OMV Q4 2021 Conference Call – Q&A Transcript

February 3, 2022

OMV published its results for January–December and Q4 2021 on February 3, 2022. The investor and analyst conference call was broadcast as a live audio– webcast at 11:30 am CET. Below is the transcript of the question and answer session, by topic, edited for clarity.

OMV Group

Strategy

Question by **Mehdi Ennebati – Bank of America**:
There was some news flow on Reuters highlighting that the OMV Group might be split into two companies, one the Upstream business and the other one would be the Chemical business. Can you please update us on that please, on that potential split?

Answer by **Alfred Stern**:
I would like to reference to 16th of March where we will make the presentation of our strategy, how we are going to move forward and I don't want to comment on the rumors that were picked up by the press.

Question by **Michele Della Vigna – Goldman Sachs**:
And then my second question really relates to the strong growth you are pushing for the circular economy, some of your competitors are starting to move upstream into some of the waste processing and collection, especially for the biofuel side. I was wondering if there is something as well that you would think it could be strategic for the long term?

Answer by **Alfred Stern**:
Of course, we will present more details to you on March 16th how we want to go about these things, but one thing I can say here is that two of the key pillars of the strategy going forward will be circular economy and sustainability. And you may have read recently our agreement with Austrian Airlines around sustainable aviation fuels or you might have also picked up that we launched in the second half of the year EcoMotion diesel that a liquid fuel, but with lower CO2 emissions. And we see actually increasing opportunities both around the circular economy that's both on the recycling of plastics, but also on sustainable fuels be it now bio or e-fuels that we see going forward in the future. And as you point out building supply chains and supply chain partnerships is critical with this. For our ReOil® project for example, we have agreed the sourcing here with Austrian waste management companies and sourcing this mainly for Austria, but of course we also have the longer-term view how we will then make a next step into bigger scale production.

Dividend

Question by **Sasikanth Chilukuru – Morgan Stanley**:
The 24% increase in the dividend of course came ahead of consensus expectations of around 10%. I was just wondering if you could provide more color on how you have arrived at this level, the EUR 2.3 per share as the right level for the dividend from now? What are the factors that have kind of led to this higher-than-expected dividend level? Do you also believe that there is room in your financial framework for consistent double-digit percent increases year-on-year in the dividend in future years?

Answer by **Reinhard Florey**:
I think regarding the dividend, we of course took into account, a very strong cash performance that OMV was able to achieve in 2021 not only because there was a special dividend from Borouge but very much from the operational business. So, this increase is a little bit the reference to a record year in OMV so that we were striving to have also a record increment to the rise of the dividend as a tribute and make sure that will let our shareholders participate in this successful year. On the other hand, it is linked with a very strong and continued commitment towards the progressive dividend policy. So, what we mean by that is, this is not, a one-time peak

where we say ok, a good year and then if there would be a year, maybe with some lesser cash output than we would have to go back to lower levels. We are convinced that we can achieve a similar or higher level for the coming years. And therefore, we continue our commitment to the progressive dividend policy in that sense, very much.

Question by **Henri Patricot – UBS:**
Just going back to the CAPEX guidance for 2022 and the higher amount of non-cash JVs. Can you perhaps expand on what's driving this temporary increase in 2022 and why that cut drops next year?

Answer by **Reinhard Florey**:
On the CAPEX side, we have the high non-cash, so-called IFRS 16 cash out, where we must include in our CAPEX accounting all those leases. This is specifically project related where we have big warehouses, both in Belgium, as well as in Sweden, where we are investing into buildings that we do not own, but that we will lease out and these are quite sizable investments and of course, in general, there are a couple of investments like also filling stations and things like that were leasing concepts come to bear. So, this indeed is not a cash out of this total amount of EUR 600 mn that we have for 2022. It's a fraction only of that and therefore we also split that in transparency to you to say that organic directly cash relevant CAPEX expenses will be in the range that we have originally laid out at or below EUR 3 bn here.

Project execution & cost inflation

Question by **Matt Lofting – JP Morgan**:
On project execution and cost inflation. You referenced confidence around Borouge 4 earlier, but can we just expand to the broader sort of projects like what was outlined earlier in the presentation and sort of thinking about both the upstream oil and gas side and chemicals and materials, to what extent you are seeing supply chain tightness or cost inflation becoming a headwind to budgeting in any specific project cases?

