OMV Q3 2022 Conference Call – Q&A Transcript

October 28, 2022

OMV published its results for Q3 2022 on October 28, 2022. 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.

OMV Group

Special dividend

Question by **Joshua Stone – Barclays**:
Looking at your special dividend policy. Just talk about how you expect to define the new framework there. Are you thinking of a certain percentage of cash flows or earnings or free cashflow? Just any thoughts about what you're thinking there. And will there be an annual policy or something more frequent than that?

Answer by **Reinhard Florey**:
I think it's important that we have demonstrated now that the possibility of a special dividend is exactly what we are able to use. And while in the past I have been always using the phrase, I'm not excluding things, we have now made it happen. And I think this is an important signal that we want to give to the market, that the dividend yield, the overall reward for our shareholders, is competitive and that we are also striving to keep that competitive. So in terms of what we said, that we intend to review the existing dividend policy, it is meant to aim at that special dividends can be considered for future financial years as a means for shareholders to also participate in that. And we named already that an extraordinary positive business environment is one of the criteria that we would need to see. We would, of course, also have to look at the financial performance and the leverage of the company. But keep in mind that, of course, this will be first aligned also with our Supervisory Board. We will come up later with a revised policy as such. It is now important that the shareholders can see that we are willing to apply this, and that this is something, while still being special, which could be part of our policy going forward. And I think this is the signal that we wanted to give here with a strong approach and a relatively high number.

Question by **Raphael Dubois – Societe Generale**:
On the special dividend, could you please tell us what could be the implication for how progressive the regular dividend will be? Should we expect that maybe you keep your regular dividend more stable and still related to the special dividend. Should we see a link with the risk of adding windfall taxation in European countries? It is maybe a way to also please your Austrian government shareholder.

Answer by **Reinhard Florey**:
The implications on the regular dividend are marginal because we have on our regular dividend still our progressive dividend policy. So given the environment that we see, we are also expecting that we will apply this progressive dividend policy to the best of our abilities. Which means I'm optimistic that there will be a decision that will also be able to increase the dividend again. So it is not an implication to say while we are looking at a special dividend, we abandon the progressive part of our annual dividend. Special dividend is special. The annual dividend follows our progressive dividend policy. And your idea about linking that with the risk of windfall taxation, I don't see that at all. We see that regarding windfall taxation, there has not been a concrete outcome of negotiations and discussions yet with the Austrian government and their interpretation of how the EU regulation will be implemented in Austria. However, I would like to say that it's a fact that the main beneficiary of the economic success of OMV among our shareholders is the Republic of Austria represented by ÖBAG. So they received the 31.5% share to a large dividend that we distributed in '22 for '21, and they will receive their fair share of the special dividend and they will receive their fair share of the ordinary dividend in 2023. So I think this is more than an act of goodwill. It is a fact that the success of OMV will benefit all shareholders of which Austria is the biggest one.

Question by **Matt Lofting – J.P. Morgan**:
Coming back to the cash return and special dividend. Could you expand on how investors should interpret the special dividend announcement from the perspective of the medium-term cash return policy? I think you referenced earlier that the special dividends can be considered in future years, dependent in part on exceptional macro conditions. I wanted to understand better are future special dividends limited to exceptional macro conditions, or alternatively, should we be sort of seeing this as a more sustained top up

portion of the total cash return mechanism? And if so, is there a calibration tool, for example, an appropriate distribution of operating cash flow that we should be thinking about from that perspective?

Answer by **Reinhard Florey**:
I will try to reiterate what I said before regarding the cash return in the medium term. A special dividend from our point of view is something that has to do with extraordinary circumstances. And those circumstances could come from different areas. It could be an excellent business environment; it could be a special situation that the company is in. Whenever we feel that the situation regarding our leverage is one that allows us still to execute on our strategic target speed, organic as well as inorganic, and there is something that we still can contribute to the shareholder return. This is what we will do and what we have in mind. We will put that in a policy with a little bit more, I would say, color to it. But from what we have done today, I think, it is very much possible to interpret what we have in mind. We see an excellent Q3 that has confirmed our strong performance throughout the year and that enables us to be really more than competitive in our shareholder return and that we really value the shareholders engagement here. So this means about sustaining that, this may not be something that's always there. But it is a tool that should be at our fingertips whenever we have the possibility to do so.

M&A

Question by **Joshua Stone – Barclays**:
Given the current macro environment with the rising rates and just general recessionary risks here. What's your appetite to do large transactions today?

