



# OMV Strategy 2025 – Capital Markets Day

March 13, 2018

## OMV Capital Markets Day 2018 – Q&A Transcript

OMV published the “OMV Strategy 2025” during the Capital Markets Day 2018, which took place in London on March 13, 2018, and was also broadcasted as a live video- and audio- webcast. Below is the transcript of the question and answer session, by topic, edited for readability.

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## OMV Group

### 1. M&A

Question by **Matt Lofting – JPMorgan:**

Considering the acquisition budget and the EUR 10 bn to 2025, can you just talk about how sensitive that is to your reasonably constructive view on medium-term oil prices? I think you talked about 70 to 80 on the longer term. If we see weaker oil prices on a medium-term basis how would you think about adjusting that framework accordingly? With that in mind, when you think about organic CAPEX and the range in terms of EUR 2 bn to EUR 2.5 bn, what are the key levers of flexibility within that range on a medium-term basis?

Answer by **Rainer Seele:**

Well, Matt, of course the acquisition budget is also sensitive to the oil price, but as we are driving OMV with a portfolio that has less and less sensitivity to the oil price. Just remember my chart I have presented to you with the stability of the company we have reached now, with the internal hedge of upstream and downstream. So we should not only look to the oil price. I think it's more a question of the cash we are generating in the business here. If we have, a very challenging, tough environment, we might take a break in our acquisition strategy. So then that's why we have said over that timeframe, until 2025, we are going to have a EUR 10 bn plan for acquisitions, but it's of course depending then on first of all, how is the financial situation in the company and secondly, what kind of opportunities are popping up in the market. We don't want to be now in a hurry to go for a shopping tour. We are just waiting for the right opportunities in the market, and I think the M&A window is still open for us. That's why I think we are going to be very active. As we speak about the spread and the CAPEX spending EUR 2 bn to EUR 2.5 bn, you're absolutely right, it's a little bit depending what kind of acquisition projects are coming in with which CAPEX commitment. We don't know, that's why we have a range. We do have a preference not to acquire development projects in the first instance, so we don't want to be too heavily driven in CAPEX spending. We just like, as Reinhard has said, the cash flow we are going to acquire, so that we have an early repayment of the capital we are spending.

Question by **Mehdi Ennebati – Societe Generale**

Regarding the timing of the Capital Markets Day, first it was scheduled in September then it has been postponed to March. That coincided with the expiry of the ADNOC concessions. Some of the people here were expecting maybe some announcement with Abu Dhabi. Nothing happened, whereas you know that some other companies already announced acquisitions correlated to ADNOC. So the very simple question is, if there is any chance that you enter into these concessions in the short term?

Answer by **Rainer Seele:**

Mehdi, the shift of the Capital Markets Day has nothing to do with Abu Dhabi. Originally in September of last year, we have planned to go for a Capital Markets Day on Downstream. This was the original idea, but then we found out that the execution of our strategy was so quick that we had to start a process of working on a new strategy and the approval process in OMV took some time to get also the green light from our Supervisory Board. That was the main reason why we have shifted the Capital Markets Day to March this year, because we changed the main topic of the agenda. We wanted to present the next chapter of the strategy. Coming to the point of what's going on in Abu Dhabi. Straightforward, OMV does have an interest to cooperate on an integrated basis with ADNOC. We have signed in May last year already a Memorandum of Understanding, so we would like to be a partner of ADNOC along the value chain. We haven't reached a certain point, that we can say anything about our negotiations and whether or not this would kick in, I have to ask for your patience. Maybe something will come in the future. The strategy we have presented to you is not a strategy for today, it's a strategy for the next years to come. If we are going to realize the strong growth and production, it has to come from somewhere. The interest is still there that we would like to have an intensive cooperation with ADNOC, but at this point in time we can't really say something firm to you.

Question by **Mehdi Ennebati – Societe Generale:**

You are targeting a minimum ROACE of 12% on your M&A target, while in 2017 you've got a ROACE of 14%. It looks like the value creation from the M&A doesn't appear as something really important. In that case, why don't you provide the cash directly to the shareholders by increasing the dividend much more, other than doing acquisitions with a ROACE of 12%?

Answer by **Reinhard Florey**:

I have to say this is also among the industry a very ambitious target if you go on a growth strategy. Because of course you get first the capital employed on your balance sheet and the returns come over time that you have from these acquisitions. The acquisitions as such will build up their value over time, first with the depreciation of the capital employed and secondly with the increase of the return. We think in the combination of the assets that we have today and the ability to display a quite significant positive impact. This is an ambitious target. The ability to display that on a long-term prospect is something that probably is quite superior to paying out immediately to the shareholders, because it's a return rate that you currently cannot very easily achieve in the market. There are value growth opportunities in the company which we would want to share with our shareholders by investing for the company.

