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OMV.VA - Q1 2018 OMV AG Earnings Press Conference

EVENT DATE/TIME: MAY 03, 2018 / 8:00AM GMT



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PRESENTATION

Andreas Rinofner

Ladies and gentlemen, a very warm welcome to our live webcast presentation of OMV's first quarter 2018 results.

Let's start with a short video.

Unidentified Company Representative

In the first quarter of 2018, OMV presented its new strategy and already took the first steps it implemented by acquiring additional stakes in 2 offshore assets in New Zealand.

Our financial performance in the first quarter reflects the higher sales volumes and strong operational performance in Upstream. Refining margins decreased following the rise in the average Brent oil price. Overall oil and gas production increased substantially in the first quarter mainly due to Yuzhno Russkoye.

OMV will continue to focus on its integrated international growth strategy.

Andreas Rinofner

This first quarter was a quarter not only of presenting a new strategy but also a quarter of taking first steps of implementation. And it was a quarter when OMV exceeded the significant production level for the very first time in its history. The details of this performance, how it came about, will be explained by OMV CEO Rainer Seele, who joins us for today's webcast.

After the presentation of the results, we will have a live question-and-answer session. Please send your questions via email to public.relations@omv.com. If you run out of time during the Q&A session, our public relations team will contact you later this day.

Let me now hand over to Rainer Seele.

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

Yes. Good morning, ladies and gentlemen, and thank you for joining us live here in Vienna for our webcast of our first quarter 2018 results.

[About] 7 weeks ago, we presented OMV's new integrated growth strategy for the years running up to 2025. Only a few days later, we took an important step towards developing Australasia into our fifth core region by acquiring Shell's upstream business in New Zealand. This was followed by a successful exploration project in Norway and the acquisition of interests in 2 substantial offshore oil fields in Abu Dhabi. These are just a few highlights showing that OMV is well on track.

If I were to pack our first quarter in one sentence, I'd have to say our integrated business model works. Our continued portfolio optimization resulted in an increased Upstream production of 437,000 barrels per day. This is the first time in OMV's history that it has exceeded the production level of 400,000 barrels per day. At the same time, we further reduced our production costs to \$7.4 compared to \$8.9 in first quarter last year. In addition,

increased Downstream Gas sales contributed to the strong OMV result in the first quarter. This helped us to cope with a challenging refining market environment and the negative FX impact of the U.S. dollar against the euro.

OMV's Q1 2018 clean CCS operating result amounted to EUR 818 million compared to EUR 805 million in first quarter '17. OMV Petrom contributed EUR 206 million, reflecting a 21% increase compared to Q1 2017. Clean CCS net income attributable to shareholders decreased by 25% to EUR 377 million due to higher taxes driven by an increased contribution from higher-taxed upstream countries. The clean CCS earnings per share were at EUR 1.15, and we generated a free cash flow of EUR 538 million.

Before I go now into more detail, let me give you a quick update on the economic environment. After a decline in January, the average Brent price rose by 24% to \$66.8 per barrel in the first quarter. This was predominantly caused by higher geopolitical risk and the OPEC countries' continued strong compliance with the production cut. The [SEK] gas price in Austria were 7% above the same period last year as a result of higher industrial demand and Europe's exceptionally cold weather in February and March. In Downstream Oil, OMV's indicator refining margin decreased by 12%, reflecting the strengthened crude oil price. Furthermore, lower margins, particularly for heavy fuel oil and naphtha, could only be partially compensated by higher margins from middle distillates. Net margins for both ethylene and propylene increased.

Let me now turn to the financial performance of our 2 business segments in the first quarter of '18.

In Upstream, the clean operating result strongly improved from EUR 321 million to EUR 438 million. This was largely driven by a 35% increase in sales volumes mainly attributable to the acquisition of the interest in the Yuzhno Russkoye gas field in Russia and the higher production contribution from Libya. The clean CCS operating result generated by Downstream saw a decrease from EUR 494 million to EUR 376 million. This was primarily caused by weaker refining margins and, of course, the divestment of Petrol Ofisi. Our overall refinery utilization rate was strong at 93%.

Downstream Gas contributed EUR 94 million to our clean CCS operating result, an increased of 14%. In a difficult environment with frequent short-term price increases, [our gas experts and market conditions to our advantage]. We sold more volumes, increased margins and captured arbitrage opportunities in the market. With increasing gas sales in Germany, we took another step towards our strategic goal of achieving a 10% market share by 2025.

