wintershall dea

CALL TRANSCRIPT

WINTERSHALL DEA Q4 AND FULL YEAR 2019 RESULTS PRESENTATION

Aleksander Azarnov – SVP Investor Relations

Good afternoon everyone and welcome to our Fourth Quarter and Full Year Results presentation.

I'm Aleks Azarnov, Wintershall Dea's Head of Investor Relations and together with our CEO Mario Mehren and CFO Paul Smith, will lead you through today's presentation.

First of all, can I please 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.

With the launch of our new Strategy 2030, a new Sustainability report, announcement of our FY 2019 results, and obvious questions around how we intend to respond to the very challenging commodity price environment, we have a lot of news for you today. Mario is going to briefly present our new strategy and plans for the future. Paul will take us through the 2019 results and the outlook for 2020 and there will be plenty of time for questions at the end of the presentation

With that, let me hand it over to Mario.

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Mario Mehren – Chief Executive Officer

PAGE 4 – STRONG OPERATIONAL PERFORMANCE AND DRIVING MERGER SYNERGIES

Thanks Aleks, and welcome everybody.

First of all, let me start with saying that I hope everyone on the call and their loved ones are doing well and staying safe. With the threat of the COVID-19, all of us are truly living through a unique period, and our first and primary focus is on the health and well-being of all those that work for us and with us. We are dealing with a rapidly evolving context, and like many companies around the globe having to face issues we have never had to face before. We have had a crisis team up and running for several weeks now, and we continue to deal with both the immediate impact of COVID-19, as well as putting contingency measures in place to be able to respond to the extent possible, to supply chain and business disruptions.

2019 was an eventful year for Wintershall Dea. We have achieved a lot and I'm convinced that there's a lot more to come. With the ever-increasing coronavirus crisis and the collapse of the OPEC+ arrangement resulting in oil price moves not seen since the 1991 Gulf War, the industry is going through extremely difficult times, but we at Wintershall Dea are ready for whatever comes next and we as Wintershall Dea decided to take immediate actions: we will cut our CAPEX and exploration expenditures, safeguard liquidity and have agreed with our shareholders to suspend dividend payments until further notice. Our CFO Paul Smith will give you more detail on that in a minute.

Overall, I would say that our 2019 results demonstrate the robustness of our portfolio. Our financial results were affected by the challenging oil and gas price environment. Whilst we cannot control global commodity prices, we can ensure that our operational performance remains strong and this is what we have done in 2019 – our development projects are progressing well and we grew volumes by about 10% to 642,000 barrels per day of oil equivalent.

Financial performance was challenged by the slide in commodity prices and Paul will give you an overview of our financial position shortly.

We are making good progress with generating value from the merger, capturing synergies, rationalizing the portfolio and refreshing our exploration positions.

We have set out a new strategy for the company to deliver profitable growth in the energy transition. This strategy includes clear plans to maintain a leading position in natural gas, and to reduce our greenhouse gas emissions in a growing portfolio. I'll come back to the strategy shortly.

Lastly, we continue to focus on delivering our development portfolio of 10+ different projects. Most of them are progressing well and according to plan, with the exception of two non-operated projects – Raven in Egypt, and Njord in Norway- both of which have experienced delays and are now expected to come onstream in the first half of 2021.

PAGE 5: 2019 RESULTS HIGHLIGHTS

Wintershall Dea's strong focus on operational performance is designed to generate robust results across the commodity price cycle. We are not an integrated player, so naturally our results are more volatile, but we do strive to have the lowest cost portfolio that allows us to perform well in various market conditions.

Paul will give you more detail on our results in a moment, but in summary:

1. we achieved record production of 642,000 barrels of oil equivalent a day, in line with our revised guidance of 640,000 barrels of oil equivalent a day and about 10% higher year on year;
2. We once again replenished more than 100% of our produced reserves, leaving our 2P reserves at 3.8 billion barrels and an R/P ratio of 17 years;

3. Our capex of €1.68 billion was broadly in line with the €1.6bn we guided towards during our Q3 results call, the slight increase was primarily due to higher capitalized exploration. Development project cost performance remains good;
4. Our EBITDAX was €2.8 billion and impacted of course by lower commodity prices;
5. Free cash flow was almost €200 million despite being at the peak of our investment cycle;
6. Production costs remain amongst the lowest ones in our peer group and in 2019 we were at $4.3 per barrel – a 25% reduction in the last three years.

