wintershall dea

CALL TRANSCRIPT

WINTERSHALL DEA 3rd QUARTER 2020 RESULTS PRESENTATION

<u>Aleksander Azarnov – SVP Investor Relations</u>

Good morning everyone and welcome to our third quarter results presentation. I hope everyone is doing well.

Together with me on the call we have our CEO and Chairman of the Board Mario Mehren and CFO Paul Smith, who will lead you through today's presentation.

As always, I'd like to draw your attention to the disclaimer. In today's presentation we will be making forward-looking statements that refer to our estimates, plans and expectations which are all subject to assumptions and risks as stated there.

We have important news for you. Earlier today, we announced our target to achieve carbon neutral operations by 2030. Mario will start with this important topic. He will then speak about the environment we operate in and lastly will walk you through the highlights of the past quarter. Paul will then continue with the presentation of our financial results and what to expect in the coming months. At the end, we will have plenty of time for questions.

Without further ado, let me hand over to Mario.

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Mario Mehren – Chief Executive Officer

Thank you, Aleks.

Ladies and gentlemen, welcome and good morning to everybody. I hope you; your families, friends and colleagues are all staying safe and well.

2020 will certainly be a year to remember, both professionally and personally. We all were forced to handle the consequences of the pandemic in some way or another.

While lockdown measures have been alleviated around the world during the summer, resulting in early signs of economic recovery, global demand for hydrocarbons is still well below pre-pandemic levels and the impact of the latest lockdown announcements throughout Europe is yet to be seen.

There is no doubt that the necessary measures taken to reduce the spread of the virus and to fight the pandemic will have enormous effects on global economies. A long and uneven way to economic recovery lays ahead of us. As always, we will continue to plan for the worst and hopefully be positively surprised.

There is one silver lining in the pandemic. The European Union, along with other nations, has accelerated making policy changes related to climate change, such as the European Green Deal. Europe is playing a leading role globally in becoming climate neutral by 2050 and will hopefully be exemplary to other regions as climate change can only be tackled together.

Since the merger, we have been working intensively to define our strategy and our role within the energy transition and today we will present the outcome of our discussions - we are announcing our contribution to the very urgent topic of decarbonization of the energy sector.

PAGE 4 – THE WORLD NEEDS MORE ENERGY AND LESS EMISSIONS.

Growing global population and rising living standards worldwide continue to drive energy demand growth. Primary energy consumption has increased by an incredible 50% since the year 2000 and is expected to continue to grow.

Economic shocks such as the 2008 credit crisis and the 2020 pandemic are significant, but relatively short-term interruptions in these powerful long-term growth trends. Historically, growing energy demand, has led to growing emissions which, as we all know, in turn lead to climate change. Carbon dioxide emissions have increased by almost 50% since 2000 to 34 billion tonnes in 2019.

In the latest updates, the IEA see primary energy demand increasing by another 25% by 2040 in the Stated Policies Scenario. It is especially astounding since it’s not a business as usual scenario but a base case scenario assuming higher ambition levels regarding cutting emissions than in the past.

Not to compromise on prosperity, the energy supply has to be abundant, affordable and carbon-efficient at the same time. Only with global efforts and multilateral solutions, can global emissions be expected to increase just modestly by 2040. IEA show in their Sustainable Development Scenario that drastic measures are needed in order to reset the path from slowing growth of emissions to actually reducing emissions.

Delivering more affordable energy, whilst at the same time reducing greenhouse gas emissions and other pollution, will require significant changes in the current energy mix. This is where we want to contribute based on our defined strategy.

Broadly, this means less coal and oil, and more renewables, with natural gas taking a leading long-term role as an affordable and carbon-efficient energy source. For the energy transition to succeed, both existing supplies and new supply need to decarbonize.

PAGE 5 – NATURAL GAS – THE ENABLER OF THE ENERGY TRANSITION

In all their scenarios, the IEA, and other commentators, see a significant role for oil and gas in the supply mix as the backbone of global energy supply for decades to come.

