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# EDITED TRANSCRIPT

OMV.VA - OMV AG Signs Agreement to Increase its Shareholding in Borealis AG to 75% Call

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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'd 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 are outside the control of OMV. Therefore, recipients are cautioned not to place undue reliance on these forward-looking statements.

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

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**Florian Greger** - *OMV Aktiengesellschaft - VP & Head of IR*

Yes. Thank you. Good morning, ladies and gentlemen. Welcome to OMV's conference call on the announced transaction today. With me on the call are Rainer Seele, OMV's Chairman and CEO; Reinhard Florey, our CFO; Hans Pleininger, our Deputy CEO and the Board responsible for Upstream; and Thomas Gangl, the Board member for Refining and Petrochemical Operations.



## MARCH 12, 2020 / 10:00AM, OMV.VA - OMV AG Signs Agreement to Increase its Shareholding in Borealis AG to 75% Call

Rainer Seele will walk you through the highlights of the transaction. Following his presentation, the 4 Board members are available to answer your questions. And with that, I'll hand it over to Rainer.

### **Rainer Seele** - OMV Aktiengesellschaft - Chairman of the Executive Board, CEO & CMO

Yes. Thank you, Florian. Good morning, ladies and gentlemen. And thank you for joining us today on short notice and taking the time during another busy day in global markets. It's certainly difficult times with the recent oil price drop, the coronavirus and the current economic uncertainty. Despite the current situation, we are firmly convinced that the announced transaction today is the right strategic move for our company.

Today, we have signed an agreement with Mubadala for an additional 39% share in Borealis. With this acquisition, OMV will increase its shareholding to 75% and that hold a controlling interest in Borealis.

Ladies and gentlemen, this transaction fundamentally changes OMV's portfolio, transforming our company into a global integrated oil, gas and chemical group. The purchase price amounts to \$4.68 billion. Based on the new shareholding, OMV is entitled to dividends distributed after 31st of December 2019. Closing of this transaction is expected by the end of this year, subject to regulatory approvals. Upon closing, Borealis will be fully consolidated in OMV's groups financials. The transaction will be accretive to OMV's earnings per share from the first year onwards.

Despite this major acquisition and an immediate increase of our net debt, we aim to deleverage fast and achieve a gearing ratio, excluding leases, of around 30% by the end of 2021. To ensure this, we have taken decisive actions, including a divestment program of EUR 2 billion until end of next year.

Borealis is a fantastic strategic fit. Through this acquisition, we will substantially increase our chemicals business and extend our value chain into polymers. This not only enables us to participate in an attractive growth market, but also improves our natural hedge against cyclicity. Borealis is a successful company with a strong earnings track record and consistent high cash flow generation. At our major sites in Austria and Germany, Borealis is just across the fence from our operations. We see a big potential to benefit from further operational integration and from applying best practices throughout the group.

We also expect to realize substantial synergies from the combined business thus, creating additional value. Last but not least, Borealis is a leader in waste management and recycling, which supports our ambition to become a leader in circular economy.

Ladies and gentlemen, this transaction is a decisive step in our transformation to position OMV successfully for the future. We see the following long-term developments: First, the continuous growth of the chemical industry, also in a low-carbon world; second, a trend towards circular economy. Many products of our daily lives are based or enabled by chemicals. To give you just a few examples. The mattresses we sleep on, the toothbrush, the smartphones or -- and computers we use every day, chemicals and polymers are also playing a crucial role in the energy transition. They are needed for solar panels and windmills. They are essential for efficient installation of buildings and electricity transportation. And they have to reduce weight in the transportation sector by replacing heavier materials, such as steel or aluminum. Thus, we are convinced that chemicals and polymers will be needed also in 2050 and beyond. With this transaction, we will change our portfolio towards products that are, without any doubt, also demanded in a low-carbon world.

Our petrochemicals will be produced, may change, however. Most importantly, we do firmly believe that the importance of recycled materials as feedstock would dramatically increase. According to McKinsey study, almost 60% of plastic production might be based on recycled feedstock by 2050. We, OMV and Borealis, together, want to support and drive this development. We will be a technology leader in this emerging market, and we have to have to clear -- the clear ambition to become a leading player in circular economy.

Let me give you a quick overview of Borealis. It is a highly profitable business with strong cash flows. Last year, total sales amounted to EUR 9.8 billion. Borealis achieved a net profit of EUR 872 million and delivered cash from operating activities of approximately EUR 1.4 billion. The latter includes the dividends received from Borouge.



Borealis is a leading provider of base chemicals, polyolefins and fertilizers. They are the second largest polyolefin producer in Europe and among the top 10 producers globally, with a total capacity of 5.7 million tons of polyolefins. In fertilizers, they rank third among European producers. Borealis has a strong European footprint and is active in the Middle East and Asia Pacific through Borouge, a joint venture with ADNOC. In North America, they are a partner of Total in the Baystar joint venture. Borealis employs around 6,900 people, more than 500 are working in research and development.

