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## PRESENTATION

### Operator

Welcome to the OMV Group's conference call. (Operator Instructions) You should have received a presentation by e-mail. However, if you do not have a copy of the presentation, the slides and the speech can be downloaded at [www.omv.com](http://www.omv.com). Simultaneously to this conference call, a live audio webcast is available on OMV's website.

At this time, I would like to refer you to the disclaimer, which includes our position on forward-looking statements. 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 that will or may occur in the future and are outside the control of OMV. Therefore, recipients are cautioned not to place undue reliance on these forward-looking statements. 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.

I would now like to hand the conference over to Mr. Florian Greger, Head of Investor Relations. Please go ahead, Mr. Greger.

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### Florian Greger - OMV Aktiengesellschaft - Head of Investor Relations

Thank you, Stephy, and good morning, ladies and gentlemen, and welcome to OMV's Earnings Call for the Fourth Quarter 2017. With me on the call are Rainer Seele, OMV's CEO; Reinhard Florey, our CFO; Hans Pleininger, the Executive Board Member responsible for Upstream; and Manfred Leitner, the Executive Board Member responsible for the Downstream Segment.

Rainer will walk you through the highlights of the quarter and discuss OMV's financial performance. Afterwards, all 4 board members are available to answer your questions. Before we start the presentation, I would like to invite you to our Capital Markets Day, which will take place on March 13



in London. The Executive Board will provide you with an update on OMV's strategic development and its ambitions for growth and performance going forward.

And now, I would like to hand it over to Rainer.

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**Rainer Seele** - OMV Aktiengesellschaft - Chairman of Executive Board & CEO

Good morning, ladies and gentlemen, and thank you for joining us today. If I look back, 2017 has been an outstanding year for OMV. We were able to deliver a very strong operational performance throughout the year, and this is clearly reflected in our financial results. Let me start by reviewing the economic environment at the last quarter of 2017. The crude prices rallied strongly in the fourth quarter of '17, with Brent averaging \$61 per barrel. This was 24% higher than the average during the same period in 2016. The oil price strengthened on the back of continued demand growth, strong OPEC compliance and several supply disruptions in Norway and the United Kingdom. Geopolitical risks, particularly in Saudi Arabia, Iran and Libya, also supported prices. On average, gas prices were 16% above Q3 2017 and 11% above the same period last year, given the colder than average weather as well as several unplanned supply disruptions, such as the Forties Pipeline shutdown in the North Sea. The refining indicator margin was down 19% compared to third quarter of 2017, reflecting the strong upward momentum of the crude price.

In the third quarter, margins were also supported by supply outages caused by Hurricane Harvey in the Gulf of Mexico. The most significant decline compared to the previous quarter was in gasoline due to a lower demand from North America and a weaker West African market. Heavy fuels also dropped from outstanding high crack levels. Margins for both ethylene and propylene fell versus the previous year quarter. Higher prices could not compensate for the significant surge in feedstock costs, driven by a recovery in oil prices. Butadiene margins declined as well. Prices remained stable compared to the third quarter of 2017, as a result of a rather balanced market in Europe.

So let's talk now about the financial highlights of 2017. It was a year of transformation, and we have seen a strong delivery from both business units. Clearly, I can say that we continue to execute our strategy successfully. The strong operational performance is reflected in our full year financials. OMV achieved its highest earnings in the last 5 years. The clean CCS operating result doubled versus 2016, and all this was accomplished at an average Brent price of \$54 per barrel. Compared to a similar market environment in 2015, the clean CCS operating result increased by 70%. Reflecting our strong operating results, clean CCS earnings per share rose to roughly EUR 5 per share. Very impressive is the development of OMV's free cash flow. Since 2 years, we had a strong focus on cost and profitability. Together with our active portfolio management, we could substantially improve our cash flow. In 2017, we delivered a free cash flow after dividends of EUR 1 billion. Thus, 65% higher than 2016 and EUR 1.6 billion higher than 2015. This illustrates the strong cash generating capability of our adjusted portfolio with each business division pursuing a strategy of operational excellence and value generation. As a consequence, we managed to further decrease our cash flow breakeven oil price to \$25 per barrel. In our benchmarking, this is the lowest among all our European peers.

Before I explain the details of our business performance, let me briefly point out the highlights of last quarter of 2017. Our hydrocarbon production stepped up to 377,000 barrels per day, which is the highest in OMV's history. The main highlight of the quarter was certainly the acquisition of the 25% stake in the Russian gas field Yuzhno Russkoye. The closing of this landmark transaction is a further important milestone in successfully pursuing a core corporate strategy. Our stake in Yuzhno Russkoye adds 100,000 barrels per day to OMV's production and additional recoverable reserves of 580 million barrels. Considering the important contribution to our portfolio -- production profile, Russia has become a new core region in our Upstream portfolio. In 2017, we achieved a 1-year reserve replacement rate of 191%, the best since 2007, and the second year in a row above 100%. The main contributors were the acquisition in Russia, drilling and development projects in Norway, better performance in Romania and the contribution from Pearl Petroleum. Our 3-year average reserve replacement rate increased from 70% to 116%. Following the strategic goal to focus on our core activities, OMV Petrom finalized the sale of the Dorobantu wind park in Romania. We also made progress in expanding the alternative mobility offer to our customers. In December, we closed the acquisition of a 40% stake in SMATRICS, Austria's leading e-mobility provider.