Answer by **Alfred Stern**:
On the Borouge 4 project that is of course something where we have just taken FID on. But what was of course visible over the last couple of months is some constraints around workforce in those projects and some constraints around the supply chain. I think now after 18 months of this pandemic our project teams have understood how to try and manage and mitigate most of these constraints.

Answer by **Reinhard Florey**:
Maybe to add to that, I think we are in the position at least for 2022 partly also for 2023 that we are in our spend mainly in multi-year projects, which have been almost completely contracted out. So therefore, inflation does not hit us in that way. So, most of the big projects like Kallo, like Baystar or the PP5 in Abu Dhabi, but also the Jerun project, they are more or less in existing contracts, and we do not see now inflationary tendencies or supply chain contracts. On the big projects Neptun and Borouge we will of course have to see. At the moment we do not see major constraints. Specifically for Neptun we still have to wait for the agreement on the offshore law, before we can start preparation for contracting this and finding EPC contractors and all that. But this is the only area where we could see a potential impact. The others, and that's the main part, we see in quite a safe and stable situation.

EU Taxonomy

Question by **Michele Della Vigna – Goldman Sachs**:
The first one relates to the EU green taxonomy, companies are going to start to report this year the percentage of the revenues and investments, which are taxonomy compliant, and I was wondering if that's something you've already started to work on. Clearly, there are still a few issues that have been defined at the moment but if you have an idea more or less of where the percentages would be for you on revenues and investment?

Answer by **Reinhard Florey**:
I think what is important to understand is that, of course, we are now deep into this process of preparing this new reporting requirements for the year 2022. The progress is to make a taxonomy eligible reporting. And then the year after we will go into taxonomy applicable. So, this is the way that is foreseen also, as a general standard. So, therefore, it's too early to give you exact numbers, but you can be sure that there will be a quite rigid, transparent picture about that. I would still refer to what Alfred has already indicated, that also in 2022 around 40% of our investments will be for chemicals, for circular economy and for sort of green new energy and sustainability measures. So, this can give you a little bit of an indication on how we plan for the future.

UAE corporate tax

Question by **Raphael Dubois – Societe Generale**:
The UAE have recently announced they will start taxing corporations at 9%. I was wondering if you could tell us a bit more about the impact it will have on the money you get from Borouge as well as from ADNOC Refining?

Answer by **Reinhard Florey**:
The reason for the 9% corporation tax is of course the urge of the UAE also to be among the, I would say, investible countries that are compliant with general tax rules and not be more or less considered as a tax haven that would evade some of the normal ways

of business. So therefore, we were expecting that. And this is a step that is very much aligned with the way how the countries are trying to still stay attractive for investments. And on the other hand, not to be excluded in any kind of compliance topics that may be imposed. So therefore, the impact that we see on our core operations there is minimal and has been considered already in the plans as far as we could do it.

Exploration & Production

Production outlook

Question by **Joshua Stone - Barclays**:
On the Upstream, just looking at the production levels at 470 kbpd. Do you think this is a level that can be sustained at a current investment levels or should we expect declines in later out years?

Answer by **Alfred Stern**:
On the production level for E&P, we are saying for 2022 our outlook is 470,000 barrels per day and that is mainly on the back off some divestments that we have done but in addition some natural decline mainly driven by Romania, first of all, and then to some degree also from Austria. These assets are older assets where we will see a natural decline also in the future. And so, in that sense it's a trajectory that we will probably see also going forward. However, at the same time, we have a significant CAPEX spend for 2022 in E&P of EUR 1.3 bn and some of this CAPEX also goes to the development of some of our key projects moving forward, to compensate these natural declines. The three big things there are really New Zealand, in Romania Neptun, and in Malaysia the Jerun field that we are working on there.

Realized gas prices

Question by **Peter Low – Redburn**:
The first was just on the average gas price realization. You're assuming for next year, over 25 EUR/MWh - clearly a very high level. Can you just walk us through some of the assumptions that get you there and in particular, perhaps what kind of spot prices you're assuming in Europe? And then to what extent for example your Romanian realizations benefit or not from those?

