

OMV Q3 2021 Conference Call – Q&A Transcript

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OMV Aktiengesellschaft

OMV published its results for January–September and Q3 2021 on October 29, 2021. 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 clarity.

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OMV Group

Strategy

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

Thank you very much. And congratulations on the really strong results. Alfred, I wanted to ask you a long-term question if I may. The strategy I believe is very clear, it's an acceleration of the energy transition with the shift to materials and the circular economy. What I was wondering about is what do you think is the right pace? Because although you probably want to reduce the exposure to oil and gas in the long term, it may actually be a very free cash flow generative and profitable business for quite a few years to come. And so, I'm just wondering what do you think is the right pace of starting to wind down that business, but maximize its free cash flow potential? And then on the other side in terms of the businesses where you probably want to increase exposure like petrochemicals, I'm sure there's still a lot of opportunity for consolidation but probably that would be better than in a down cycle which still seems pretty far away. I just wanted to get your sense of what do you think is the right pace of transformation for the Company here? Thank you.

Answer by **Alfred Stern**:

Thank you, Michele. That's great. It's of course the billion-dollar question, isn't it? But I completely agree with you, I think we are all aware that energy transition to lower CO2 emissions is required to combat climate change and of course that needs contribution from all of us to make that happen. The big question, as you point out, is how fast will this go. And we can learn this year actually if there is a significant economic rebound and energy need, oil and gas prices can spike very significantly. And I believe it will require careful evaluation that provides both the agility, but also the optionality to adjust some of the speed going forward. We are going currently through quite a strategy exercise here in OMV and trying to also take these things into consideration. Our plan currently is that in the first quarter of next year, we would like to come and explain how we want to do that on our Chemical Market Day. Your second question, the chemical consolidation. As you point out, I think the last couple of months are very strong months in the chemical industry and with this, of course also the expectations of valuations are pretty high. We are also observing that trend and seeing how this is working. From this perspective, we are of course quite happy that we made our 39% Borealis acquisition, or additional share acquisition, when we did because we are benefiting at this moment as you can see in our results quite considerably. But this will be a consideration from project to project with the right moment and values that can be achieved.

OMV Petrom

Question by **Peter Low – Redburn**:

Hi. Thanks for taking my questions. I was wondering if there was any comment you could make on recent press reports about your stake in Petrom. I know you probably can't talk on specifics, but how core is Petrom seen to the business under the new strategy?

Answer by **Alfred Stern**:

Thank you for your question, Peter. To be honest, we have never made any announcement or any kind of statements to around Petrom. There has been over the last couple of years continuous rumors about this despite OMV never making any kind of statements and in such a sense, there's really nothing I can say about those rumors and don't want to comment on them either.

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

On Petrom, there has been on Bloomberg some comments that the Romanian parliament voted an energy price cap. So, I was wondering if this is impacting in any way Petrom. So, can you please comment on that?

Answer by **Reinhard Florey**:

Mehdi, on your question to Petrom. The energy price cap that has been discussed in Romania is only relevant for household gas prices and Petrom in its delivery has a relatively small share of deliveries to households, rather we are delivering on industrials as well as on export. So, therefore impact on Petrom should be whenever that is enacted relatively small.

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

Okay. Thank you. Thanks, Reinhard. Just a follow-up on that. Will Petrom have to lower its natural gas price to household? And can you just confirm if I remember well, one-third of Petrom gas sales go to household. Is it fair enough?

Answer by **Reinhard Florey**:

As I said, it's a smaller amount and it therefore has not such a major impact on Petrom profitability. Currently, Romania is again in a political crisis and the conclusions on all these kind of relevant topics in the parliament have not yet reached realization. So, we have to wait until there is a concrete impact visible. At the moment, we are not considering that this would have a major negative impact on Petrom.

Question by **Raphael Dubois – Societe Generale**:

On Petrom gas. I think they were due to renegotiate bilateral contracts sometimes around September and that's a big part of their gas production. I guess it's part of your outlook for average selling price in Q4. But can you maybe tell us a bit more about the increase that they should have obtained in the current context? Thank you.

Answer by **Reinhard Florey**:

Raphael, as this is a period where all these negotiations are currently going on, I cannot preempt any of the outcomes at the moment. This is the market dynamics that I need to leave at the moment to the Petrom management. So, therefore we'll update you as soon as contracts are concluded.

