

# OMV Petrom Group Factsheet Q3/19

October 30, 2019

OMV Petrom S.A.

## Highlights Q3/19 <sup>1</sup>

### Group

- ▶ Clean CCS Operating Result at RON 1.2 bn, 27% lower
- ▶ Clean CCS net income attributable to stockholders at RON 1.0 bn, down 26%
- ▶ Cash flow from operating activities at RON 2.1 bn, 12% lower
- ▶ CAPEX at RON 1.1 bn, up 8%
- ▶ Clean CCS ROACE at 14.7%, 3 pp higher

### Upstream

- ▶ Clean Operating Result at RON 546 mn, down 43%, mainly driven by lower oil prices and hydrocarbon volumes
- ▶ Production decreased by 6.2%, mostly due to natural decline and the transfer of marginal fields
- ▶ OPEX at USD 10.45/boe, stable

### Downstream Oil

- ▶ Clean CCS Operating Result at RON 580 mn, 7% higher, capturing increased demand for refined products and excellent operational performance
- ▶ OMV Petrom indicator refining margin at USD 6.46/bbl, down 2%
- ▶ Refinery utilization rate at 99%; retail volumes up 4%

### Downstream Gas

- ▶ Clean Operating Result at RON 57 mn, down 40% (Q3/18 included Brazi power plant insurance revenues)
- ▶ Gas sales volumes up 37% yoy, built on third-party supply; net electrical output at 1.00 TWh, stable
- ▶ OMV Petrom supplies the gas and power regulated markets; 4.47 TWh of gas were delivered in Q3/19 to the households and district heating for households suppliers and 0.48 TWh to the power regulated market suppliers, as per the set allocations

<sup>1</sup> All comparisons described relate to the same quarter in the previous year except where mentioned otherwise.

## Financial highlights

Q3/19	Q2/19	Q3/18	Δ% <sup>1</sup>	in RON mn	9m/19	9m/18	Δ%
6,869	5,900	6,260	10	Sales <sup>2</sup>	18,189	16,111	13
<b>1,228</b>	<b>998</b>	<b>1,685</b>	<b>(27)</b>	<b>Clean CCS Operating Result <sup>3</sup></b>	<b>3,452</b>	<b>3,378</b>	<b>2</b>
546	774	965	(43)	Clean Operating Result Upstream <sup>3,4</sup>	2,144	2,430	(12)
637	322	639	(0)	Clean CCS Operating Result Downstream <sup>3</sup>	1,337	1,181	13
(21)	(22)	(18)	(20)	Clean Operating Result Co&O <sup>3</sup>	(59)	(57)	(3)
66	(76)	98	(32)	Consolidation	30	(175)	n.m.
16	18	16	(4)	Clean Group effective tax rate (%)	16	18	(8)
1,024	845	1,383	(26)	Clean CCS net income <sup>3,7</sup>	2,926	2,597	13
<b>1,024</b>	<b>845</b>	<b>1,382</b>	<b>(26)</b>	<b>Clean CCS net income attributable to stockholders <sup>3,6,7</sup></b>	<b>2,926</b>	<b>2,597</b>	<b>13</b>
0.0181	0.0149	0.0244	(26)	Clean CCS EPS (RON) <sup>3,6,7</sup>	0.0517	0.0458	13
<b>1,228</b>	<b>998</b>	<b>1,685</b>	<b>(27)</b>	<b>Clean CCS Operating Result <sup>3</sup></b>	<b>3,452</b>	<b>3,378</b>	<b>2</b>
<b>(246)</b>	<b>(59)</b>	<b>(63)</b>	<b>(290)</b>	<b>Special items <sup>5</sup></b>	<b>(281)</b>	<b>(183)</b>	<b>(54)</b>
(44)	30	59	n.m.	CCS effects: Inventory holding gains/(losses)	25	267	(91)
<b>939</b>	<b>969</b>	<b>1,681</b>	<b>(44)</b>	<b>Operating Result Group</b>	<b>3,196</b>	<b>3,462</b>	<b>(8)</b>
512	707	951	(46)	Operating Result Upstream <sup>4</sup>	2,093	2,396	(13)
383	358	651	(41)	Operating Result Downstream	1,309	1,312	(0)
(28)	(26)	(19)	(49)	Operating Result Co&O	(118)	(69)	(72)
72	(71)	98	(27)	Consolidation	(88)	(178)	51
(13)	29	(30)	58	Net financial result	40	(228)	n.m.
926	998	1,650	(44)	Profit before tax	3,236	3,234	0
15	17	16	(8)	Group effective tax rate (%)	15	18	(16)
785	823	1,379	(43)	Net income	2,760	2,667	3
<b>785</b>	<b>823</b>	<b>1,379</b>	<b>(43)</b>	<b>Net income attributable to stockholders <sup>6</sup></b>	<b>2,760</b>	<b>2,667</b>	<b>3</b>
0.0139	0.0145	0.0243	(43)	EPS (RON) <sup>6</sup>	0.0487	0.0471	3
2,094	1,429	2,376	(12)	Cash flow from operating activities	5,027	5,561	(10)
1,383	(1,053)	1,217	14	Free cash flow after dividends	996	1,310	(24)
(5,394)	(4,160)	(4,205)	(28)	Net debt/(cash)	(5,394)	(4,205)	(28)
1,079	887	998	8	Capital expenditure	2,793	3,100	(10)
14.7	16.4	11.8	25	Clean CCS ROACE (%) <sup>3,7</sup>	14.7	11.8	25
15.1	17.7	12.9	18	ROACE (%)	15.1	12.9	18
<b>12,611</b>	<b>12,767</b>	<b>13,249</b>	<b>(5)</b>	<b>OMV Petrom Group employees end of period</b>	<b>12,611</b>	<b>13,249</b>	<b>(5)</b>