PAGE 6: HSEQ PERFORMANCE
Let's move to page 6 now where I would like to briefly touch upon our HSEQ performance which remains the priority in everything that we do. Our LTIF of 0.4 per million work-hours was slightly higher than that of last year, but remains well below historical industry average. Regrettably, we did have one fatality last year due to a car accident of one of our colleagues in Libya. Despite a decrease in total recordable incidents, we have launched a company-wide training and occupational safety campaign based on the IOGP lifesaving rules in order to create a safer workplace for all of our employees.

PAGE 7: INTEGRATION
Moving on to integration, on page 7.

We continue to generate more value from the merger between Wintershall and Dea, bringing our cost base down even further and making our company more resilient.

In 2019, we achieved over €100 million of savings already through a combination of production initiatives, capex savings, as well as first FTE reductions and feel well on track to deliver and exceed the targeted €200 million we have previously announced.

PAGE 8 SLIDE: STRATEGY 2030

Now, let me give you a quick overview of our new "Strategy 2030". It is not a radical change to what we have been doing, but after 10 months of existence as Wintershall Dea, we had time to carefully evaluate what are the strengths of the combined business, where the industry is heading and decide on our priorities within the landscape.

Today's energy industry is undergoing a profound change.

On one hand, population growth and rising living standards are driving energy demand growth globally. But on the other hand, climate change is real and we need to act collectively to reduce our carbon footprint as quickly as possible.

Renewable energy has made tremendous progress in recent years. However, that has barely been enough to even match the overall energy demand growth, let alone substitute fossil fuel use.

We believe that natural gas, as the cleanest fossil fuel will play a critical role in the energy transition. For it to succeed and for energy not to become a bottleneck for global economic development and prosperity, the fossil and the non-fossil fuel segments will need to be complementary and not mutually exclusive. At Wintershall Dea, we are determined to play our part in the energy transition.

Taking into account the landscape, we have developed our strategy which is to deliver profitable growth in the energy transition. This means investing in profitable lower carbon footprint production and reserves while growing our cash flow over time, in order to generate attractive dividends and total shareholder return to our investors.

Our strategy will look to continue to build out the Leading European Independent Gas and Oil company around 5 strategic pillars:

Our first pillar of our strategy is an ability to generate a competitive and sustainable return through the cycle to our shareholders. We have a business that is undergoing a significant transformation with the 10+ development projects ongoing. Once those are completed, the cash from contribution from these projects will allow us to pay an attractive dividend while also maintaining a modest growth rate.

Secondly, a clear and robust financial framework. Our first call on cash will be towards maintaining existing production and already committed development projects in order to maintain our cash flow. Second call on cash will be on maintaining our balance sheet and investment grade rating. A testament to that is the suspension of our planned dividend, which Paul will elaborate more later on. Once these two priorities are fulfilled, we will look to distribute a competitive dividend to the shareholders and only then will we look for further growth opportunities.

In the third place, an advantaged, gas weighted E&P portfolio which is suitable for the energy transition and resilient in various price scenarios.

Fourth pillar of our strategy is sustaining our exposure to a high quality and stable midstream and transportation business. This business, as you know, is stable and contributes significant cash flow to the group. By way of context, this part of our business alone provides approximately 2X the annual debt servicing coverage for the company as a whole.

And finally, but certainly not less important is our focus on sustainability, which is critical in our industry and at the heart of everything that we do. We are committed to being amongst the leaders in sustainability in our actions and in our reporting. The company has already a portfolio with amongst the lowest Green House Gas intensities in the sector, at nearly 11 kilograms per barrel of oil equivalent in 2019, but of course we want and will do better.

You will hear more on all of these topics in the upcoming calls, but for now, we'd like to focus on the more immediate matters and hand over to Paul , who is going to take you through an operational update and our 2019 results. And then we will both take a Q&A session with you.

Paul Smith – Chief Financial Officer

Thanks Mario and good afternoon to everybody wherever you may be.

PAGE 10: MACROECONOMIC BACKDROP

To say we live in interesting times would be an understatement, and we believe we are now at the start of a sustained period of challenging and volatile commodity prices, where we require global market to rebalance against the backdrop of huge uncertainty on both the demand and the supply side. We should see lower cost producers and those with strong balance sheets well positioned to emerge stronger. Here, with Wintershall Dea, we plan for the worst, and be pleasantly surprised if the world turns out slightly better. After I've taken you through a summary of our 2019 financial results, I will take you through some of our immediate responses to the current situation.