Well, innovation is a core of Borealis strategy. Its leading market position has largely been achieved through the proprietary Borstar technology and continuous investment in research and development, which is reflected in the number of patents. By the end of last year, they had filed almost 10,000 patents. The unique Borstar process and catalyst technology enables Borealis to provide a differentiated range of innovative plastic solutions for infrastructure applications, automotive components and advanced packaging. Borealis' excellent technology portfolio is one of the key factors in securing partners for global projects.

A recent example is the joint venture between Borealis and Total in the U.S. It is the first time that the new third generation Borstar technology will be used for a polyethylene plant over there. The innovation headquarters is located in Austria and accommodates state-of-the-art research facilities. In addition, Borealis has 2 other innovation centers in Finland and Sweden, and Borouge has its own center in Abu Dhabi. The company invests annually around 2% of its gross turnover in R&D for the development of catalysts, processes as well as products. This is above the industry average. Their motto, "Keep discovering" encapsulates the pioneering company mindset and sums up what Borealis stands for. With more than 50 years of experience, Borealis produces base chemicals, including monomers, melamine, phenol & acetone, fertilizers as well as a wide range of polyolefin products that form the basis of many plastic applications part of our daily lives. More than half of total sales are polyolefins, while base chemicals and fertilizers account for 15% each.

The pro rata sales from equity participation, mainly from Borouge, account for 17% of total sales. The polyolefin products are clustered into 5 end-use industries: Energy, automotive, pipes, consumer products and health care. In addition, the circular economy solution unit is dedicated to discovering new opportunities for long-term business' growth in recycling and designed for recyclability. Well, that's the word I have to train a little bit more. Recyclability.

Building on this unique polymer manufacturing technology, Borealis has a high share of polyolefin specialty grades, accounting for approximately 60% of the total margin. For example, in pipes, Borealis is a leading provider of polyolefin compounds for the global wire and cable industry. Its solutions are widely used in energy transmission and distribution cables, data and communication cables, building and automotive wires. In automotive, Borealis produces lightweight solutions for the substitution of heavier materials, such as metal or rubber. The company was one of the first polyolefin suppliers that develop grades with post-consumer recycled content for automotive applications.

The high share of specialty products mitigates the volatility of the commodity cycle and ensures financial stability. As mentioned before, the polyolefin market is very attractive. In the last 10 years, it has grown at an impressive average annual rate of 5%. Going forward, the market is expected to continue to grow fast at an average annual rate of almost 4%, which is above global GDP. The main driver for growth will be the rapid economic development of emerging countries with improved lifestyles and increasing personal disposable income. Advanced economies such as the U.S. and Europe currently use up to 30x as much plastic as developing economies on a per capita basis.

Asia will lead the development with a projected annual average growth rate of 5%. Also in developed economies, chemicals demand continues to grow, albeit at a slower pace. The market segments that are expected to drive the growth are packaging, automotive, building, construction and textiles.

Headquartered in Vienna, Borealis currently operates in over 120 countries on 5 continents. In Europe, Borealis produces monomers with a capacity of 2.1 million tons through steam crackers in Finland and Sweden as well as the PDH plant in Belgium, and operates polyolefin manufacturing sites with a capacity of 3.7 million tons. The 2 steam crackers benefit from a high feedstock flexibility, being able to use naphtha, ethane and propane. Borealis is thus able to take advantage of feedstock price arbitrage opportunities. In addition, the company has several underground storage cabins in Sweden, allowing for further optimization. The fertilizer business is also located in Europe with production units in France, Austria and Germany. Outside Europe, through its participation of Borouge and Baystar, Borealis has a monomer capacity of 1.4 million tons and a polyolefin production capacity of 2 million tons.



Established 22 years ago, Borouge has been a key partnership of Borealis with ADNOC. The joint venture has successfully combined the leading-edge Borstar technology with competitive feedstock and access to the Asian growth markets. The polyolefin production capacity of Borouge grew from 0.5 million tons in '21 -- in 2001, to 4.5 million tons, making it the largest single polyolefin site in the world. The impressive size of this site is also illustrated by the fact that Borouge is among the top 10 polyolefin producers worldwide.

The company is highly profitable and generated a net profit of approximately \$1 billion last year. Borealis is well positioned for further profitable growth. Let me briefly highlight the 3 main projects. In Belgium, Borealis is building a PDH plants to benefit from the expected growing propylene demand in Europe. The new facility will have a production capacity of 750,000 tons per year of propylene, making it one of the largest and most efficient plants of its kind in the world. With a total investment of around EUR 1 billion, the new PDH plant is one of the largest investments in the European petrochemical industry in the last 20 years. Startup is planned for 2022

In the U.S., Borealis has partnered with Total in the Baystar joint venture to develop 2 projects. Baystar is currently building a new Borstar polyethylene unit at the existing Total production site in Bayport, with a capacity of 625,000 tons per year. This will more than double the polyethylene production capacity of Baystar to 1.1 million tons per year. The state-of-the-art Borstar technology, which will be used in North America for the first time, will allow Baystar to produce advanced polyethylene products for the most demanding applications. The plant is expected to start-up in 2021. Baystar is also building a 1 million ton per year steam cracker in Port Arthur, Texas. The new cracker will process ethane, which is abundantly available and competitively priced in the U.S. and will supply feedstock for the 2 polyethylene plants of the joint venture.