In addition, we signed an agreement with IONITY, a joint venture of automotive companies, aiming to build 400 high-power charging stations with various partners by 2020. OMV will be the location partner for Austria, the Czech Republic, Hungary and Slovenia.

Strict cost management measures throughout the entire organization led to savings of EUR 330 million in 2017, EUR 80 million more than our target and EUR 130 million more than what in 2016. Our production cost stayed below \$9 per barrel. Thus, we further improved our competitiveness

of the Upstream business. Last but not least, we will further increase our dividend in line with our progressive dividend policy. We will propose a dividend per share of EUR 1.50 to the Annual General Meeting.

Let's now turn to our financial performance in the fourth quarter of 2017. Our clean CCS operating result increased by 67% to EUR 688 million compared to the same quarter in the previous year, supported by substantially higher Upstreams result. Clean CCS net income attributable to stockholders rose from EUR 153 million in the fourth quarter last year to EUR 367 million in the same quarter of 2017. The clean tax rate amounted to 28%, 15 percentage points lower than in the fourth quarter '16. The higher tax rate in the prior year quarter was mainly driven by the increase of the valuation allowance for deferred taxes of the Austrian tax group and additional tax expenses from the Turkish tax amnesty. Clean CCS earnings per share more than doubled from EUR 0.47 in fourth quarter 2016 to EUR 1.12 in the fourth quarter of 2017. OMV's Group reported operating results in the fourth quarter 2017 came in at EUR 631 million, significantly above the previous year quarter. Net special items were minus EUR 115 million compared to minus EUR 601 million in the fourth quarter of 2016. The negative net special items recorded in fourth quarter 2016 were mainly attributable to impairment due to the divestment of OMV Petrol Ofisi as well as to impairments of the Samsun power plant and the Etzel gas storage facility.

The fourth quarter of 2017 was negatively impacted by unrealized hedging losses in Upstream and a provision booked for the Gate LNG obligation. Reported net income attributable to stockholders increased from minus EUR 378 million in the fourth quarter of '16 to plus EUR 311 million. Earnings per share rose accordingly from minus EUR 1.16 in fourth quarter of 2016 to plus EUR 0.95 in the fourth quarter of 2017.

Let me now come to the performance of our 2 business segments. In Upstream, the clean operating result substantially increased from EUR 91 million to EUR 344 million. This was primarily driven by a more favorable market environment as well as higher sales volumes in Libya. Market effects contributed EUR 105 million, higher realized oil and gas prices were partially offset by a weaker U.S. dollar. OMV's realized oil price rose by 23%, and the OMV realized gas price in euro per megawatt hour increased by 18%. In the fourth quarter 2017, we recorded a hedging result of minus EUR 27 million compared to minus EUR 33 million in the fourth quarter of '16.

We continued to improve our operations, resulting in an increased earnings contribution of EUR 129 million compared to the same quarter last year. Hydrocarbon production went up by 63,000 barrels per day, reaching 377,000 barrels per day. Libyan production increased to 32,000 barrels per day, and Russia contributed for the first time, 36,000 barrels per day. As we closed the transaction on November 30, 2017, only one month of Yuzhno Russkoye was included in our production figures. Accounted for the full year, Yuzhno Russkoye added 100,000 barrels per day to our production. Hydrocarbon sales volumes amounted to 33 million barrels, 15% higher than in the fourth quarter 2016. This was mainly attributable to the new contribution from Russian gas sales in December and liftings from Libya. The clean operating result was negatively impacted by higher exploration expenses, primarily due to write-offs of exploration wells in Romania in the amount of around EUR 50 million. Overall, costs were lower. Depreciation went down by EUR 19 million, reflecting a decreased asset base and positive reserve revisions in the fourth quarter of 2017.

As the fourth quarter is the first quarter to include Yuzhno Russkoye, let me briefly give you some more details about the organizational structure and the financial impact of our stake in Yuzhno Russkoye. OMV holds 24.99% in the operating company, Severneftegazprom, or in short SNGP. Other shareholders are Gazprom and Wintershall from Germany. In addition, OMV holds 99.99% in the Trader. Our equity production from SNGP is entirely sold to the Trader at a cost-plus margin. The Trader sells the gas to Gazprom under a take-or-pay agreement. 50% of the volumes are indexed to the Russian domestic netback price, and 50% are based on the German netback import price. SNGP is at-equity accounted. This means OMV's share in SNGP net income is shown in OMV's operating results. The Trader is fully consolidated into OMV's financials. Upon closing of the transaction on November 30, 2017, the 2 entities, SNGP and the Trader, have been reflected in OMV's financial and operational statements. The 2 entities contributed EUR 16 million to OMV's consolidated net income in 2017. As the transaction was retroactively effective as of January 1, 2017, OMV is entitled to the 2017 dividend. The dividends from the operating companies -- company were already paid, and the dividends from the Trader will be transferred in 2018. In total, for the fiscal year 2017, we expect dividend payments for Yuzhno Russkoye of \$160 million. Going forward, we expect dividends to increase compared to 2017.

