

OMV Q2 2023 Conference Call – Q&A Transcript

July 28, 2023

OMV Aktiengesellschaft

OMV published its results for Q2 2023 on July 28, 2023. 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	1 Chemicals & Materials	2 Fuels & Feedstock	3 Energy	4		
Taxes	1	Potential combination of Borealis & Borouge.....	Natural gas use	3	Asia-Pacific divestment	4
Dividend payments to minorities	2	Market environment.....			Gas Marketing & Power	4
		Baystar JV.....			Austrian gas discovery	5

OMV Group

Taxes

Question by **Irene Himona – Societe Generale:**

On the cash taxes paid in the quarter in Norway and also on the solidarity taxes in Romania and Austria. You said in your prepared remarks that these relate to 2022. Can you please remind us how much remains to be paid in the rest of the year in these countries? Also is there any guidance you can provide for the 2024 normalized cash tax rate?

Answer by **Reinhard Florey:**

The tax regime in Norway that is relevant for these, I would say unusually high taxes, is that there is a delay of taxes if the prognosis of the overall oil and gas prices come to a different development.

So normally at the beginning of the year in the tax regime, there is an assumption of oil and gas prices and therefore the tax payment levels are being determined. Now, we have seen in 2022 significantly rising oil and gas prices, so therefore the predetermined tax payments have been much lower than the actual tax liabilities that arise from the operative business. You could also observe this in our balance sheet, where the tax liabilities rose by the end of 2022 to a level of EUR 2.4 bn.

Now this has come down by the payments in Q1 and specifically in Q2 of the additional delta of these taxes, to an almost normal level of EUR 0.8 bn in the tax liabilities. So therefore, we can assume that for the rest of the year, tax payments will be significantly lower and on a normal level because as of Q3, we are more or less paying taxes that refer to the year 2023 with the respective lower oil and gas prices.

Regarding the solidarity tax that we have paid in Q2, some EUR 300 mn for the year 2022 in Romania as well as some EUR 80 mn for the year 2022 in Austria, this is a one-time effect that will only take then a much lower level for the year 2023. But that will be paid only in 2024. So, you will not see any solidarity tax payments on top of what has been done in Q2 in the year 2023.

Then you had asked for a guidance of the 2024 normalized tax rate. I think this is a little bit too far away for us to anticipate. What we have heard also in Alfred's speech is that we see for the rest of the year, the clean tax rate at a mid- 40% range. And this is as far as we can guide for the moment.

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

On your first answer to Irene's question related to taxes. You mentioned that no further solidarity taxes cash payment is due in 2023, but the remainder, that will be paid in 2024. Can you share with us what is the amount that remains to be paid in 2024?

Answer by **Reinhard Florey:**

The 2024 payments for taxes would refer to 2023 applicable volumes. And therefore, we do not have a value yet, because we don't know how the full year looks like. And we have to pay it for a full year and not in tranches.

So, what I can say is that we have booked a pro rata in Romania for the first half year of EUR 100 mn, not knowing exactly what will happen in the second half. Of course, as this in Romania is relating to oil consumed in the refinery with the turnaround that we had in Petrobrazi, this was a little bit lower, but as we don't know how this will continue with the price levels, with the production levels in the second half, it would be premature to give you a number there. In Austria, it was only a very small number. And we have to look into how the situation, which is under a different regime than in Romania, with these lower prices expected for the second half is then developing.

Dividend payments to minorities

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

Is it possible to provide any color on the expected dividend payments to minorities in the second half of this year, especially any dividend payments to Borealis minority shareholders given no payments so far this year, and the dividend payments to the Petrom minority shareholders, including the special dividend that's been announced yesterday?

Answer by **Reinhard Florey:**

There are dividends from Borealis, that we are expecting to come out in the third quarter. This is some EUR 300 mn to EUR 400 mn, out of which, a quarter would go to the co-owner, ADNOC, and therefore leave our balance sheet, respectively our cash here.

Regarding Petrom's special dividend, Petrom has announced today that there would be a special dividend that will be payable. I think it's in the September timeframe that this payment will go out. So, these are the major parts because all the other areas of minorities have already happened.

Chemicals & Materials

Potential combination of Borealis & Borouge

Question by **Henri Patricot – UBS:**

I wanted to come back to the discussions for potential combination between Borouge, Borealis. I was hoping you could give us a sense of why you see that potential combination with Borouge as the best way forward for OMV to deepen the exposure in chemicals.

Answer by **Alfred Stern:**

I'm sure you understand that it is somewhat limited what I can say here because we are still in the middle of negotiations, but I would like to make a few points.