The third major project is in Abu Dhabi where Borouge is building the fifth polyethylene plant in Ruwais. This will grow the polymer production capacity of Borouge to almost 5 million tons per year by 2021. Borouge is also evaluating the construction of a fourth cracker in Ruwais with a capacity of 1.8 million tons. The project is currently in the feed phase.

With Borealis in our portfolio, OMV's global monomer capacity will increase by more than 50% from 2.8 million to 6.4 million tons globally. The combined capacity in Europe will amount to 4.6 million tons, of which 4 million are ethylene and propylene. With the new PDH plant, our olefin capacities in Europe will increase to 4.7 million tons, making OMV the largest producer of olefins in Europe. At the same time, by integrating Borealis polymer capacities, we will extend our value chain and become one of the largest polyolefin producers worldwide, #2 in Europe and #8 globally. As mentioned before, OMV wants to become a leading player in the circular economy. This acquisition is a major step on this path. Recycling is a key element in Borealis strategy. Borealis was among the first plastic manufacturers to work towards the circular economy. Ever since, they have been consistent in their efforts to drive plastics circularity and to develop regranulates of highest quality. The result is innovative products jointly developed with partners from the waste management and plastics industry.

In 2017, Borealis founded, together with SYSTEMIQ, the initiative STOP, standing for stop to ocean plastics. The project designs, implements and scales sustainable waste management systems to reduce and prevent plastic pollution in emerging countries. Borealis owns one of the largest European producers of post-consumer polyolefin recyclates in Germany, mtm plastics, widely acknowledged as a European technology leader in the recycling of mixed post-consumer plastic waste.

In 2018, Borealis further strengthened its activities in plastics recycling with the acquisition of the Austrian company, Ecoplast. Borealis promotes the circular economy also through focusing on design for recycling. This means designing a product in such a way that it can be collected, sorted and recycled. This can be achieved by making appropriate material choices and design decisions. For example, they developed the 100% recyclable foam that replaces difficult-to-recycle solutions such as food service cups. This technology is also applicable to the automotive and construction industry. Borealis has also developed a 100% recyclable Full Polyethylene Laminate stand-up pouch to replace nonrecyclable multilayer packaging. The recycling expertise and activities of Borealis complement our efforts in this area.

Through our innovative and proprietary ReOil technology, OMV is at the forefront of research in chemical recycling of plastics. To achieve our aim to become a leading player in circular economy, we will invest up to EUR 1 billion until 2025. As I said before, Borealis is a highly profitable business. If we look at the last 5 years, Borealis consistently delivered strong financials. In EBITDA terms, Borealis contribution amounted, on average, to EUR 1.1 billion per year. In addition to this, Borealis delivered a significant EBITDA. Net income was almost EUR 1 billion per year on average. Also, the cash flow generation was consistently strong, averaging EUR 1.2 billion per year. The underlying CapEx requirement is relatively low and was between EUR 300 million and EUR 500 million per year over the last 5 years.



With this acquisition, the strong cash flow generation of OMV with some EUR 4 billion in the last 3 years will grow substantially. In 2019, the combined cash flow would have amounted to EUR 5.4 billion, which is an increase of 26%. As the CapEx profile of Borealis would be substantially higher over the next 2 years, I would like to give you some guidance. Mainly driven by the PDH project in Belgium, the Borealis CapEx is expected to grow to EUR 1 billion per year in 2020 and '21. After 2022, the organic CapEx will go back to the levels seen in the last 5 years, below EUR 0.5 billion. In addition to organic investments, Borealis will spend around \$1.3 billion related to its growth projects in the U.S. This includes the acquisition of an additional 50% Novealis Holding, who is the joint venture partner of Total and Baystar. Upon closing, Borealis will hold through Novealis 50% in the Baystar joint venture. The transaction is expected to close in the first half of 2020.

The other part of the investment is related to the funding of growth projects of Baystar. The above-mentioned growth investments in Borouge are expected to be self-funded. Ladies and gentlemen, we want to maintain a strong credit rating and leverage fast. To achieve this, we have taken decisive measures. First, we decided on a substantial divestment program from which we expect proceeds of EUR 2 billion until the end of next year. In addition to the Upstream business in Kazakhstan, we have communicated this morning that we have initiated the divestiture process for 2 specific businesses in downstream. Second, we will reevaluate our project pipeline. As communicated a couple of days ago, we have decided, together with Gazprom, to postpone the acquisition of Achimov 4A/5A to 2022. This reduces our investments for this year by more than EUR 1 billion. In addition, the FID for Neptune is expected to be taken earliest next year with major CapEx being spent after 2021. Third, we will reduce the OMV CapEx for this year by EUR 200 million to EUR 2.2 billion, and we will look into further optimization of the combined OMV and Borealis business for the years to come. Last but not least, we expect to realize substantial synergies. We expect synergies of EUR 700 million from operational cost savings, combined purchasing, debottlenecking, increased capital efficiency as well as tax benefits until end of 2025. All these measures will help us to reduce our gearing ratio target, excluding leases, to approximately 30% by the end of next year.