The Downstream business continued to be a key contributor to OMV Group earnings and cash flow. With EUR 356 million, the clean CCS operating result of Downstream was almost at the level of the previous year's quarter. A higher result from Downstream Gas partially compensated for the missing earnings contribution from OMV Petrol Ofisi. The clean CCS operating result of Downstream Oil declined from EUR 333 million in Q4 '16 to EUR 311 million. Increased retail earnings and lower fixed costs partially compensated for the missing contribution of OMV Petrol Ofisi, which



was EUR 32 million in the fourth quarter of 2016. OMV's indicator refining margin was almost flat at \$5.7 per barrel. The refinery utilization rate was 92%, slightly lower than in Q4 '16 when we built inventory to prepare for the Schwechat refinery turnaround. Excluding OMV Petrol Ofisi, retail volumes and margins grew slightly, whereas commercial sales volumes and margins came down compared to the fourth quarter of 2016. The contribution from petrochemicals decreased from EUR 53 million to EUR 37 million in Q4 '17. Despite a slight increase in petchem margins, the drop in earnings was caused by an unplanned shutdown of the Schwechat steam cracker. Borealis contributed EUR 94 million, which was EUR 8 million higher than in the same quarter of 2016, due to a higher results of Borouge and lower fixed costs.

In Downstream Gas, the clean CCS operating result increased from EUR 29 million to EUR 45 million. The previous year's quarter was impacted by mark-to-market valuation effects. The contribution of Gas Connect Austria decreased by EUR 9 million to EUR 21 million, mainly because of the change in regulated tariffs at the beginning of 2017. Natural gas sales volumes rose slightly to 31 terawatt hours due to the increased sales in Germany, Austria and Turkey. The power business recorded higher electric output and improved spark spreads in Romania.

The good performance of our business segments was also a result of our ongoing strict cost discipline. At \$8.8 per barrel in the fourth quarter of 2017, production cost declined 15% compared to the fourth quarter of 2016, due to higher production coupled with the successful implementation of our cost reduction program. The full impact of Yuzhno Russkoye, which has very low production cost, is now reflected in our 2017 figures as we closed the transaction just before year-end. In the fourth quarter of 2017, the capital expenditures, excluding Yuzhno Russkoye acquisition, amounted to EUR 548 million, thereof, EUR 352 million in Upstream and EUR 186 million in Downstream. For the full year, we recorded total capital expenditures, excluding Yuzhno Russkoye acquisition, of EUR 1.7 billion, EUR 1.1 billion less than in 2015. With the cost savings of EUR 330 million, we substantially overachieved our target of EUR 250 million in 2017 versus 2015. A significant part came from the savings in procurement and efficiency improvements in our operations. The target overachievement was the result of the strict cost discipline of our employees throughout the entire organization.

Let's now come to cash flow. In the fourth quarter of 2017, cash flow from operating activities amounted to EUR 742 million. Cash flow for investments showed an outflow of EUR 579 million for the same quarter. This includes another draw down under the financing agreement for the Nord Stream 2 pipeline project in the amount of approximately EUR 45 million. In the same period, we also accounted a cash outflow for acquisitions of EUR 1.6 billion following the closing of the Yuzhno Russkoye transaction.

Looking at the full year 2017, OMV generated an operating cash flow of EUR 3.4 billion, an increase of 20% compared to 2016. As a result of our portfolio changes, we recorded net divestments of EUR 185 million. The cash inflow from divestments amounted to EUR 1.8 billion with approximately 90% of the amount from the 2 major portfolio changes: the sale of the OMV Upstream in the U.K. and the sale of OMV Petrol Ofisi in Turkey. For the full year 2017, the cash outflow for acquisitions amounted to EUR 1.6 billion. Cash flow for investments amounted to EUR 2 billion and included financing the Nord Stream 2 project of EUR 324 million.

In 2017, we also paid total dividends of EUR 668 million. This means, ladies and gentlemen, that in 2017, we generated a free cash flow after dividends of EUR 1 billion, 65% more than 2016.

As of year-end 2017, OMV's net debt increased from end of September 2017 by EUR 1.6 billion to EUR 2 billion, due to the acquisition of Yuzhno Russkoye. Despite the acquisition, we were able to reduce net debt by EUR 1 billion compared to the end of 2016. Cash and cash equivalents decreased from EUR 4.6 billion in Q3 '17 to EUR 4 billion. OMV's balance sheet remains very healthy and shows strong liquidity. In order to take advantage of attractive financing conditions and ensure financial flexibility, in December 2017, OMV issued a EUR 1 billion international bond with a coupon of 1% maturing in 2026. The cash will be used according to our strategic capital allocation priorities: capital expenditures; strategic acquisitions; dividend payments; and reduction of debt. The gearing ratio increased to 14% compared to the end of Q3 2017, comfortably below our long-term gearing ratio target of max 30%.

Ladies and gentlemen, OMV is committed to delivering an attractive and predictable shareholder return throughout the business cycle. According to our progressive dividend policy that we announced last year, we intend to grow the cash dividend going forward. As already mentioned for the fiscal year 2017, we proposed a dividend of EUR 1.50 per share to the Annual General Meeting. This is an increase of 25% compared to the previous years and marked a new record in OMV's history.