It is simply not possible to replace all the hydrocarbons with renewable energy. What is possible, however, is to reduce overall global emissions when substituting the more carbon intensive sources with the less carbon intensive ones, whilst doing so at scale.

This is why, Wintershall Dea as a gas and oil company have put the emphasis on efficient and innovative gas supply growth, ahead of oil. Gas enables the energy transition as it can replace coal, whilst also playing an important role in the future hydrogen production.

What is often overlooked, is the high capital intensity of oil & gas production, and the requirement for sustained investment to maintain supplies.

Oil and gas reservoirs deplete naturally as they are produced, typically at about 5% per year without new material spending.

Compensating this natural decline requires investment in existing fields, and exploration for new reserves.

In a single year, natural decline removes some 5 million barrels a day of oil production, and almost 20 billion cubic feet a day of natural gas. For oil, this means broadly that every two and a half year the industry needs to invest the equivalent of the entire US oil industry production. For gas, this decline is equivalent to replacing all North West Europe's gas production each year.

If investments were to be simply turned off, this natural decline would lead to a sharp fall-off in oil and natural gas supplies, leading to a 50% or more reduction in oil supplies in 2040, and a significant supply gap versus demand, leading to potentially higher prices. Over the last 5 years, the industry has focused on short-term cash generation rather than growth, so the supply gap is certainly coming.

An energy transition to low carbon has commenced, and at Wintershall Dea, our strategy is to thrive and grow in this changing landscape.

PAGE 6 – PORTFOLIO WELL POSITIONED FOR THE ENERGY TRANSITION

Our portfolio is well-positioned for this transition. We are the leading European independent gas and oil company and our strategy is centred around that. We are not going to change our strategy towards the renewables sector, as this is not where our expertise lies.

Instead, let me remind you of the highlights of our portfolio.

We believe our role as predominantly a gas-player is a very important element in the energy transition. There won't be a successful energy transition and effective decarbonization without natural gas playing a crucial role whether in the switch from coal to gas in the next decade or in production of blue or turquoise hydrogen in the years to come.

Our emissions are already at the lower end of our peer group and we have continued to take measures to drive them lower. Recently, we have announced a number of actions, in particular in Germany, which will help to reduce our greenhouse gas emissions substantially. For example, in our Mittelplate field we have switched our power supply to 100% certified electricity from renewable sources. Additionally, some years ago, we have already committed to the World Bank "Zero Routine Flaring by 2030" initiative. I'm proud to say that we have already eliminated routine flaring at operated assets.

Lastly, having low emissions is of course not the only important element to succeed in the energy transition. Our portfolio is also a very low-cost portfolio. We have successfully reduced our production costs by close to 40% in the last years to well below $4 per boe in recent quarters.

Having a portfolio that is gas-weighted, low emitting and low cost, makes it a very competitive one that is well positioned in the energy transition.

PAGE 7 – OUR ENERGY TRANSITION PATHWAY

Wintershall Dea strongly supports the European Union's 2050 carbon neutrality target. Therefore, we are setting ourselves a clear pathway and ambitious targets.

Firstly, our target is to be a net zero company in all our upstream operations already by 2030. This includes Scope 1 and Scope 2 greenhouse gas emissions of the entire portfolio, operated and non-operated, at equity share basis.

This goal is clearly an ambitious one, our target is for the entire portfolio, rather than just own operated assets. Our industry has to be at the forefront of change, and we want to lead by example with ambitious, yet achievable targets.

Secondly, as a founding member of the Methane Guiding Principles industry initiative, we work towards continually reducing methane emissions. We have committed ourselves to achieving methane emissions intensity of below 0.1% by 2025 and beyond.

Our climate approach is based on four pillars consisting of portfolio initiatives, carbon management, offsetting and technologies and all of that while being transparent to our stakeholders. We are committed to comprehensive reporting of our emissions performance and policies. We participate in the Carbon Disclosure Project and will be implementing TCFD recommendations over time.

The path to scope 1 and 2 net zero emissions is clear. The tools and options to reduce emissions are already known and available right now. The only question is the relative cost of each one of these tools and options.