The 2 businesses for which we started the divestment process will reduce our European Downstream business. We opened negotiations on exclusive basis with the Austrian company, VERBUND, for the possible sale of 51% stake in Gas Connect Austria. Gas Connect Austria constructs and operates natural gas, high-pressure pipelines in Austria as well as markets transportation capacities in Austria and abroad.

In 2016, we divested already a minority share of 49% and would now exited the regulated gas transportation business completely. We also started the divestment process of the retail network in Germany. We currently operate 287 million -- 700 OMV filling stations with an average throughput of 3.3 million liters. The integration of our Burghausen refinery in Germany is limited. Burghausen is a specialized refinery focused on petrochemicals and middle distillates, notably jet. The refinery does not produce any gasoline. OMV would retain its Avanti stations in Germany in partnership with Aldi, with whom we have a collaboration in the 3 other countries.

Ladies and gentlemen, we will continue to reward our shareholders through our progressive dividend policy. In the last 5 years, we have doubled our dividends to EUR 2 per share, and this despite net acquisitions of around EUR 3 billion. We, here, would reconfirm our commitment to the progressive dividend policy, we want to increase the dividend every year or at least maintain it at the press -- respective previous year level.

Before we come to your questions, let me summarize. Borealis is a great strategic fit for our portfolio. The expansion of the value chain from crude to polymers will give us a stronger baseline and new financial flexibility, long-term growth potential and increased profitability. OMV will become a global oil, gas and chemical group with a significant footprint in petrochemicals. We will be a European leader and among the top 10 polymer producers in the world. With a significant increase in this area, we are positioning the company successfully for a low-carbon world. We see developments in recycling as a responsibility as well as an opportunity. We, therefore, aim to drive sustainable growth and become a leader in circular economy.

The deal will be immediately accretive to earnings per share. It substantially increases our cash flow and thus, enhances our future dividend potential. At the same time, we will deleverage fast and balance risk through our substantial divestment program, cost savings and synergies. We aim to bring gearing, excluding leases, back to around 30% by end of 2021. Our commitment to the progressive dividend policy is unchanged. We have shown in the last 5 years that our priority is to deliver attractive returns to our shareholders and we will continue to do so.

I thank you very much for your attention. And now my colleagues and I am more than happy to take your questions.



## QUESTIONS AND ANSWERS

**Florian Greger** - OMV Aktiengesellschaft - VP & Head of IR

Yes. Thank you, Rainer. Let's now come to your question. I'd ask you to limit your questions to only 2 at a time. So that we can take as many questions as possible. You can, of course, always rejoin and ask a follow-up question.

The first question comes from Thomas Adolff, Crédit Suisse.

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**Thomas Yoichi Adolff** - *Crédit Suisse AG, Research Division - Head of European Oil & Gas Equity Research and Director*

A few questions please. Just kind of looking at 2020 and maybe you can provide some guidance in terms of profitability, et cetera. I mean, when we look at Shell and Exxon's chemical earnings in the fourth quarter, they were both loss-making. So perhaps you can comment about your expectations for 2020 and then how that compares to 2019 as it relates to the Borealis business.

And then just secondly, just going back to your prior comments on M&A. You said M&A is pretty much done and dusted. We know we're confident about the outlook to 2025, et cetera. And how -- this deal came kind of out of the blue. So perhaps you can talk about how this deal came about. And also what it means for your plans as it relates to Indonesia. You're looking at building a chemical plant in Indonesia.

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

All right. Thomas, 2020 guidance is a little bit difficult. Everybody is looking into this crystal ball, talking about a virus infection, playing the psychology in the trading markets. So that's a little bit difficult to give you a clear guidance for the full year in comparison to 2019 because the environment in 2019 was a little bit different. But I would like to give you a little bit of an idea what we do see right now in the market and how we started into the year. Well, if you look into the market, definitely the oil and gas prices are going to challenge our Upstream business in 2020. If I look what has been reported in the newspaper so far, I don't see a quick change of this trend. So that the oil and gas prices will go up quickly. But there are some scenarios which would tell me also an upside in Upstream. I don't want to exclude this, but I think Upstream business in 2020 will be more a challenging year than one of these most prosperous years we have in our history. In terms of the Downstream business, the picture looks different. The picture looks very positive as we speak about our petchem business in Europe. We have seen as a reaction of the lower feedstock prices, especially the lower naphtha prices. We have seen now, in these days, very high petchem margins in the markets over here in Europe. The Asian markets, a bit more challenging as the corona is more playing down China, but we see first signs of a slow recovery, especially in China.

When it comes to the refining margins, I just would like to ask you to look into the refining margins development. We are enjoying now a real good refining margin in fire environment in Europe as well as also in Asia. So the only product to make that story not too positive, the product which is really a challenge, is jet in these days. You see that not only the airline industry is struggling, the refineries as well. So in 2020, the picture is, as we speak about the first months, and as we speak about the current development, it's a mixed one. It's a challenge for Upstream and it's a positive development so far in Downstream, especially, we do see a good business in petrochemicals in these days. It may have to do with our strong presence, we do have in Europe that other competitors might tell you a different story. When it comes to Indonesia, a clear message. This project has a big question mark in our discussion in our Board at the moment.