So let me start with the industrial logic. And the industrial logic of this potential combination of Borouge and Borealis is that the two businesses would provide us with an interest in a market leading global polyolefin powerhouse. And this is the underlying logic that makes it interesting where, through partnering with a long-term partner, ADNOC, this would allow us to share risks in a very large market and with this, also go after larger scale businesses and build a world-class global leading business.

And if you look at it, you can obviously see in Borealis and in Borouge, we can look back at a 25-year partnership where we have done something like this successfully. And this is why we think this is worth exploring and see if there is potential in there. Our aim would be being an equal partner under a jointly-controlled listed platform. This would provide also potential for further growth acquisitions. Doing that together with an established, successful partner in ADNOC opens up opportunities, in my opinion that by us alone, we couldn't pursue in such a way.

But also, I want to say here, we said we were going to pursue negotiations. The outcome of these negotiations is open, and we will keep you updated about any progress that we can make in it.

Question by **Henry Tarr – Berenberg:**

Just to come back on the potential Borealis-Borouge consolidation or merger, you talk about sort of jointly controlled or aiming for being jointly controlled. Would that mean you'd still consolidate that business? Presumably not, but just to check.

Answer by **Reinhard Florey:**

Of course, all the details are currently under negotiation, and we cannot go to final conclusions here. However, just to explain, as also Alfred did, the idea is to run this as a combined growth platform, as equal partners. And that on first glance, of course, implies two things.

The first is that ultimately, OMV will own less of Borealis, but more of Borouge, and the second is if you have then a listed platform with two equal partners, that would not imply any kind of majority, that would allow for any party a full consolidation.

Market environment

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

On chemicals I think you referenced earlier end market demand is still under pressure, and a slower than expected recovery in China. Can you just share a sense of perhaps how the current baseline compares to where you thought it might be at the beginning of the year and what lead indicators OMV is looking to for early signs of recovery kicking in?

Answer by **Alfred Stern**:

I will start here with the indicator margins for polyethylene and polypropylene in Europe. So, the total polyolefin indicator margins we took down by EUR 50 per ton. And that is driven mainly by a slower demand pickup than we anticipated and good availability in the markets, also some imports into Europe.

But what I need to say here is, of course, these are indicator margins which apply more to the commodity type of business. If you look at the end of our presentation, we put in the attachment, an update of our business portfolio where 40% of the volumes are specialty sales. And these indicator margins don't apply to this specialty sales. This 40% specialty volume creates about 60% of our sales margins and as you can see in that chart there, the margins in the specialty sector have held up very well.

We have seen some softening in some segments on volume, but the total absolute margin is still on the strong side, that's what you can see there. In particular, automotive, we have seen that this is actually growing above last year. So, it looks like some catch-up demand in automotive. We also see in the energy sector, so wire and cable installation and so on, that is related to the energy transition, so wind, and photovoltaic, that this continues to have a strong market performance. And in that energy segment, we are the global market leader. So, the overall market looks differentiated.

Then I would want to talk a little bit also about the Asian markets and the developments there because that is relevant for our Borouge joint venture. What we have seen there in Q1 and coming out of Q1, it looked like the business was going to pick up a little bit. But in the end, China in particular, disappointed with weaker-than-expected demand so that we saw more of a sideways down movement in the second quarter in the Asian market.

Where we see a weaker demand, that's mainly in the construction market. Some of these materials go into the production of all types of pipes - water pipes, gas pipes, sewage pipes - and that goes into the construction market. And there, of course, we see that with increasing interest rates, some slowdown in those construction markets. Also, a significant amount of the more commodity type or the productivity part goes into packaging applications and there we also see that customers are more managing inventories very closely, and some weaker indicators to extrapolate what we can see on the way forward.

Baystar JV

Question by **Irene Himona – Societe Generale**:

You referred in your speech to operational challenges at Baystar, at the cracker there, and a negative contribution. Can you say what has gone wrong with the equipment, and is there a timeline for repairing it?

Answer by **Alfred Stern**:

On the Baystar JV we are talking there about two different pieces of equipment. One is a steam cracker for 1 mn t of ethylene production out of ethane and the second one is a Borstar polyethylene production unit with 625 kt of capacity. This integrates with an already existing 400 kt polyethylene production line to make a fully integrated 1 mn t production complex.

The cracker and the Borstar polyethylene plants have been built over the last couple of years. The cracker has been mechanically completed for longer now and we had some startup issues, which are partially normal for bringing a big machine like this on production. However, here it has been taking a little bit longer due to some external issues like the winter freeze that we had earlier in the year and so on.

