

## OMV Q3 2020 Conference Call – Q&A Transcript

OMV published its results for January–September and Q3 2020 on October 29, 2020. The investor and analyst conference call was broadcast as a live audio–webcast at 10:00 am CET. Below is the transcript of the question and answer session, by topic, edited for readability.

<b>OMV Group</b>	<b>1</b>	<b>Upstream</b>	<b>4</b>	<b>Borealis</b>	<b>5</b>
Capital allocation .....	1	Production Libya .....	4	Outlook .....	5
Gearing .....	2			Dividend .....	5
Hedging .....	2	<b>Downstream</b>	<b>4</b>	Purchase price payment .....	6
CAPEX guidance .....	3	Demand outlook.....	4		
Divestments.....	3				
Decarbonization.....	3				

### OMV Group

#### Capital allocation

Question by **Peter Low – Redburn**:

How do you view the relationship between de-gearing and distribution growth? Should we assume that gearing has to fall below that 30% threshold before we see any movement on the dividend?

Answer by **Reinhard Florey**:

Regarding the gearing, of course, it is our target to reach the target level of 30% and the precision of whether you move slightly up or slightly down this before you have the ability to grow your dividend, this is something that depends very much on the outlook of the economy that we will ultimately see. But with the promise that we have given to divest parts of our portfolio which we see as non-core in the magnitude of EUR 2 bn, I would see that this will contribute very strongly to reaching this kind of level. And this is a level where I said by the end of 2021, we expect to be already in the range of mid-30s and deleverage with the execution of further divestments further down. And this is very much in line with both staying with our dividend policy that we have given also the strategic development of the company with opportunities that we also have with Borealis on onboard now.

Question by **Matthew Lofting – JPMorgan**:

Given the sort of the completion of the Borealis deal, could you just talk a bit more holistically or strategically around capital allocation priorities 2021 and beyond into the medium term? I understand that you need to prioritize the gearing from the perspective of, let's say, the next sort of 6 to 12 months, but behind that and when we look beyond that, particularly with the additional growth CAPEX being put into Borealis combined with additional disposals that you appear to be signaling this morning, how should we expect sort of the business mix to evolve? And as that happens and the nature and perhaps the stability of the cash flow evolves, how does that affect the appropriate parameters around dividends and cash return in medium term?

Answer by **Reinhard Florey**:

Matt, regarding the capital allocation priorities. Of course, there's a short-term perspective and there's a mid and long-term perspective. On the short term, I think digesting this transaction is a priority to make sure that the traditionally very strong financial position of OMV is displayed for a very, very long time. So that means that deleveraging and also of course dividends stay a priority in the capital allocation over any kind of other inorganic growth at the moment. However, with now three legs, in the mid and long-term, we do have a lot of opportunities not only to expand on business like Upstream, Downstream or petrochemicals, but also push forward the transformation of the company in terms of circular economy, in terms of recycling, in terms of biogenic replacement of fossil fuels and all that. So you will see that there will be sizable investments in the transformation of the company in low-carbon future and of course also in the area where we have now set a milestone with Borealis, which is the petrochemical and chemical area.

Answer by **Rainer Seele**:

All right, Matt, just one comment, because you asked about gearing and dividend. What I realized in these days is that OMV really differentiated from their peers that we keep our dividend policy and that the dividend has a certain weight and priority in our discussion, especially when we also talk about the capital allocation next year.

## Gearing

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

I appreciate the gearing target by year-end, that's helpful. Wondering if you could possibly give us a rough estimate of where you'd like it to be by the end of next year, given all the asset disposals as well and some of the earning expectations from Borealis, just so that we can get to what we think will be a clean number for group at the end of next year. Thank you.

Answer by **Reinhard Florey**:

Now, of course, we are on the path of clearly deleveraging and the aim has to be that we will be somehow in the mid-30s of gearing excluding leases because this is as clear to the perspective that we are close to the target level that we anticipate for the group and on the other hand also see, of course, that the economic environment is hopefully slightly improving, and on the other hand, will also stay a certain challenging this year.