How came the deal across? Well, we have started a discussion with our second largest shareholder on our next strategy moves, which we also have explained to the financial markets. How to react on the changes in the environment that we have to prepare for a low-carbon world. And out of this discussion, we mentioned that we would like to shift OMV's portfolio towards a more sustainable petchem business, and we have discussed some ways how to do that. And during the discussion that came up that Borealis might be the right vehicle for next step of the development of OMV's portfolio. And then after a while, it came to the situation that this was seen by both partners as a win-win situation. On the one hand side, the Mubadala Investment Corporation is supporting the new strategic move of OMV towards petrochemicals. And on the other hand, they are focusing their participation in OMV group, with their shareholding they do have in our company directly.



**Florian Greger** - OMV Aktiengesellschaft - VP & Head of IR

Next question is from Michael Alsford, Citi.

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**Michael J Alsford** - Citigroup Inc, Research Division - Director

I've got a couple of sort, please. Firstly, just to talk a bit about the disposal plan. Could you maybe give a little bit more color as to sort of how much of that disposal target is relating to Upstream assets, if you could. And then just secondly, on the Upstream sort of volume target, I think you meant, from memory, you've targeted or targeting 600,000 barrels a day by 2025. Should we now think with the shift in the business that, that is no longer really a target for the company going forward?

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

Well, out of the EUR 2 billion, the majority is coming from Downstream assets, and I'm going to tell you why. If we look into the M&A markets right now, it's reflecting what I have said, what we do see right now in our business. We do see that Upstream assets are facing a low oil and gas price environment. So the priority of our divestment program that these days is not in Upstream. This doesn't mean that we might not kick off one or the other process, but the fast track transactions we would like to bring in the market because the environment is now so positive will be in Downstream. That's why we have made also this morning, the 2 announcements of 2 Downstream assets we would like to sell into the market.

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**Florian Greger** - OMV Aktiengesellschaft - VP & Head of IR

Well, and Hansen is talking about the 600,000 barrels target.

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**Johann Pleininger** - OMV Aktiengesellschaft - Deputy Chairman of the Executive Board & Chief Upstream Operations Officer

The 600,000 barrel target for 2025. I don't see at risk right now. Why? As I mentioned in the last conference, so the current potential for Upstream is 500,000 barrels plus these days. What we are missing right now are around 40,000 boe from Libya and UAE. So here, we have a delay in the ramp-up of Sapura complex. So we're missing right now around 40,000 boe from our potential. But as I said, if Libya is fully on stream, if UAE is fully on stream, we have the potential of 500,000 barrels per day. If you add the 2 projects, which still will come on stream until 2025, it should be from Achimov, which we delayed now to 2022, but still being on stream in 2025, with around 80,000 boe and Neptun with another 70,000 boe, so this would be 150,000 barrel. In addition, Nawara, we are ramping up right now. So we'll bring another 10,000 boe. And what we said also for Southeast Asia, we had around 10,000, 12,000 boe last year. Now once we bring until mid of the year, Larak, Bakong on stream, we will achieve around 30 -- or about 30,000 boe. And if you count and add this up, you will see that we are clearly above the 600,000 in 2025.

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**Florian Greger** - OMV Aktiengesellschaft - VP & Head of IR

The next questions come from Josh Stone, Barclays.

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

2 questions, please. Firstly, you've talked about this transaction repositioning OMV to a lower carbon world. Talk about why increasing exposure to polyolefins is the right way for OMV to do this? And to what extent are you comfortable with the risk of reducing demand for single-use plastics? And then my second question on Achimov. You've delayed the negotiations for 2022. Am I right to say that this is an asset you could prepared to walk away from now?





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

Josh, so I would like to answer your first question, why this direction. When you look into the overall portfolio of chemicals, then you will find that ethylene and propylene is a very big portion. And then if you follow then further down the line, you will find out that the polyethylene and polypropylene is the big portion, it's 2/3 of that volume again. So this is the big volume, actually, which is playing a major role in the future. And if you look then into the different sectors where plastics and these special products are used, then you will find out that exactly those areas which are so important in these days and for the next development, they are only possible with these type of materials. So we see that there is -- and if you can look into each and every prognosis, you will find there's a huge growth for demand and it's coming not only from population growth, it's also coming from living standard. So these 2 topics will not change. And so we see there a very good future for those products. And in addition, if you look into our portfolio from today, you will see that this is highly linked to our activities that we are doing now. So we see a extremely good combination, extending our value chain, a huge part of our chemicals is sold to Borealis today already. So that's prolonging the value chain. We can do an end-to-end optimization for our sites where we are next to each other. So there are a lot of good reasons to go in this direction.

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

Josh, I'm going to tell you a secret. Well, since I have joined OMV, I was working to make Achimov IV/V a success. It's very difficult for me to walk away. Although I hate to wait there and I have not the greatest patience in our Board, I am prepared for another 2 years. What we are doing is we are not participating in Achimov IV/V with the shift to 2022 during the investment phases, and we will renegotiate the deal in 2022 when Achimov IV/V is already producing. So this was always my preference that I would like to farm into producing assets, delivering immediate cash flow. It's depending whether or not we will find attractive economic terms. This is in the interest of our shareholders that I only lock in the deal if we got reasonable rate of return with the risk profile of each project coming into our portfolio. So if we don't find each other, we do have the possibility also not to take the shareholding in Achimov IV/V, but we are fully committed to the project.

