



wintershall dea

Q&A TRANSCRIPT

WINTERSHALL DEA 1ST QUARTER 2020 RESULTS PRESENTATION

Date:
20.05.2020

Page:
1 of 13

Operator

Ladies and gentlemen at this time we will begin the question and answer session. Anyone who wishes to ask a telephone question may press star followed by one on their touchtone telephone. If you wish to remove yourself from the question queue you will press star followed by two. If you are using speaker equipment today please lift the handset before making your selections.

As a reminder, you may also submit your questions in writing directly on the webcast. Anyone who has a telephone question may press star followed by one at this time. one moment for the first question.

The first question is a written in question on the webcast from **Michael Boam from Sona**, and he would like to know where and when do you see leverage peaking?

Paul Smith

Hi, it's Paul here. Leverage peaking is clearly a function of forward prices more than anything else. I don't have a crystal ball, I think very few people do. What I'll say is that the fundamentals that we're driving through this business to make this company as resilient as possible continue to be the priority, whether that be being at the lowest cost of supply in terms of our \$4.30 operating costs, whether that be the actions that we've outlined in four dimensions which have reduced our break evens to \$30 this year and going forward to less than \$20 a barrel.

I think that's what we need to do. We don't control the external environment, we've probably all got views on it, but we will continue to plan for the worst and hope for the best. So I really cannot give you an answer to that question in terms of when leverage will peak other than to say we'll concentrate on the fundamentals and keep it at that.



wintershall dea

Q&A TRANSCRIPT

Date:
20.05.2020

Page:
2 of 8

Operator

The next question is also a written question on the webcast and it's from **Christian Faitz from Kepler Chevreux**. Can you please comment on the current situation of Nordstream II?

Mario Mehren

Yes, Mario speaking. Well on Nordstream II there's not much news. From the company perspective we have served the last cash calls that we have received, with that we have fulfilled all our financial obligations towards Nordstream II. And when it comes to the project progress I think we don't have more information than what is out there in the public domain and you would have to approach the project company.

Operator

Okay, the next question is a live telephone question from the line of Benjamin Swanson from Wellington. Please go ahead.

Benjamin Swanson

Hi guys. I just had a quick one on working capital. It sounds like it was a benefit in the quarter and I was just wondering where the benefit came from and how you expect that to evolve through the year?

Paul Smith

Yes, as you know working capital for us is a function of many different, little things. What I can tell you is that it's not a function of us not paying our bills on time. So we continue to manage liquidity but not at the expense of not paying our bills on time. So the swings in working capital are mainly driven in our case by a combination of in particular capital spending and the distribution of capital phasing during the year, and to a lesser extent liftings as well. So it's difficult for me to give you any sort of forecast other than to say that we don't expect that to be positive every quarter obviously.

Operator

As a reminder, if you'd like to ask a live telephone question please press star followed by one on your touchtone telephone. Next question is a written in



wintershall dea

Q&A TRANSCRIPT

Date:
20.05.2020

Page:
3 of 8

question from the website from **Sindre Sindre who is a private investor**. You guide a significant range in the interval of exploration costs for year 2020. Can you add some colour on that estimate?

Mario Mehren

We have a range here of €150 million to €250 million and, yes, that's a range but I think that's normal in the exploration business. You never know if a well is going to slip into next year. You have seen that we have spent already almost €80 million in the first quarter in terms of exploration, so we think that's a fair guidance.

We had a number of wells, some quite successful in Mexico and Norway for example being drilled in the first part of the year and then we will have again accumulation of activities in the last quarter, and that's exactly the reason why the range is a relatively wide range since, as I said, we don't know what's actually going to happen really this year and what might slip into next year.

Operator

The next question is also from the webcast, from **Simoni Mittal from Schroders**. Can you please explain what contributes to the delta in production from low end to high end of guidance? Also, can you provide any guidance on cash taxes for 2020?

Mario Mehren

I'll start with the production question and then Paul will take the cash taxes. I don't know if I got the question correctly, but obviously all our production guidance is depending on firstly how the pandemic is evolving, so will we have a second wave or not. And when it comes to the range we are having you should remember that we have a number of projects that are supposed to come on stream close to the end of this year.