Let me conclude with the outlook for 2018. At the beginning of this year, we saw an oil price reaching the \$70 per barrel mark for the first time in more than 2 years. For the full year 2018, we are forecasting an average oil price of \$60 per barrel. Average European gas spot prices are anticipated to be on the similar level compared to 2017. CapEx is projected to come in at around EUR 1.9 billion with Upstream CapEx at around EUR 1.3 billion. These figures exclude acquisitions. OMV expects a total production of 420,000 barrels per day. Production from Russia is planned to contribute around 100,000 barrels per day, and Libya is anticipated to be at around 25,000 barrels per day, similar level to 2017. Exploration and appraisal expenditures are expected to be EUR 300 million. Refining margins are projected to be lower than in 2017. Petchem margins are forecasted to be at the similar level compared to 2017.

In OMV's markets, retail and commercial margins are forecasted to be on the similar level as in 2017. The utilization rate of the refineries is expected to be above 90% in 2018. This includes the planned full site turnaround at the Petrobrazil refinery scheduled for approximately 6 weeks in the second quarter this year. Natural gas sales volumes are projected to be higher in 2018 compared to 2017. We expect that the clean tax rate for the year 2018 will be in the high 20s, excluding impacts from M&A projects. OMV will continue to finance the Nord Stream 2 pipeline project, subject to the progress of the project financing from the capital markets. One of the milestones in 2018 is the closing of the asset swap with Gazprom, which is expected to take place by end of the year.

Thank you for your attention. Now my colleagues and I are more than happy to take your questions.

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**Florian Greger** - OMV Aktiengesellschaft - Head of Investor Relations

Yes. Thank you, Rainer. I would like to open the call for questions. (Operator Instructions)

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## QUESTIONS AND ANSWERS

**Florian Greger** - OMV Aktiengesellschaft - Head of Investor Relations

The first question comes from Mehdi Ennebati, Societe Generale.

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**Mehdi Ennebati** - Societe Generale Cross Asset Research - Equity Analyst

So I just would like to know, maybe, regarding the additional payments that you could do to Gazprom this year in 2018 related to Nord Stream 2, sorry. Can you tell us what could be the maximum payment? And if you expect it to be reimbursed after the closure of the project financing with the capital markets? And maybe just another small question regarding the EPS trend. So you have been able to materially improve your EPS in the last 2 years. Now given that you've sold Petrol Ofisi, which was positively impacting the EPS and given that you expect a downward trend in the refining margins, do you still think that you will be able to grow the 2018 EPS versus 2017?

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**Rainer Seele** - OMV Aktiengesellschaft - Chairman of Executive Board & CEO

I think, Mehdi, the first question was on Nord Stream. I think the connection wasn't very good. So your question was on Nord Stream...

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**Mehdi Ennebati** - Societe Generale Cross Asset Research - Equity Analyst

Yes, on Nord Stream 2. I can repeat it. I can repeat it. Okay. So just can you tell us what could be the maximum payment that OMV will do to Gazprom this year, if Nord Stream 2 is not able to find -- to finance itself through the capital markets?





**Manfred Leitner** - OMV Aktiengesellschaft - Member of Executive Board

Yes, Mehdi, just to answer that, you know that in 2017, we have spent EUR 324 million on Nord Stream 2. And there is no maximum amount for 2018 because we will be financing in accordance with the progress of the project. And at the same time, there will not be and there has never been plans that any project financing will kick in already in 2018, but only in 2019.

**Mehdi Ennebati** - Societe Generale Cross Asset Research - Equity Analyst

Okay.

**Rainer Seele** - OMV Aktiengesellschaft - Chairman of Executive Board & CEO

And the other question was on the EPS development?

**Mehdi Ennebati** - Societe Generale Cross Asset Research - Equity Analyst

Yes.

**Reinhard Florey** - OMV Aktiengesellschaft - CFO and Member of Executive Board

The question was, whether you would see a further increase in earnings per share? If you look at the earnings per share development as such, we are, of course, looking at that very much from our operating result and then from the tax rate that we are seeing. So if you look at it in total, we are expecting that, of course, with the oil prices slightly increasing compared to 2017, on the other hand the Downstream side being affected by slight decreasing refining margins, that we would see a roughly same level of activities there. Of course, this depends very much on the volume development, which we cannot entirely foresee. From tax situation, you will see that some of the tax loss carried forward will be depleted in 2018. So tax rate might rise for 2018 compared to the 25% that we had in 2017, by the way, exactly what we had predicted. So in that sense, hard to progress. And we are not guiding on the EPS 2018 right now. But in the same ballpark or slightly lower is probably something that you could put into your models.

**Rainer Seele** - OMV Aktiengesellschaft - Chairman of Executive Board & CEO

Well, Mehdi, when I was listening to Reinhard, one thing is obvious, too many question marks left that we can give you a clear guidance on the EPS for 2018, yes? So give us a little bit more time, how the numbers are kicking in and during the year, I promise you, you will get a better answer from us.

**Florian Greger** - OMV Aktiengesellschaft - Head of Investor Relations

The next question is from Hamish Clegg, Bank of America Merrill Lynch.

**Hamish William George Clegg** - BofA Merrill Lynch, Research Division - Director and Senior Analyst

Another impressive result. A few quick ones for me. I wanted to check on just what your organic reserve replacement would've been without the deals? And if you can confirm to us your 1P and 2P resource base, so we can better understand that. And leading on from that, there have been a few headlines this morning, just reading in the press during the call even about potential M&A. If you could maybe update us on the situation, particularly, in Abu Dhabi? And what the scale of that could be? Secondly, on Gazprom. I know we're still waiting on the Achimov side of things. Could you confirm just for the more ESG-minded people, what the corporate governance issues actually are with Gazprom? And finally, in line with the sort of ESG angle, is it -- could you explain to us SMATRICES and your renewable strategy. Is this really just keeping up with your peers doing a few things? Or do you honestly see this as a cash contributing business line?



