OMV Petrom Group Factsheet Q2/19

July 31, 2019

Highlights Q2/19 [1,2]

Group

- Clean CCS Operating Result at RON 1.0 bn, 36% higher
- Clean CCS net income attributable to stockholders at RON 0.85 bn, up 83%
- Cash flow from operating activities at RON 1.4 bn, 3% higher
- CAPEX at RON 0.9 bn, down 30%
- Dividends for the 2018 financial year paid, RON 1.5 bn
- Free cash flow after dividends at RON (1.1) bn, 65% lower
- Clean CCS ROACE at 16.4%, 7 pp higher

Upstream

- Clean Operating Result at RON 774 mn, weaker by 6%, mainly driven by lower oil prices and hydrocarbon volumes
- Production decreased by 5.6%, mostly due to natural decline and the transfer of marginal fields
- OPEX improved by 4% to USD 11.20/boe, reflecting favorable FX effects and cost optimization

Downstream Oil

- Clean CCS Operating Result at RON 339 mn, 74% higher, due to excellent operational performance, offsetting the weaker refining margins, while Q2/18 was impacted by the refinery turnaround
- OMV Petrom indicator refining margin at USD 3.85/bbl, down 43%
- Refinery utilization rate at 94%; retail volumes up 3%

Downstream Gas

- Clean Operating Result at RON (18) mn compared to RON 26 mn in Q2/18, with lower contribution from both gas and power activities
- 4% lower gas sales volumes to third parties; net electrical output at 0.05 TWh in the context of negative spark spreads
- Since May 2019, OMV Petrom has been supplying the gas regulated market; 2.94 TWh were delivered in Q2/19 to the households and district heating for households suppliers, as per the set allocation

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[1] *The financials are unaudited and represent OMV Petrom Group's (herein after also referred to as "the Group") consolidated results prepared according to IFRS; all the figures refer to OMV Petrom Group, unless otherwise stated; financials are expressed in RON mn and rounded to the closest integer value, so minor differences may result upon reconciliation; OMV Petrom uses the National Bank of Romania exchange rates for its consolidation process. Unless specified differently, amounts related to Downstream represent totals of Downstream Oil and Downstream Gas.*

[2] *All comparisons described relate to the same quarter in the previous year except where mentioned otherwise.*

Financial highlights

Q2/19	Q1/19	Q2/18	Δ% [1]	in RON mn	6m/19	6m/18	Δ%
5,900	5,420	4,976	19	Sales [2]	11,320	9,851	15
998	**1,227**	**735**	**36**	**Clean CCS Operating Result [3]**	**2,224**	**1,694**	**31**
774	825	820	(6)	Clean Operating Result Upstream [3, 4]	1,599	1,465	9
322	378	221	46	Clean CCS Operating Result Downstream [3]	699	542	29
(22)	(16)	(18)	(24)	Clean Operating Result Co&O [3]	(38)	(39)	5
(76)	40	(288)	74	Consolidation	(36)	(273)	87
18	15	23	(23)	Clean Group effective tax rate (%)	16	19	(13)
845	1,056	462	83	Clean CCS net income [3, 7]	1,901	1,214	57
845	**1,056**	**462**	**83**	**Clean CCS net income attributable to stockholders [3,6,7]**	**1,901**	**1,214**	**57**
0.0149	0.0186	0.0082	83	Clean CCS EPS (RON) [3,6,7]	0.0336	0.0214	57
998	**1,227**	**735**	**36**	**Clean CCS Operating Result [3]**	**2,224**	**1,694**	**31**
(59)	**23**	**(191)**	**69**	**Special items [5]**	**(35)**	**(120)**	**71**
30	38	157	(81)	CCS effects: Inventory holding gains/(losses)	69	207	(67)
969	**1,288**	**701**	**38**	**Operating Result Group**	**2,258**	**1,781**	**27**
707	875	813	(13)	Operating Result Upstream [4]	1,582	1,445	9
358	567	215	67	Operating Result Downstream	925	662	40
(26)	(64)	(28)	8	Operating Result Co&O	(90)	(50)	(81)
(71)	(89)	(299)	76	Consolidation	(160)	(276)	42
29	24	(135)	n.m.	Net financial result	53	(198)	n.m.
998	1,313	566	76	Profit before tax	2,310	1,583	46
17	12	23	(25)	Group effective tax rate (%)	15	19	(22)
823	1,151	434	90	Net income	1,975	1,288	53
823	**1,151**	**434**	**90**	**Net income attributable to stockholders [6]**	**1,975**	**1,288**	**53**
0.0145	0.0203	0.0077	90	EPS (RON) [6]	0.0349	0.0227	53
1,429	1,505	1,388	3	Cash flow from operating activities	2,934	3,185	(8)
(1,053)	666	(637)	(65)	Free cash flow after dividends	(387)	93	n.m.
(4,160)	(5,237)	(2,987)	(39)	Net debt/(cash)	(4,160)	(2,987)	(39)
887	826	1,260	(30)	Capital expenditure	1,713	2,102	(19)
16.4	15.2	9.5	71	Clean CCS ROACE (%) [3, 7]	16.4	9.5	71
17.7	16.5	10.1	75	ROACE (%)	17.7	10.1	75
12,767	12,853	13,421	(5)	OMV Petrom Group employees at end of period	12,767	13,421	(5)