Of course, in 2019 we already experienced significant commodity price challenges, in particular for European gas prices. Gas prices in Europe declined by about 45% relative to the previous year, averaging 4.4 per mmbtu, primarily as the result of growth in European energy supply from Norway, significant increased LNG imports from the US as Asian LNG demand slowed on the back of US/China trade tensions, and an unseasonably mild winter resulting in record storage levels. Oil prices were off more modestly, declining 10% year-on-year to an average of $64 per barrel in 2019.

Now, turning to the financial results and the summary on page 11.

PAGE 11: RESULTS SUMMARY

On page 11, you can see a snapshot of our KPIs. I'll leave this page for you as a reference before going into some more detail in the following section. However, a couple of points I do want to highlight.

Firstly, due to the merger and our short fiscal year our published financials are not comparable, and hence I'll be focusing in on a like for like comparison of our results.

Secondly, despite the challenging commodity price environment experienced in 2019 we ensured that we "lived within our means", and were able to fund our capital programmes from our operating cash flow and ended the year with about €190 million of free cash flow.

Thirdly, the year was impacted by a number of one off and material special items relating to the merger of the two companies and hence does not represent a 'steady state' year.

PAGE 12: PRODUCTION

Let's turn to our production performance on page 12. Given the highly volatile geopolitical situation in Libya, we have decided not to report our production volumes from onshore Libya going forward as this is not something we can plan for at this time and moreover the potential production of circa 2-3,000 barrels a day in 2020 is an immaterial part of our production. As such, our reported production figures will exclude these volumes going forward and to show you better like-for-like comparability, we have excluded these figures also from our historical numbers.

Our full year oil and gas production volumes increased by over 50,000 barrels a day, or about 10%, and we exited the year with strong 4Q production of just under 640,000 barrels a day, already excluding the Libyan production. This strong growth was driven by new startups in Egypt's Giza and Fayoum fields, in Norway from the start-up of Aasta Hansteen, and in Russia where we increased production in Achimgaz to a new increased plateau rate of 10bcm.

Our 2019 growth was predominately gas, modestly increasing the overall mix of gas in our portfolio to just over 70%.

PAGE 13: REALIZED PRICES

In terms of realizes prices on gas, despite a 40% decline in year-over-year TTF prices our realized gas prices is declined by 26%, reflecting the benefits of the diversified pricing constructs built into our global gas portfolio, providing a built-in dampening mechanism that we talked about in our previous earnings call.

Our realized liquids price, excluding Russian condensate, declined by about 15%, with the full year liquids price averaging $53 a barrel.

PAGE 14: PROFITABILITY

Of course, the lower commodity prices have had a significant impact on our profitability. While increased production has partially offset the significant softening of commodity prices, our EBITDAX was down about 20% year on year.

From December 1st 2019, we deconsolidated our WIGA midstream business, resulting in only two months of consolidated EBITDAX in 4Q and this part of our business will be equity accounted going forward.

Our net income for the year was significantly impacted by about €1.5 billion of special, one-off items, primarily related to the merger. The biggest effect was due to €1.5 billion impairment of assets, primarily at closing of the merger, resulting from significantly lowering the company's long-term price assumptions as well as a €360 million provision for various merger related restructuring costs.

Our underlying FY adjusted Net Income, adjusted for one-off special items, decreased by 17% year on year for the full year, with incremental volumes more than offset by a significant deterioration in the commodity price environment.

PAGE 15: COST PERFORMANCE

Our production costs in 2019 continued to decline, and averaged $4.30 per barrel, a decline of 25% over the last three years.

This decrease is driven by both, portfolio effects, such as new low-cost production, but also the constant and relentless focus on costs throughout the organization. You will note that production costs are similarly low in all of our core regions – a testament of our commitment to building out the company as a low-cost producer, and a key attribute that will allow us to be well positioned on the cost of supply curve.

PAGE 16: CASH FLOW DEVELOPMENT
Let's turn to page 16 – cash flow development.

Our 2019 operating cash flow of €1.9 billion, despite lower commodity prices, offset our investments of about €1.7 billion, resulting in about €190 million of free cash flow.

Our capex of €1.68 billion was broadly in line with our guidance, with a slight increase due to increased capitalization of exploration expenses in 4Q. Of our total capex, €1.5 billion related primarily to our investments in our development projects, particularly in Norway, with the remaining €180 million capitalized exploration expenditure from a total exploration spend in 2019 of €340 million.

PAGE 17: BALANCE SHEET
Let’s turn to page 17 and our balance sheet.

As you are no doubt aware, the company successfully put a stable, long term, capital structure in place in September last year through the placement of €4 billion of bonds. Together with term debt facilities already in place and other debt obligations, total company gross debt at year end stood at €6.59 billion, and with over €800 million of cash and cash equivalents, a net debt position of €5.76 billion.