Answer by **Alfred Stern**:
As we can see from our business performance, we are benefiting today significantly from the higher energy prices, in particular for oil and gas. And we are at the same time seeing that maybe valuations in some business areas are trending to the lower side. As we have announced in our strategy, if we find opportunities where we can accelerate the transformation of the company, we will also consider portfolio measures and M&A. And we also said that these need to be able to accelerate the strategy, but they need to also be value accretive in our journey. In that sense, we are, of course, always considering different measures, but they need to satisfy our criteria for value accretiveness, the potential for synergies and our return expectations.

Question by **Kate O'Sullivan – Citi**:
A follow up on the inorganic part of your capital allocation priorities, I mean, the increase in Borealis was a sizable transaction at almost USD 5 bn. Should we think about that as a ceiling for the scale of any transaction you're screening and any inorganic acceleration being bolt-on in size or if you had any color there, that would be helpful?

Answer by **Alfred Stern**:
In our strategy announcement we did say that we will consider acquisitions to accelerate our transformation. We specified also in our capital allocation framework what we are expecting coming out from potential acquisitions: that they need to be producing synergies, that they need to be value accretive, that they need to fit strategically into our direction of sustainable fuels, chemicals and materials and that they need to positively contribute to the return of capital employed KPIs that we have. We have not made any limitations or specifications on the size that we would consider. But, as you can see, we have a strong balance sheet and with that also have the possibility to consider a broader range of things. I think it is more important to find the right target that may satisfy those requirements.

Question by **Raphael Dubois – Societe Generale**:
On the increase in chemical exposure that you are looking at, by maybe making an acquisition. This was announced at the CMD - so before the energy crisis, we are currently having in Europe. Have you changed your view about a production asset base in Europe? We have seen one of your chemical competitors talking about decreasing its exposure to Europe. Is this also something that you might consider in light of what looks like a structural issue for Europe?

Answer by **Alfred Stern**:
In our Capital Markets Day we said on our chemical's businesses that our growth path basically consists of a couple of different pillars. The first pillar is to use the strong core of the polyolefin business and to grow and improve the results here. The second one is around geographic expansion, where we said we wanted to increase our footprint in North America and Asia. And then third was around going more into sustainability, in particular circular, and creating about 2 mn tons of sustainable chemical products by 2030. And then the fourth was acquisitions. What we said at that time is if an acquisition can help us to meet some of the other targets, that would, of course, be good and appreciated. So the idea was already that we should consider also other growth options. Then there are our other organic growth options outside of Europe, such as some of our biggest growth projects like Borouge 4 in Abu Dhabi, which is currently in the execution phase, having already made FID, and is scheduled to be operational in 2025. Then there is Baystar in North America/Texas where we have basically completed construction of the polyolefin plant and the cracker and are anticipating that in Q1/23 the polyolefin plant will start up. Another big investment project that we have in Europe is the PDH plant in Antwerp. And the reason why we believe this will be a strong location is because we think the propylene market will be short. We still have indications that this continues, despite the different changes. Also, propane is a global liquid commodity, and the location

in the Antwerp harbor has access to the global market priced propane feedstock. This is a little bit how we set up our growth story. And indeed, the crisis here has created thoughts on some adjustments such as maybe for the Neptun project that we had in our strategy already as an important project in the Black Sea. But as you can imagine, that has even moved up higher in terms of priority at this point.

Change in Executive Board

Question by **Henri Patricot – UBS**:
Regarding the recent change in the Executive Board, I was hoping you can give us a bit more of a rationale for bringing Marketing & Trading back with Refining.

Answer **by Alfred Stern**:
The way we looked at this was that we did a target operating model review based on our strategy, and we basically identified three business areas, one around Chemicals & Materials, the other one around Fuels & Feedstock, and the third one around Energy. All three of these will then have their entire supply chain basically from production to the customer with full integration and responsibility for the P&L. And this is also the background here of giving Martijn van Koten the responsibility for both Refining, and Marketing & Trading.

Strategy

Question by **Raphael Dubois – Societe Generale**:
We have seen on Bloomberg and on Reuters that the Austrian finance minister was going to travel to the UAE. There is maybe some misunderstanding with the announcement of yesterday. Is there anything you can tell us about how the strategy might change in light of those trips to the UAE? It would be great if you could reiterate the involvement of the Austrian government and Mubadala in the decision to carry a specific strategy at OMV level?