Question by **Peter Low – Redburn**:

Just a clarifying question on the various moving pieces with the Borealis acquisition and its impact on net debt and gearing. I think you said that gearing would end the year at 45% pre leases. If I just take the 3Q net debt number and add the EUR 3.8 bn cash out and then also factor in, I think you said EUR 1.6 bn increase in equity that you'll book as an exceptional in 4Q. I would calculate the pro-forma gearing would be just 32%. So, obviously missing a couple of moving parts there. Any help with that would be appreciated.

Answer by **Reinhard Florey**:

Peter, there's one part that you're missing in your equation, which is the debt of Borealis, which will also fully consolidate. Yes. And that is the number of as said EUR 1.8 bn excluding leases and EUR 2 bn including leases. So that will bring you then to the number that I have displayed here.

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

Sorry guys, and thanks for taking my follow-up question. Just going back to your comment on the leverage ratio, net debt to equity. Just correct me if I'm wrong. By end of 2021 you said you expect it to be around mid-30s. And if memory serves me well, wasn't your target previously 30% or less? Has anything changed there please?

Answer by **Reinhard Florey**:

Yes. There has changed something, not in our target, but in the economic situation. So, we have crisis at the moment and we clearly see that we cannot overstretch our expectations here. However, what we said is that after the closing of the transaction of Borealis, it would take 12 to 18 months to return to the levels of our target. And the anticipated step from where we will end up at the end of this year to a level of mid-30s next year, I think is already a sizable improvement that we are seeing with a clear target to reach the 30% very soon.

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

And if I may follow up, versus the 30% and the prior target versus now the mid-30, what exactly has changed in your assumption? Is it the oil price? Or is it actually anything else, refining, chemicals or what has changed there, please?

Answer by **Reinhard Florey**:

What has changed is the target price of the oil with USD 50/bbl, which has been already announced in the first quarter of this year. And this is the expectation for 2021 that we see oil price of USD 50/bbl, which previously has been above USD 60/bbl.

## Hedging

Question by **Henri Patricot – UBS**:

So, the first one around hedging, because you did a little bit of hedging in the third quarter, so I was wondering if you are doing any of that either in the downstream, but perhaps more likely on the upstream side with a more challenging macro environment.

Answer by **Reinhard Florey**:

Henri, regarding hedging in Q3. First of all, the precautions that we took in hedging some of our volumes on the upstream side have ended with the end of Q3. So there's no downside from that to be expected in Q4. The hedging losses have been less than EUR 30 mn. So this has not been a huge effect, but nevertheless, I think it was an important step that also helped us in Q2 and in Q3, it was sort of that protection where you sometimes also pay a price for that. But as said, this is not a huge impact and we will not see any of that in Q4 to be repeating. In Downstream, of course, the hedges are extremely helpful and they are part of our operative business and this is something that Rainer has mentioned, it also will recur with a mid-double-digit number in Q4.

## CAPEX guidance

Question by **Henri Patricot – UBS:**

I was wondering, you mentioned CAPEX and that could be towards the lower end of the range next year if the macro is more challenging. I wanted to get sense of what gets push back you from if you have to bring CAPEX around closer to EUR 2.5 bn.

Answer by **Rainer Seele:**

Well, Henri, talking about CAPEX, I think it strongly depends whether or not and when we are going to see an economic recovery in 2021, determining what is really the CAPEX budget we will approve in our Board. Right now, as a gut feeling, I think that also the first half of 2021, we will see a COVID type year. At least the first half of the year, we will discuss our CAPEX budget to be pushed back to the lower end. And I think I said it also in the earlier call, we are more very conservative and we would like to demonstrate high performance on capital discipline. So, you should prepare anyhow that the range between EUR 2.5 – 3.0 bn, OMV will not pick the upper end. I would be surprised if I would see that after my comments.