Hedging

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

Hi, good afternoon all and thanks for taking my question. On the gas hedging that you just explained, I would like a little bit more of color here because if I look at the difference between your IFRS net income and your clean net income in the third quarter, there is roughly EUR 600 million difference, and of course the IFRS net income takes into account hedging derivative. So, should I then consider that your hedging losses are currently around 600, yet to be realized are currently around EUR 600 million net of tax essentially because of the gas hedging, or is there anything else here which could explain the difference between the clean net income and the IFRS net income? Just only to try to have an idea about the potential hedging loss in the next two quarters.

Answer by **Reinhard Florey**:

Yes, good afternoon Mehdi. Very happy to give you a little bit more color on the effects from hedging. I would like to take it from the overall special items position that we have in our P&L. So, we have a total special items position of EUR 710 million that includes EUR 38 million of CCS effect so that makes EUR 750 million negative then from special items as such. Out of those, around EUR 440 million are the effect of the gas hedges that we have in place for unrealized mark-to-market evaluation and please keep in mind it's always the mark-to-market evaluation that we have to take into account in our special items. So, this comprises both the Q4 as well as the Q1 of next year hedges and this is about the level of this commodity hedge position. The other areas are gas storage hedges as well as energy hedges that we have in place that need to be evaluated at exactly the level of current markets, but that is only more or less the liability lag that we are evaluating here. So, you can count on that coming back to a neutral position in Q4, respectively Q1 and therefore this does not resemble any kind of hedge loss, this is just a hedge evaluation. So, I hope that gave you a little bit color on this special item. So, only a little bit more than half of that is what we could see from today's point of view as a hedge loss regarding the gas hedges we have in place.

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

Ok. Thank you, Reinhard. You said EUR 440 million. Can you just remind me if this is net of tax?

Answer by **Reinhard Florey**:

Well, this is on an operating level. So if you take the net of tax, of course you have to deduct that kind of tax if you come then to a net result level.

Question by **Henri Patricot - UBS**

Yes. Hello everyone. Thank you for that presentation. On gas, because you've been hedging about 10% of your production for the second half of the year and the first quarter, so I was wondering if we should expect to see this on a rolling basis that you'll continue to hedge 10% of your production for the rest of 2022 or if there's some sort of price level that you have in mind at which point you can stop hedging?

Answer by **Reinhard Florey**:

Regarding the gas hedging, you're absolutely correct it's about 10% of our total volume, about half of the European volumes that we have here. We have hedged Q4 and Q1 at an average level of around EUR 30 per megawatt hour. And there's currently no intention to increase or continue with the hedging strategy because this was very much a defensive hedge not a kind of speculative hedge that we took into, considering that there was quite high overleverage of the Company and that allows us, looking at the very low gas prices of last year, that allowed us to make sure that the deleveraging could go in a very orderly manner. Now of course looking at the very high prices, that could have been also done differently. But on the other hand, we managed even better in this economic situation to deleverage the Company and are very happy to say we are way below 30% at the moment. So, therefore no need to take any considerations in that respect at the moment.

Cash flow

Question by **Joshua Stone - Barclays**:

A remarkable level of free cash flow in this business that you're generating. A decent amount appears to be sustainable. You've got disposals coming, potentially more disposals that you sort of put up and headlined in the press. So, what do you expect to do with all this free cash flow? And more generally how do you think about the level of shareholder returns in your business? Do you think this is an appropriate level or could you look to increase that? Thank you.

Answer by **Alfred Stern**:

I will try and give you some insight on the cash flow utilization, Josh. Here we had a pretty clear priority and a commitment that we wanted to make sure that we deliver our divestment program and that we have a very high CAPEX discipline in order to get back to the 30% gearing level excluding leases by the end of the year. As you rightly point out, we achieved this now in the third quarter that we are at 28% gearing level excluding leases and that was helped of course through very healthy cash flow out of operations. As we go forward, we want to make sure that we then continue to manage our gearing level well and we also have a commitment to our progressive dividend policy where we are saying that at least we want to keep our dividend at the same level as prior year or increase it above that level. And that, I think, commitment was quite visible last year also where under quite difficult economic framework, we were one of the few companies that kept the dividend level at the prior year level and then this year, we then increased it and this is a commitment that we will also take to the future.

Capex

Question by **Peter Low – Redburn**:

On CAPEX, you reiterated the EUR 2.7 billion for this year, but can you give any guidance or steer on where you expect that to go next year? Thanks.