[1] Q2/19 vs. Q2/18
[2] Sales excluding petroleum excise tax;
[3] Adjusted for special items; Clean CCS (current cost of supply) figures exclude special items and inventory holding effects (CCS effects) resulting from Downstream Oil; special items include temporary effects from commodity hedging (in order to mitigate Income Statement volatility);
[4] Excluding intersegmental profit elimination shown in the line "Consolidation";
[5] Special items, representing exceptional, non-recurring items, are added back or deducted from the Operating Result; for more details please refer to each specific segment;
[6] After deducting net result attributable to non-controlling interests;
[7] Excludes additional special income related to field divestments reflected in the financial result.

Outlook for the full year 2019

Market environment

- For the full year 2019, OMV Petrom expects the **average Brent oil price** to be at USD 65/bbl (2018: USD 71/bbl);
- **Refining margins** are expected to be around USD 5/bbl (revised from below USD 6/bbl; 2018: USD 6.28/bbl);
- **Demand for oil products** is expected to be above the 2018 level; **demand for gas and power** is expected to be broadly similar to 2018.

Taxation and regulatory environment

A stable, predictable, and investment-friendly fiscal and regulatory framework is a key requirement for our future investments, both onshore and offshore.

- At the end of March 2019, the Government approved the Emergency Ordinance no. 19 to amend the Emergency Ordinance 114/2018 following consultation with market players. We consider Emergency Ordinance no. 19 a first step towards the return to a liberalized gas market. We estimate the net impact of these measures on OMV Petrom Group's 2019 Operating Result at around EUR (40) mn;
- On May 10, the methodology for the reference price for crude oil royalties was changed; the reference price is now linked to Brent quotations.

OMV Petrom Group

- We expect to generate a **positive free cash flow after dividends;**
- **CAPEX** (including capitalized exploration and appraisal) is currently anticipated to be around RON 4.0 bn (revised up from RON 3.7 bn) mainly due to the IFRS 16 accounting treatment of a long-term contract in Upstream; of this amount about 75% is to be routed to Upstream;
- **Neptun Deep:** the current legislative environment does not provide the necessary prerequisites for a multi-billion investment decision. We remain keen to see the Black Sea developed and we are in dialogue with the authorities to understand the way forward;
- **Partnership with Auchan**: contractual negotiations are in progress;
- A **sustainable cost base** supported by ongoing efficiency programs is even more crucial in the context of the current volatile regulatory environment.

Upstream

- **Production**: is expected to decline by around 5% yoy, excluding portfolio optimization, mainly due to natural decline and maintenance activities;
- **Portfolio optimization:** continue to focus on the most profitable barrels; divestment process for further fields ongoing;
- **Investments:** we plan to drill around 100 new wells and sidetracks and to maintain a constant level of workovers yoy;
- **Exploration:** exploration expenditures are estimated to be around RON 0.4 bn.

Downstream

- **The refinery utilization** rate is expected at around 95%;
- OMV Petrom Group must supply the regulated market with 12.5 TWh of **gas** for the period May-December 2019 at a maximum price of RON 68/MWh; we estimate total gas sales volumes to be higher vs. 2018;
- The Brazi power plant must supply the regulated market with 1.14 TWh of **power** for the period March-December 2019 at the price of RON 259.58/MWh; we estimate total net electrical output to be lower vs. 2018.

Business segments

Second quarter 2019 (Q2/19) vs. second quarter 2018 (Q2/18)

Upstream

- **Clean Operating Result weaker by 6%, mainly driven by lower oil prices and hydrocarbon volumes**
- **Production decreased by 5.6%, mostly due to natural decline and the transfer of marginal fields**
- **OPEX improved by 4% to USD 11.20/boe, reflecting favorable FX effects and cost optimization**

The **Clean Operating Result** decreased by 6% to RON 774 mn mainly driven by lower oil prices, lower hydrocarbon volumes, and higher depreciation and exploration expenses, which were partly compensated by favorable FX effects (USD 8% stronger against RON) and higher gas prices.

In Q2/19, **special items** amounted to RON (67) mn, mainly reflecting the reassessment of provisions. The **Reported Operating Result** declined by 13% to RON 707 mn.

Group **production costs** (OPEX) in USD/boe improved by 4% mainly due to favorable FX effects and ongoing cost optimization, which more than offset the lower production available for sale. In Romania, production costs in USD improved by 5% to USD 11.27/boe, while in RON terms they increased by 3% to RON 47.62/boe.

Group hydrocarbon production decreased by 5.6% due to lower production both in Romania and Kazakhstan.

In **Romania**, hydrocarbon production was 13.14 mn boe or 144.4 kboe/d (Q2/18: 13.89 mn boe or 152.7 kboe/d). Crude oil and NGL production in Romania declined by 2.2% to 6.0 mn bbl mainly due to natural decline and the transfer of nine marginal fields to Mazarine Energy Romania in March 2019. Gas production in Romania decreased by 8% to 7.14 mn boe due to natural decline in the main fields (Totea Deep and Lebada East) and the impact of maintenance activities.