But the fact is that now, we are continuously improving the production, but we are not yet at the full production rate. So, the utilization rate is still lower than what we had anticipated, but it's continuously ramping up. For the Borstar polyethylene plant, the status is such that it's mechanically complete now and we are now taking this into production. So, also there we will see over the next couple of weeks and months, some production that is not yet at the desired level, but we will be continuously ramping up that complex to produce a marketable product.

Fuels & Feedstock

Natural gas use

Question by **Alastair Syme – Citi**:

Can you say in your own plants, are you fully back to gas or are we're still only part of the way there?

Answer by **Alfred Stern**:

Yes, in our own plants, we are going back to gas, I mean it's economics. The second piece is also of course with gas having a more attractive CO2 footprint than some of the other alternatives.

Last year we switched away from gas in our refineries, firstly due to security of supply, and secondly because of cost management. Our German plant, Burghausen, we were able to run completely without natural gas. And in our Austrian Schwechat plant here, we

reduced gas use down to 30%. Some of this has now gone back because of the more attractive prices like you said. Some of this will swing back but probably not all of it.

Energy

Asia-Pacific divestment

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

On the potential sale of the E&P assets in Malaysia and New Zealand. You highlighted active interest from potential buyers for both assets. I was just wondering if it was possible to provide a time frame for this process, maybe potentially for binding offers or completion of sale. Also, any indication of the size of the divestment in terms of value would be helpful.

Answer by **Reinhard Florey:**

Indeed, we can confirm that the sales process is going well. We are facing a very strong interest for the assets. Regarding the timeline, you can read a little bit from the fact that we have not taken these assets yet as assets held for sale or non-operative business, that we think that the timeframe would still take around 12 months or a little more to close.

Of course, we are expecting that binding bids come in earlier and we even might have underwriting here earlier, but for a closure with all the administrative topics around the countries of Malaysia and New Zealand, we expect that this at least takes 12 months.

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

Coming back to the transaction in Malaysia and New Zealand, given that you've indicated you've seen active industry interest for those assets. Should we expect to see the Company making further portions of the international upstream business available for sale?

Answer by **Reinhard Florey:**

No, we do not have any further sales steps in that dimension planned. Of course, we are looking into portfolio optimization steps in that area. But if we look at our 2030 target that we have given, it is around 350 kboe/d. And if you take our production that we plan for this year, 360 kboe/d, you can see we are taking out some 70 kboe/d of Malaysia and New Zealand, adding some 70 kboe/d by Neptun, we are around this figure and what we have to manage is the natural decline that we have, of course, in some of the maturing fields, and therefore some portfolio optimization will happen, but no further divestments of that dimension are planned.

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

Regarding your asset divestments in New Zealand and Malaysia. Do you consider selling these assets separately, or do you plan to sell this as one entity? I just asked because I may see that you may have potentially more interest for the Malaysian assets. Could you confirm that? Also, can you remind us of what is the potential valuation for these assets?

Answer by **Reinhard Florey:**

The clear intention is to have a packaged deal between both assets that we're selling. And you will understand that I'm not commenting on any target value that we are currently discussing. This is an open process and therefore, I cannot give you an indication in that direction.

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

Again, on New Zealand and Malaysia, can you remind us of what the book value is of those assets in OMV's books, probably also adjusted to the fact that you own only 50% of SapuraOMV.

Answer by **Reinhard Florey:**

We have never disclosed single asset book values, so therefore I unfortunately cannot give you that information.

Gas Marketing & Power

Question by **Alastair Syme – Citi:**

Alfred, can you talk a little bit about what you're seeing in the gas business on the demand side? I note that sales in your West business were about 17 TWh this quarter. I mean, if you go back to 2Q 2021, you were over 30 TWh. So, can you sort of bridge that? And I'm particularly interested in the color you might have on what's going on in the industrial sector given that is a sort of broader customer. I mean are you seeing any signs whatsoever now the gas prices have settled down a bit, that industrial customers are willing to pick back up on consumption or are we still too early on that?

Answer by **Alfred Stern:**

So on the gas market, we have seen in 2022 that across Europe, there was a significant reduction of gas demand. I think there are three big drivers that were observed there. One was increasing amounts of power generation with renewables, the second was fuel switching, partly because of security of supply, but partly also because of cost economics. And the third one was industrial sectors where the gas has a significant share in the total cost of production, we saw curtailment of production.

I think some of these changes are probably temporary, others I think will have a lasting effect that we see here. I think we've probably seen some announcements around ammonia producers in Western Europe that are mothballing plants. There were also a number of announcements around the production reduction of other high-energy consumers. So, I think one has to count on that some of these effects will be permanent.

