

# OMV Petrom Q4 2020 Conference Call – Q&A Transcript

OMV Petrom published its results for January – December and Q4 2020 on February 4, 2021. The investor and analyst conference call were broadcast as a live audio-webcast at 3:00 pm local time. Below is the transcript of the question and answer session, by topic, edited for readability.

## Group

### 1. 2020 dividend

**Question from Alexander Burgansky (Renaissance Capital):** I was wondering if you can explain the decision for keeping the dividends unchanged year-on-year. For us, looking from the outside we see that your free cash flow projection has improved during the year. Your free cash flow for the next three years remains positive. Your cash balance has increased significantly during 2020. And your parent company has proposed an increase in dividends of 6% year on year. So could you please elaborate on what has caused your decision to keep dividends unchanged? And maybe also, what is the use for cash on the balance sheet?

**Answer from Alina Popa (CFO):** Indeed, we do have a progressive dividend policy, which is to keep the dividend. We propose dividend at least at the level of previous year or higher, but also depending on the financial situation. And I do agree with you, we have a very strong balance sheet and a very strong financial position.

We also took a lot of measures during the crisis and we will continue to do so to remain strong. But what I would like to emphasize, we believe we are still in very volatile times. That is one aspect we need to consider. And we take 2021 with a lot of prudence keeping our cost optimization programs ongoing, all the focus on making sure that our working capital and everything is under control.

And then also I would like to highlight that the capex numbers we have announced do not include strategic projects. So the numbers which you have seen for example do not include Neptun development. And of course, we are hopeful that in the near future we will be able to spend this money on Neptun and to be able to do all that and also make sure that in the future, we are able to continue with our progressive dividend policy. We believe that having a 136% payout ratio this year and the 8.5% dividend yield is competitive. And that is why we came with our proposal in this way.

### 2. Capex

**Question from Tamas Pletser (Erste Bank):** I have a question regarding your capex. You gave this guidance, of RON 3.8 billion. What is the proportion of upstream and downstream gas and downstream oil? I think you partially mentioned already during the presentation. But if you can clarify, that will be really good.

**Answer from Alina Popa:** capex guidance for 2022-2023 is RON 3.8 billion which excludes acquisitions and strategic development projects. So this is important to mention. Now the split between Upstream and Downstream, RON 2.5 billion is related to Upstream which means an increase of Upstream capex versus 2021 of about 38%, and then about RON 1.2 billion is Downstream Oil. Now Downstream Oil is referring to both the retail and the refining investments.

**Question from Raphaël Dubois (Société Générale):** I have a question about the hike in capex 2022-2023. Can you just explain how flexible is this increase in capex, how much dependent is it on your oil price scenario going your way? It would be interesting to know how much room you have to eventually keep a flat capex.

**Answer from Alina Popa:** With respect to capex for 2022-2023, indeed as I mentioned, we have approximately RON 2.5 billion in Upstream, higher than in 2021. Generally, our Upstream capex is quite flexible because we have several projects. So it is not one big project, we have several wells and workovers, and so we do have a level of flexibility. However, we have also published our oil price assumptions in the same time. So you know where we see, where we believe oil price will be. If there will be a call-up, so any changes in one direction or other, we do have the flexibility to adjust when it comes to Upstream capex.

### 3. Offshore Law

**Question from sli.do: Iuliana Ciopraga (Wood & CO).** Christina, this question is for you. Assuming the amended version of the Offshore Law comes in the first half of the year 2021, when should we expect the FID?

**Answer from Christina Verchere (CEO):** As I mentioned, we do see 2021 as a very crucial year for the Black Sea gas development in Romania. And what we have stated is that for projects of this size, usually you would expect to see 12 months between finalization of your prerequisite to be able to then get to FID. And from that and again for a project of this size, around four years to first gas. So the critical milestone that we are looking for is a discussion in Parliament. Parliament opened just this month.