We have reviewed our portfolio and have several short to medium term levers that we will be applying to significantly reduce our emissions by focusing on carbon-efficient assets and activities and increasing energy efficiency by strict management of greenhouse gases. We will steer our already attractive portfolio into an even lower emissions one and will do everything we can to reduce emissions in all our operations across the board. More on this in the future.

However, there are Scope 1 and 2 emissions that cannot be completely avoided at reasonable costs – in order to mitigate these as well, we will invest in nature-based solutions, like forest protection and reforestation.

Thirdly, in terms of Scope 3 emissions, we have identified the areas where our assets and competencies can help in contributing to emission reductions. These areas include in particular CCS and hydrogen. For example, we have access to a number of depleted fields in the North Sea, as well access to significant pipeline infrastructure in Europe that can be used for CCS and hydrogen transportation respectively.

We have already been involved for some time in assessing several pilot projects ranging from CO2 storage, for example in Denmark and Norway, to pyrolysis technology development in partnership with German Karlsruhe Institute of Technology.

These technologies are our medium to long-term contribution to reach the Paris climate goals and will play the key role in our effort to significantly reduce Scope 3 emission towards and after 2030.

We plan to invest around €400 million over the next 10 years towards these goals. As you know, our major upstream projects are coming onstream in the next 12-18 months and will significantly increase our cash flow generation. This fits well into the next stage of our corporate development – decarbonizing our portfolio.

The world is on an unsustainable path and we have to act fast and together. We are determined and committed to deliver on our targets to support the energy transition. And therefore, they will of course be part of the targets that are relevant for the compensation of myself and my fellow Board Members.

Let us now turn to the other updates of the quarter.

PAGE 9 – MACROECONOMIC BACKDROP

Following the unprecedented demand shock and the resulting dramatic price decline in Q2, oil prices have rebounded from their historic lows but are still around 30% lower compared to the same period last year, with Brent averaging $43 per barrel.

European gas on average remained largely around the same level as in Q2 at $2.1/mscf, but the prices have increased substantially from September onwards to well above $4/mscf.

Primarily due to lower LNG supplies into Europe and the upcoming winter, there are signs that the gas market is also starting to rebalance, with gas having traded as high as $5 /mscf some days ago. The impact of lockdowns, increased supplies from Libya and reduced economic activity, however, continue to weigh on oil.

In many countries confinement measures are being re-introduced and it remains to be seen how severe the effect of Lockdown 2 will have on the economic activity in the longer term. With conditions changing on a daily basis and effects that are difficult to predict, our focus remains on keeping all our colleagues and partners healthy and safe, ensuring Wintershall Dea's operational and financial stability and making our portfolio as resilient as possible for all phases of the cycle. We are taking this into account in our 5-year budget planning that is ongoing right now.

PAGE 10: THIRD QUARTER OVERVIEW AND RECENT DEVELOPMENTS

Let me now give you a quick overview of our operational performance in Q3 and after the reporting period end.

I'm happy to report that our most immediate major development projects have progressed well.

A couple of weeks ago, we started production of the first phase in the Aerfugl field. This is a major development consisting of two phases. Both phases are tied into the FPSO of our Skarv field. This project has great economics and will significantly increase the production from the vessel.

We expect two additional major projects – Raven in Egypt, and Dvalin in Norway – to come on-stream around the turn of the year, and hence expect to enter 2021 with a great deal of operational momentum.

In Russia, we have two significant development projects ongoing. Starting with the development of the Turonian layer of the Yuzhno-Russkoye field, the first well clusters of the full field development came on stream in 2020 and the acceleration of the development is ongoing into 2021. Production from this layer will offset the natural decline from the Cenomanian layer of Yuzhno-Russkoye field. Additionally, we expect the start-up of the Achimov Area 4A/5A in late Q1 of next year.

However, two of our major projects in Norway – Njord and Nova – have been impacted by a slow-down in construction and offshore commissioning due to Covid restrictions, and we now expect both of these projects to come on-stream with a few months delay in at the end of 2021 and beginning of 2022.

All of these developments are very important for us and will increase our overall production next year and the year after. On that and on more detailed guidance, we'll come back to in February of next year.