Ladies and gentlemen, let us now take a look ahead.

For the year 2018, we expect the average oil price to be at \$68 per barrel. We are planning a total production level of above 420,000 barrels per day, with production from Russia contributing around 100,000 barrels and production in Libya being at the similar level of last year. The announced acquisitions in New Zealand and Abu Dhabi provide upside potential. However, we anticipate planned maintenance shutdowns in Norway and Russia, which will have a negative impact on our Upstream production in the second and third quarter. OMV's indicator refining margin is projected to be lower than in 2017 despite the planned turnaround at the Petrobrazi refinery in Romania, which is scheduled to take approximately 6 weeks to complete. Our refinery utilization rate is forecast to remain above 90% in 2018. Natural gas sales volumes are anticipated to be higher than in 2017.

OMV expects CapEx to come in at EUR 1.9 billion in 2018, and we will continue to work on realizing our cost reduction target of EUR 100 million by 2020.

Finally, I want to highlight our most important transaction since the beginning of the year.

Let me start with our decision to acquire Shell's upstream business in New Zealand, which comprises majority interests in the producing Pohokura and Maui fields as well as related infrastructure. The purchase price amounts to \$578 million, and the acquisition is expected to be closed before year-end. OMV plans to assume operatorship in both joint ventures. With the economic effective date of the transaction being January 1, 2018, this will decisively increase our overall production as of the closing date. Average production of the acquired assets in the first 2 months of 2018 was around 31,000 barrels per day. As a result of technical problems, production from the Pohokura field has been lower since mid-March 2018. Full production capacity is expected to be reached again in the third quarter this year. We also acquired Shell's majority interest in the south great



basin (sic) [Great South Basin] exploration block. And this -- at this point, I would like to emphasize that the plans of the New Zealand government to halt new oil and gas exploration explicitly do not refer to existing permits and therefore do not have any effect on our assets.

Let's have a look at our Middle East and Africa core region. Last Sunday, on April 29, we took a decisive step towards establishing a material position in the Middle East, one of the world's leading hydrocarbon hubs. From our partner ADNOC, we acquired a 20% stake interest in the 2 oil fields located offshore of Abu Dhabi. The participation fee amounts to \$1.5 billion. The development of the 2 fields is nearly completed. The oil production at a plateau of 40,000 barrels per day is expected to be reached early in the next decade. The contract has a duration of 40 years and means a substantial increase to our reserves by around 450 million barrels of oil. We are pleased, very pleased, to see that ADNOC appreciates our technological know-how and has selected OMV as one of its partners of choice.

Ladies and gentlemen, as mentioned in the beginning, our integrated business model is working well. Combined with consequent portfolio management, consistent operational performance and strict cost discipline, it proves to be a strong basis for the successful implementation of our strategy 2025.

Thank you again for joining us.

Andreas Rinofner

Thank you, Mr Seele.

We are now ready for your questions. And we received already some, a couple of questions.

QUESTIONS AND ANSWERS

Andreas Rinofner

The first or the first 3 one, coming from [Mr. Simha] from Handelsblatt. The first one is, why does OMV expect oil prices to rise? And what are the reasons for this? Let's go question by question.

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

Well, we do expect that the oil price will stay in the 70s for the rest of the year. \$70 per barrel is our expectation. And what we do see is, of course, a real high compliance of OPEC with their targets. So they have rebalanced the market. We do see that the stocks went down by 2 million barrels. These are fundamental data really convincing me that the oil price stays in the -- at the right level. We do see a little upside potential in the oil price if the geopolitical tensions right now dominating also the oil price volatility are continuing into the next quarters. And then of course, we will have an oil price which will stay in the \$70 to \$80 per barrel range.

Andreas Rinofner

Okay, thank you. The second one, what impacts on price developments do you expect from U.S.A.'s possible withdrawal from the Iran nuclear deal?

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

Well, first of all, we have to wait and see. And then the market will tell us, but I would expect that the decision of the U.S. President will, of course, have an impact on the supply side. And then we have to wait and see how the market is reacting on such a development, but my guess would be that the oil price has then another upside potential.

Andreas Rinofner

Okay, thank you. And the third and last one from Handelsblatt: Do you expect OPEC and Russia to work together even more closely? In strategic terms, what does this mean for the oil price?