### Downstream Gas

#### 4. Gas prices outlook

**Question from Oleg Galbur (Raiffeisen):** Since your outlook does not include your view on gas prices, I would like to ask you to share with us your view on domestic gas prices especially for this year. Would you for example expect Romanian gas prices to follow the European hub prices or are there reasons to believe that they could be decoupled due for example to higher imports of Russian gas or high domestic production?

**Answer from Franck Neel (EB member Downstream Gas):** Concerning the gas price for 2021, what we can tell you is that we see that the core trend at the moment is driven indeed by the European gas price. On the short-term or the day ahead market, we see a coupling, more and more coupling between Hungary and Romania due to the interconnection between both countries.

Now looking forward, I have to say it is quite challenging to see if we get close to the European gas market. Mainly because of the Gas Release Program, that tends to push the prices down due to the large volume we have to put on auction, and the starting price, which is always a discount to the previous prices traded on the market. So it tends to push back the prices. And we see for example today that we had quite a significant spread in Q2, Q3 between Hungarian prices or CEGH prices and Romanian gas prices. Now as the gas storage is getting to be closer to be empty at the end of Q1, that should push the Romanian gas summer price up. And that would enable Romanian prices to get closer to the European gas price during the summer. So currently there is still a difference between both markets for the summer, but we expect that we will catch up as we are getting closer to the summer to the front month of April.

#### 5. Gas Release Program (GRP)

**Question from Irina Răilean (BT Capital Partners):** thank you for your presentation, and also for targets for the mid-term. My questions are related mostly to the Gas Release Program. If you could provide us the volumes that were delivered via this program in 2020, and what are your expectations for 2021? And the second question is, why exactly do you estimate lower volumes of gas sales in 2021?

**Answer from Franck Neel:** On your first question, the Gas Release Program, we saw what was committed by the regulator, what the regulator imposed to OMV Petrom, so we comply with our obligation which was about 8 terawatt hour for 2020. We have an obligation to offer, so it is not necessary to sell. So it depends if there is people looking for to buy or not.

Regarding your second question on declining volumes, we have several impacts. First of all, we have a depletion from our upstream, so we have a decrease of our equity gas production. We do not have any more the obligation to supply the household customers. Last year, we had a significant volume especially in Q1 and Q2 that we supplied to households.

So we expect that would impact our sales. And on the third party, we had also the central market obligation last year which imposed a lot of trades on the market for OMV Petrom because it was based on the 50% obligation of our total sales, not of total production, which is a difference vs. the Gas Release Program. So these are the different factors which explain the decrease of volume, but we are also targeting margin on the third-party sales.

**Question from Irina Railean:** Would not that impact your gas market share, I mean lower volumes?

**Answer from Franck Neel:** What we are looking is rather to decrease our volume on the wholesale and increase our market share on the end user. So it depends on how you define the market share, but we are looking to decreasing, to have less activity on the wholesale. And because we do not have this central market obligation anymore, we redirect some of volume we had before in trading to end user.

**Question from Irina Railean:** And about the GRP, do you have any expectations for what will be delivered in 2021 in this program, any guidelines?

**Franck Neel:** Information re GRP volumes is not public (estimation reference not confirmed).

**Question from Irina Railean:** And this 8-terawatt hour, these are sold volumes or delivered?

**Answer from Franck Neel:** Offered.

## **6. Brazi power plant: spark spreads, power market**

**Question from Tamas Pletser:** On the spark spreads, they were quite strong in the fourth quarter. How do you see them in the first quarter? What is the current market situation on the power generation market?

And also in relation to this question, I am curious about your view, how the general demand from the power sector can change in Romania for natural gas? I see that Romania is also turning the coal down and turning more to natural gas for power generation. Does it create for you a business opportunity for the future?

**Answer from Franck Neel:** On your question on the spark spreads, I think you are right, what we see today, it is not just the spark spreads. It is also the balancing market. We saw an increase of market share for gas especially in 2020, and we think this will continue in 2021, and due to the CO2 price, so coal generation is reducing.