**Florian Greger** - OMV Aktiengesellschaft - VP & Head of IR

We now come to [Mehdi Anabati], Bank of America Merrill Lynch.

**Unidentified Analyst**

I will ask a question, please, on the CapEx guidance for the group first. 2020, so you told us that in 2020, you should be at EUR 2.2 billion but you also told us that Borealis CapEx in 2020 and 2021 should be EUR 1 billion. So I just wanted to -- if you can just guide us on the CapEx for OMV in 2021. Another question as well regarding the price of \$4.7 billion, okay? It should be concluded by end of 2020, if they understood well. I would like to know if the CapEx -- the Borealis CapEx for 2020 will be -- which will be around EUR 1 billion will be added to the EUR 4.7 billion price or net? And a small last one question, please, regarding the financial charges. Can you guide us on your financial charges, post the acquisition of Borealis, please?

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

Mehdi, this is Reinhard speaking. Regarding the CapEx guidance, I think you got it exactly right. So from the EUR 2.4 billion that we had planned for organic CapEx in OMV, we will reduce by EUR 200 million in 2020 to EUR 2.2 billion. Borealis will have around EUR 1 billion for the year of 2020 as well as '21. But don't forget, as Rainer has mentioned, that there is also a EUR 1.3 billion acquisition. So the EUR 1 billion is around organic CapEx, specifically through the enhancement of the plant of [Kahlo], a very specifically higher CapEx there than the average CapEx that we see in Borealis EUR 0.5 billion. So the average CapEx of EUR 1 billion for 2020 and 2021, you have to add around EUR 1.3 billion for acquisition CapEx in Borealis as well.

If you now talk about the EUR 4.6 billion of the purchase price. The purchase price is the price effective at the moment of closing. And of course, we'll take over the balance sheet as it is by then. So this means if acquisitions have happened before that, the balance sheet will be loaded with that, but also the assets will be more of a worth. So therefore, this is no change in the purchase price. So therefore, the only adjustment to the

purchase price that will happen by the time of closing will be about the dividends, which are, of course, when they are distributed before closing will be distributed in the 36, 64 percentage, whereas this will be adjusted to our 75% share after that.

Regarding the financial charges, I think what you can see is that, of course, we will finance this transaction. And this finance transaction will ultimately, also increase our level of debt. However, I'm very much convinced that in these times, we still have access to very attractive rates of lending in the market, be it on bonds, be it on direct loans with banks or be it on hybrids. All are still open and available in the market and at very attractive rates regarding our rating.

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#### Unidentified Analyst

All right. And if I may, please, just regarding the group CapEx guidance for 2021. Can you guide us, please, after the acquisition of Borealis?

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#### Reinhard Florey - OMV Aktiengesellschaft - CFO & Member of Executive Board

The group CapEx, I can guide you about what the OMV CapEx has been. So we had said that the OMV organic CapEx will be at a maximum level of EUR 2.5 billion. And you can be sure that we are striving not to use the maximum. However, we also will be restrictive on additional acquisitions, as you may see, deleveraging and dividend payments will be the priorities.

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#### Florian Greger - OMV Aktiengesellschaft - VP & Head of IR

We now come to Raphael DuBois, Societe Generale.

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#### Raphaël DuBois - Societe Generale Cross Asset Research - Equity Analyst

Can you please tell us a bit more on your synergies, what cost is implied and also what will be the phasing of those synergies?

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#### Johann Pleininger - OMV Aktiengesellschaft - Deputy Chairman of the Executive Board & Chief Upstream Operations Officer

So these -- we have clearly also mentioned the EUR 700 million that we will achieve until end of 2025, accumulated, of course, not per year. So there are several effects. We have, on one hand, cost synergies that we see. We are talking here about the overall cost of more than EUR 1 billion. So we see here a potential of bringing that down. A big topic, of course, is for us to have this end-to-end optimization at our existing sites. So we see there a chance immediately from operating activities, but also for smart debottlenecking to optimize in [mailing], refinery and the petrochemical site. And so there is also a tax benefit. And all that together will sum up to the EUR 700 million. For the synergies, cost decreases, of course, there is a ramp-up period of about 2 years. So we are not coming to the full amount in the first year, of course, but we have defined already teams, and we will start beginning of next week. This is the first activities to define more in detail how to achieve when -- which volumes, but we are convinced that we can deliver the EUR 700 million.

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#### Raphaël DuBois - Societe Generale Cross Asset Research - Equity Analyst

And can you maybe just break down between what comes from tax benefits and what comes from debottlenecking and laying off people?

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#### Johann Pleininger - OMV Aktiengesellschaft - Deputy Chairman of the Executive Board & Chief Upstream Operations Officer

I was sure that you will ask the question. Unfortunately, I cannot give you the breakdown. But of course, I understand that you had to try.



**Florian Greger** - OMV Aktiengesellschaft - VP & Head of IR

The next question is from Sasi Chilukuru, Morgan Stanley.