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

Again, I'll have to say the market will answer the question. What I do see is that OPEC and Russia do have an interest that a long-term rebalancing of the oil market should happen. That's the main intention. They are taking care of the market dimensions, the fundamental data, (inaudible) supply and demand. And we have to wait and see how the market is going to react on price terms.

Andreas Rinofner

Okay, we received another question from [Mark Smedley]. What update can you provide on the financial decision for the Neptun gas development offshore Romania? Is it still expected this year? And if so, for startup when?

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

Well, Petrom is telling us very clearly that they have a high commitment for the Neptun gas development. They are planning to take FID together with their partner Exxon in second half this year. We have to wait and see how this process of fine-tuning between the 2 partners will take, but my good, educated guess is that we are going to see an FID this year. The major challenge in the project is still the same, not Upstream. It's Downstream. We have to find the proper monetization of the gas we are going to produce, but this is the project of high strategic importance for Petrom, and therefore I'm absolutely convinced that our colleagues in Bucharest are doing their best to come up with a good FID.

Andreas Rinofner

The next 2 questions, from the same gentleman: Are we -- with respect to Russia. The first one, with respect to the sanctions, especially the sanctions also against Mr. Miller, do you think, will this have an impact on OMV's business?

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

Currently, not at all. We have analyzed the sanctions, and I don't see any reason why OMV should change their strategy towards Russia. We are doing our best to execute our projects. So no impact on our business in Russia and our strategic plan, so far. We are going to further execute our pipeline project together with Gazprom with Nord Stream 2, and we are going to continue our discussions to finalize our asset swap with Gazprom.

Andreas Rinofner

The next question with regards to Russia is especially to LNG. OMV and Gazprom were considering an LNG export project on the Russian Black Sea coast. Is there progression on this project?

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

No. It's more or less in a very embryonic stage, the project. And it's not an export from the Black Sea. It's more an [idea] that we are going to see a huge potential in LNG for the marine sector. And therefore, we would like to invest into infrastructure necessary to market more gas for the marine sector, which is more the (inaudible) than the export of LNG from the Black Sea.



Andreas Rinofner

Okay, one more question regarding Russia coming from Matthias Wabl from Bloomberg. He asks you, referring to a possible visit of Mr. Putin in Vienna next month, do you have any plants to sign a project or a contract here in Vienna?

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

We have to wait and see, yes. We will take this opportunity of a visit of Alexey Miller, and that's the main interest we do have as OMV, to celebrate our partnership. 50 years is the main topic why Alexey Miller will come to Vienna and why he is going to celebrate with us. If there is an opportunity and we can sign agreements, let's wait and see, but so far, I think it's by far too early to make any comment or indication.

Andreas Rinofner

And the next and so far last question I received is in regard with -- to Abu Dhabi, especially to Ruwais. Mr. Wabl is asking the Ruwais project in Abu Dhabi. Are you interested in taking a stake in the current refinery? Or would it be a major expansion that you would take part in?

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

Well, we do have an interest to intensify our cooperation with Abu Dhabi and especially ADNOC. We have signed a very important milestone agreement with ADNOC last weekend. Now we are partners in the production of oil offshore Abu Dhabi. This is a very good first step, and it will bring us much closer to Abu Dhabi and ADNOC. And we have signed an agreement last year in May with ADNOC that we are -- both jointly will sit together and screen opportunities to cooperate also in the Downstream sector. Is that focusing on the refinery Ruwais? Not at all. We would like to have an integrated cooperation model. Is it now the right time to give you an idea how this cooperation will look like? No. It's in a very, very early stage of discussion. And I am really looking forward to travel to Abu Dhabi next weekend because we are invited, like many others, to participate in an investment downstream forum, where ADNOC is going to present their strategy in downstream. And I think I first have to listen to my partner what are their strategic ideas they are going to present. Afterwards, OMV will discuss it internally. And we are going to think about a win-win combination. So we have to take one step after another. There is a rumor outside with the Ruwais refinery. This rumor was not invented by OMV, and therefore we don't comment on any rumors.

Andreas Rinofner

I will look whether we have a new question. Even with my glasses, I cannot see any further questions, and as there are no further questions, I would like to say goodbye to close this session.

Have a nice day, and goodbye.

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

Thank you very much.



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