The lower EBITDAX, of course impacted our leverage, which at 2x was at the higher end of our targeted mid-term range. This is something we continuously monitor and manage, and against the back-drop of an extremely challenging and prolonged commodity price environment we will continue to take action to protect our investment grade rating.

With over €800 million of cash coming into this year, an undrawn RCF of €900 million and no near term debt maturities in the coming years, we feel well placed entering the year to deal with the impact of the oil price shock, but we will be implementing incremental actions I will talk through momentarily to ensure we are able to navigate our way through a sustained period of low prices.

PAGE 18: RESERVES UPDATE
In 2019, we once-again replenished more than what we produced. With a reserves replacement ratio of 109% and an RP of 17 years, we continue to have a healthy running room for the business.

I would like to stress that reserves replacement in any given year is an outcome of factors such as the pace of final investment decisions, energy prices and other factors. Hence, we see annual reserves performance as an outcome, rather than a target, and we will look at long term trends for reserves going forward.

PAGE 20: 2020 OUTLOOK
Let’s turn to page 20 now, which gives you an update of what we expect in 2020.

In response to what we expect to be, as I said, a sustained period of challenging commodity prices, we are taking number of decisive measures based on the clear financial framework we have put in place.

Firstly, we have taken action to lower our development capex and exploration spend and now expect our production and development capex to be in the €1.2-1.5 billion range, a 20% reduction on our original plans for this year, and compares with our 2019 FY spend of circa €1.5 billion. In addition, we will be reducing our exploration expenses for the year to the range of €150-250 million compared to €340 million of spend in 2019.

Secondly, we have agreed with our shareholders to suspend, until further notice, the common dividend that was due in the weeks ahead, and will use this flexibility to shore up our balance sheet.

Thirdly, we will continue to look for opportunities to streamline our portfolio although we will only do so where we see appropriate long-term value being assigned to assets.

You will see that our forecasts have been updated compared to what we have in the management report that was finalized just only a few days ago, reflecting the fluid situation that we are in.

We expect our production to be around 600,000-630,000 barrels of oil equivalent per day, already excluding the Libyan volumes. This is lower than we were anticipating as a result of delays experienced in two non-operated projects – Raven in Egypt which was due to come on-stream in 4Q last year and we now expect to come on-stream in the first half of 2021, and the Njord Project in Norway which was due to come on-stream in 3Q this year and we now expect to also come onstream in the first half of 2021.

There is no doubt that 2020 will be an extremely challenging year for the industry. However, we believe that our strong balance sheet, our cost advantaged production, and the decisive actions we are taking based on our strategy and consistent with its financial framework will allow us to successfully navigate our way through this and come out the other end leaner and stronger than we are today.

PAGE 21: SENSITIVITIES

My last slide is really for reference for analysts and investors who are making financial forecasts for the company.

It shows how our cash flow can be impacted, both upwards and downwards, by changes in commodity prices. In our sensitivity analysis we made a perhaps somewhat simplified assumption that when Brent or TTF prices change, the domestic prices remain stable. Obviously, in real life this does not quite work like that due to interconnected energy markets, but as a rough estimate, this should give you a good directional overview.

Additionally, you can see our free cash flow breakeven prices - this is Free Cash Flow after investment, but before dividends and M&A. With both oil and gas prices impacting us, we expect our FCF break-even this year to be at around $35-40 per barrel assuming gas prices of around $4/mcf. Our FCF break-even pricing will reduce significantly in 2021 to well below $20 per barrel assuming TTF of $4/mcf, primarily as a result of the significant volume growth coming on-stream over the next 18 months from our portfolio of major projects.

And with that, let me hand you back to Mario.

Mario Mehren

Thanks Paul. Let me sum it up now.

We've achieved a lot in 2019.

And we are making good progress with generating value from the merger…capturing synergies, rationalizing the portfolio and refreshing our exploration positions.

We have set out a new strategy for the company, called Strategy 2030…paving the way to deliver profitable growth in the energy transition.

And we have clear plans to maintain a leading position in natural gas, and to reduce our greenhouse gas emissions in a growing portfolio.

2020 will be a challenging year for the industry, but with the measures we have implemented and a good capital structure, we are confident that we can navigate through the year successfully.

Lastly, I would like to thank our great team for their focus throughout an exciting and busy year that we had and of course our new partners, like all of you on this call.

And there is more to come from Wintershall Dea.

With that, let's go to Q&A.