Even when we saw in January a high power price, coal generation has reduced. And coal was providing also the flexibility especially when you do not have wind or solar. And today flexibility, in 2020 and now in 2021, is mainly taken by the gas and especially our gas power plant. So we really increased our market share on the balancing and on ancillary services market which has been significant part of our success in 2020. And we see this to continue in the coming years. We do see this because there are no major investments in the coming years on new gas power plants as such. There could be in the future, but at the moment, there is no plan, no FID. What we are looking is rather to see how we can continue to perform with this gas power plant.

At the moment, we see very good prospect for 2021. Yes, the gas price is increasing in 2021 and CO2 price as well, but we see the power price increase as well as part of that. Now we have hedged some of our production for 2021 already last year as we did for 2020 year, the same strategy.

**Question from Tamas Pletser:** Just for follow-up on the Brazi power plant, do you still have a capacity to increase there? So if I am not mistaken you use this power plant mainly for the balancing market, so peak demand. Do you have additional capacity to utilize this power plant if demand increases further for power?

**Answer from Franck Neel:** In January, we used it during the night and during the day as well. Only in the weekend, when usually the power prices are quite low, we tend to stop the power plant. But even during the weekday, today, the power plant is running baseload. So we are using most of the capacity during the weekday.

**Question from Tamas Pletser:** I did not know it well. Okay, you say that you do not have a lot of additional opportunity to increase the generated electricity from Brazi?

**Answer from Franck Neel:** No, at the moment we have still a possibility to increase during the weekend. So we expect still this to be a potential upside. And again, at the end when there is no need, when the market is long because there is too much wind and too much solar, we are planning to reduce our production. In this case, we are making money by reducing the production. So sometimes, even if we sold the electricity, we may be better off to reduce the production. So that really depends on the optimization with the TSO and what is best for us economically.

**Answer Christina Verchere:** Maybe, I will just add a quick comment with regards to this longer-term question of coal. I think in Romania, the climate change and energy plan submitted to the European Commission, it clearly stated its intent to reduce its uses of coal in power generation and replace that with gas as well as with renewables. And this reinforces Franck's point on the value of the gas plant, both in today's market, but also with increasing renewables, this balancing role that it can play gives it a strategic advantage in the portfolio. But the role of gas is clear for the Romanian government in its shift away from coal.

## **7. BRUA, competition from other European gas pipelines**

**Question from Tamas Pletser:** Can you tell us a little bit more about your experience with BRUA? Do you see any volumes sold to Hungary or any imports coming, so how the gas market changed due to the opening of this pipeline?

**Answer from Franck Neel:** In terms of your question related to BRUA, yes, we have seen, I mean in terms of imports from Hungary to Romania, that was already existing before BRUA, so that will still continue when the market needs, but what we have seen for example for the first time in September-October, some export from Romania to Hungary. And that, linked to the Gas Release Program, creates a spread between both markets. And looking forward, especially in Q2, Q3 we see potentially the spread between both markets increasing, with the GRP quite below the Hungarian gas price. And for example, this week there was a capacity booking for Q2, Q3 for BRUA. The demand was quite high. So I think that will tend to push the price in Romania as well.

**Question from Tamas Pletser:** So it basically means that this pipeline will be well utilized in the coming quarters, I mean at least in the summer months?

**Answer from Franck Neel:** Yeah, yeah definitely.

**Question from Jonathan Lamb (Wood & CO):** Well done to another decent set of results. I am wondering there was some mention of expanding the gas business into neighboring countries. Is there more detail that you can give about what you are planning there and the timetables and things?

And also, do you see any risks from new sources of gas from the south, so from Turk Stream, from TANAP/TAP, from connection between Bulgaria and Greece? Could you be facing new gas flows?

**Answer from Franck Neel:** In terms of regional expansion, so what we are looking is mainly the footprint of OMV Petrom. In Southeast Europe which is mainly first Bulgaria and also Hungary in terms of wholesale, where our mother company has also as I said a business in Hungary. But we are active on the wholesale due to the interconnection between the Romania and Hungary. So these are the two markets where, one on the wholesale, one on the wholesale and retail, we want to expand our business. We are also looking at the Greek market as part of our expansion to the south.