Question by **Christopher Kuplent – Bank of America**:

Regarding the 12% return on capital employed. As I understand it, that is measured on a post-tax basis so if you can confirm that. Would you terribly mind if I just said USD 10 bn spent on acquisitions by 2025, USD 1.2 bn post-tax return? I know there is project financing et cetera, funky ways of you boosting that return further but would that be terribly wrong?

Answer by **Reinhard Florey**:

Let me put it like that, the 12% is always for the full portfolio and what we are adding is the EUR 10 bn. In principal of course you are right, but first of all, all acquisitions have to be accreted for the company and then they have to contribute, that will keep the long-term target of the 12%. But of course, we do not take out of our consideration the asset base that we have today and the return that we get on the asset base that we have today. So that's an all-in number, but if you would just dissect it of course you wouldn't be wrong but that's not what we are saying.

Question by **Michael Alford – Citi**:

On slide 16 you talked about operating profit rising to over EUR 4 bn in 2020. I just wanted to get a sense as to how much of that was the existing portfolio, and how much you expect that would be related to acquisitions.

Answer by **Reinhard Florey**:

The stance is that there would be an impact from M&A, but it would be clearly the smaller part of the increase. This would, in the first instance have the unfolding of the acquisitions that we have taken already in 2017. When we already see Yuzhno Russkoye contributing significantly, when we're seeing also the Libyan assets and have the Romanian and Norwegian assets contributing to that. So, of course, there will be, if there are timely M&A activities, also a part contributing to that, but by far the smaller part.

Question by **Michael Alford – Citi**:

You clearly outlined today that your strategy makes sense, but you're clearly not the only ones that want to develop into growth areas in Asia and other parts of the world. To deploy EUR 10 bn is a big sum of money. I just wondered what your pipeline is. In terms of how big an opportunity do you see today to get a sense as to the potential to deliver that EUR 10 bn of investment, equally to deliver the returns that you've targeted as well?

Answer by **Rainer Seele**:

Well, Michael, we have eight years for spending €10 billion. Right now, we do have a very attractive pipeline. If I look back, at the track record we have shown in the last two years in realizing the pipeline, then there is something to come. We are now working on our acquisition projects we do have in the pipe. We have started this year not with an acquisition, but with a divestment, so I would like to point out that we continue to further upgrade our portfolio. We have divested our upstream activities in Pakistan, but I don't open the window today for you to look into the pipe. I tried to make that a smooth and diplomatic answer, but straightforward, I think you have to wait and see. We do have attractive projects in the pipeline to make acquisitions.

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

How do you plan to finance this project, especially in relation to your hybrid bonds which will expire? So what will you do with the hybrid bonds, will you refinance it and how would you generally finance any acquisitions if something would come to the picture?

Answer by **Reinhard Florey**:

First of all, we do not guide on our behavior with hybrid bonds. This is something that of course we keep ourselves open and see what opportunities are in the market. We have shown that hybrids are part of our financing strategy, but we have also shown that the market is wide open for us for corporate bonds. We had a huge demand on the corporate bond in December that we gave to the market. So we are actually not worried about the financing opportunities. We also have a very strong banking community with which we are cooperating, we have undrawn credit facilities and we have cash at hand. So at the moment, I would say this is more of a mid and long term issue than a short term issue where we would be very positively and very strongly positioned in our financing activities.

## 2. CAPEX

Question by **Josh Stone – Barclays**:

There was an absence of a mention of renewables in the release. Why is that? What would it take for you to change your mind on renewables, and perhaps allocate more capital to that place before 2025?

Answer by **Rainer Seele**:

Well, the clear answer is that we are not a power company. We stick to our roots. Others do have a main interest to invest into renewables, let them do the job. I also have limited budgets and therefore I can't do everything, and furthermore I need a lot of cash to drive the growth in my existing business. When it comes to the point that we have to contribute to reach our climate targets, I think you can read it in our strategy that we are moving more towards gas. Especially in the short- and mid-term, the contribution we can get from moving into natural gas is great. As far as we speak about power, we have an engagement in Smatrics. It's a small business, but we prepare ourselves for e-mobility. We are investing into the infrastructure to provide fast e-charging systems for people who are buying e-cars. That's our contribution, but we will not change OMV into a power company. That's our strategy

Question by **Christopher Kuplent – Bank of America**:

You made a very good point at the start saying the oil price volatility is not very visible in your earnings, but I'm going to have to ask you anyway because you're referring to a USD 25/bbl breakeven. What is the sensitivity, all other things being equal, if we were to assume USD 10/bbl more or less in oil prices?

