OMV Q4 2022 Conference Call – Q&A Transcript

February 2, 2023

OMV Aktiengesellschaft

OMV published its results for January-December and Q4 2022 on February 2, 2023. 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

Dividend

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

Regarding the dividend policy, I was just wondering if you could comment more on that. You highlighted dividends, so regular and special, will form 20-30% of the operating cash flow when the leverage ratio is below 30%. Now for 2022 dividends form 21% of the CFFO, and the leverage is also very low. So, I was just wondering how we should be thinking about the dividends, potentially moving to the upper end of that range to the 30% of CFFO? And also, if you could explain the rationale behind the split of dividends between regular and special in 2022. What would constitute excess cash flow for OMV that feeds into the special dividends? And for regular dividends itself, is a greater than 20% annual growth rate that we have seen for the last couple of years sustainable for next year if 2023 should be in line with the outlook that you have presented today.

Answer by **Reinhard Florey**:

We are proud that we were able to announce a strong hike of our base dividend today in line with our progressive dividend policy. In combination with the special dividend announced already last year in the amount of EUR 2.25 per share this amounts to a total dividend of EUR 5.05 per share which is unprecedented in OMV's history. You are right that within the range of our percentage of operating cash flow this still is on the lower end, around 22%, while we are having a range between 20% and 30%. First, we must look into the overall situation of the company. We have certainly seen in Q4 a slight decline of our profitability. Secondly, we are expecting from the year 2022 quite significant cash payments in Norway, and we are also exposed to the solidarity taxation that I already commented on. Now, when you are looking into what is the rationale that this could rise. Of course, if the ratio of cash flow from the outflow perspective to the next year is a very positive one, we will not be shy to also go to the maximum of this range. And we also have to look a little bit into the split of the regular and the special dividend. I think by giving the highest ever increment that we had in the history of OMV dividends, we made it clear that the progressiveness also has something to do with the absolute result and with the absolute performance of the company in the year. So, to say this percentage increase of 22% will persist for the future I think is too much to promise because of course we have to look into the gradual development of our results as well. On the other hand, the special dividend always gives us the opportunity to then give additional return to our shareholders, which they will appreciate.

Capital allocation

Question by **Matt Lofting – J.P. Morgan:**

Could you talk about how you intend to manage the 30% leverage threshold and renewed policy, I fully understand the logic, but given where inorganic M&A sits within the capital allocation priorities you outlined, it is not fully clear how sustainable the full 20% to 30% distribution range may be and how you deal with a scenario of a temporary M&A induced period above 30.

Answer by **Reinhard Florey**:

There is a clear commitment that as long as the leverage ratio of OMV is below 30%, it will be a possibility for us to go into that 20% to 30% range of the operating cash flow and that would then include a normal progressive dividend as well as a special dividend. Now, if there would be a situation that through an acquisition, we would surpass the 30% threshold our first aim would be to bring the leverage ratio down below 30%, and we have proven in the past that this can be done quite fast. For instance, in the case of the Borealis majority acquisition we took only three quarters to bring it back under the level of 30%. So, I don't think that there is really a threat that we would for a multitude of years fall out of that range. And therefore, I think this is a very strong promise that we are giving and a commitment that also special dividends can be paid out.

Green CAPEX

Question by **Michele Della Vigna – Goldman Sachs**:
You are clearly accelerating your green CAPEX. I was wondering if you could quantify under the EU green taxonomy, what is your eligible number for revenues and for CAPEX?

Answer by **Reinhard Florey**:
Regarding the green CAPEX and eligibility, we will come up with these numbers in the course of our sustainability report, which will come out in March. So therefore, I cannot give you the number today. This is something that of course is very relevant for us as we are heavily investing also in those sustainability businesses across all three of our segments. It must also be proven that these investments are EU taxonomy conform.

Strategy

Question by Matt Lofting – J.P. Morgan:
We are approaching 12-months on from last year's CMD, and there's been a lot of moving parts, some of which wouldn't have necessarily been anticipated at the time. So can you just summarize how you see OMV's medium term equity proposition here and the key milestones the market should look to through 2023. Headline free cash flow has clearly been very strong but question marks remain over the chemicals outlook in some ways, and mixed M&A related headlines arguably create some degree of uncertainty on the mid-decade portfolio makeup in free cash flow drivers versus the prior CMD frame. Appreciate if you could update latest thoughts there.