Answer by **Alfred Stern**:
I just want to recap briefly what our gas business situation looks like. About 20% of our gas is exposed to Western European pricing. Half of that, so about 10% of our total volume in the first quarter this year is still hedged at 29 EUR/MWh. And then after that, we have no more hedges. Then the remaining business that we have is about 80% exposed to international pricing: Romania and then also in Malaysia, and then of course, Russia. About half of Russian volumes are exposed to BAFA pricing and the other half to Russian inland prices. In the fourth quarter 2021, we still had in place a natural gas price hedge consisting of 10% of our total volume. The average realized gas price was about 27 EUR/MWh in the fourth quarter. That's how we left the last year. The average realized natural gas price for 2021 was 16.5 EUR/MWh. We believe that the natural gas demand will remain strong in the next couple of months with a tight supply situation and with the hedges coming off, this is how you get to the 25 EUR/MWh average realized gas price for the full year.

Refining & Marketing

Downstream performance

Question by **Joshua Stone - Barclays**:
I just looked at the downstream performance in your sort of core business in the quarter, it was quite weak despite better headline margins. I presume that's power costs, maybe carbon costs. Maybe you could just talk about that and if there are any other one-offs, we should be thinking about when thinking about modeling for next year.

Answer by **Alfred Stern**:
In Refining & Marketing we saw in the fourth quarter an improving demand picture. Our capacity utilization, so the run rate of our plants, was on a higher level and we also saw a good development of the prices and margins. However, at the same time we did also see some catch-up effects around costs, mainly utilities cost that is catching up with us in those areas.

Question by **Joshua Stone - Barclays**:
Are you able to give a number on that utility cost or any sort of order of magnitude?

Answer by **Reinhard Florey**:
So in Q4, that amounts to a lower double-digit million amount.

Refining margins

Question by **Tamas Pletser – Erste Bank**:
Your indicator refining margin, does it include the cost of energy, I mean natural gas and electricity, as well as the CO_2 costs? I'm pretty much interested in, whether your higher estimate of this margin for 2022 includes these costs or not because that can be a

little bit misleading in my view, if this indicator margin doesn't include these costs.

Answer by **Reinhard Florey**:
Regarding our indicator margin, energy costs are not included. So, this is really an indicator margin that we see there. And we do not see that the energy cost as such will then change the margin, the margin is what is ultimately coming out. So, therefore, if we have a higher estimate this is certainly also due to the very high oil prices that we have today, which are also above the oil prices that we have as an average, which are still at a rich level, but as an average are still a little bit lower than the current levels. This stabilization, where the upward trend in oil prices is stopped will also have a positive impact on the refining margin and that will help stabilize the refining margin. So not a direct context to the energy prices that we are expecting.

ADNOC Refining
Question by **Tamas Pletser – Erste Bank**:
My second question would be regarding ADNOC Refining, it's already in a positive territory. I'm just interested in what do you expect here and what kind of EBIT would you be happy with or what kind of level do you think would be satisfactory in the future?

Answer by **Alfred Stern**:
We had a good improvement of that business over the last couple of months here. In the fourth quarter, we had a positive contribution from the ADNOC Refining versus quite a negative one in the fourth quarter of 2020. And that is also reflected by the improvement throughout the year. The improvement is the result to two things: one is better operational performance of the asset, but at the same time also improved refining margins in the Middle East. For the full year, we had a significantly improved, but still negative, result in ADNOC Refining. So, this will be the big task over the next couple of months to continue to work on the operational performance of the plant, and to also make sure that we continue to work on the cost side. But the reason for the impairment is that our expectations of the market development are lower now than what they were three years ago when we took on that 15% share of ADNOC Refining.

Fuel demand trends
Question by **Henri Patricot – UBS**:
Can you share some comments around what you're seeing on fuel demand trends year-to-date as we see COVID restrictions being lifted but we also have higher prices? So, interested to hear how you see demand evolving year-to-date?

Answer by **Alfred Stern**:
I think, it's probably a bit of a mixed picture that we see. I think that potentially this is even true for the COVID pandemic which as we all know is not quite over yet. What we have seen over the last couple of months, some potential issues coming around the availability of workforce and the supply chain. I just mention, the cancellation of flights before Christmas in the US, for example. But we anticipate still a healthy demand development for 2022 particularly in oil and natural gas. This is also then the cause for our belief in average Brent of 75 USD/bbl as an outlook for this year and our average realized gas price of about 25 EUR/MWh. The refining margin, we also see for Europe increasing significantly above the 2021 level to 4.5 USD/bbl, and I think that reflects our expectation of healthy demand growth. I think a big uncertainty is still how fast will the supply chains continue to normalize and will we see still see issues around those supply chains at this moment. We still see some significant challenges around this and therefore the tight supply and supply chain situations.