Answer by **Reinhard Florey**:

We have been giving these kinds of volatilities and we have been updating them. So if you take one US dollar up and down, that would have an impact on our operating result of some EUR 45 mn, and if you take it from the cash flow perspective, so after tax, that would be about EUR 30 mn. If you multiply it by 10, as you want to have the sensitivity for USD 10, then it's EUR 450 mn respectively EUR 300 mn.

Question by **Tristan de Jerphanion – Kepler Cheuvreux**:

Looking at CAPEX, the EUR 2 bn to EUR 2.5 bn on average over the period. Obviously this is organic in the sense that it does not include cash outflow for acquisition, but it does include as you said future CAPEX for newly included assets. My question is, on a like-for-like basis, so taking your portfolio as it stands today, what would be a fair assumption of organic CAPEX going forward, thank you?

Answer by **Rainer Seele**:

Well, it's a little bit difficult to give you guidance on the CAPEX numbers because I don't know what kind of future projects are coming in with numbers on the CAPEX side. The only guideline I can give you is that without the acquisitions we do have now a CAPEX spending level, which is between EUR 1.7 bn and EUR 1.9 bn. This is the number for 2017 and 2019. Can you really extend it into the future? I think it's just an orientation, but not a confirmation from my side because I don't know what the real numbers of the new projects.

### 3. Dividend policy

Question by **Josh Stone – Barclays**:

You talked about increasing the dividend in line with the group's financial performance and in the press release you mentioned both free cash flow and net income. Is there any particular weighting between either of those two metrics? In a scenario that earnings or free cash flow were stable, but actually the medium-term outlook was still very positive, would you still be willing to increase dividends?

Answer by **Reinhard Florey**:

First of all, we mentioned that it is in line with financial performance, and we mentioned that it is specifically the free cash flow and net earnings. I wouldn't go so far to say that we have a clear prioritization. If we are stable in our development and according to the plans, then there is nothing that can speak against the full execution on the progressive dividend policy. If you were putting that scenario, what if you're just stable, but there is a good prospect. I would give you the example of 2016. In 2016, the oil price was the lowest ever with USD 44/bbl, and still we increased from EUR 1.00 to EUR 1.20, because we already saw the turnaround of the company. We already saw the strength of the company's cash flow profile, that it was turning around. I would always see that the strength that we build through the portfolio and the resilience that we can build will be a trigger to say yes, we can execute on the prospect of the dividend policy.

## Upstream

### 1. Australasia

Question by **Matt Lofting – JP Morgan**:

If you could just talk on the Upstream side, the growth angle around Asia-Pac, in particular about leveraging the position in New Zealand. But then beyond that, where specifically do you think OMV can add value within the Upstream value chain in Asia-Pac?

Answer by **Johann Pleininger**:

We have a strong position in New Zealand for more than 20 years. New Zealand is one of our strongest cash generators, so we have a strong exploration portfolio as well in New Zealand. You will see some organic growth coming from this region in the future. We are looking for growth opportunities, building on the strengths I mentioned before, growing the business in New Zealand either via organic growth but maybe also via acquisitions. There are some opportunities there as well, and we are looking right now in the wider area, meaning in the neighboring countries in Southeast Asia, for growth opportunities. What I can't tell you right now is which countries we are targeting. This is part of the screening. I can tell you maybe more at the end of the year, once we have finished the screening. We said as a target that we want to develop New Zealand and Australasia into a core region in the next two to five years.

### 2. Potential FIDs

Question by **Mark Kofler – Jefferies**:

Could you talk a bit more about potential FIDs in the next 12 to 18 months, and particularly any incremental color around Domino and how you're thinking about that at the moment?

Answer by **Johann Pleininger**:

So, what I've presented, Aasta Haansteen will come on-stream end of this year, Nawara mid of next year. FID for Neptun will be taken in the second half of this year, expecting first production 2020-plus, and the next big project is Wisting, where we will take FID until 2020.

### 3. Neptun

Question by **Mark Kofler – Jefferies**:

On Neptun, what are the critical elements to FID, in the back half of this year?

Answer by **Johann Pleininger**:

The project is progressing very well, so there is no critical element from a technical perspective on Neptun right now.