As mentioned in the last earnings call already, our exploration team has had a successful year. Out of the 11 wells drilled so far, 9 were successful. We expect to spend around €175 million on exploration for the entire year compared to our original guidance of €150-250 million.

Last, but certainly not least, Sustainalytics upgraded our ESG risk rating to medium. I'm very proud that our company scored 10th out of 274 in the oil and gas industry group, representing 4th percentile. To me this proves that our commitment to the highest ESG standards is also acknowledged by the leading rating agencies.

PAGE 11: DELIVERING ON PANDEMIC RELATED ACTIONS

Let me now quickly review on how we are delivering on our crisis actions.

Our top priorities since the start of the pandemic have been to protect our people, ensure business continuity and protect our balance sheet.

We set ourselves ambitious targets to cut capex, expex and opex by 30, 20 and 10% respectively. Whilst the year is not over yet, with just over a month left, I'm confident that we will be able to achieve these and most importantly end the year in a free cash flow positive position. With the volatility that we have faced and being at the top of our investment cycle, I am pleased to see these results.

As no one knows how long the pandemic will actually last, we are taking a cautious approach to business planning in order to ensure we maintain our current rating even if volatility were to remain high.

With that, let me hand over to Paul who will walk you through our financial highlights for the quarter and our outlook.

Paul Smith – Chief Financial Officer

Thanks Mario and good morning everybody from me in Hamburg here.

PAGE 13: THIRD QUARTER PERFORMANCE

Our financial results were once again impacted by the external environment. We have seen a stabilisation of oil prices in 3Q at just over $40/bbl, with gas prices remaining challenged in the quarter and flat on 2Q at just over $2/mcf. However, as we head into winter in Europe and see some constructive signals around reduced LNG supply into Europe and rebalancing, we see current forward prices for 2021 are around $4.5 per mscf.

Let me summarize some of the 3rd quarter highlights:

1. On health and safety our overall performance was good, with Total Recordable Incidents Frequency rate continuing to trend down on 2019, while our LTIF went up slightly. Of course, HSEQ remains our top priority;
2. Production was stable at 606,000 barrels of oil equivalent and I'm delighted that despite all that has happened this year, we are now on track to achieve our target production volume that we set before the pandemic began;
3. Production costs continue to be highly competitive at $3.7/boe; an 18% reduction year on year;
4. Our total capex of €247 million is about 40% lower year on year, and is on track to be within our guidance at around €1.2 billion for the year;
5. Our EBITDAX was just under €400 million, over 50% higher than in the previous quarter but still significantly lower compared to the same period last year;
6. Our free cash flow for the quarter was around €90 million and a lot higher than the negative €300 million in the previous quarter. As mentioned last quarter, we expect to end the year in a modest free cash flow positive position.

PAGE 14: REALIZATIONS

In Q3, our realized gas prices were 29% lower year on year, compared to a 42% decline in TTF price. Our Russian realized prices were weak this quarter due to the time lag effect of both oil and gas prices that are incorporated in our contracts.

Our realized liquids prices, excluding Russian condensate, were around 27% lower while Brent prices for the same period declined by 31%. Compared to last quarter, realized oil prices were up almost 50%, at around $38 per barrel in Q3.

PAGE 15: COST PERFORMANCE

Let's talk about costs now.

From the beginning of the pandemic, we have focused our efforts on cost control. Back in March when the pandemic just started, we set ourselves an objective to reduce production costs by 10% and I'm pleased to confirm that we are well on track to achieve this. Our YTD production cost of $3.8 per barrel is 12% lower than 2019, and we expect to continue to make efficiency gains in this area as we look to bring on volumes in both 2021 and 2022.

In addition, the synergy benefits we have been driving into the organisation following the merger in May last year are starting to be a major contributor to our cost optimisation efforts. As a reminder, we are targeting to achieve over €200 million per annum of synergies by 2022 and seeing the progress so far, we feel comfortable that we will not only achieve, but exceed this target.