Answer by **Alfred Stern**:

On the CAPEX for this year. As you say, we said EUR 2.7 billion: EUR 1.1 billion for Exploration & Production and then EUR 700 million for Refining & Marketing and EUR 900 million for Chemicals & Materials. And we have said that our aim is to be between EUR 2.5 billion and EUR 3 billion, that's our CAPEX range that we are aiming for.

Exploration & Production

Gas strategy and projects

Question by **Michael Alsford - Citi**:

Hi there. Good morning. Thanks for taking my questions. I've got one on the upstream. Clearly the focus on gas is being shown by the Wisting divestment. So, could you talk a little bit more about Neptun? There's been a change in partner there, where are we in that project? A little bit about how core is potentially the Achimov deal in your future plans to the upstream? And then also you've obviously got the potential to grow the Malaysian business. So, maybe could you perhaps elaborate a little bit more on your gas strategy in the upstream? What is the priority? Is it development? Is it buying production? So, could you maybe elaborate more broadly on that? Thank you.

Answer by **Alfred Stern**:

Yes. Thank you for the question, Michael. Let me start maybe with Neptun. This has been a project that has been on the radar screen for quite some time. Of course then, most recently Exxon announced that they wanted to exit from the Neptun gas field and now a few days ago finally, Romgaz made an announcement that they have agreed with Exxon on taking over their share of the gas field subject to their AGM approval. So, that was an important step. There is one more important step they are missing for us, and that's the approval of the offshore law in Romania, that still needs to happen before we can make any final investment decision for Neptun. However, all this time we have continued to make progress and work on progressing the development of the Neptun field. The second one is in Malaysia, the Jerun field where we are also actively working to drive progress and develop the field there for the future. And the final one, the Achimov. A few years ago we actually delayed the decision where in combination with other M&A activities, there was actually a repositioning where we said there will be a delay until the middle of next year in how we want to proceed with Achimov. And also there, we have a non-exclusive kind of agreement in place with Gazprom that we need to then decide by the middle of the next year. No decision has been taken at this point.

Question by **Raphael Dubois – Societe Generale:**

Is it possible to have an update on Gasha? How close are you getting from FID time? Thank you.

Answer by **Alfred Stern:**

On Gasha, we are also actively working on that project to drive it forward. I cannot tell you at this point when an FID for this would be. Maybe my colleagues can tell me. No. We would have to give you this information afterwards.

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

Hello, everyone. Thank you for taking my question. Just a follow-up on your United Arab Emirates strategy and especially I would say the opportunity in natural gas. So you're part of Gasha, you're part of Dalma. And United Arab Emirates has a major natural gas plant expansion and they even now consider a giant LNG project of close to 10 million tonnes. Is it something you could be looking at, taking a piece in the LNG business especially in United Arab Emirates? And also can you update, even if I understood that you cannot give us a date on FID for Gasha, on the other natural gas development you are involved in the United Arab Emirates? Thank you.

Answer by **Alfred Stern:**

Okay. Thank you, Bertrand. Our participation in the UAE is in two producing assets. One is SARB Umm Lulu where today we are operating already and producing oil out of these assets. And then as you rightly point out, the development project that we are also part is the Gasha project where we are actively participating in the development of this. Unfortunately, I can't tell you when the FID decision there should happen. But what I can tell you is that beyond this, we currently have no additional projects going on in the UAE concerning oil and gas assets.

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

And would you consider taking more especially if you want to develop natural gas more going forward given your natural relationship with Abu Dhabi?

Answer by **Alfred Stern:**

So look, we are of course always looking and optimizing our portfolio. I do believe that today we actually have two pretty big development projects for gas in our portfolio with Neptun and with Jerun. And I think what we need to do now is to go through our strategy development to have a clear idea how to take that further beyond this. So that at this moment, we don't have any other active projects in the UAE in the oil and gas area.

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

And may I ask another very quick follow-up. What's your thinking about LNG? Do you intend to go into liquefaction at some stage in the future?

Answer by **Alfred Stern:**

I think as OMV, we always quite clearly said that we will not go into LNG and at this point, this direction has not changed for us.