Answer by **Manfred Leitner**:

The critical elements are on the infrastructure, to sell the gas, to bring the gas into the market. So, the project, I think, is on the Upstream end very well under control. But obviously, we will just only take FID once we are having a certain assurance that we will bring the gas economically to target markets.

Answer by **Reinhard Florey**:

And on the financial side, it's of course important to have stable and clear off-shore taxation in Romania.

Question by **Oleg Galbur – Raiffeisen Centrobank**:

I have a follow up question on Neptun, it looks like this is one of your key projects, that is included already in the production target in Upstream of 600,000 boe/d, according to my calculations some 40,000 boe/d contribution. At the same time you didn't mention what level of CAPEX you expect and if this is already included in your CAPEX guidance.

Answer by **Johann Pleininger**:

Regarding production we have announced already that we are assuming 1.5 to 3.0 tcf. This is the total volume what we can produce. Transferring it into boe per day this is something between 50,000 and 70,000 boe/d OMV's share. Regarding CAPEX, we are still working on it. So the FEED, Front-End Engineering and Design, has been completed but some detailed engineering is still ongoing. We will announce how much we will spend once we are taking FID, which will be in the second half of this year, but it's included in the budget.

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

Regarding your Neptun Project, there were some conflicts in the summer, about the BRUA pipeline and where the pipeline would end. So would you go for this project if your captive gas would be distributed by the Hungarian FGSZ and would not go to Baumgarten? Somehow your integrated model would be breached by this in my view. Will it be kind of an obstacle for you?

Answer by **Manfred Leitner**:

If we can sell the gas at an acceptable price in Hungary then we sell it in Hungary. It's not about where the gas would be landing, but we would prefer to have it in Baumgarten. If this is something which is not implementable, then obviously we will find ways in Hungary. We'll find credit worthy customers and we'll actually look for a stable volume, a stable price, and customers that are reliable.

#### 4. **Achimov**

Question by **Tristan de Jerphanion – Kepler Cheuvreux**:

On Achimov and the much-awaited closing of the asset swap. At the time of the announcement the economic effective date of the transaction was set to January 1, 2017. With the closing at the end of 2018 that would be two years during which OMV Norge generated a solid cash flow, while at the same time CAPEX was incurred on Achimov. So therefore, upon closing, if I'm not mistaken, that means that there should be some sort of balancing out to the benefit of Gazprom. I was just wondering whether you could give us some color on how it may affect OMV's cash flow for both of these points and how they will materialize into your accounts.

Answer by **Reinhard Florey**:

Regarding Achimov nothing has changed in what we have seen as the boundary conditions regarding the asset swap. However, the deal is not concluded yet, so therefore it's very, very difficult to say what the exact impact of something like that is. But an effective date of January 1, 2017, would have exactly the impact that you would have anticipated, that there is some balancing payment that would be done towards Gazprom.

## Downstream

### 1. M&A

Question by **Henri Patricot – UBS:**

The EUR 5 bn acquisitions in Downstream, are you considering investing in existing refineries or greenfield projects? Do these refineries need to have petchems with them, or retail operations? Would you do a standalone refinery?

Answer by **Manfred Leitner:**

If I could choose, I would go into an existing refinery with potential petrochemical integration, with the potential to even further go into the petrochemical production capacity. This would be our wish, but whether this is realizable is difficult to say. This would exactly be where we could really bring in our know-how, that we have built up in Europe, and that's, I think, the biggest value we can bring to the table here.

### 2. CAPEX

Question by **Henri Patricot – UBS:**

You mentioned investments of EUR 1 bn on your existing refineries. I'd like to have a bit more detail in terms of what units you're investing in, what the timing is in terms of start-up.

Answer by **Manfred Leitner:**

We are focusing on increasing our production in petrochemicals, so, very specifically to increase the capacity of our steam crackers. This is the main focus. Obviously, we need to have customers for the higher production and we are well aware of that. I think we are in a pretty advanced stage already in Burghausen. We are evaluating to do the same in the Schwechat refinery of course. There we need Borealis and we are evaluating and increasing the production capacity there. We have some projects as well in the Petrobrazi refinery in Romania, these are going more into the aromatics production. For example we can produce more propylene there and potentially bring it then to our sites in the Western European countries, to Borealis to produce then polypropylene out of that. So, there are projects on the table. We have not taken FID on those, but I think we will do that within the next two to three years. Usually what you're doing is, you use the turnaround to invest in those units, that you don't have to stop the refining operations, and this will be in 2021. The next big turnaround in Schwechat will be in 2024. I do not 100% expect that we will already invest then, but then it will take most probably even 2025–2026, for Schwechat. Regarding the projects that are materializing in Petrobrazi, some of them are already in the investing phase, but two, three others will come in the next two or three years.