Answer by **Alfred Stern**:
Actually, I'm in Abu Dhabi myself on this call because we did sign yesterday an MoU for energy or gas supply from ADNOC. We agreed on a minimum of one LNG cargo for the winter season 2023/2024, but also with potential to explore if we can make this co-operation broader. So that was really the meaning of this visit. As representative of OMV I signed this agreement with ADNOC. Also, the Austrian government, had inter-governmental talks about various issues that are also not relating to OMV. And they also signed a kind of MoU to reinforce the long-term partnership between the UAE and Austria. Now as your question was also on the strategy. So, I was part of that delegation together with also Edith Hlawati, who is the CEO of ÖBAG and is also a Board Member in the Supervisory Board of OMV. We keep this quite well separated here. It is the Executive Board of OMV that developed the strategy for OMV and that approved the strategy for submission to the Supervisory Board. And in December last year, the Supervisory Board of OMV approved the strategy, and this is what we then also announced in March during the Capital Markets Day. This is the strategy that we are executing at the moment.

Windfall tax

Question by **Matt Lofting – J.P. Morgan**:
Just coming back to your earlier comments around windfall taxation based on the sort of the preliminary EU framework and proposal. Do you have an estimate of OMV's potential payable there for 2022? And linked to that, I believe there was some over-taxation balances in the Petrom side of the 3Q numbers reported this morning. Just expand on the framework there in the extent to which there's future further outflows that are reliable in Romania through Petrom.

Answer by **Reinhard Florey**:
Regarding the windfall taxation, again, I will not speculate on that. And it's really hard to speculate on any number, if any, because we have already, both in Austria as well as in Romania already instruments from governments in place that take away part of the profit. It is sort of a royalty scheme that we have in Austria, which takes away not a linear, but really a progressive share of our returns when we produce fossil products in Austria. And in Petrom, there are multiple levers already in place, that curb the gas prices, that curb the fuel prices at the fuel stations and things like that. So there is already quite a contribution that this group makes to the state. Therefore, this is not so easy to pre-empt and therefore we have to wait until the negotiations and discussions are being finalized.

Chemicals & Materials

Chemical margins

Question by **Mehdi Ennebati – Bank of America**:
Regarding the Chemicals & Materials business. You highlighted that the results were pretty weak this quarter and you provided us with some one-off effects which are about to disappear from Q4, such as scheduled and non-scheduled maintenance. But can you maybe tell us what is the current chemical margin trend relative to Q3 for the non-specialty business? Do you see the polymer margin going up? And if that's the case, how would you explain it? Is it because the demand is picking up or is it for any other reason?

Answer by **Alfred Stern**:
On the Chemicals & Materials result, as you pointed out, in the third quarter we saw a reduction in performance in that business. And I really see three big things that are impacting this, which are changing in the fourth quarter. The first one is the turnaround in Burghausen and the incident in Schwechat, where basically in the third quarter we didn't produce and with this we lost a lot of the integration effects that we normally have in those refineries, polymer plants, crackers, in order to take the full advantage. So Burghausen is back on stream and Schwechat is fully back on stream for the fourth quarter. So that will bring a significant improvement. Secondly, we have seen here in the third quarter because of the lowering prices, a very significant gap in inventory effects versus the same quarter last year, amounting to a negative effect of around EUR 200 mn. It's a revaluation effect of the inventory rather than a cash effect. And the third part was that we observed in the third quarter after the summer period a wait and see attitude of customers. We saw imports coming in stronger and we believe with the adjusted price level here and coming out of the summer with reduced inventories, we see that situation improved going forward. Now, specifically, when you look at the polyethylene indicator margins, then they have rebound now versus the third quarter average by about EUR 70/t. And in the polypropylene sector by about EUR 50/t. So we have seen a turnaround from the August-September level to come and recover from there. And that's why we say we are leaving our guidance now the same as what we had before, around EUR 400/t for polyethylene and around EUR 500/t for polypropylene. We will see how the fourth quarter works out but at least it started stronger. We, of course, see this buffer from our specialty business in particular in the current environment. And the indicator margins, as I explained before, they are for the standard polymers. So we are buffering with our 40% specialty volume share significantly better.

