fully audited purchase price allocation before I can give you the exact number of that equity. I think what is important is if you compare the numbers, we have given you the around 30% target for '21 on gearing excluding leases. If you take a corresponding numbers to the 28% gearing in 2019 for the group as it is today, that would be a number of around 22%.

Hybrid bonds

Question by **Michael Alsford – Citi:**
You mentioned hybrids as being available at attractive rates. Are you looking to use further hybrids to finance this?

Answer by **Reinhard Florey**:
I would clearly confirm that only a smaller part of financing also will be in hybrids. I believe in hybrids being a valid part of a portfolio in financing, so you can certainly rely on that the weight of hybrids in the mix of our financing also with this somewhat higher leverage will not be different to what we have today. But this also implies that there is some room, of course, when you have a higher portfolio on the debt side that you also can use some more hybrids, but no big steps to be expected there.

Synergies

Question by **Raphael Dubois – Societe Generale**:
Can you please tell us a bit more on your synergies, what cost is implied and also what will be the phasing of the synergies?

Answer by **Thomas Gangl**:
We have clearly mentioned the EUR 700mn that we will achieve until end of 2025 cumulated of course, not per year. So there are several effects. We have on one hand cost synergies that we see. We are talking here about the overall cost of more than a EUR 1 bn, so we see here potential of bringing that down. A big topic of course is for us to have this end-to-end optimization at our existing sites.

So, we see there a chance immediately from operating activities, but also for smart de-bottlenecking to optimize end-to-end the refinery and the petrochemical site. And so, there is also a tax benefit. And all that together will sum up to the EUR700 mn. For the synergies cost decreases of course, there is a ramp-up period of about two years. So, we are not coming to the full amount in the first year, of course, but we have defined already teams and we will start beginning of next week. This is the first activities to define more in detail how to achieve, when, which volumes but we are convinced that we can deliver the EUR700 mn.

Earnings guidance

Question by **Thomas Adolff – Credit Suisse**:
I'm just kind of looking at 2020 and maybe you can provide some guidance in terms of profitability et cetera. When we look at Shell and Exxon's chemical earnings in the fourth quarter, they were both loss-making. So, perhaps you can comment about your expectations for 2020 and then how that compares to 2019 as it relates to the Borealis business?

Answer by **Rainer Seele**:
All right. Thomas, 2020 guidance is a little bit difficult. You know everybody is looking into his crystal ball talking about a virus infection playing the psychology and the trading markets. So that's a little bit difficult to give you a clear guidance for the full year in

comparison to 2019, because the environment in 2019 was a little bit different. But, I would like to give you a little bit of an idea of what we do see right now in the market and how we started into the year. Well, if you look into the market, definitely, the oil and gas prices are going to challenge our Upstream business in 2020.

If I look what has been reported in the newspaper so far, I don't see a quick change of this trend. So that the oil and gas prices will go up quickly. But there are some scenarios which could tell me also an upside in Upstream. I don't want to exclude this, but I think Upstream business in 2020 will be more challenging here than one of these most prosperous years we have in our history.

In terms of the Downstream business, the picture looks different. The picture looks very positive as we speak about our petchem business in Europe, we have seen as a reaction of the lower feedstock prices, especially the lower Nafto prices. We have seen now in these days, very high petchem margins in the markets over here in Europe. The Asian markets are a bit more challenging as the corona is more playing down China, but we see first signs of a slow recovery, especially in China. When it comes to the refining margins, I just would like to ask you to look into the refining margins development. We are enjoying now a real good refining margin environment in Europe as well as also in Asia. So, the only product to make that story not too positive, the product which is a really challenge, is jet in these days. You see that not only the airline industry is struggling, the refiners as well.

So, in 2020, the picture is, as we speak about the first months and as we speak about the current development, it's a mixed one. It's a challenge for Upstream, and it's a positive development so far in Downstream, especially we do see a good business in petrochemicals in these days. It may have to do with our strong presence we do have in Europe that other competitors might tell you a different story.

Commodity price deck

Question by **Yuriy Kukhtanych – Deutsche Bank:**
We appreciate that you provided all these details about the next two years and the guidance on CAPEX. But what are your current working commodity prices assumptions, given the environment in which we are today?