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

I have a question around Slide 14 on the CAPEX, especially around Borealis. And to understand whether the Baystar JV in the U.S., which is equity accounted is included in those numbers. And I wanted to refer to two things in fact. First, there were some inorganic CAPEX with Borealis, having increased its stake in Novealis, the Baystar JV. So, can you disclose that number? And I wanted to also double check for 2021 in your Borealis guidance was there any related CAPEX associated with the ethane cracker in the U.S.?

Answer by **Reinhard Florey:**

Yes, Bertrand. Of course, in Borealis, there have been inorganic CAPEX this year, both for the acquisition of another 25% in the Baystar project, which was concluded earlier this year as well as a small acquisition also in Korea, a company called DYM. So, there has been a part of the CAPEX in Borealis also of inorganic nature. And in 2021, there will be partly still some equity injections into the U.S. business. But specifically also, CAPEX regarding the organic investment, which is currently being done in Kallo in Belgium, which is a sizable project. Therefore, there will be also, I would say, other than normal CAPEX, it's not inorganic in that sense, but other than the normal level in 2021.

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

But can you disclose what was the inorganic CAPEX of Borealis in 2020? And more specifically, is the, I would say, equity funding of the JV in the U.S. included in your organic CAPEX guidance for 2021?

Answer by **Reinhard Florey:**

No, it's inorganic part. So that is not included in the organic guidance here. And regarding the magnitude, as far as has been disclosed with Borealis it is known and as far as is not disclosed, I cannot comment at the moment.

## Divestments

Question by **Sasikanth Chilukuru – Morgan Stanley:**

You talked about non-core assets. So I was just wondering if there were any businesses within the Borealis that you would consider non-core and potentially disposal candidates.

Answer by **Rainer Seele:**

I take your questions on the portfolio whether or not they are non-core assets. We first would like to start now a dialogue with the Borealis management and give me some time to answer your question. At the end of the year, we will make an announcement because I can read between the lines what you would like to get as a message, what is the next divestment package. And this is something we are going to publish at end of this year or beginning of next year.

## Decarbonization

Question by **Michele Della Vigna – Goldman Sachs:**

When I look at the strategy of your peers, they are mainly focused on renewable power and yet, there is an alternative route to decarbonization through the circular economy. And it seems to me like, you're really taking this route with the Borealis acquisition and with some of the other projects you are investing in, it's about recycling, it's about capture and use of CO<sub>2</sub> bio-products, bio-chemicals. I was wondering, if you could lay out your strategy for decarbonization with a focus on the circular economy.

Answer by **Rainer Seele:**

Yes. I am delighted to do so, Michele. First of all, we have made an announcement in our last call that we have a long-term CO<sub>2</sub> reduction target to become carbon neutral in our operations until 2050, that's an ambition. But we also published that we are increasing our Scope 1 and 2 targets, being now a 30% reduction instead of a 19% reduction until 2025 in our operations. This is coming from both business segments, Upstream as well as Downstream. In addition we also increased our short-term target for Scope 3 reduction from 4% to 6% reduction. All the comments of the reductions are based on the comparison to the emissions we have published for the year 2010. So, this is just OMV being engaged in also reducing their CO<sub>2</sub> footprint. We also published a firm number of at least 1 million tons CO<sub>2</sub> reduction until the year 2025. So this is all the story about CO<sub>2</sub>.

OMV is also investing into some renewable power. You might have seen that we are building together with VERBUND, the largest power company of Austria, the biggest photovoltaic plant here in the country but all these activities are focusing on our equity power demand. OMV is more striving towards renewable power for the equity demand. A good reason why we are not investing into renewables is that we don't have really convincing business model for you. If I cannot present to you a double-digit rate of return on my investments which I can't calculate in renewable power projects, I think I will disappoint you on our ROACE targets.

And secondly, I think we can contribute very much with our strategy that we would like to burn less oil but upgrade it into chemicals, which means we are going to reduce our fuels output in favor of higher petrochemicals production. And on top of that, I think we are now taking care about the captive market behind our petrochemical business with the Borealis acquisition and then investing into circular economy. We are now in the hot phases to discuss the FID for a bigger plant for the ReOil technology here in Austria. So the next scale up we have in mind is the 20,000 tons per annum capacity. We will meet our commercial threshold with 200,000 tons per annum capacity. So, it's just economy of scale which are in our mind until 2025.