Feedstock

Question by **Mehdi Ennebati – Bank of America**:
You might have benefited in your Chemicals & Materials business, from the fact that you are using essentially naphtha or let's say non-gas as a feedstock. Now that the gas price is going down quite significantly, don't you expect, your competitors in the chemical business to start increasing their production and then competing with you for the non-specialty business?

Answer by **Alfred Stern**:
We have two naphtha crackers, one in Schwechat and one in Burghausen, that are integrated with the refinery and are really benefiting there from that refinery integration, and then chemical integration on the other side. So, we have a good advantage that we can use there in particular in the strong middle distillate environment that we see now. And then our other crackers in Sweden, Finland & Belgium, they have this feedstock flexibility based on margin optimization which is driven by the product prices and the feedstock costs. We make sure that we optimize those, and we can use that advantage also going forward.

Borealis shareholders

Question by **Henri Patricot – UBS**:
I've seen a headline about the stake of Mubadala in Borealis which could change ownership. I was wondering if you could give us some details on your thinking around this and whether we should expect anything to happen in the near future.

Answer by **Alfred Stern**:
So Mubadala has agreed with ADNOC that ADNOC will buy that 25% share. The closing of the transaction has not happened yet, and because of that, Mubadala is still the shareholder. I don't want to speculate on when this will close. So not more to say on this. Other than that, we are quite excited about this because obviously ADNOC is also the key shareholder in Borouge and this is a big commitment to ensure that we continue to have a very strong partnership and alignment and view into the future, not just on Borouge, but also on Borealis with also a big investment project with Borouge 4 over there.

Nitro business

Question by **Raphael Dubois – Societe Generale**:
The Nitro business. I understand it is earning better than in the past. But can you maybe give us a bit more color on the absolute level of EBIT contribution of that business?

Answer by **Alfred Stern**:
As you know we have signed an agreement with AGROFERT for the sale of the Borealis fertilizer business. And currently they are working on the regulatory submissions and approvals to make that happen. At the moment, it looks like closing would probably be more likely in Q1 next year. And indeed, the business had strong earnings, in particular in the first half of the year. If you look back a little bit further into Q4/21, maybe you still remember the increase in gas prices put a lot of pressure on that business. And then with the beginning of the year 2022, it was possible to pass on some of these higher gas prices to the customers. In this case, the supply imbalances, the reduction of imports into Europe, has led to an increase in prices. We have seen some increasing pressure on this in the last few months, but there is still a supply demand imbalance, pushed by high gas prices, of course.

Answer by **Reinhard Florey**:
We are not disclosing specifically the Nitro results. However, of course, I can give you a little bit of a bridge to that. If you look at the clean operating result of the Chemicals & Materials segment and if you take out the Borealis JVs, respectively the Baystar and Borouge results, you have for the nine months a result of EUR 990 mn. So the major part of that, of course, comes from the polyolefin

side. And if you take the result then only in Q3/22, that's around EUR 110 mn. And then you can see that the contribution from the Nitro business is not the biggest. However, please take into account that the Nitro business is a cyclical business on a seasonal level. So the first half year in Nitro, always is more attractive than the second half of year because it's the season for agriculture where you have the most activity, and all the fertilizer business is then booming. So we had clearly a higher contribution in the first half than we had in the third quarter.

Refining & Marketing

Schwechat incident

Question by **Kate O'Sullivan – Citi**:
You mentioned the Schwechat insurance compensation will be booked in Q4/22. Could you remind us what the magnitude of that is and any expectations on timing for the cash payments in 2023?

Answer by **Reinhard Florey**:
To reiterate, we have two kinds of insurances on the Schwechat refinery. One is a business interruption insurance, the other is a insurance regarding repairs in case of technical accidents. Starting with the latter one, this starts at a cap of EUR 40 mn. So everything above EUR 40 mn will be reimbursed. We are in the ballpark of around this EUR 40 mn of additional CAPEX that we have. So we are not seeing that this will be any big amount that needs to be reimbursed by insurance regarding the repair. Fortunately, the team has worked very efficiently. Secondly, regarding the business interruption insurance. This is kicking in after 60 days. This means that two months would be at the full exposure of OMV. And after that, with a certain cap, this will be reimbursed from the insurance side. If we have assumed that the total damage that we assume net of insurance is in the ballpark of some EUR 200 mn and the month of June and July are the ones that we have to carry. We have said in June it's about EUR 100 mn of loss from that. You can imagine that we are probably looking at an insurance payment in the ballpark between EUR 100 mn and EUR 200 mn, probably not the full of the upper limit. And this will come also in instalments. It is not usual that the insurance pays everything at the first instance. So there might be a payment in Q4/22 and there might be a payment in Q1/23.