**Rainer Seele** - OMV Aktiengesellschaft - Chairman of Executive Board & CEO

Well, Hamish, thank you for the last question. Manfred, is more than happy to answer this. He is our SMATRICS expert in the board. I take the 2 easy ones. Abu Dhabi is actually Mark, and Hans will then give you an idea about the organic reserve replenishment. Well, in Abu Dhabi, it's very obvious that we do have an interest to increase our activities in Abu Dhabi is depending on opportunities which might arise. Which opportunities might arise, I don't want to speculate with you, but what I can say is that OMV is targeting, and we will elaborate more on this strategic idea, that we're targeting to build up integrated business in different regions. And especially in Abu Dhabi, we are thinking more about an integrated corporation model with our partner at ADNOC, than a purely asset-based production model. So that's a reason why we have signed in May last year an agreement with ADNOC that we jointly elaborate opportunities to work together also in downstream. So this is more or less in our focus. How long it will take, Hamish, what I have learned in the region is that our partners told me that, Rainer, you are owning the watch, and we are owning the time. And that's why I hate to wait, but I think I have to show more patience. But what I can say is, during the year we would like to have -- during the year in 2018, we would like to have a clear picture on Abu Dhabi, and I think, we would get this. The Achimov's transaction. Well, one thing is for clear, we have to sit together, and we have to decide how we would like to work in the two companies. In the development of the Achimov reservoirs and in Norway, where we do have the existing business. The main questions we are discussing, how many managers we can send into the companies in Siberia. How many managers they can send into our company in Norway. What is the business model we will have in mind. What is the business plans we would like to agree on. What is the development plan and so on. So all these type of questions we have to find an agreement together with Gazprom. And one thing is for clear, I would like to have a big influence in Russia. I would like to avoid a big influence of my partner in Norway. And this is describing the conflict we have to solve together and this is taking time. But we have in our master plan the milestones that within the year, we are going to solve the issue, and we are going to start the application for the necessary approvals in Norway as well as in Siberia. And we are planning that the approval process will take some several months. We don't have any experience so far, how long the approval process will take, but this is what we have in our plans. And following that schedule we are targeting to close the swap transaction at year-end. So now, I look to my colleagues who is smiling more, this is a SMATRICS smile.

**Manfred Leitner** - OMV Aktiengesellschaft - Member of Executive Board

Coming to your question on our alternative fuel strategies, first of all what we experienced last year was a significant increase in the demand for diesel in our market. And scheduling was more or less stable. I think this is something which already gives you a certain idea whether we see this as a new business segment that we're building up, or whether we trust what we're really actually having in mind to offer our customers, a broader alternative fuel offer at our stations, to make them more attractive, not to fall back behind competition. And that's the main topic that we're having, because what we need to, obviously, prepare for is an increase in electrical mobility. This is coming. SMATRICS is the -- in Austria at least, the most comprehensive provider of electrical mobile services. And if you see for instance the joint venture that has been mentioned by Rainer before that IONITY where this is going exactly into the direction that we like to see. The car producers are a joint venturing in order to invest into stations. Invest into our stations is better than to invest in the stations of our competitors. And at the same time, SMATRICS will play a role here, because they will have the power management at their station, so that we get synergy out of it on top of it. But I can reconfirm that we are not building up, not for the time being, a new business segment that is called alternative fuels.

**Hamish William George Clegg** - BofA Merrill Lynch, Research Division - Director and Senior Analyst

So to be very clear, it's about sustaining your market share in the -- into the retail business, correct?

**Manfred Leitner** - OMV Aktiengesellschaft - Member of Executive Board

Exactly, I mean, what we've done on the fuels, on the fossil fuels to be specific. We have increased our retail sales volumes last year by 5%. And this is more of a market growth, so obviously, we have increased our market share, even before falling back on the support of the mobility.



**Johann Pleininger** - OMV Aktiengesellschaft - Deputy Chairman of Executive Board

Hamish, I will give you 2 figures on reserve replacement rates, but I will not disclose all the details. As you might know reserve replacement rate is driven by on the one hand revisions, you know existing fees, projects, new projects coming on stream, like Nevada, Aasta Hansteen, Neptun where you can expect more in the upcoming future, E&A activities and M&A activities. But we don't disclose the figures on all those categories. What I can tell you is that our one year reserve replacement rates in 2017 climbed up to 191%. In the 3 years average on improved reserve replenishment rate went beyond 100%, exactly to 116%.

**Rainer Seele** - OMV Aktiengesellschaft - Chairman of Executive Board & CEO

Hamish, one more comment. If you remember what we have said what our replenishment strategy at OMV is. We have reduced our E&A spending, dramatically from a level of 700 to now last year below 300. So the contribution can't be at that level we've seen in the past. But we have clearly said that the major reserve replenishment in the next years will come by acquisition. So that the organic reserve base is the small number compared to the total number, which is fully in line with our new replenishment strategy.

**Florian Greger** - OMV Aktiengesellschaft - Head of Investor Relations

Thanks Hamish for your four questions. Next question comes from Joshua Stone from Barclays.