Wisting divestment

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

Hi. Thanks for taking my questions. Related to the E&P business and also to the announcement of the sale of the Wisting stake. Interesting to see your preference of gas over oil and your comment on saving from material development CAPEX in oil projects. And given the expectations for this, the breakeven price for this project was around less than USD 35 or around USD 30 per barrel. I was just wondering does this mean that you're not likely to embark on any major oil development in the future? What does this mean for existing oil projects? Are we likely to see more disposals in this space given the high oil price environment right now?

Answer by **Alfred Stern:**

Sasi, the first question on Wisting and oil. We continuously look at our portfolio, not just the Exploration & Production, but our entire portfolio, and see how we can optimize that to make our business go forward and be aligned with our strategic moves. But maybe if you look a little bit at the divestments that we have done over the last couple of months. We had Kazakhstan, we had some oil assets in Malaysia, and we are now doing Wisting and that is helping us improve our portfolio. We also have clearly said in the past that we want to enrich our portfolio with more gas and today we are already over 60% in gas and we want to continue and push this forward. There's multiple reasons for that, but one of course also that gas is a lower CO2 intensity energy carrier than oil. I think this is maybe the context that you could see this in.

Realized gas prices

Question by **Tamas Pletser – Erste Bank:**

Good morning. I got just one follow-up question on the gas and the realized gas prices. Can you just remind us how is the Russian gas priced, I mean the gas which they sell towards Europe, as well as how the domestic gas prices are developing? Thank you.

Answer by **Alfred Stern**:

Sure, Tamas. Thank you for the question. The gas from Yuzhno Russkoye is priced half of it with a local Russian price and the other half is connected to the BAFA price, the German import pricing that is indexed there.

Question by **Tamas Pletser – Erste Bank**:

And isn't this price somehow crude oil price linked or is it rather spot based?

Answer by **Reinhard Florey**:

Tamas, the BAFA price has certain characteristics that it is on the one hand side calibrated on European gas hub prices, then there is a small element also of oil price calibration in there. But the main characteristic that is relevant for us is that it comes with a two-month delay in gas price development in realizing the price. This is also why BAFA has a little bit of a less amplitude in volatility than European gas prices and comes with a delay of what we see with European gas hub prices.

Question by **Tamas Pletser – Erste Bank**:

Actually it's quite clear. Just one follow-up over here. How do you see Russian gas prices develop? Do you see an increase there?

Answer by **Reinhard Florey**:

Very flat. It's a regulated gas price that is very much driven by the political will to provide affordable gas to the population in Russia.

Question by **Tamas Pletser – Erste Bank**:

So, basically the upside can rather happen only from the export side if I see correctly?

Answer by **Reinhard Florey**:

Yes.

Production outlook

Question by **Henry Tarr – Berenberg**:

Just on the production outlook for 2022. I know it will depend a little bit around Libya, but anything on that would be helpful.

Answer by **Alfred Stern**:

On the production in Exploration & Production. Of course what we will see going forward, right, for this year, we have actually, last time we said we will produce around 480,000 barrels per day. We have now increased that to over 480,000 barrels per day. That is the biggest improvement that we see is really coming from the installation of the booster compressors that we did during the maintenance stop in Yuzhno. And with this, the production level can go up again to 100,000 barrels per day. We are hoping that this level will also be sustainable going forward and that we can then keep good production levels.

Refining & Marketing

Refining margins

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

Related to the impact of higher natural gas and hydrogen prices on realized refining margins. Of course we're seeing a material improvement in the indicator reference margins, but just wanted to say think -- how we should be thinking about the realized refining margins in the future? Thanks.

Answer by **Reinhard Florey**:

Sasi, I think your observation is correct to see that, of course if we look at our customers, in general there is some pressure regarding the overall energy prices. However, in our case, we see that the indicator margins are already giving us a very good indication where the base profitability of our refining business is. And if you're talking realized refining margins, they may be compressing a little bit but still come as a premium on top. That is why you can also see that we are differentiating positively in our results in the refining business. So yes, you might see premiums at a slightly smaller level in the future, but the realized refining margins are mainly dominated by what is the indicator margin and the indicator margin is currently going up and showing again a quite strong development in our case with good margins currently clearly above USD 5 in Austria and Germany, even above USD 8 in Romania, and we are also seeing good margin development in Middle East at the moment.

ADNOC Refining

Question by **Joshua Stone – Barclays**:

Firstly, looking at ADNOC Refining. You've spent an awful lot of money on this deal a couple of years ago now, it's mostly loss making since you bought those assets albeit a very small contribution this quarter. Just thinking as you get to the end of the year and you have to review your books, is there a risk of a write-down here, and could that impact your gearing ratio?