Answer by **Alfred Stern**:
You are correct. I think a lot of things have happened in 2022 that were not anticipated, but I think realistically coming up with a 2030 strategy, one must anticipate that there will be agility and adjustments needed on the way to get to 2030. That they would be this big as we encountered last year maybe that is also quite extreme. But I think we have done extremely well because we were able to manage three different things that were quite remarkable. The first one was, we reacted quickly to the Ukraine crisis, we made decisions quickly about our deconsolidation impairments, removing Russia as a core region. And then also, setting up a gas task force to manage both the liquidity, but also the capability to meet our supply obligations to our customers. We did have to take some impairments, but I think we have done overall very well in managing this. The second piece is that we were able to take advantage of exceptional market conditions in 2022, with exceptional prices and margins in almost all our three segments, with the Chemicals & Materials segment softening in the second half of the year. That has led to an overall record result in all profitability cash drivers, and we are extremely satisfied that we can announce this record progressive dividend, but also the special dividend on top of that. Now, the third piece is that we also kept firmly our eye on our strategic direction. Where we said over time, we will develop into a sustainable fuels, chemicals, and materials company. We will de-carbonize the company by 2050 with milestones in between.

And on the Energy segment, we maintain our position that we will make sure that at any time, we have a strong E&P portfolio, but we will also look at portfolio optimization measures if they make financial sense and help us to accelerate our strategy. At the same time in the Energy segment, we have started to work on developing a low carbon business. I will just point out two things we have done there. In Romania, at OMV Petrom last year, we have announced a JV with Oltenia on a 450 MW photovoltaic plant, that is very attractive because it receives significant subsidies, and then we have also completed the first geothermal test here close to Vienna in our low carbon business.

On the Fuels & Feedstock segment, we are also committed to our journey in the direction of sustainable fuels and feedstocks, and it was very nice that already last year we could supply first commercial quantities of sustainable aviation fuel (SAF) to Austrian Airlines and we have received significant interest from other airlines. As a consequence of this, we were able to sign a number of MoUs for the supply of SAF with other big airlines such as Lufthansa Group, Ryanair, and Wizz Air, demonstrating that this market will be short and that there will be a high demand, because it is something that the airlines need in order to decarbonize their operations. So, we will continue to be committed to that transformation.

On the chemical side, we are seeing a soft part of the cycle here but as I also pointed out in some of our most valuable business segments like in automotive, energy, and healthcare - our specialty segments - we see them rather stable and see continued very strong growth opportunities in those different segments and we will make sure that we capture many of those. And on the transformation driver there, the recycling activity also receives a lot of interest. We will be one of the companies that is first able to supply actual real commercial quantities both of mechanical recycled materials, but also of chemically recycled materials. With our additional share purchase to get the majority of Renasci we are able to already supply chemical quantities now. Our ReOil® pilot plant will do that, and the larger demo plant is coming on stream this year. So, I think we are on a good way with this and of course have also seen significant cash delivery out of all three segments through the year.

Taxes

Question by **Michele Della Vigna – Goldman Sachs**:
I wondered how your negotiations are going with the Romanian government over potential windfall taxes and if there's been any development there?

Answer by **Reinhard Florey**:
Regarding the windfall taxes, there are, if you take the legislation from the EU, in principle three countries under which OMV would be looking into this: Romania, Germany, and Austria. Both in Romania, as well as in Germany, we see that under current legislation, OMV Petrom in Romania, as well as OMV Germany, in Germany, are not impacted by the legislation. It is not applicable there, because the threshold regarding the total of the business simply is not met. When it comes to Austria, we have originally estimated a value of up to EUR 150 mn, and we have specified that now in our results as EUR 90 mn taking into account that Austrian legislation only goes for six months of the year 2022.

Question by **Henry Tarr – Berenberg**:
On the tax rate, as you look into 2023. How do you see that evolving, given the sort of special contributions in the E&P business?

Answer by **Reinhard Florey**:
You have seen that the tax rate has of course in 2022 increased significantly. This has of course to do also with the positive situation that we had much higher earnings on the E&P side due to the higher prices and as we traditionally have higher tax rates on the Energy segment side compared to the chemicals respectively refining side, the average tax rate was on the rise. We are also expecting in 2023 quite a similar tax rate. First of all, as we also have good anticipation regarding at least oil prices but also relatively strong gas prices, but specifically because we are paying the tax for the year 2022 with two quarters delay into also the next year. So Q1 and Q2 will be strong cash out, also from the tax payments in Norway. Regarding the special contributions, we do not expect that the situation regarding 2022 and 2023 would significantly change. However, as I explained Austrian legislation did only take into account six months for the solidarity tax whereas for 2023, it will be a full year and of course, we have to see for 2023 whether anything changes regarding legislation in countries like Romania. But this remains to be seen. We are currently not expecting any major impact there.