**Joshua Eliot Dweck Stone** - Barclays PLC, Research Division - Analyst

I've got a question on the dividend. I just wonder if you can talk us through your process assessing that, what sort of metrics you look at. You Talk about an attractive shareholder return, so I presume you're looking at dividend yield, but also perhaps maybe payout ratios. I just -- because can you talk about growing cash dividend, I also wanted to confirm that means we should interpret the EUR 1.5 per share being a floor. I do the -- a quick housekeeping question on gas realization. So wondered, if you could just say what those would've been in the quarter if you didn't have the Yuzhno volumes in the mix?

**Johann Pleininger** - OMV Aktiengesellschaft - Deputy Chairman of Executive Board

(inaudible).

**Rainer Seele** - OMV Aktiengesellschaft - Chairman of Executive Board & CEO

The second half. The first part we got.

**Joshua Eliot Dweck Stone** - Barclays PLC, Research Division - Analyst

The second part was just on the gas realization that came in at \$5.01. I wanted to see what those were if you excluded the production from the Yuzhno assets?

**Rainer Seele** - OMV Aktiengesellschaft - Chairman of Executive Board & CEO

You are talking about the realize...



**Reinhard Florey** - OMV Aktiengesellschaft - CFO and Member of Executive Board

Realized. (inaudible) .

Dividend, okay. Josh, on the dividend, first of all of course in the consideration for the proposed dividend of 1.5 we kept exactly to the dividend policy that we have given out. Which means, that we looked at our free cash flow, and our net income and both have clearly improved. But then it is very much about the strategy that we have that we gradually increase the dividend payment, which means that with the environment that we are in with our ability, given for instance in 2017, we have the chance to finance all our acquisitions more or less from the divestment part and entered into a very good free cash flow situation, which gave us the room for even larger increase from 16 to 17, than from 15 to 16. However, it stays, what we say our intention is to keep the dividend in rising level. We have not said 1.5 is the floor, but the intention is clearly to see that we are in a position to live up to that dividend policy that we have and all our strategic plans that you will hear about on March 13 are in line with that.

**Rainer Seele** - OMV Aktiengesellschaft - Chairman of Executive Board & CEO

Well Josh, we do know that the dividend yield of OMV is not in the top league, let me call that way, yes? Given that we have that always in mind, I think, it's another convincing argument that we are targeting a progressive dividend policy, which means depending, of course, on the business development and the financial situation of the company, it shall go up and not down. And, therefore, I think we should not discuss any floor. Your second question, Josh, is a very delicate one, because for some reasons, which has to do with confidentiality with the agreements we have signage on, we would like to keep some informations really confidential. And what we don't want to disclose is the pricing formulas, we do have together with Gazprom on Yuzhno Russkoye production, all we can do is giving you some guidance about the structure of the pricing model. The gas price in Russia is a state regulated price, which is published for 3 years period. And the German border price with a net back calculation is also published. This is the only guidance I can give you, but we don't want to release any prices, neither the prices we have in Russia nor in some other regions.

**Florian Greger** - OMV Aktiengesellschaft - Head of Investor Relations

The next question is from Henri Patricot from UBS.

**Henri Jerome Dieudonne Marie Patricot** - UBS Investment Bank, Research Division - Associate Director and Equity Research Analyst

One question on Libya, and your guidance for 2018 of 25kboe/d which is flat compared to 2017 average, but down from the 32,000 you have in the fourth quarter. Is that because you being a bit conservative or is the situation deteriorated so far this year? And secondly, what could be the upside case if everything goes well this year in Libya for your production?

**Rainer Seele** - OMV Aktiengesellschaft - Chairman of Executive Board & CEO

Well, Henri, you're absolutely right. As we speak about our production capacities we do have, yes, and we could drive in a quarter, we are talking about a level of 30,000 barrels per day. The number we take into our calculation is strongly depending on how much infrastructure for the export of our production is available. And as a good educated guess, we have said, okay, we take the same situation of last year for 2018. If the entire infrastructure, the pipe transport to the ports is available then there is an upside to the 30,000 barrels per day.

**Henri Jerome Dieudonne Marie Patricot** - UBS Investment Bank, Research Division - Associate Director and Equity Research Analyst

And what is this upside potential?

**Rainer Seele** - OMV Aktiengesellschaft - Chairman of Executive Board & CEO

5000, so from 25 to 30.

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**Florian Greger** - OMV Aktiengesellschaft - Head of Investor Relations

The next question is from Robert Pulleyn from Morgan Stanley.

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**Robert John Pulleyn** - Morgan Stanley, Research Division - Analyst

So if we look at the guidance for production in 2018 of the 420 and if we exclude, obviously, the Russian additions and compare it to the underlying number in '17, it looks like, you're guiding for about a 6% decline in your underlying production, not including Russia. I just wanted to check that that was the right impression. And of course, the obvious question is how does OMV plan to offset those declines? And if I may also ask on the refining margin comment you published in the outlook, how much lower year-on-year do you envisage (inaudible) is 4Q \$5.7 a barrel is that a good indicator for 2018? Or should we be thinking higher or lower?