Answer by **Reinhard Florey**:

Josh, regarding the question of any kind of revaluation of ADNOC Refining. We have traditionally in Q4 our business planning around this asset with the main shareholder ADNOC and this will be showing then the way forward. Yes, you're absolutely right that it is disappointing year-to-date how the performance of ADNOC Refining has developed. However, we are seeing a little bit of a light at the end of the tunnel. We have seen refining margins also in Middle East going up quite significantly. That will also be something where ADNOC Refining will benefit from. So, therefore I cannot today give you any anticipation of a write-down risk or anything like that because at the moment we still stick to the business plans as we have them. If there are any changes, that will only be able to be assessed in quarter four.

Nord Stream 2

Question by **Michael Alsford – Citi**:

And just a follow-up on the Nord Stream 2. Just remind me, when are we starting to see the inflow from the financing agreement under that project? Thank you.

Answer by **Alfred Stern**:

Yes. So as you rightly point out, as OMV we are a financing partner to this. We have provided a loan of EUR 729 million to Nord Stream 2 company. And actually in the last quarter, we already saw a low double-digit payment coming against this loan and we are of course hoping that this will continue on the way forward.

Retail business

Question by **Henri Patricot - UBS**

You mentioned a strong retail performance in the third quarter. I was wondering if that's something you continue to see in the fourth quarter with the much higher oil price that we're seeing at the moment. Thank you.

Answer by **Alfred Stern**:

On the retail, you're absolutely correct. Third quarter was a positive development for the refining margins finally because the first half of the year was not so good. So driving season in the third quarter, we saw actually the refining margins recovering significantly and that's also why we have now increased our new outlook to around \$3.5 per barrel. For what we can see now in October, it has started quite positively here in Europe. But also in Abu Dhabi, in the Middle East, we see a strengthening of the refining margins that are helping us to see some more profits coming out of that business.

Question by **Henri Patricot – UBS**

Alfred, you commented on the refining performance. But can you comment on the retail business performance in the fourth quarter?

Answer by **Alfred Stern**:

Yes, sure. So also the retail business and the retail margins, we have seen quite strong in the third quarter. Now going forward, the third quarter is of course always a heavy driving season here in Europe in particular. So, I think some expectation of some softening can be there, but it looks like it's still at a quite good level.

Chemicals & Materials

Chemical margins

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

About your Chemicals margin. So, your polyethylene and polypropylene indicator was quite strong in the third quarter of 2021. Can you tell us a little bit more about the current level, please? Is it coming down smoothly or is it crushing? I am not asking for the October average level. I have a pretty good view on that, but more about the current level. If you can tell us if it keeps coming down, if it kept coming down during the month of October or if it is stabilizing? Thank you very much.

Answer by **Alfred Stern**:

Yes. Thank you, Mehdi, for your questions. For the Chemical margins, I think we have to differentiate a little bit if you look at the total integrated polyolefin margin between the ethylene-propylene piece and the polyethylene-polypropylene piece. On the ethylene-propylene side, what we actually see is that the margin situation is on a very high level, pretty stable, and in the third quarter we have actually seen a slight increase in this, a little bit stronger in the propylene indicator margins. For the full year as a result, we are now also saying that here we will be in ethylene above the last year and in propylene significantly above. So, this is quite healthy. On the other side if you look at the polyethylene situation and the polypropylene situation, a little bit stronger decline we have seen in polyethylene than in polypropylene as a result of some demand reduction and some production coming back. However, still limited capacity of deep-sea container shipments coming to Europe and this somehow constraining then imports into Europe. So that we see that we are coming down on a more normalized level, but still significantly above last year performance where we are here.

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

Just to follow-up on deep-sea container shipments. When do you think that this issue will be solved? Do you think it's a matter of weeks, months or do you think it could remain, it could stay at least for quite a long time?

Answer by **Alfred Stern:**

Yes. So, I will answer it this way. In the beginning of the year, we thought this was a temporary issue, that was somehow an issue coming out of the corona pandemic, but this hasn't happened. It's still an issue. And in addition, we have actually seen that now in Asia, we see for the exports with Borouge, we also see some limitations on those containers. So, it's little bit a more systematic issue that I believe will take a bit longer than we may wish for, or that we have anticipated.