Working capital

Question by **Bertrand Hodee – Kepler Cheuvreux**:
On working capital. You had in 2022 a large working capital outflow of around EUR 2 bn. Do you expect some of these to unwind in 2023 should commodity prices stay where they are today?

Answer by **Reinhard Florey**:
Yes, you are right. We had a total delta net working capital of EUR 2.1 bn in 2022 and of course ceteris paribus when we are looking into the year-end figures pertaining in 2023, we would expect some of that net working capital to come back. We have certainly not seen in Q3/22 and Q4/22, where we each had a small positive net working capital contribution, the full impact that we had specifically from the gas side coming back. But please take into account that of course the next winter is coming and in Q4/23 we will again have higher levels in our storages and that is the main driver for building up the net working capital. However, if gas prices are lower then also the working capital in total will be lower.

Chemicals & Materials

Margin outlook

Question by **Raphael Dubois – Societe Generale**:
On the outlook you give for polyolefin margins, they are not very dissimilar from the margins that you have obtained or at least the trading indicators that you show in Q4 2022. So, can you just maybe explain how you see those margins trending over the year? Based on what I see, you are not yet able to have full confidence in these polyolefin margins. It will be interesting what you see, especially for the specialty part of your business. Is there any pressure either on the volumes or on prices from the negotiations you have with your clients?

Answer by **Alfred Stern**:
On the polyolefin margins for both polyethylene and polypropylene, we have seen that in Q4/22, we had a slight strengthening of the margins. When we now look at the January outlook, we find more or less a similar situation to December. I want to give a bit of a bigger picture there. So, while in Q4, the margins became a little bit stronger we saw a soft demand. There are a couple of drivers for this. One part of it is inventory de-stocking that is going on due to the situation the months prior, in particular due to Corona, when people stocked up on materials and parts. So, we see some de-stocking going on. We also saw in Q4 relatively weak Chinese inland demand because of strong Corona infections. And as we go forward, we believe that both of these things will slowly improve further. Q1/23 will continue to be a tough quarter. Like I said, we started January, a little bit at December levels. But we believe that

in the second half of the year we will see some improvements due to these drivers. You are correct, we are saying about EUR 350/t for polyethylene and about EUR 400/t for polypropylene which is similar to the Q4 levels that we had.

The specialty question that you had is a bit of a differentiated picture, because in automotive, we saw continued good demand, even a little bit of an increase in volumes. It looks like there is pent-up demand in the automotive industry and we are hoping that this will continue through the year 2023. We have also seen good demand in our Energy segment. This is our most profitable segment, where we make wire and cable insulation, and capacitor film materials. We have seen increasing activities here. We have specifically the German corridor project, that is the North-South link basically for renewable electricity in Germany that will drive significant demand. And if you remember, we reported last year that we were able to secure the largest share of supply for these insulation materials for this project. So, in specialty, we see the margins are holding up well. And in segments like Automotive, Energy, but also Healthcare, we have seen good demand compared to the previous quarter, but also compared to the previous year.

M&A

Question by **Joshua Stone – Barclays**:
Can you update us on your appetite for acquisitions in the chemical space? Have you narrowed down the types of businesses you are looking at? And can you also talk about your preference for going for listed chemical companies versus buying assets?

Answer by **Alfred Stern**:
Our strategy in Chemicals & Materials is unchanged. We said we want to use our strong leadership position in polyolefins today and in this polyolefin business, we want to drive geographic expansion, we want to drive sustainability and a transformation with circular economy and recycling. Our organic growth projects there with the PDH plant, the Baystar JV, and Borouge 4 will provide already for about a 30% growth in monomers and a little bit more in polymers by 2025. We are open to acquisitions to accelerate the growth. And that is not only constrained to polyolefins but also potentially to a diversification of the portfolio. But we also said it needs to be value accretive to our activities. So, we still have the same intention as before and we are always actively looking at the market for opportunities.