Answer by **Reinhard Florey**:
The commodity price assumptions that we have given you in the course of our strategy, on the long end have of course not changed significantly because there's a reason to why we are going in that direction looking both into the oil as well as in the gas market to recover to reasonable levels. I think we can all agree that the levels that we see today both oil and gas prices at the moment are not at a level which can be sustainable and that we will see, over time, some recovery. However, of course, the conjunction of both the coronavirus as well as some political disruptions between Saudi Arabia, Russia and U.S., are certainly something that has to be taken into account. So, on the mid-term level, we are still at around $70 oil price level and on the short end, of course, we have some assumptions which are lower, but the precise assumptions we'll give you at the end of our quarter one with our presentation of both our results as well as the outlook in the guidance.

Upstream

Production guidance

Question by **Michael Alsford – Citi:**
I think if I remember you've targeted or targeting 600,000 barrels a day by 2025. Should we now think with the shift in the business does that is no longer really a target for the company going forward?

Answer by **Johann Pleininger**:
The 600,000 the barrel target for 2025, I don't see at risk right now. Why? As I mentioned in the last conference, so the current potential for Upstream is 500,000 barrels plus these days. What we're missing right now are around 40,000 boe from Libya and UAE. So here we have a delay in the ramp up of SARB Umm Lulu complex, so we're missing right now around 40,000 boe from our potential. But as I said, if Libya is fully onstream, if UAE is fully onstream, we have the potential of 500,000 barrels per day.

If you add the two projects which still will come onstream until 2025, it should be from Achimov which we delayed now to 2022, but still being onstream in 2025. With around 80,000 boe and Neptun with another 70,000 boe, so this would be 150,000 barrel in addition. Navarra, we are ramping up right now. So, we'll bring another 10,000 boe. And what we said also for Southeast Asia, we had around 10,000 boe to 12,000 boe last year. Now once we bring until mid of the year Larak and Bakong onstream who will achieve around 30,000 or above 30,000 boe. And if you count and add this up, you will see that we are clearly above the 600,000 in 2025.

Achimov 4A/5A

Question by **Joshua Stone – Barclays:**
And then my second question on Achimov. You've delayed the negotiations to 2022. Am I right to say that this is an asset that you are prepared to walk away from now?

Answer by **Rainer Seele**:
Josh, I'm going to tell you a secret. Well, since I have joined OMV, I was working to make Achimov 4/5 a success. It's very difficult for me to walk away. Although, I hate to wait, yes, and I have not the greatest patience in our Board. I'm prepared for another two years. What we are doing is, we are not participating in Achimov 4/5 with the shift to 2022 during the investment phases, and we will renegotiate the deal in 2022 when Achimov 4/5 is already producing. So this was always my preference that I would like to farm into producing assets, delivering immediate cash flow.

It's depending whether or not we will find attractive economic terms. It is in the interest of our shareholders that I only lock in the deal if we get a reasonable rate of return with the risk profile of each project coming into our portfolio. So, if we don't find each other we do have the possibility also not to take the shareholding in Achimov 4/5, but we are fully committed to the project.

Neptun Deep

Question by **Michael Alsford – Citi:**
I was a little bit surprised to hear that you're still assuming Neptun will be online by 2025 given that Exxon is quite publicly seeking to exit. Can you give us an update on the latest developments there and what has to happen to get that project to FID?

Answer by **Johann Pleininger**:
There is no change in the situation so due to the political instability in Romania, we haven't got feedback regarding the offshore law. So that's why we stick with the information which we gave last time. So there's no change. FID will not happen this year. So we have shifted it to next year, but we keep the current estimates regarding first gas end of 2024.

Downstream

Indonesia MoU

Question by **Thomas Adolff – Credit Suisse:**
What does it mean for your plans as it relates to Indonesia? You're looking at building a chemical plant in Indonesia.

Answer by **Rainer Seele**:
When it comes to Indonesia there is a clear message. This project has a big question mark in our discussions in our Board at the moment.

Downstream hedges

Question by **Raphael DuBois – Societe Generale**:
Just would like to check with you mentioned earlier a rebound in refining margins, petchem margins. Should I expect you to hedge more either petchem or even refining margins? And would you maybe give us a mark-to-market of your existing hedge position, please?

Answer by **Thomas Gangl**:
Raphael very good idea. I can tell you, for the refining margins I think this is something that has to be considered. For the petrochemicals, I would love to do so. Unfortunately, there is not the market there, the partners are not there. The feedback is also from the market that everything is very volatile. We have done some on that, but petrochemicals is very difficult. Refining margin, yes, we are enjoying what we have done last year, and we will follow up on the successful way.

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