PAGE 16: PROFITABILITY

Earnings in the reporting period were materially impacted by weaker commodity prices compared with the same period last year, but of course improved on the lows experienced in 2Q. We ended the quarter with EBITDAX of just below €400 million - almost 60% higher than in Q2.

Unfortunately, the pricing time-lag effect in Russia led to a significant impact on our Russian EBITDAX. Of course, given we saw higher oil and European gas prices during the third quarter these will translate into higher formula prices for the upcoming 4th quarter.

Our adjusted net income for the quarter was €70 million, up about 43% year or year, but lower than 2Q which benefited from the recording of the temporary tax changes introduced in Norway.

PAGE 17: CASH FLOW DEVELOPMENT AND LIQUIDITY

Our 3Q cash flow was strong. We generated about €400 million of operating cash flow in the quarter, compared to only about €100 million in the previous quarter.

Of course, higher commodity prices were a major contributing factor, but as previously indicated we also benefited during the quarter from €280 million of tax refunds following the introduction of temporary tax legislation changes in Norway.

With 3Q free cash flow of €89 million, and Jan-Sept year-to-date cumulative FCF of minus €68 million, we continue to expect to end the year with a modestly positive full year FCF.

At the end of the quarter our cash balance grew by about €100 million to €540 million and maintain a strong liquidity position with just under €2 billion available. With no near-term debt maturities until 2022, and an expectation of full year free cash flow positive outcome, we are confident that we will enter 2021 with a robust balance sheet and strong liquidity.

PAGE 18: COMMODITY HEDGING

The company has adopted a more pro-active, and credit accretive hedging program up to 3 years out in order to provide additional stability to cash flow going forward.

Given our diverse production profile, and tax inefficiencies in certain jurisdictions we will only be hedging oil and European gas, as other parts of our portfolio are based on formula prices that cannot be easily or efficiently hedged.

Consequently, the maximum volumes hedged in the next twelve months at any given time would represent approximately 40% of our after-tax economic exposure as a maximum. The main objective, like all other aspects of our financial policy, is to protect our investment grade rating, and hence we will be systematically hedging as and when forwards prices are credit accretive.

On page 18, you can see our current hedge book. We have started hedging modestly in recent months, with the mark-to-market value of our hedge book as of end of Q3 standing at around €55 million.

PAGE 19: GUIDANCE AND OUTLOOK

Let's now turn to guidance.

With only a few weeks left in the year, we expect full year production to come in within 610,000-615,000 barrels of oil equivalent a day. In February, we'll provide you with our guidance for 2021, but we expect to see an increase in volumes in both 2021 and 2022.

In terms of capex, we are on track to deliver within our guidance of around €1.2 billion, while our exploration expenditures are expected to be at the lower end of our guidance at around €175 million.

Having taken decisive actions early in the crisis, and despite the most challenging of commodity price environments we have experienced this year, we are on track to deliver a free cash flow positive year.

In addition, the building blocks for the anticipated growth from our projects that will increase our anticipated production volumes in 2021 – the development projects mentioned earlier are all on track to start contributing production next year.

Consequently, regardless of the commodity price environment we find ourselves in next year, we will benefit in terms of free cash flow generation from an increase in volumes as well as a moderated capital investment program. We will share more on our plans and guidance with you for 2021 in our planned February call.

Mario, on this note, back over to you.

Mario Mehren

Thanks Paul.

It's been a long and difficult year, but I am pleased to say that we have weathered the volatility well.

We have progressed the merger and integration significantly and are in the last stages of active integration process. We are seeing good performance in terms of synergies and look forward to updating you on that in February.

Our operations are stable, people safe and finances in order.

We are progressing our strategy, following our cash prioritization framework diligently and now also have focused and ambitious climate targets.

Allow me at this point to give a big thank you to our team! In a year like this, the results we are able to present today are everything, but a given.

In February, when we update you on our full year results, we will be in the position to update you on our development projects and how we plan on tackling our emissions in more detail.

No doubt, the volatility will continue, but we are well on track and very well positioned to weather whatever our industry will face.

With that, let us now open up for questions. Aleks and the IR team are of course happy to answer any questions separately too.

Operator – over to you.