Business performance

Question by **Joshua Stone – Barclays**:
Focusing on the Chemicals division and the weak performance in the fourth quarter. You highlighted some related inventory effects and weaker margins, but you also highlight higher utility costs. Are you able to say how much of the underperformance relates to these higher utility costs, presumably some of that's going to come out as we go into 2023 with the fall in power prices? And maybe any other notable negatives that you would like to highlight that you think will come out and unwind for next year?

Answer by **Alfred Stern**:
Let me start with the Chemicals & Materials performance, where we have seen compared to the last year, a huge swing in inventory effects. In 2021 we had a positive contribution and then in the fourth quarter of 2022 we turned negative which provided for a quite a significant piece. What we have also seen is that in Q4 we had a poor performance by the Nitro business also to a significant degree driven by inventory effects coming into that business. And last but not least, really a significant driver were also the startup and winter freeze issues related to the Baystar JV cracker, where we started the full depreciation after the startup, but then did not have enough production. We are working hard to bring this unit back onstream and are expecting by the end of February, this should be working.

Insurance proceeds

Question by **Peter Low – Redburn**:
Can you quantify the insurance proceeds included in the base chemicals result?

Answer by **Alfred Stern**:
That's the insurance part from the refinery incident, and this was distributed between the different business areas. The chemical part was about EUR 50 mn.

Inventory effects

Question by **Peter Low – Redburn**:
On the negative inventory effects in Borealis, excluding JVs. I'm just trying to understand how much of that in theory would unwind in a stable commodity price environment. Would that add back be the EUR 100 mn number rather than the EUR 200 mn number, you also talked about? I am just trying to think how much we should assume kind of comes back, I think it will be a EUR 100 mn number. I think that was the loss in Q4 relating to inventory effects. I just wanted to clarify that.

Answer by **Alfred Stern**:
So overall, the inventory effect of the total year in the chemicals area was actually positive. I think it was a high two-digit million amount. The EUR 200 mn that we reported was actually the difference between the Q4/21 result and the Q4/22 result. In Q4/21 we

had positive EUR 100 mn, and in Q4/22 negative EUR 100 mn. And you get that from this reduction in prices now from these extremely high price levels that we saw during the Corona lockdown period.

Refining & Marketing

ADNOC Refining

Question by **Raphael Dubois – Societe Generale**:
On ADNOC Refining and Trading. Would it be possible to give us some feel for what came from refining in Q4 and what came from trading? How much of a tailwind has this trading business given you?

Answer by **Reinhard Florey**:
When it comes to ADNOC Refining, I can confirm that we had both positive contributions from trading as well as from refining. Unfortunately, we do not show the split of the results, also in agreement with our partners, as these are very strongly integrated operations both on the production and on the trading side. So, unfortunately, I cannot give you the split.

Exploration & Production

Disposals

Question by **Karen Kostanian – Bank of America**:
In terms of the news about the disposal of your E&P division, are you looking at the entire division or are you looking at the specific assets? If so, could you list those assets? And where would you use the proceeds upon selling these assets from the E&P division, especially at such higher oil prices?

Answer by **Alfred Stern**:
In our strategy that we announced last year, we said that for the entire company, but for E&P in particular, portfolio review will be part of our strategy execution. And the intent of that portfolio review was really to make sure that we always have a strong core portfolio of E&P assets. We do not intend to sell the entire E&P division. But we are, as we have done in the past, continuing to always look at the portfolio of our assets and looking at what portfolio measures could be useful to further drive the transformation but also to ensure that we have a strong oil and gas portfolio. More than that, I do not have to report at this moment.

Gas Western Europe

Question by **Sasikanth Chilukuru – Morgan Stanley**:
I was wondering if it was possible to isolate the financial impact of the results in Gas Marketing Western Europe to overall E&P earnings. Just wanted to check, how you would expect these earnings to evolve into 2023 as well.

Answer by **Reinhard Florey**:
For 2023, it's hard to give a prognosis. It depends very much on the situation of the stable or predictable gas deliveries from Russian contracts. So far, we were in the not so pleasant situation to have losses from hedges when there was a volatility of these deliveries, and we were not in the position to on-the-spot hedge in a month-ahead contract. So therefore, there have been this on average slightly more than EUR 50 mn per month of losses. We hope that this will go down in 2023, but it is today, not entirely predictable. On the other hand, we can see that the operations, on the gas side have been significantly successful also through our LNG business. So, therefore, part of potential losses can certainly be offset by positive results that we have in the ordinary Gas West business. Gas East is very profitable anyway. So overall, even in 2022, we had a positive result in our gas business.