<sup>1</sup> Q3/19 vs. Q3/18

<sup>2</sup> Sales excluding petroleum excise tax;

<sup>3</sup> 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);

<sup>4</sup> Excluding intersegmental profit elimination shown in the line "Consolidation";

<sup>5</sup> 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;

<sup>6</sup> After deducting net result attributable to non-controlling interests;

<sup>7</sup> 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 (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;
- ▶ The Romanian authorities are considering changing key oil and gas legislation (a new draft Offshore Law, amendments of GEO 114/2018 and GEO 19/2019, potential for a faster return to a liberalized gas market). We see the reopening of the dialogue on such fundamental topics for Romania as an important step forward;
- ▶ A NAMR order, which provides a royalty reference price of RON 68/MWh for the gas quantities from internal production for sale on the regulated market, entered into force on August 1.

### 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; of this amount about 75% is to be routed to Upstream;
- ▶ **Neptun Deep**: OMV Petrom welcomes the Romanian authorities' recent initiatives to improve the current fiscal and regulatory environment for offshore gas projects. We remain keen to see the Neptun Deep strategic project being developed;
- ▶ **Partnership with Auchan**: contractual negotiations are in progress;
- ▶ A **sustainable cost base** supported by ongoing efficiency programs is crucial in the context of the current market volatility and challenging 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; in exploration block VIII-Urziceni East a large 3D seismic survey is being acquired together with Hunt Oil Company of Romania S.R.L. as operator.

### Downstream

- ▶ **The refinery utilization** rate is expected to be above 95% (revised from around 95%);
- ▶ OMV Petrom Group has an allocation to supply the regulated **gas** market with 12.7 TWh (revised up from 12.5 TWh in the previous ANRE decision) for the period May-December 2019 at the maximum price of RON 68/MWh; we estimate total gas sales volumes to be higher vs. 2018;
- ▶ Also, the Brazi power plant has an allocation to supply the regulated **power** market with 1.14 TWh 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

### Third quarter 2019 (Q3/19) vs. third quarter 2018 (Q3/18)

#### Upstream

- ▶ **Clean Operating Result down 43%, mainly driven by lower oil prices and hydrocarbon volumes**
- ▶ **Production decreased by 6.2%, mostly due to natural decline and the transfer of marginal fields**
- ▶ **OPEX in USD/boe was stable**

The **Clean Operating Result** decreased by 43% to RON 546 mn mainly driven by lower oil prices, lower hydrocarbon volumes and higher exploration expenses. These were partly compensated by favorable FX effects (USD 6% stronger against RON) and higher gas prices.

In Q3/19, **special items** amounted to RON (34) mn, mainly reflecting personnel restructuring costs. The **Reported Operating Result** declined by 46% to RON 512 mn.

Group **production costs** (OPEX) in USD/boe were stable compared to the Q3/18 level mainly due to favorable FX effects that offset lower production available for sale. In Romania, production costs in USD improved by 1% to USD 10.43/boe, while in RON terms they increased by 5% to RON 44.42/boe.

**Group hydrocarbon production** decreased by 6.2% mainly due to lower production in Romania.

In **Romania**, hydrocarbon production was 13.2 mn boe or 143.6 kboe/d (Q3/18: 14.1 mn boe or 153.3 kboe/d). Crude oil and NGL production in Romania declined by 3.7% 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 8.4% to 7.22 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 3.5% to 0.61 mn boe mainly following a pause in well interventions and workover activities in 2018.