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**Sasikanth Chilukuru** - Morgan Stanley, Research Division - Research Associate

I have 2 questions, please. I just wanted to understand the impact of the acquisition itself and the full consolidation of Borealis on the gearing levels. If you could comment what it could be at the end of 2020 post completion? And also, the second question was related to the dividend policy or the dividends from Borealis. What is your expectation for the dividends in 2020?

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

Regarding your question on gearing levels. There is, of course, a reason why we have been guiding on a 2021 gearing level because this gives us the possibility to more or less put in force all of the levers that we have laid out to you in countermeasures to deleverage. So it is both the postponement of investment, it is the reduction of CapEx, it is the divestments that we have, the synergies and, of course, the financing mechanisms. So all of that will contribute to a level where under normal circumstances, we would see ourselves in a position to come close to around 30% gearing, excluding leases back at the end of '21. Of course, if there are unforeseen effects in the course of the volatility of 2020, we don't have an exact crystal ball about that. So we are more or less assuming coming back to a normal course of business during the year 2020. However, the leverage of the company will, of course, be in a gradual way, improving with the speed of our countermeasures. So there will be some measures, which will come very fast and Rainer has explained that there are 2 of the larger divestments already triggered. And this is a process that we expect also to come in fast. And of course, the postponement of a 2020 investment to 2022 also kicks in already in 2020. So all of that will contribute that the immediate impact that you see from the magnitude of the transaction will also be mitigated to a certain degree in 2020. And by 2021, we have set ourselves a very ambitious target.

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**Florian Greger** - OMV Aktiengesellschaft - VP & Head of IR

We now come to Yuriy Kukhtanych, Deutsche Bank.

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**Yuriy Kukhtanych** - Deutsche Bank AG, Research Division - Research Associate

2 questions, please. One simple and 1 a little bit more complex on. So the simple one is we appreciate that you provided all these [videos] about the next 2 years and the guidance on on topics. But what are your current working commodity price assumptions, given the environment where -- in which we are today? And the more complex one is if we start the oil environment below \$40, what are your contingency plans for the business if you experience massive cash fall out this year?

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

Yuriy, the commodity price assumptions that we have given you in the course of our strategy. On the long end, have, of course, not changed significantly because there is a reason to why we are going in that direction, looking both into the oil as well as in the gas market to recover to reasonable levels. I think we can all agree that the levels that we see today both on gas -- Okay. Sorry, Yuriy. There has been some interruption in the line. So unless you were I said that I think we can agree that oil and gas prices at the moment are not at a level which can be sustainable and that we will see, over time, some recovery. However, of course, the conjunction of both the coronavirus as well as some political disruptions between Saudi, Russia and U.S. are certainly something that has to be taken into account.

So on the mid-term level, we are still at around \$70 oil price level. And on the short end, of course, we have some assumptions, which are lower but the precise assumptions will give you at the end of our quarter 1 with our presentation of both our results as well as the outlook and the guidance.

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**Florian Greger** - OMV Aktiengesellschaft - VP & Head of IR

We now come to Peter Low, Redburn.

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**Peter James Low** - Redburn (Europe) Limited, Research Division - Research Analyst

Just a couple of follow-up questions. Firstly, I was a little bit surprised to hear that you're still assuming Neptun will be online by 2025, given that Exxon is quite publicly seeking to exit. Can you give us an update on the latest developments there, and what has to happen to get that project to FID? And the second was just a follow-up on the financing of the transaction. You mentioned the hybrids as being available at attractive rates. Are you looking to use further hybrids to finance this?

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**Thomas Gangl** - OMV Aktiengesellschaft - Chief Downstream Operations Officer & Member of the Executive Board

Peter, I would like to take the first question regarding Neptun. There is no change in the situation. So due to the political instability in Romania, we haven't got feedback regarding the offshore law. So that's why we keep with the information which we gave last time. So there is no change. FID might or will not happen this year. So we have shifted it to next year, but we keep the current estimates regarding first gas end of 2024.

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

Peter, regarding hybrids, of course, you listened very carefully. However, I would clearly confirm that only a smaller part of financing also will be in hybrids. I believe as hybrid being a valid part of a portfolio and financing. So you can certainly rely on that the weight of hybrids in the mix of our financing also with this somewhat higher leverage will not be different to what we have today. But this also implies that there is some room, of course, when you have a higher portfolio on the debt side that you also can use some more hybrids, but no big steps to be expected there.

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**Florian Greger** - OMV Aktiengesellschaft - VP & Head of IR

There is a follow-up question from Thomas Adolff, Crédit Suisse.

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**Thomas Yoichi Adolff** - Crédit Suisse AG, Research Division - Head of European Oil & Gas Equity Research and Director

I've got 2 more questions, if that's okay. Just going back to the the EUR 2 billion of disposals. Can you talk about the risking of the EUR 2 billion? So for example, if you've identified EUR 3 billion your target to EUR 1 billion, that's kind of a good risking, and we can be relaxed about your targets. And perhaps also comment on the EBIT contribution from the German retail side, if that's possible? And then just secondly, going back to the question on gearing. Maybe you can help a little bit. Let's say, this deal would have completed at the end of 2019. Prior to this deal, your gearing was at 28%. If you had completed it at the end of the year, where would gearing have gone up to \$4.7 billion acquisition and the net debt, et cetera?