So, I think we are not talking about only an ambition in the year 2050. We are talking about definite 2025 targets what we would like to invest for and reduce for a better CO<sub>2</sub> footprint in the next five years.

## Upstream

### Production Libya

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

Rainer, I think you mentioned, Libya is now producing about 16 kbb/d and of course, the ramp-up is lot faster than expected. What do you see on the ground? I mean, when do you expect your operations to reach plateau production? Can it happen within weeks or months or what is the situation on the ground, please? Thank you.

Answer by **Rainer Seele:**

Well, I was also surprised by the rapid ramp-up in Libya, to be honest. I thought it will move more slowly. At the moment, it's pretty silent on the ground. But I think, very honest remark, the country remains fragile and we need to see more political progress in the country. The ceasefire is helping. And that's why I think we can calculate with some production in the fourth quarter. This is an upside for OMV. And I think, we will see also further ramp-up. I think we will produce more than the 16 kbb/d. But how much, honestly speaking, I don't know. It's a bit too early. Coming back to plateau production on 35 kbb/d, I think this is not the number we will see in the fourth quarter. It really depends how quickly especially our local staff can ramp up the production further.

## Downstream

### Demand outlook

Question by **Matthew Lofting – JPMorgan:**

Could you just talk about looking into 4Q and perhaps early next year the latest data points and views that you have around demand trends through the sort of the lens of your marketing and petchem businesses?

Answer by **Rainer Seele:**

I would like now to answer your question about the fourth quarter and moving into 2021, what are the major trends I do see. I think the oil market especially and the oil and refining market is now coming with a major uncertainty on the demand side. Everybody is now talking about what is the effect of the potential lockdowns we are going to see over here in Europe. So I think that the oil price and also the refining is very much demand-driven given the, I don't know, how should I call it, light lockdown of Germany. They try to take care about the economic impact, but one thing is for sure, jet demand would be further weakened into Q4 and jet is driving the show and making the pressure on the refining margins in Europe. We do see now a good \$2 per barrel in the market. I think there is no upside in refining margins for Q4.

When we talk about natural gas, I will give you a positive indication. If you look into today's quote in the European gas prices, you will see its first quarter where the quoted prices are above the previous year quarter. The average gas price in European gas in the fourth quarter of 2019 was EUR13 per megawatt hour whereas you see now quotation of above EUR14. So natural gas is not so much impacted by the COVID effects, I have mentioned in refining and oil. I think the gas consumption and the price curve will be more driven by the temperatures, waiting us in the next weeks to come.

When we talk about petchem and polymers, we are expecting to see a stable business also in the fourth quarter. It's really depending whether or not we're going to see heavier lockdown effects like in April when Germany decided to shut down the production in the automotive industry which had the heavy impact also for the polymers we are supplying into this chain.

So all in all, I would say, stable also fourth quarter. We are talking about petchem, polymers, refining, natural gas. Challenging quarter for upstream, little bit less challenging for OMV because Libya's coming back, but a challenging quarter for refining as well.

## Borealis

### Outlook

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

Perhaps and could I maybe just ask, what you anticipate for Borealis's earnings or cash flow performance for next year as well? I appreciate the outlook is not particularly certain, but perhaps within a range.

Answer by **Reinhard Florey**:

There's nothing that we currently can give as an outlook. So, this is too early as we are today in the first day of full consolidation anyway.

Question by **Mehdi Ennebati – Bank of America**:

So you provided the Borealis cash flow from operation for just nine months of the year and it is EUR 1.1 bn, which looks pretty solid. I was just wondering, what was the share of Borouge on those EUR 1.1 bn. And also could you please tell us, if the Borealis cash flow from operation has been increasing or decreasing from the first quarter to the third quarter? Just to try to understand the dynamic.