So if you have these projects coming on stream a little earlier then you might go to the upper range of our production guidance. If you have a slight delay in the projects you might more come to the lower end of our guidance. And currently with the turmoil that we see in the markets, we are rather guiding to the lower end of this production range of 600,000 to 630,000. And Paul might take the question on cash cost, please.



wintershall dea

Q&A TRANSCRIPT

Date:
20.05.2020

Page:
4 of 8

Paul Smith

Yes, hi Simoni. Our tax cash position is obviously again greatly influenced by the view that one takes in terms of the commodity prices for the rest of the year. I'd say that under most reasonable forecasts of commodity prices for the rest of the year, whatever reasonable means, but within the ranges of what we see external people forecast the year at, our cash taxes are going to be extremely modest this year. In particular our cash taxes will get driven by our cash position in Norway and under most forecasts that I have seen I can say that we'll not be in a cash tax paying position in Norway this year, but it is a function of how the next seven months of the year turn out.

Operator

The next question is also a written in question from the webcast, from **Michael Boam from Sona**. Do you operate a hedging programme? If so, how much output is hedged and at what prices?

Paul Smith

Hi Michael. You may not have been in at the beginning of the call, but I covered that and I'm happy to cover it again. We have roughly a very modest hedging programme on from one of the two legacy companies. We have roughly 10,000 barrels a day hedged in through to 2022 on the oil side at over \$60 a barrel. And we have a similar number, roughly about ten MBOED of gas equivalent hedged in at \$6 an MCF.

So clearly in terms of percentage of production relatively modest, 20 MBD out of 620, a very modest amount of production hedged but is a nice dampening mechanism in the current environment and I think as I mentioned the fair value at the end of the quarter of that very modest hedge book was a quarter of a billion Euros sitting on our balance sheet.

Operator

We have another question from **Christian Faltz**, a written in question from the webcast, **from Kepler Chevreux**. Can you please elucidate the current situation for your operations in Libya?



wintershall dea

Q&A TRANSCRIPT

Date:
20.05.2020

Page:
5 of 8

Mario Mehren

Yes, happy to do so. Mario speaking. Again we continue to produce from our offshore field in Libya, Al-Jurf. That is basically up and running ever since, so we never had any issues there. On the on-shore activities you might know that all export terminals have been blocked by General Haftar and his troops, so that's the reason also why the production in Libya as such, as a country, is below 100,000 barrels a day to be compared with almost one million before we have seen this blocking of export terminals.

Also, Wintershall Dea, which is present Libya on-shore via our joint venture with Gazprom, is not producing on-shore. At the same time let me tell you that, given the constructual framework we have there with the EPSA agreement and the JV we are having, this is only having a very, very limited impact on our figures. So it's not a company make or break for Wintershall Dea and that's actually also the reason why we have excluded this number, this Libyan on-shore production, from our production reporting and from our production guidance. So the 626,000 I talked about is without Libya on-shore production.

Operator

As a reminder, if you would like to ask a live telephone question, please press star followed by one on your touchtone telephone. The next question is from **Simoni Mittal from Schrodgers**. It's a written in question from the webcast. With regards to OPEX, please can you provide some more colour on what steps you have taken to reduce it further? And how much do you think you can achieve this year?

Paul Smith

Yes, hi it's Paul here, Simoni. I think what we said during the call and what I'll just reconfirm is that we're, in terms of absolute OPEX or cash costs, going slightly beyond just OPEX is that we build a 10% reduction into the absolute OPEX and cash cost OPEX for the business as a whole this year.

As you know, I think all of us came into this crisis I think somewhat leaner and fitter than we went into the previous crisis that we experienced, and so I'd say that getting to a 10% cost reduction which we're confident around is the combination of literally hundreds of different actions across our portfolio.



wintershall dea

Q&A TRANSCRIPT

Date:
20.05.2020

Page:
6 of 8

And no big silver bullet anywhere, and literally turning over every stone to get that absolute cost reduction and run rate down.

Some of it is absolute reductions that are sustainable. Some of them obviously are things around deferring. So you might defer an operating activity, you may defer on good merit a shut down. So all of those things are happening and will result in a 10% overall reduction in absolute terms this year.