In Turkey we have OMV Turkey which is our subsidiary for OMV Group which could be also a partner for us in terms of our trading. In terms of the competition, obviously at the moment, what we see is we are importing gas in Romania. So to have a different source of supply coming from the south is rather good news for us because we are traders. We are trading more than we are producing. So if we can import gas from the southeast, we will do that in the coming year. So as I said at the moment is rather an opportunity.

Now when you look at TAP, at the moment the volumes were quite limited. So we are not seeing a significant volume as such coming to north of Greece. So let us see. We will watch the potential diversification of supply.

## Downstream Oil

### 8. Fuel demand outlook

**Question from Oleg Galbur:** Could you talk a bit about your expectations for the downstream oil segment? It is rather a follow-up question on the previous one about refining margins. But I would rather like to listen to your view for the fuel market, in general domestic market. As we can see from the outlook, you are quite positive on the full year, but how do you see the fuel market developing in the first half of this year?

**Answer from Radu Caprau (EB member Downstream Oil):** Indeed, we are indicating a market demand increase of approximately 6% from the retail perspective. And we assume that we would move in line with the market as a company. And on non-retail side, so basically the commercial part, we see a potential increase of approximately 2% for this year. Is this going to be a flat evolution through the year? Definitely not. We believe that the second half is going to be much stronger, as we expect the restrictions to decrease. And when we talk about jet demand, we also see a potential significant increase in the second of half of the year.

**Question from Alexander Burgansky:** I have a question on the Romanian fuel market. Firstly, a clarification because my line was not very good. The expected increase in fuel demand in Romania, so I did not quite get it whether it was 2% or 6%. If you could clarify that.

Also, I do understand that you are thinking that will be a second half growth mainly. But what is your experience now in January and maybe some expectations for the first quarter with respect to the fuel demand in Romania?

**Answer from Radu Caprau:** So follow-up on the fuel demand in Romania. The reference I made of 6% is related to the retail fuel market, so filling station network. And the 2% was related to the non-retail. So this is the guidance we give in retail and non-retail, and non-retail being relevant for the commercial activity. That is the relevance of the 6% and 2%.

So January started well, it is encouraging. It shows very good development for the Romanian market, it is not that encouraging for the Bulgarian and Moldova for example, but Romania looks positive. And if further restrictions will not come, and the transportation will further increase, definitely the 6% indication for the retail demand sounds also very reasonable.

Also for 2022 a complete recovery to the level of 2019, we would imagine that it should happen in 2022, to the pre-COVID levels. Hopefully, this explains the question.

### 9. Refining margin outlook

**Question from Raphaël Dubois (Société Générale):** My first question is on your assumptions for 2021. You expect a refining margin above \$4 per barrel. You just finished the year with \$2 per barrel if I am not mistaken. Can you maybe explain to us where your optimism comes from to see such a rebound?

**Answer from Radu Caprau (EB member Downstream Oil):** Indeed, we have finished the year with around \$2. We have seen at the beginning of the year between \$2 and \$2.5 on the one hand. And on the other hand, we believe that the cracks for the gasoline, diesel and jet are going to improve in the following period.

And I have to say that we believe that we are going to have a different evolution, or higher increase, of the refining margin in the second half of the year. Of course, it depends also on the demand development, and how the whole evolution of the pandemic is going to evolve, but as of today, it looks a realistic assumption to us.

## **10.Utilization rate of the refinery with the coke drum replacement**

**Radu Caprau:** Your question was related to the refinery utilization indicator for this year above 95% is correct, Raphaël?

**Question from Raphaël Dubois:** My question was the utilization rate you intend to achieve this year and what is the impact of the coke drum replacement.

**Answer from Radu Caprau:** So refinery utilization rate for this year we expect to be above 95%. So considering the very good performance of 2020, when we reached 92% in the context of all the restrictions and the two weeks planned refinery shutdown from July on one hand, and on the other hand, with the expected increase in demand due to the earlier mentioned reasons, above 95% is perfectly realistic.