ReOil®
Question by **Matt Lofting – JP Morgan**:
On ReOil®, coming back to some of the earlier feedstock supply chain comments. Can you just expand on some of the key logistics and procurement steps and systems required from a raw material perspective and how challenging it may be to expand that from the first phase over the medium-term to perhaps extend the reach outside Austria to facilitate scaling up over the medium term?

Answer by **Alfred Stern**:
You're absolutely correct. In order to run such a plant, you need to have the right feedstock and that is not just the quantities but also the right qualities in order to make the plant work efficiently. I think we are one of the few companies that actually have the advantage that we had a pilot plant running since 2018. That pilot plant is actually integrated into our refinery operations in Schwechat. So, it's real-life operating conditions where we are doing this, but at a smaller scale. That plant gave us the opportunity to also work with supply chain partners, but to also understand better what the implications of different qualities or compositions of the feedstock stream are. And on the way forward, I already indicated that we have a clear view going forward beyond this immediate next step. So now we've taken the FID for the 16,000 t/year demo plant and our current view is that by 2026, we will have a 200,000 t/year plant in operation. Of course, that also continuously ramps up the feedstock challenges and what is required is two things: First the partnerships to get access to sufficient quantities of the feedstock. But second, I already alluded to quality and that requires sufficient access to sorting capacities that make sure that the right quality levels can enter that plant and allow for efficient operations. I do believe at OMV, we have quite some advantages because of this pilot plant and we are quite advanced with securing now the feedstock for the next step for the ReOil® plant and are working on further steps.

Chemicals & Materials

Borouge dividends

Question by **Sasikanth Chilukuru – Morgan Stanley**:
The special dividend of EUR 1.4 bn this quarter was indeed surprising, but can you give us some guidance on the expected dividend from Borouge in 2022, 2023? Also, if you could remind us what dividend payments are expected to the minority shareholders of Borealis during the period. They remain quite low in 2021.

Answer by **Reinhard Florey**:
Regarding the dividends of Borouge, of course we have to see that this special dividend from Borouge into Borealis is a possibility for Borealis also then to take the necessary equity injections into the Borouge 4 project, which of course over the next years, starting with this year, will consume some cash. And therefore, there was the conclusion that giving that benefit from this year and from the refinancing that was done in Borouge, directly to the shareholder enables them over the next years also some cash flexibility. So, in that sense, we do not expect that there is a major deviation from the normal Borouge dividend into Borealis, because there is not necessarily a cash need for the financing of Borouge 4 out of their own cash flows so that we diminish the dividend basis. So, this will depend very much on the economic environment which currently looks good and therefore we are quite optimistic on that.

Question by **Peter Low – Redburn**:
And then my second question was just really a clarification on the Borouge cash flow dynamics. So, you said that you will continue to receive dividends in the coming years from Borouge, but you also might have to make equity injections, so I guess they will net off to some extent, did I understand that correctly or I'm missing something?

Answer by **Alfred Stern**:
On the Borouge cash flows, you are indeed correct, the special dividend was on the back of an agreed funding policy for Borouge 4. But at this moment, since we only took the FID now, there was no immediate need for that liquidity and that's how we agreed on a special dividend. On the way forward, as Reinhard already pointed out, we are rather optimistic about the funding of the Borouge 4 activities, but it may require, depending on how that project goes forward and how the funding can be achieved, to make some equity injections.

Question by **Raphael Dubois – Societe Generale**:
And maybe still on the UAE, I'm still not certain to understand why you feel you're better off with the cash transfer to Austria rather than having this EUR 1.3 bn still sitting in the UAE, waiting for eventual calls on the financing of this very large project.

Answer by **Reinhard Florey**:
Of course, the question is legitimate to say where should that money sit. Our original consideration clearly was to say now that the money is there and a common decision on investing for a significant project is there and we don't know what kind of financing opportunities will come, let's first reward the shareholders and get the money out both to ADNOC as well as to Borealis. And then also make sure that bit by bit, where necessary, equity injections will be done and will come. I think this is certainly something that will come in 2022 and 2023. However, there are also opportunities to do direct project financing on Borouge 4. Therefore, with all these kinds of considerations the conclusion was that it's wise to do some cash out at the moment.