Operator

The next written in question from the webcast is from **Michael Boam from Sona**. Should we expect the second quarter to be free cash flow negative?

Paul Smith

Look, that's the worst question I think you could ever ask a CFO, to ask for a prediction on the next quarter. I will say that we have one month of the quarter already behind us in terms of prices and that month was not a great month, as we know. \$18 Brent, \$2.10 TTF, so a very challenging second quarter for all of us as expected.

May is turning out to date to be slightly better than April, but I don't have a crystal ball on what we do and what the commodity price environment will hold for us between now and the end of the quarter. So I'm not going to give a prediction around free cash flow positive, negative, neutral, because it would mean that I have a crystal ball on commodity prices, which I don't have. But clearly you can see that the second quarter in terms of starting commodity prices is not as good as the first quarter.

Operator

Currently there are no telephone questions, so if you'd like to ask a phone in question please press star followed by one on your touchtone telephone. We have another written in question on the webcast from **Christian Faltz from Kepler Chevreux**. Can you please provide a sensitivity of your EBITDAX to the oil and gas price?



wintershall dea

Q&A TRANSCRIPT

Date:
20.05.2020

Page:
7 of 8

Paul Smith

Hey, Christian. If you go onto our website or onto this... Aleks may even put it up here as we're speaking, you'll see that we've given a sensitivity slide for everybody that you can see both our free cash flow break evens but also our sensitivities using plus or minus 10% Brent and plus or minus 10% TTF relative to a starting point. So we've given you some key parts of the puzzle there.

Operator

There are no further questions at this time, and I would like to hand back to Aleksander Azarnov for any closing comments. I'm sorry, we just have a last second question from the phone lines from Nikolay Menteshashvili from Insight Investment. Please go ahead.

Nikolay Menteshashvili

Hi. Many thanks for the presentation. Just a couple of questions from me. First of all on the midstream business. I think before the deconsolidation it had a loan maturing in 2020? Could you update on what's the position there and whether Wintershall may have to invest back into the midstream business? Any risk of that? And then secondly, do you use any of the State support measures that were introduced by various countries? And does the expected change in taxation in Norway significantly affect the company's results in your opinion? That's two from me. Thank you.

Mario Mehren

Let me start with the State support question and then Paul will take the one on the midstream financing. Well, as you rightly said there are many different State support packages out there, depending on which country you are in. Norway is the one that is particularly targeting the oil and gas industry, however it's too early to say what the exact impact on Wintershall Dea is going to be. It's definitely going to be a positive one in terms of liquidity, but how much and when I think we can only determine once this became a law and the discussion is still ongoing in Norwegian since it's linked to the State budget for discussion for next year.

In the other jurisdictions, for example in Germany, there are no particularly offerings for oil and gas companies. We are using the flexibility that the



wintershall dea

Q&A TRANSCRIPT

Date:
20.05.2020

Page:
8 of 8

German labour law provides in terms of short term work, there are some other support measures like deferring tax payments and the like which we are applying.

So we are going through all the benefits that are accessible to us, but there is no major point other than what we can see in Norway where we will come with some information hopefully then when we talk about our Q2 figures. I hope by then we will have clarity on the situation. And with that I will hand over to Paul to talk about the midstream loan.

Paul Smith

Yes, thank you Mario. Nikolay, you're absolutely right. Our midstream business, our joint venture which we call Viga, did have a loan which was due to be refinanced during this quarter. I'm happy to let you know that that facility was indeed successfully refinanced and executed in April, so after the end of the quarter but during April, with a large banking syndicate which put a €1.4 billion facility to refinance the existing loan. So I can confidently say that no risk of any equity support required to our midstream business from Wintershall there.

Nikolay Menteshashvili

Great. Many thanks.

Operator

Okay, there are no further questions at this time. I would like to hand back to Aleksander Azarnov for any closing comments. Please go ahead.

Aleksander Azarnov

Thank you everybody for listening in to our Q1 results call. I appreciate all the questions, of course you know where to find us if you have any further questions, please reach out to the IR team and we'd be happy to answer your questions swiftly. And I will be speaking to you again in August, so have a nice summer and please stay safe and speak soon. Thank you very much everybody.