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**Manfred Leitner** - OMV Aktiengesellschaft - Member of Executive Board

Are you taking the production numbers -- so the 420 -- let me start with refining margin maybe, yes? To -- now give you the refining margin in very much detail in 2018, this will not be very responsible. What -- why we believe it is lower than 2017 is simply, because in 2017 you had a few incidents that have been one-off for instance, the hurricane Harvey in the third quarter in the US. I do not believe -- I mean, we have a plan if this is repeated. And at the same time in Europe, there have been some outages, which have been unplanned off-peak refining have such as the Pernis refinery, for instance, in the Netherlands. If you take that together, it's very difficult really to get it into details numbers in the digits, but I would believe, it could be something like below 5 -- above 5 on average for 2018, if there is no one-offs repeating.

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**Johann Pleininger** - OMV Aktiengesellschaft - Deputy Chairman of Executive Board

Regarding production, because your questioning, I guess, 420,000 barrels per day production. What I can tell you, I give you also figures from 2017. We know how much European, mainly Romania and Austria we saw a 3% decline. The same we do expect for 2018, even we could improve it, because we increase our training program, as well in Austria as well as in Romania. Rainer told you already that in Libya, if everything goes very well, we see an upside from 25,000 to 30,000. So if you add this and you would not come up with the 6% decline, but what we are -- what we want to do it, we're promising, we will deliver at the end of the year. So we have a very good start at the beginning of this year, but there are some plans -- maintenance shutdowns in the course of the year. This is included and also some uncertainty, as I said, from Libya is included in the forecast already.

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**Rainer Seele** - OMV Aktiengesellschaft - Chairman of Executive Board & CEO

We roughly start with conservative numbers in the beginning of the year. We will give you better guidance in our next Q1 report of 2018.

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**Florian Greger** - OMV Aktiengesellschaft - Head of Investor Relations

The next question is Marc Kofler from Jefferies.

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**Marc B. Kofler** - Jefferies LLC, Research Division - Equity Analyst

I just wanted to come back to the dividend and some of the comments you've been making today. I notice you talking a lot about predictability around dividend. Can you just say a few more words about that? And I suppose really, were you tempted to consider a dividend policy going forward that offered a bit more color in subsequent years beyond 2018?

**Rainer Seele** - OMV Aktiengesellschaft - Chairman of Executive Board & CEO

Mr. Dividend, Reinhard.

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**Reinhard Florey** - OMV Aktiengesellschaft - CFO and Member of Executive Board

Regarding the dividend, I think, we have expressively mentioned, what the reasoning of our dividend policy is. And I think that if we give you the guidance that we're looking in to a positive development of the company, into strategic growth and intention to live up to the dividend policy, which says that that would be an increasingly higher dividend over the years, this is exactly our intention. The intention also is that the dividend yield goes away from being at the very bottom of peer group. However, we have seen in 2017 simply an extremely positive development of the share price, then I think we shouldn't complain about the dividend yield. The total shareholder return that we have achieved in 2017 is 61%. So this is clearly at the top of the group. So therefore, we have to take that into account. I understand and fully appreciate the stability of a dividend paid out. We have lived up to that dividend policy that we have given in 2015 for 2016 and in 2017, and our intention is to continue like that.

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**Rainer Seele** - OMV Aktiengesellschaft - Chairman of Executive Board & CEO

Mark, since we have announced our new strategy 2 years ago, we have now increase the dividend twice. What shall I do different to give you a good guidance?

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**Florian Greger** - OMV Aktiengesellschaft - Head of Investor Relations

I think, we have come to the next question. Mark are you still there. Next question is from Giacomo Romeo, Macquarie.

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**Giacomo Romeo** - Macquarie Research - Analyst

Perhaps if you can talk a little bit more on what sort of the investment you're doing in Romania and Austria to offset production decline? And you already partially touched on that, but it would be interesting to hear if you -- what extent you're stepping up investments there. Second question is, if you can perhaps talk a little bit of the progress you're doing towards FID at Domino?

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**Johann Pleininger** - OMV Aktiengesellschaft - Deputy Chairman of Executive Board

Okay, we would like to start with investment. So we are planning to invest in 2018 Upstream EUR 1.2 billion EUR 1.3 billion. Thereof will invest in Romania roughly EUR 600 million, where EUR 100 million going to the Neptun investments, already. So we are drilling in Romania around 115 wells compared to 63, 65 wells in 2017. So we increased substantially on our drilling activities in Romania, and this will also help to minimize the decline. The same we are doing in Austria. So in Austria, we are going to drill 16 wells, so with 1 drilling rig. And in that drilling program we will drill in Austria as well from the 16 wells; they're 4 exploration wells where we will drill 2 key wells in Austria. So this is explaining more or less how we want to minimize the decline. And as I said before when I answered the question, the decline in 2017 was roughly 3% in Romania and in Austria, with less drilling activities than we planned for 2018. So there's a good chance that we even come out with the lower a decline rate end of 2018, than in 2017 in Romania and Austria. Regarding Domino, we are progressing with the project. We are expecting to take FID, second half -- beginning of second half 2018. And we're expecting for first gas, in 2020 and 2021.

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**Florian Greger** - OMV Aktiengesellschaft - Head of Investor Relations

Thanks Giacomo. Next is Mehdi again.



**Mehdi Ennebati** - *Societe Generale Cross Asset Research - Equity Analyst*

Just a follow-up question, mainly on Domino. You just said that you expect to take FID in H2 -- beginning H2 '18. At what kind of break-even price are you working on and are you targeting for this project -- for this gas project? And you were also talking about unrealized hedging losses at the end of 2017, so there might be negative cash impact in 2018. Can you just tell us the relative amount of those unrealized hedging losses? Other questions regarding the dividend that you might receive. So can you please tell us what will be the dividend -- or the remaining dividend that we do receive from Yuzhno Russkoye for the year 2017? And when would it be? And second question regarding Borealis dividend. When would you know what be the dividend level? And are you expecting something which is relatively close to what you received last year?