Answer by **Reinhard Florey**:

Mehdi, thanks for your questions. So if you take the share of Borouge dividend, if you take Borealis cash flow, I would restrain from giving you an exact number, but the ballpark is that it's slightly below half of the cash flow coming as a dividend from Borouge.

Question by **Mehdi Ennebati – Bank of America**:

Do you expect Borealis organic free cash flow to be positive in '21? I am asking because you are saying that the CAPEX will go up, but we don't know if it will go up very significantly on it. Thank you.

Answer by **Reinhard Florey**:

Well, actually this has been a rather stable development, of course, also influenced by the fact that in the face of a crisis as of the end of Q1, there was also in Borealis, a clear restraint on CAPEX and the clear optimization of OPEX. So therefore, the cash flow was also positively influenced by countermeasures that the company has been taking.

Question by **Mehdi Ennebati – Bank of America**:

And maybe regarding 2021, please?

Answer by **Reinhard Florey**:

I think Rainer has mentioned that in 2021, there's also sizable organic cash out. So we are expecting free cash flow in that year, not a huge contribution, but starting, as Rainer said in 2022, having a significant contribution in free cash flows from Borealis.

Answer by **Rainer Seele**:

Mehdi, I just would like to give you one additional information. And I do repeat what I have said also in earlier calls on the share of Borouge in our cash flow. The Borouge contribution is strongly depending on the naphtha prices in Asia. So what I would like to recommend to you is look into the naphtha prices in each quarter and then you get an idea about the performance of Borouge on a quarterly basis. Borouge is really following strongly on the naphtha prices. Higher the naphtha prices is higher the contribution from Borouge.

### Dividend

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

Are you able to describe what you think the right level of the Borealis dividend expectations for 2021 or 2021 plus? I appreciate next year is quite a big CAPEX year. Just to help us there.

Answer by **Reinhard Florey**:

Thanks for your question. The Borealis dividend level, of course, is one that we will decide on the course of next year's performance. So, there's nothing to announce at the moment. This is something where we, of course, have a clear flexibility to adjust according to the economic situations that we see in the market. So we cannot anticipate that today.

Question by **Sasikanth Chilukuru – Morgan Stanley**:

A follow-up on the Borouge dividend. I was just wondering you mentioned the contribution of the Borouge. Was that an annual dividend payment or is the Borouge dividend essentially paid on a half-yearly basis? I just wanted to understand the magnitude of that dividend as well. And slightly related to that. Was there any dividend contribution from Baystar and what is the level of dividend coming in from Baystar?

Answer by **Reinhard Florey**:

So regarding the Borouge dividend, normally this is an annual payment that we see here. But of course, it is subject to the agreements between the shareholders and Borouge, that is 40% Borealis and 60% ADNOC. So, this has been the payment. And as said, it has been less than half of the cash flow that we have displayed here. Regarding the dividends from Baystar. No, there's no dividend today, because this is a business which is currently ramping up. So we are, of course, expecting a dividend payment also from Baystar in the coming years. But as it is ramping up, we are not expecting that for next year.

#### **Purchase price payment**

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

On the payments to Mubadala and doing it all in one. I mean, you did say you have the liquidity, but you have the option to kind of spread it a little bit. Should I be reading something between the lines is a sign of confidence on the disposals or is it just simply let's get it done with and move on?

Answer by **Reinhard Florey**:

Of course, this is a sign of confidence. And I think it is both from a perspective that we do have the liquidity as OMV and on the other hand, of course, it also has commercial and economic considerations. You can imagine with very favorable rates that we had been able to refinance, this is certainly a better deal than just paying interest for deferred payment to our very appreciated partner. So therefore, having the liquidity there and Rainer mentioned in his speech that we have cash on hand of more than EUR 7 bn and additional undrawn credit facilities, this certainly displays the strength where it is clearly the economic better decision to pay the full price now.

## **DISCLAIMER**

This presentation contains forward looking statements. Forward looking statements usually 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.