**Group hydrocarbon sales volumes** decreased by 5% due to the production decrease, partly compensated by lower own consumption.

**Exploration expenditures** decreased to RON 91 mn mainly due to less drilling of exploration wells.

**Exploration expenses** increased to RON 94 mn due to partial write-off of an exploration well.

**Capital expenditure including capitalized E&A** increased by 18% mainly due to recognition of assets under IFRS 16 Leases for a long-term contract and the start of an offshore drilling campaign, partially offset by lower exploration drilling.

In 9m/19, we finalized the drilling of 65 new wells and sidetracks, including one exploration well.

#### Downstream

- ▶ **Downstream Oil: Clean CCS Operating Result at RON 580 mn, 7% higher, capturing increased demand for refined products and excellent operational performance; retail sales volumes up by 4%**
- ▶ **Downstream Gas: Good Operating Result on higher gas sales volumes; lower power business performance**

The **Clean CCS Operating Result** was stable at RON 637 mn in Q3/19 (Q3/18: RON 639 mn), reflecting an improvement of the Downstream Oil result and weaker result of the Downstream Gas segment. The **Reported Operating Result** of RON 383 mn reflected a **special loss** of RON (205) mn (mainly consisting of future estimated soil remediation costs in relation to Arpechim refinery) and negative **CCS effects** of RON (49) mn (due to declining quotations).

In Q3/19, the **Downstream Oil Clean CCS Operating Result** increased to RON 580 mn (Q3/18: RON 544 mn), supported by excellent operational performance in a refining margin environment similarly supportive to the one in Q3/18, and in the context of increased demand for refined products.

The **OMV Petrom indicator refining margin** decreased slightly, by USD 0.16/bbl, to USD 6.46/bbl in Q3/19, as a result of lower product spreads, mainly for gasoline, partially compensated by the lower cost of crude consumed. The **refinery utilization rate** was 99% in Q3/19 (Q3/18: 98%).

Total **refined product sales** volumes were higher by 7% vs. Q3/18, reflecting the increased demand in retail and captured market opportunities in the non-retail sales channel. Group retail sales volumes, which accounted for 54% of total refined product sales, increased by 4% compared to Q3/18 as a result of higher demand, particularly in Romania. The retail result was also supported by a higher non-oil business contribution. Q3/19 non-retail sales volumes increased by 12% yoy, due to seized regional opportunities.

The **Downstream Gas Clean Operating Result** was RON 57 mn in Q3/19, driven by higher gas sales volumes, which compensated the lower power performance; for comparison, the Q3/18 result was RON 95 mn, including the booking of RON 47 mn insurance revenues related to the Brazi power plant.

As per OMV Petrom's estimates, national **gas** consumption decreased by almost 3% compared to the same quarter of last year. On the Romanian centralized markets, the weighted average price of natural gas for transactions closed in Q3/19 (39.4 TWh) for various standard products was RON 112/MWh<sup>2,3</sup>.

In Q3/19, OMV Petrom's total gas sales volumes increased by 37% yoy to 13.37 TWh and the gas sales volumes sold to third parties were 49% higher vs. Q3/18; enabled by third-party supply, OMV Petrom managed to maintain its customer portfolio in the context of the regulated market allocation and centralized market obligation. At the end of Q3/19, OMV Petrom had 4.3 TWh in underground storage, compared to 3.5 TWh at the end of Q3/18.

OMV Petrom supplied the gas regulated market, delivering 4.47 TWh to the households and district heating for households suppliers in Q3/19, as per the set allocation. In addition, on the centralized markets, OMV Petrom sold 12.3 TWh in standard products in Q3/19 at an average price in line with the market price<sup>3</sup>.

As per currently available information from the grid operator, national **electricity** consumption remained stable compared to the same quarter of 2018, while national production decreased by 14%, mainly driven by the lower contribution from hydro power plants, thus Romania switching to a net power importer position in Q3/19.

The Brazi power plant generated a net electrical output comparable to the one in Q3/18 (Q3/19: 1.00 TWh, Q3/18: 1.04 TWh) on similarly strong spark spreads; out of the Q3/19 output, 0.48 TWh were supplied to the regulated power market at the price of RON 259.58/MWh.

Total **Downstream investments** amounted to RON 117 mn (Q3/18: RON 201 mn), almost all amounts spent in the Downstream Oil segment in both Q3/19 and Q3/18. The Q3/19 investments were directed to ongoing projects (such as the upgrade of unloading and storage facilities for bio-blending components at Petrobrazi refinery), while Q3/18 investments were related to major projects towards finalization (Polyfuel unit, Arad storage revamp).

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<sup>2</sup> OMV Petrom estimates based on available public information

<sup>3</sup> 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