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**Magdalena Moll** - *OMV Aktiengesellschaft - SVP Corporate Affairs*

Mehdi, this is Maggie. We have missed out on the first question, we have a very bad connection today. Can you please repeat the first question again?

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**Mehdi Ennebati** - *Societe Generale Cross Asset Research - Equity Analyst*

Yes, the breakeven price for Domino, because you said the FID will be taken in H2 '18. So you probably already have good idea about the breakeven price you're working on?

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**Rainer Seele** - *OMV Aktiengesellschaft - Chairman of Executive Board & CEO*

Okay, I take your first question, what you have mentioned after, Mehdi, please understand that we don't talk about prices, yes? it's a general policy. Especially not the breakeven price, because then all the potential customers will know what price and I need at minimal to get when I will negotiate contracts. So please understand that I don't answer your question on prices. All I can say is that we are looking for prices abroad of Romania, and we have to start an intensive marketing program. And that's the reason why we are so closed on making any comment on prices, because we first have to lock in the contracts with potential customers. So please understand that we cannot comment on this. Then we have hedging?

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**Mehdi Ennebati** - *Societe Generale Cross Asset Research - Equity Analyst*

So maybe just on that can you tell us what kind of internal return rate are you working on for Domino?

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**Rainer Seele** - *OMV Aktiengesellschaft - Chairman of Executive Board & CEO*

No, I think we have a general policy, Mehdi, that we have a certain threshold for our investment we are taking and this also applies to the offshore project of Romania. We need to have a double-digit percentage rate of return after-tax. That's the main criteria we have. It can be higher and much higher, but not lower.

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**Reinhard Florey** - *OMV Aktiengesellschaft - CFO and Member of Executive Board*

Regarding hedging policy, of course, we are taking some steps in hedging, but we are not in any way speculatively hedging. We are looking hedging as a more of a defensive strategy, in order to secure our profitability basis that we have. Regarding the hedging intakes in 2017, in total we have slightly negative effects from hedging, specifically in quarter 4. If we're looking into hedging for 2018, of course, I cannot predict any kind of impact there, because, of course, the volatility of the oil and gas prices would predetermine that. But yes, there is a certain amount of hedging in place, and specifically, when it comes to Russia when we are trying to protect ourselves against downsides.

**Mehdi Ennebati** - *Societe Generale Cross Asset Research - Equity Analyst*

So if you know the hydrocarbon prices remain at the current level, should we expect material negative impact or material positive impact in terms of hedging?

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**Reinhard Florey** - *OMV Aktiengesellschaft - CFO and Member of Executive Board*

It is very difficult to take assumptions there. You have seen what development in Q4 was and the effects in Q4, and the situation in 2018 will be probably more balanced one. And it's very difficult to say how oil versus gas will develop, because the direct relationship between the prices has been clearly weakened. So we are trying to take our own internal expertise to optimize what we can do.

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**Rainer Seele** - *OMV Aktiengesellschaft - Chairman of Executive Board & CEO*

So Mehdi, I would take your last 2 questions, the dividends from Yuzhno Russkoye. The total dividend from Yuzhno Russkoye as I have said for 2017 is \$160 million roughly. And the dividend from the trader will be paid in 2018, whereas, we have received a dividend payment from the operating company Severneftegazprom already in 2017 in the order of magnitude of EUR 15 million, not dollars, Euros.

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**Mehdi Ennebati** - *Societe Generale Cross Asset Research - Equity Analyst*

And on Borealis dividend.

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**Rainer Seele** - *OMV Aktiengesellschaft - Chairman of Executive Board & CEO*

But this number, the other part was considered purchase price adjustment, so that's a little bit more complicated. But from a cash perspective take the EUR 15 million for '17 and the rest up to \$160 million will be paid then as a dividend in 2018.

Yes, Borealis is doing a good job, you're absolutely right they have repeated their record year with EUR 1.1 billion net profits. They haven't decided on the dividend, yes? Am I hungry? Of course I am, Mehdi. But can I decide it, no. So we have to wait the decision on Borealis management, what they want to grind on as dividend level. So we have to wait another week then we will have a clear answer from Borealis management.

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**Florian Greger** - *OMV Aktiengesellschaft - Head of Investor Relations*

Thanks, Mehdi. We've already expended the call a little bit. Ladies and gentlemen, with that we would like to end our conference call, and would like to thank you for joining us. Should you have any further questions, please contact the Investor Relations team, and we will be happy to help you. Goodbye, and have a nice day.

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**Rainer Seele** - *OMV Aktiengesellschaft - Chairman of Executive Board & CEO*

Bye.

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**Reinhard Florey** - *OMV Aktiengesellschaft - CFO and Member of Executive Board*

Bye.



**Johann Pleininger** - OMV Aktiengesellschaft - Deputy Chairman of Executive Board

Bye.

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**Operator**

That concludes today's conference call. The replay will be available for 1-week. The number is printed on the teleconference invitation, or alternatively please contact OMV's Investor Relations Department directly to obtain the replay numbers.

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