Question by **Jonathan Lamb – Wood & Company:**

I was wondering about the organic CAPEX in the Downstream business. You talked a little bit about expanding cracker capacity and things, but there was also a mention of eliminating residual fuel oil and you didn't go into that at all. What are you thinking of doing and where? Such investments are normally quite big?

Answer by **Manfred Leitner:**

They will not be that big in our case. You know that the IMO regulations will come into place and for instance, just to give you an indication. In Petrobrazi we are having domestic crudes that are having such low sulphur content that we will not do anything there. It will just be an upgrade of our heavy fuel oil that we will then sell as maritime fuel. In the Western part we do not produce a lot of heavy fuel oil anymore. We are running a power plant which we could use as a conversion if you want. Most probably to be honest currently we plan only to do that after 2021–2022, because it is very difficult in my opinion to really see the impact of these IMO regulations. You have to go below 0.5% sulphur content, but there is no penalty on it. It is obviously difficult to believe that the whole industry will change on January 1. This is the reason why we believe to be much more flexible in really doing the right investment at the right point in time. It will not be a very huge investment in the western refineries.

### 3. Nord Stream 2

Question by **Yuriy Kukhtanych – Deutsche Bank:**

I have a question regarding the Nord Stream 2 project. If we assume that this project continues to advance, my understanding is that it is very likely that it will fall under the third energy package regulations, and it is also likely that it will be classified as a transmission pipeline. That brings up some questions in my head. Is your Achimov swap deal in any way dependent on the legal status of the Nord Stream 2 project? Furthermore is there a legal way to have Nord Stream 2 classified as a



transmission pipeline on one side, have an ownership in that project on the other side and be a supplier of gas to the pipeline at the same time? So the unbundling clause, whether it is applicable to OMV? And the third question I have is if OMV does not have a chance or does not become a shareholder in the Nord Stream 2, what is your economic interest in financing that project?

Answer by **Rainer Seele**:

First of all, I disagree that the Nord Stream 2 pipeline will fall under the third energy package. If we look what has been published by the legal service in Brussels, it's a total different question. I think the main question is whether or not the EU Commission is successful to change the energy package, just to bring also the Nord Stream 2 pipeline under regulation. Let's assume it's going to happen, then the pipeline is going to be regulated. I will still get my return for the money I have spent into the project. On the probability I think the legal service provided us a clear answer on that. Is there a dependence between the Nord Stream 2 project and Achimov IV/V? Not at all. We have independently Achimov IV/V in our pipeline. Regarding your third question, can we supply gas into the pipeline in case it's going to be unbundled? We are not supplying gas into the pipeline in Russian territory, as we do have an agreement with Gazprom in place that we are going to sell our gas at the wellhead. We are not shipping gas, therefore we don't have the transit and export risk with our production we have in Russia, with Yuzhno Russkoye for example.

Answer by **Manfred Leitner**:

We have not been shareholders of Nord Stream 2, and we will not be shareholders of Nord Stream 2. We are financing the project, as the other four European companies. Why are we doing that? First of all, we are pretty satisfied with the return of the project, and on top of that, as you have seen in the presentations, what we believe is that the pipeline will be necessary to bring the gas to Europe in order to fill this import gap that is building up. Therefore, we see a certain support for our gas sales activities, as well as for the Baumgarten hub, which is very important for Austria and for us.

#### 4. Downstream Gas – Market share

Question by **Mark Kofler – Jefferies**:

I think this morning you talked about moving up to 10% market share in Germany in terms of the gas market there. Can you put that in context of where you are today, and some of the critical elements to achieving that 10%?

Answer by **Manfred Leitner**:

This 10% is obviously an ambitious target because it's a very competitive market. I think the three main contributors would be coming from the supply side. First of all increase our equity gas production in Europe. What we are aiming to do, where we're in discussions, is increasing third-party supply. We are increasing where we already have a lot of volumes coming in, this is something which you have to see in connection with Nord Stream 2 as well. That's not our equity gas, but this gas will come to Europe and obviously out of the cooperation with Gazprom. The third one, which is significant but will not be the majority of the contribution, is that we're having already signed some import contracts that will be coming through our gate terminal in Rotterdam.



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