Question by **Alastair Syme – Citi:**

Even though prices have settled down a little bit, obviously the forwards are still high, but do you think we're a long way from any of these high-energy consuming industries coming back?

Answer by **Alfred Stern:**

So, our outlook for 2023 on the THE is now EUR 40/MWh. If you remember the average of last year was EUR 121/MWh. So, this is a big drop, however, it's still double of what it used to be in the pre-Ukraine period. It was around EUR 20/MWh over the last decade approximately. And with EUR 40/MWh, I think we also need to be aware that it's not just double of what it used to be, it's also 4-5 times the value compared to Henry Hub. So, this has made it more attractive, but it's still not a low-cost kind of location.

Question by **Henry Tarr – Berenberg:**

I guess you're still buying a reasonable amount from Gazprom in Q2, I think 4.9 TWh. Is there any view on that, has there been any change to the reliability or the risk to gas flows through the Ukraine? And then kind of how much of this, if there was a disruption, do you think you could cover from your diversification efforts, the new LNG, etc.? And are you working on the other side to change the sort of supply contracts you must take some of this potential variability into account?

Answer by **Alfred Stern:**

We have two Gazprom supply contracts, one in Germany and one in Austria. The German supply contract with Gazprom has not received any gas supply for the last many months. So somewhere around half of last year, the gas supply stopped, and we have not received any since then. The Austrian gas supply contract in the second half of last year was very volatile. We received anything between 20% and 70% of the contractually agreed quantities, which created at that time, quite a lot of management effort and issues. Since the beginning of February Gazprom has stuck to 100% of the contractually agreed quantities and is supplying this reliably. So, after January, we have not seen any of this volatility.

Of course, both from our experience with Gazprom last year but also because the gas is supplied through the Ukrainian pipeline, we at OMV consider this to be an unreliable supply source. And because of that since March last year, we are running a diversification strategy to make sure that we have non-Russian gas and the transport capacities so that we can distribute it to our customers.

We are today in a position that we have sufficient non-Russian gas volumes, so that's from the LNG terminal in Rotterdam, that's from Norwegian production and that's from third-party contracts in Norway and in Italy. So, with those quantities and the transport capacities that we have now, we can supply all our customer obligations even if Gazprom were to stop supplying.

Concerning the contracts, I want to also mention here that we have and continue to spend quite a lot of time to develop a legal strategy on how we address those things. We are quite clear what we want, but I do not want to communicate this publicly at this moment.

Austrian gas discovery

Question by **Henri Patricot – UBS:**

I wanted to ask about this discovery in Austria, how quickly you can reach that plateau production level and whether there is some follow-on potential, more exploration wells that you plan that could increase your production in the country.

Answer by **Alfred Stern:**

This exploration drilling was a result of one of Europe's largest or maybe the largest seismic campaign that we did here in the Vienna basin about five years ago. And through the evaluation of this seismic campaign, we identified potential resources and Wittau was here our first exploration campaign that we've now drilled over the last five months, approximately. And we were then very excited and happy that this was positive and that we could show that it is a gas find. We estimate the resources converted into terawatt hours at about 48 TWh. And that would increase the OMV gas production in Austria by about 50% - we produce about 8 kboe/d today.

Question by **Henri Patricot – UBS:**

And I guess it's fair to assume that this 50% increase can be done fairly quickly?

Answer by **Alfred Stern:**

Of course, in the situation that we have now this is our aim. There are of course a few things that we need to do beforehand. The most notable is, we need to build a connection to our gas treatment plant in a place close to the site. It's about 10 km away. And that is going to be the speed determining step. But I think you are correct; we are trying to make this happen as quickly as possible.

DISCLAIMER

This presentation contains forward looking statements. Forward looking statements usually may be identified by the use of terms such as “outlook”, “believe”, “expect”, “anticipate”, “intend”, “plan”, “target”, “objective”, “estimate”, “goal”, “may”, “will” and similar terms, or by their context. These forward looking statements are based on beliefs, estimates and assumptions currently held by and information currently available to OMV. By their nature, forward looking statements are subject to risks and uncertainties, both known and unknown, because they relate to events and depend on circumstances that will or may occur in the future and are outside the control of OMV. Consequently, the actual results may differ materially from those expressed or implied by the forward looking statements. Therefore, recipients of this report are cautioned not to place undue reliance on these forward looking statements. Neither OMV nor any other person assumes responsibility for the accuracy and completeness of any of the forward looking statements contained in this presentation. OMV disclaims any obligation and does not intend to update these forward looking statements to reflect actual results, revised assumptions and expectations and future developments and events. This presentation does not contain any recommendation or invitation to buy or sell securities in OMV.