Refining indicator margin

Question by **Henry Tarr – Berenberg**:
On the refining indicator margin, how has that sort of shaped up through October?

Answer by **Alfred Stern**:
We had in the third quarter a refining indicator margin of USD 14.4/bbl. So that's a reduction versus the USD 20.5/bbl that we had in the second quarter. But what we saw through the quarter is that from July, August to September, the refining indicator margin kept strengthening. And we saw again in October another pick-up from September. So we are quite confident that we will end up around the USD 15/bbl that we have given in our outlook for the full year.

Exploration & Production

Russian gas supplies

Question by **Henry Tarr – Berenberg**:
On the loss on the Russian gas volumes received versus the hedges. Is this now a sort of permanent fixture of the results or is there anything you can do medium term to sort of try and reduce this risk further or down to zero? I don't know whether you can adjust sales contracts lower to exclude all Russian volumes or other bits there. And then so far, whether there's a comment as to how sort of October has looked on that gas volumes versus the hedges would be great.

Answer by **Reinhard Florey**:
We have been very transparent on what the negative implications of the gas curtailments of Gazprom deliveries to OMV are. Normally, you can avoid any kind of losses in that respect if you are spot on with the level that you hedge compared to the level that you receive. Now, if the curtailments are not stable and fluctuating, there's always a risk that you are not spot on. And this is exactly where these losses are coming from. Now, to be very frank with you, those losses could have been much higher, if not, our gas task force would have done a fantastic job. So we started that immediately when curtailments started, and we could limit this loss to around EUR 50 mn in June and more or less that has continued throughout the third quarter. Don't forget that in this third quarter we have seen these attacks on Nord Stream 1 and 2. So suddenly there was a situation where more or less the zero delivery through Nord Stream 1 was a permanent zero. And all that had to be digested. And then we are seeing that, of course, the gas that we received through the pipeline through Ukraine in Austria, is also not on a stable level. Now, this has not changed, but of course, we are getting more and more, I would say, smart and experienced how to deal with that. I assume that the volatility we have seen in October will not massively deviate from what we have seen throughout the third quarter. So third quarter was EUR 162 mn loss in total. But this is only our Gas Marketing Western Europe business. Don't forget that with our tremendous, good results in Gas & Power Eastern Europe, we have an overall positive result of EUR 100 mn in our gas business in the group.

Question by **Bertrand Hodee – Kepler Cheuvreux**:
Gas Marketing Western Europe suffered a loss in Q3/22 of EUR 162 mn whereas Gas & Power Eastern Europe was again very strong. So net-net a positive. But can you provide us, if you can given high gas price volatility, with an outlook on both divisions, either for Q4/22 or for 2023 and the main moving parts affecting those two businesses and how lower Russia supply deliveries may affect the Western gas business?

Answer by **Reinhard Florey**:
If we look at Gas Marketing Western Europe, we have on the one hand side a certain, however small, margin on the trading and supply business in gas. So this is not in the context of gas being produced, but this is really gas that is traded and sold to our customers. There's a small margin of that. So the moving part is the volume in here. If we have good contracts and more volumes, then we earn some more money. But the magnitude of volatility there is relatively small. The bigger volatility is in the western part on the negative side when it comes to the curtailments, and if we have steady curtailments and steady hedging opportunities, there are no further losses. But this is currently not the case. So therefore, we have, at least for the fourth quarter, to expect that there is an uphill battle for us to keep the losses at a minimum. Nevertheless, to your question, what happens if there is no gas flowing from Russia, then we are back to what Alfred explained about the alternative supply sources that we have secured for the group to satisfy the demands of our customers. So this business then will go on, and we expect, of course, that also to be positive, if not big, but still a positive business. On Gas & Power Eastern Europe, this consists of two parts. There is on the one hand side, the gas business, very much domestically produced gas that we also supply and trade in Romania and on the other side there is the power plant. And for the power plant, it depends both on the electricity margins as well as the utilization because it's not fully in our discretion as to what utilization this power plant can run, this is very much due to the regulator in Romania. And the electricity prices are partly in the hands of the regulator. So far, this has been an exceptionally good year. We're expecting in Q4/22, a smaller result there because regulation has been tightened. And for 2023, it's too early to give you an indication on that.