And about coke drum replacement, it is not an activity that we are going to execute in this year. But it is preparation of investment and development on site for the later change of the drums in 2022 and 2023 when we are planning the large refinery shutdown.

## **Upstream**

### **11.Production outlook**

**Question from Raphaël Dubois:** We have seen your Romanian production decline year after year. And you still call it for a 5% annual drop for the next foreseeable future. You mentioned that it hurts your opex per boe. Considering your strong balance sheet, you could probably invest a bit more to sustain production, but obviously you do not. So I was wondering if you could tell us why you let your production decline the way you do?

**Christopher Veit (EB member Upstream):** Considering the still volatile business environment and also our portfolio of wells that we have in Romania, we are still a bit cautious actually on the investment profile, and that is what you see actually in the investment budget. What you see is that we have cut down on our workovers, and also on the wells drilled. And that is actually the only reason: to be cautious, as well as look on the development of the oil price.

**Question from Oleg Galbur (Raiffeisen):** My question relates to a new long-term production guidance provided by your parent company OMV, which is now guiding for a low production. I wonder if this could trigger a change of Petrom's longer-term view on hydrocarbons production of existing portfolio or affect maybe future growth projects in the Black Sea.

**Answer from Christina Verchere (CEO):** we would not comment on OMV statement, probably not appropriate for us to do that as this is a separately listed company. I think what I would just say is that Chris gave the view of the near-term production. Obviously, for us, the importance of the Black Sea is fundamental in our portfolio. And as I mentioned, 2021 is a critical year to see the offshore law progress and to be able to move that project forward.

## **Disclaimer**

*This document does not, and is not intended to, constitute or form part of, and should not be construed as, constituting or forming part of, any actual offer to sell or issue, or any solicitation of any offer to purchase or subscribe for, any shares issued by the OMV Petrom S.A. (the Company) or any of its subsidiaries in any jurisdiction or any inducement to enter into investment activity; nor shall this document or any part of it, or the fact of it being made available, form the basis of, or be relied on in any way whatsoever. No part of this document, nor the fact of its distribution, shall form part of or be relied on in connection with any contract or investment decision relating thereto; nor does it constitute a recommendation regarding the securities issued by the Company. The information and opinions contained in this document and any other information discussed in this document are provided as at the date of this document and are therefore of a preliminary nature, have not been independently verified and may be subject to updating, revision, amendment or change without notice. Where this document quotes any information or statistics from any external source, it should not be interpreted that the Company has adopted or endorsed such information or statistics as being accurate.*

*No reliance may be placed for any purpose whatsoever on the information contained in this document, or any other material discussed verbally. No representation or warranty, express or implied, is given as to the accuracy, fairness or currentness of the information or the opinions contained in this document or on its completeness and no liability is accepted for any such information, for any loss howsoever arising, directly or indirectly, from any use of this document or any of its content or otherwise arising in connection therewith.*

*This document may contain forward-looking statements. These statements reflect the Company's current knowledge and its expectations and projections about future events and may be identified by the context of such statements or words such as "anticipate," "believe", "estimate", "expect", "intend", "plan", "project", "target", "may", "will", "would", "could" or "should" or similar terminology. By their nature, forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company's control that could cause the Company's actual results and performance to differ materially from any expected future results or performance expressed or implied by any forward-looking statements.*

*None of the future projections, expectations, estimates or prospects in this document should in particular be taken as forecasts or promises nor should they be taken as implying any indication, assurance or guarantee that the assumptions on which such future projections, expectations, estimates or prospects have been prepared or the information and statements contained herein are accurate or complete. As a result of these risks, uncertainties and assumptions, you should in particular not place reliance on these forward-looking statements as a prediction of actual results or otherwise. This document does not purport to contain all information that may be necessary in respect of the Company or its shares and in any event each person receiving this document needs to make an independent assessment.*

*The Company undertakes no obligation publicly to release the results of any revisions to any forward-looking statements in this document that may occur due to any change in its expectations or to reflect events or circumstances after the date of this presentation.*

*The answers contained by this document are proprietary to the Company and neither this document nor any part of it may be reproduced or redistributed by any other person.*