In **Kazakhstan**, hydrocarbon production decreased by 8.8% to 0.63 mn boe mainly due to the increased number of wells waiting for workover / intervention jobs.

Group hydrocarbon sales volumes decreased by 5% due to lower production in Romania.

Exploration expenditures increased to RON 138 mn mainly due to the higher share in costs for the drilling of deep wells, as a result of Repsol's withdrawal from the joint operating agreement.

Exploration expenses increased to RON 75 mn due to the write-off of one exploration well.

Capital expenditure including capitalized E&A declined by 13% mainly due to lower investments for Neptun development and lower exploration drilling.

Downstream

- **Downstream Oil: Clean CCS Operating Result at RON 339 mn, 74% higher, due to excellent operational performance, offsetting the weaker refining margins, while Q2/18 was impacted by the refinery turnaround; retail sales volumes up by 3%**
- **Downstream Gas: Operating result impacted by unfavorable power market conditions; since May, OMV Petrom has been supplying the gas regulated market**

The **Clean CCS Operating Result** increased to RON 322 mn in Q2/19 (Q2/18: RON 221 mn), reflecting the significant improvement of the Downstream Oil result, offsetting the weaker result of the Downstream Gas segment. The **Reported Operating Result** of RON 358 mn reflected a **special gain** of RON 12 mn (mainly unrealized gains from the valuation of electricity forward contracts), and positive **CCS effects** of RON 25 mn (due to higher quotations in the first two months of the quarter).

In Q2/19, the **Downstream Oil Clean CCS Operating Result** increased to RON 339 mn (Q2/18: RON 195 mn), supported by excellent operational performance, in the context of a base effect from the Q2/18 refinery turnaround, which more than compensated for the deteriorated refining margin environment.

The **OMV Petrom indicator refining margin** decreased yoy by USD 2.87/bbl to USD 3.85/bbl in Q2/19, as a result of the lower product spreads, mainly for middle distillates and gasoline. The **refinery utilization rate** was 94% in Q2/19 (Q2/18: 49%, impacted by the refinery turnaround).

Total **refined product sales** volumes were higher by 23% vs. Q2/18, reflecting the increase in both retail and non-retail sales channels. Group retail sales volumes, which accounted for 51% of total refined product sales, increased by 3% compared to Q2/18 as a result of higher demand, particularly in Romania. The Retail result was also supported by a higher non-oil business contribution. Q2/19 non-retail sales volumes increased by 52% yoy, due to seized regional opportunities.

The **Downstream Gas Clean Operating Result** was RON (18) mn in Q2/19, impacted by unfavorable power market conditions and lower gas sales volumes; for comparison, the Q2/18 result was RON 26 mn.

As per OMV Petrom's estimates, national **gas** demand increased by almost 2% compared to Q2/18. On the Romanian centralized markets, the weighted average price of natural gas for transactions closed in Q2/19 (5.35 TWh) of various standard products was RON 105/MWh[3,4].

In Q2/19 OMV Petrom's gas volumes sold to third parties were 4% lower vs. Q2/18. Total gas sales volumes, down by 11% to 9.39 TWh, were impacted by the power market context triggering a lower Brazi power plant offtake and an adjustment of the gas storing schedule. At the end of Q2/19, OMV Petrom had 3.4 TWh in storage, compared to 1.3 TWh at the end of Q2/18. Since May 2019, OMV Petrom has been supplying the gas regulated market; 2.94 TWh were delivered in Q2/19 to the households and district heating for households suppliers, as per the set allocation. In addition, on the centralized markets, OMV Petrom sold 3.2 TWh in standard products in Q2/19 at an average price in line with the market price[4].

As per currently available information from the grid operator, national **electricity** consumption was 2% higher compared to the same quarter of 2018, while national production increased by 4%; net exports increased by 82%.

The Brazi power plant generated a low net electrical output of 0.04 TWh in Q2/19, compared to 0.41 TWh in Q2/18, due to negative margins given the rising prices of gas and CO2. The 2019 planned outage for the Brazi power plant took place from March 30 to April 14 for full capacity and from April 15 to April 28 for half capacity. The works were completed on time and on budget.

Total **Downstream investments** amounted to RON 188 mn (Q2/18: RON 471 mn), thereof RON 116 mn in Downstream Oil (Q2/18: RON 446 mn). In Downstream Oil, most amounts were routed to the completion of a modern, closed blowdown system at the Coker unit in the Petrobrazi refinery; the yoy decrease was a result of a high base effect, with Q2/18 investments mainly directed to the Petrobrazi refinery turnaround and tie-in projects. In Downstream Gas, the Q2/19 investments amounted to RON 72 mn (Q2/18: RON 26 mn) and were mainly in relation to the planned shutdown of the Brazi power plant.

[3] *OMV Petrom estimates based on available public information*

[4] *Standard products refers to all products offered on the BRM and OPCOM trading platforms i.e. weekly products, monthly products, quarterly products, gas-year products etc. and the price could include storage related tariffs in connection with the gas volumes sold/extracted from storage*