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

Well, Thomas, your question on risking is a little bit -- a new idea for me. I never have practiced it. We do have a clear understanding what kind of assets we would like to sell. We have started now a transaction, and we do have already received a positive feedback in the market. So the first assets, the divestment of the regulated transportation business, we are already in exclusive negotiation with one party, yes. So we do have an idea. If I would give you now a risk assessment on this, yes, I would say it depends whether or not we're going to agree on the price. I was -- and then we might have to go a new round, but the response in the market on the asset is a healthy one. The same is with the -- the same we expect also with the retail network, we would like to sell in Germany. I'm sorry, I don't release the EBIT contribution on single assets. This is something we haven't done. But what I would like to pay your attention is that, especially in retail, we do see now the highest increases of our margins. Since we are running the business, a very, very positive development. And from my point of view, we are now starting a sales campaign at the top of the

business performance. So that's why I'm expecting also a healthy response of interest in the market for the second asset. And this is only a qualitative answer on your question. I don't like to answer the numbers. But this gives me the comfort that I might surprise you, Thomas, with a quick answer, like I did with the acquisition of the Borealis shares.

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

So regarding your question on gearing. Of course, when you're talking gearing, you cannot just add up the debt. You also have to put in the equity. And to have a precise number on the equity, I need to wait for our efforts to have a fully audited purchase price allocation before I can give you the exact number of that equity. I think what is important is, if you compare the numbers, we have given you the -- around 30% target for '21 on gearing, excluding leases. If you take a corresponding numbers to the 28% gearing in 2019 for the group as it is today, that would be a number of around 22%.

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**Florian Greger** - OMV Aktiengesellschaft - VP & Head of IR

The next question is from Henri Patricot, UBS.

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

Just one follow-up on the question of disposals. I was wondering if there are perhaps some parts of Borealis that are maybe not as good a fit as the rest of the OMV portfolio or that's a good fit with that strategy that could be up for disposal after completion of the transaction?

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

Henri, that's an option. We will only follow-up when we have also finalized the deal. So after closing, this would be an option that we will look into the portfolio. Between the lines, you might refer to the fertilizer business. This business is, right now, enjoying the low gas price environment, performing very nicely. Borealis was planning -- was trying to sell the business, and it was on the down cycle, and it wasn't possible. This is something we will discuss after we have closed the deal. But our preference is divestments from our OMV portfolio and we have mentioned 2 divestments today, there is more to come.

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**Florian Greger** - OMV Aktiengesellschaft - VP & Head of IR

There is a follow-up from Raphael DuBois, Societe Generale.

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**Raphaël DuBois** - Societe Generale Cross Asset Research - Equity Analyst

I just would like to check with you. You mentioned earlier a rebound in refining margins, petchem margins. Should I expect you to hedge more, either petchem or even refining margins? And would you maybe give us a mark-to-market of your existing hedge position, please?

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**Johann Pleininger** - OMV Aktiengesellschaft - Deputy Chairman of the Executive Board & Chief Upstream Operations Officer

Not a very good idea, I can tell you. For the refining margins, I think this is something that has to be considered. For the petrochemicals, I would love to do so. Unfortunately, there is not a market there. The partners are not there and the feedback is also from the market. Everything is very volatile, and there is -- so we have done some on that. But petrochemicals is very difficult. Refining margin, yes, we are enjoying what we have done last year and we will follow-up on the successful way.



## MARCH 12, 2020 / 10:00AM, OMV.VA - OMV AG Signs Agreement to Increase its Shareholding in Borealis AG to 75% Call

**Florian Greger** - OMV Aktiengesellschaft - VP & Head of IR

And we now go to Bertrand Hodee, Kepler Cheuvreux.

**Bertrand Hodee** - Kepler Cheuvreux, Research Division - Head of Oil and Gas Sector Research

Thank you for taking my question. I have one left. I wanted to double check if I understand well the math around Borealis' free cash flow this year. So if I understand well, you will have EUR 1 billion of CapEx, plus around EUR 0.6 billion of funding for the Baystar. So that would mean EUR 1.6 billion of CapEx -- total Capex, which means that there is a high probability that Borealis will be free cash flow negative before dividend this year. Can you confirm those maths? And if that will be taken into account into the adjustment price or not.

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

Bertrand, of course, your math is right. Yes. So if you -- that's why I mentioned explicitly also the acquisition CapEx for the 2 years. Whether the Baystar part is exactly 50% or not, I think this cannot be anticipated. I personally would expect it rather on the higher side on the -- in the first year than in the second year. But the logical consequence of that would be that in the first year, there would be a negative free cash flow and into the second year, there would be a positive free cash flow.

**Florian Greger** - OMV Aktiengesellschaft - VP & Head of IR

Good. So this brings us to the end of our conference call. We would like to thank you for joining us today on short notice. Should you have any further questions, please contact the Investor Relations team. We're happy to help. Have a good day. Bye.

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

Thanks, bye.

**Johann Pleininger** - OMV Aktiengesellschaft - Deputy Chairman of the Executive Board & Chief Upstream Operations Officer

Bye-bye.

**Operator**

That concludes today's teleconference call. A replay of the call 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 their numbers.

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