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

And sorry, I ask this question, this is very important. Regarding Borouge, so this is negatively impacting you because you need to export, no?

Answer by **Alfred Stern:**

It has slightly constrained the sales volumes in Borouge. At this point, it's limited and we of course have mitigating actions in place to minimize the effect.

Question by **Raphael Dubois – Societe Generale:**

Congratulations on your results. About Chemicals & Materials, I was wondering if you could maybe help us understand what you mean by normalization of margins. Should we have in mind maybe a return to 2020 average? What would you deem as a normal level of petchem margins for your polyolefins I'm mostly interested? And just to confirm, you said that the weight of specialty within polyolefins had gone up, I sort of remember it used to be 40% of the total. Any indication what the new level is?

Answer by **Alfred Stern:**

Thank you, Raphael, for the interesting questions. Let me start with your normalization question here. So, we normally talk about indicator margins. Those are not necessarily then the margins that we are making with our businesses then. But what we are expecting for polyethylene indicator margins is that there will be certain, or what we have observed is that from a peak in the second quarter, there was a softening in the third quarter and that we will see some further softening, but that will be slower, but above the 2020 levels. That's why we expect that we will be significantly above the 2020 polyethylene indicator margins in Europe and in 2020, they were EUR 350 per ton. For polypropylene, the prices are keeping up higher, but also let's say a softening of the prices here, so that in the end here, we are also saying that we will be significantly above the 2020 levels. And in 2020 the indicator margins for polypropylene were about EUR 413 per ton. So we see it coming down from second quarter peak levels, but both polyethylene and polypropylene significantly above 2020 levels. On your second question around the specialty mix and I think this is the interesting question there to ask, because as you correctly remember, about 40% of our volume is specialty products, but this 40% make about 60% of our sales margins. And what we typically see is that the prices on the specialties, they hold up better than for the productivity. The productivity moves more with the indicator margins. And as we sold some more specialty products, we will benefit from that effect now with a declining in the indicator margin environment. The growth was mainly in the energy segment. Year-to-date we have also seen some growth in automotive and in health care.

Borealis

Question by **Henry Tarr – Berenberg:**

On Borealis, obviously it's been a great acquisition. Would you be interested in increasing your stake further and would Mubadala be open to that or have there been any discussions on that side? Thank you.

Answer by **Alfred Stern:**

Thank you, Henry, for the questions here. Let me maybe start with Borealis and increasing the shareholding. As you know right, we just increased the 39%. We have now committed to deleveraging and for sure in our strategy review, we will consider all kind of different possibilities. And I would ask that maybe we will answer your questions then at the Capital Market Day. What I can tell you is that at this point, we don't have any active project actually to do something like this.

Borouge

Question by **Raphael Dubois – Societe Generale:**

Is it possible to have an update on Borouge 4's expansion? How close are you getting from FID time? Thank you.

Answer by **Alfred Stern:**

Of course, we are in active discussions and have made significant progress in the project so that we are making significant progress in the project and getting quite close to a FID decision that hopefully, well, the decision should get made hopefully still this year.

Fertilizer business

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

About the fertilizer unit. I mean the profitability, the EBIT from the Nitro unit has always been very, very, very weak and with the increase in the gas price, can you tell us if in Q3 you have been able to generate a positive profit, a positive EBIT from the nitrogen business or no? And also can you tell us if you have been surprised positively or not by the interest on that fertilizer business from potential acquirers? Thank you.

Answer by **Alfred Stern:**

Let me maybe start with the fertilizer and there indeed we see the high gas prices creating some challenges for fertilizer businesses. I'm sure you're aware that across Europe some of the ammonia plants have been curtailed because of the high gas prices, which is just reflecting the significant pressure. We of course also see that in our fertilizer business. However, we also see this as a temporary effect. The interest for the divestment program was there and we are currently in active discussions with potential interested parties and I'm sure you will understand that I cannot comment then on how this is progressing further. In any case, we are still planning and hoping to come to a signing before the end of the year with that divestment project.

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

Okay. And just on Q3 profitability in the third quarter of the business, do you want to comment or you don't want?

Answer by **Alfred Stern:**

So on the fertilizer business profitability, what we have seen in that business is that with the gas prices, the margins are under pressure and we have seen some reduced profitability. At the same time, there's also some other parts in that Nitro business that have performed rather well like for example the melamine business that's in there. And finally, the depreciation stop has also improved some of the results on the positive side

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