Question by **Henry Tarr – Berenberg**:
On the gas marketing business in Western Europe what was it that really drove the losses in Q4, was it lower volumes coming from Russia, was it the hedges, was it the price volatility or was it something else?

Answer by **Reinhard Florey**:
You are right. It is the volatility of the supplies from Russia. As this is a month ahead contract, we do have some difficulties to find the sweet spot of a hedge. Of course, we cannot go without the hedge, else we would be fully exposed to the market dynamic, which is currently very high. And if there is over or under delivery, we run the risk that of course the satisfaction of the volumes that we have promised to our customers, according to what we think we get, can be then creating losses. Because either the prices go up and we get less, and we have to buy it on the market or the prices go down and we have more, and then have to sell at higher prices of the month ahead. So, it is the combination of volatility of supply and the hedges, we must do, that are currently causing these kinds of issues. As I indicated before this could carry on in 2023, but we hope that the intensity also will decrease over time.

Question by **Raphael Dubois – Societe Generale**:
On Gas Western Europe, I understand that the result in Q4 was less negative than in Q3, because you included for the first time the

contribution from your LNG business Gate. Will it be possible to have a bit more granularity on what was this contribution since you will be booking it this way going forward?

Answer by **Reinhard Florey**:
If you take the LNG business, taking that into account was a consequence of the fact that we saw now with long-term contracts, with booking cargoes, with a long perspective also a positive development of the LNG business after years of losses. Now we are very glad that we are in this position. We took the impact for the year also into account and this is what you have seen in Q4. So not the full impact of what you have seen in Q4 will repeat, but we will continue to have positive results from LNG and I think this is the good news about the development of the overall gas business.

Production outlook

Question by **Henri Patricot – UBS**:
On the production outlook, you forecast quite a drop year-on-year to 360 kboe/d. Expecting a steady decline over the course of the year, you can exit 2023 around 330-340 kboe/d and perhaps stay around this level until the startup of Neptun Deep, any additional color would be helpful.

Answer by **Reinhard Florey**:
I think it is clearly attributable to two factors that we have in 2023. On the one hand side, we have the natural decline. Natural decline certainly is quite stable but significant in Romania but also in Norway. We also see some smaller decline in Malaysia as well as in Austria. When the big projects come on stream, which is the Jerun project as well as the Neptun project, then there will be major additions to that level. On the other hand, see the shutdowns and turnarounds that we have in 2023. We have in Q2 some turnarounds in Norway at Aasta Hansteen and Gulfaks. We have in Q1 some smaller standstills planned for New Zealand and in Q3 some standstill in Romania. So that is all included in this figure. These may be seen as onetime effects, but of course this is reoccurring over time as we must maintain and keep in full operation all these assets. I would be positive that the exit rate is at around 340 kboe/d or higher.

Question by **Bertrand Hodee – Kepler Cheuvreux**:
On your production guidance for 2023. Can you give us a bit more granularity on the expected decline you expect both for Romania and Norway this year?

Answer by **Reinhard Florey**:
If we are looking at the biggest declines that we have, those are the more mature fields in Romania and Norway. And specifically, when it concerns gas fields, we of course have a higher depletion rate and therefore also a higher rate of the expected decline. So, this means there we have some magnitude of above 10 kboe/d in Norway that we expect to decline. There have been some write downs in Romanian assets due to the slightly lower expectations of reserves and the higher decline rate, a decline rate that is between 6% and 8% in some of these specific fields. That has in total for the year also about the same magnitude that we have in Norway. Of course, this is not the only part of the picture because we are also having projects and developments that come online in parallel. So therefore, take that as the only negative contributing part partly balanced by a positive contribution of the developments.

Neptun

Question by **Raphael Dubois – Societe Generale**:
You mentioned some inflationary pressure. Have you already adjusted the CAPEX budget for Neptun or is your EUR 3.7 bn CAPEX budget still implying less than EUR 2 bn net to OMV just for Neptun?

Answer by **Alfred Stern**:
Petrom took over the operatorship for Neptun in August. Since then they have put a big team on it that is now working on all the plans, on how to develop that field, working with engineering companies, making the purchasing requests and getting competitive bids. By mid-2023, we should then have all the information together so that we can make the final investment decision and by that time, we will then also have the final CAPEX cost available for this field. Also, you are correct in our strategy presentation we said that the 50% share of Petrom will be up to about EUR 2 bn of CAPEX.

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