Borealis feedstock costs

Question by **Mehdi Ennebati – Bank of America**:
And can you also tell us, if it is mainly the gas price increase which impacted your feedstock cost or the naphtha price increase?

Answer by **Alfred Stern**:
I want to go back to just remind you of what I said in my initial presentation. This was a comment that was referencing to the OMV Chemicals business and there the increase in feedstock costs is mainly an effect of higher naphtha costs that are also traveling within a certain connection with oil prices.

Question by **Mehdi Ennebati – Bank of America**:
Can you please also tell us if Borealis Europe in general is purchasing natural gas on long term oil-linked prices or is it purchasing natural gas on spot?

Answer by **Alfred Stern**:
On the Borealis gas purchases and I assume you're talking about the feedstock gas purchases for the Chemical business. In Borealis, it's mixed because the crackers there can benefit from feedstock flexibility so that there can be certain shifts between the feedstocks that are used in those crackers. The supply contracts are mirroring this capability with longer-term contracts that have linkages to market prices and spot contracts.

Polymer margins

Question by **Mehdi Ennebati – Bank of America**:
On the guidance you provided on polymer margins for 2022, you expect them to decrease by roughly 25%. What is your indicator showing, year-to-date compared to the first quarter of 2021? Do you already see this decline happening or not yet? And in your margin forecast for full year 2022, did you take into account the easing of the logistic constraints which impacted positively the margins in 2021? And if you did take this into account, when do you think those logistic constraints will ease?

Answer by **Alfred Stern**:
On the margin developments for 2022 we can say that we actually had quite a strong start of the year on the olefins side. It's more or less at the same level that we also found on average of last year for ethylene and propylene. The polyethylene & polypropylene indicator margins had a stronger start of the year than what we indicate here for the full year (EUR 400/t & 600/t respectively). But we came into the New Year, In January, more on a level of the fourth quarter of last year. So, still a strong start. And what we see is a continued good demand picture as you point out. There are still some supply chain issues that are constraining material flows and, we do see that over the course of the year, in particular, in the second half of the year we will see those supply chain constraints improving as we move forward.

Borouge cost inflation

Question by **Raphael Dubois – Societe Generale**:
Still on the UAE on the Borouge 4 expansion project you announced recently, could you maybe tell us a bit more about the inflation that you have seen between the time you were thinking about the project and the time you sanctioned it?

Answer by **Reinhard Florey**:
Regarding your question about inflation, we cannot see that there is any difference in terms of planning regarding CAPEX or EPC contracts at the moment. I think with such a significant and important project there is still a very good negotiation position and therefore we are not too concerned that would change anything in the general profitability of this amazing project. Because of course with this magnitude, it will be much more relevant how the market conditions and the competitive position regarding the Asian market will be rather than the costs now immediately at the beginning.

Fertilizer business

Question by **Raphael Dubois – Societe Generale**:
On the Borealis Nitro, can you maybe say year-on-year, how much worse has been the reserves at EBITDA level? Just to have a rough idea how you have been impacted by some of the curtailment decisions you've taken as well as the higher gas prices?

Answer by **Alfred Stern**:
You could say that compared to 2019 and 2020, there was a significant impact of the higher gas prices in the Nitro business. And as you pointed out at some point these gas prices were at such a high level that it made the ammonia production not very attractive anymore. So, the impact was significant in that phase but as we went along in the year, some of the prices started to ripple through the supply chain. Towards the end of the year, it actually started to improve significantly and the pricing situation in the market also started to reflect the actual feedstock cost changes that had been seen over the course of the year. So, there was a bit of a movement during the year. In total for 2021, the impact was negative and was then recognized with a positive price development towards the end of the year.

Customer discounts

Question by **Mehdi Ennebati – Bank of America**:
You've highlighted that chemicals EBIT has been impacted by a higher discount to customers and also feedstock cost increase. Can you please tell us if those larger discounts to customers will remain in the coming quarters in 2022?

Answer by **Alfred Stern**:
On the discounts, that is an effect of the of the higher prices that we have here and as long as the price environment remains, this will remain to a certain degree in our results.

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