

OMV Petrom Q3 2021 Conference Call – Q&A Transcript

OMV Petrom published its results for January – September 2021 on October 29, 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 edited for readability.

Upstream

1. Production decline guidance vs. capex

Question from Tamas Pletser (Erste Bank): First of all, based on this last slide you showed us, you mentioned the 5% decline rate and the RON 3.8 billion CAPEX. I suppose you did your math, but would it make sense to increase the CAPEX in order to arrest the decline rate or you do not really see this as an investment to be feasible going forward? So, can you just elaborate about the position of your current production, why the high decline rate and can you somehow arrest it?

Answer from Christina Verchere (CEO): With regards to production, maybe I will start with saying, first of all, that last time we told you we were going from 5% to 6% decline (for 2021). This was in part due to steeper decline that we were seeing, in part because, if you recall, our CAPEX had gone lower in 2020 and 2021 just because of the unknown volatility of what was going on with prices with regards to COVID and the implications on energy prices.

For this (third) quarter, what we saw is actually ultimately some unplanned shutdowns and maintenance activities that took us to 7%. What we see going forward, and why we hold to the 5% is actually we do anticipate in 2022 – and obviously we will go into this in more detail when we open the year with you next year – increasing our CAPEX levels into Upstream and therefore being able to mitigate a higher degree of decline as we go forward. There will be a little bit of lag impact, so 2022 might be different than 2023 on that, but this is why we do that.

So, to your point, we anticipate increasing our spend into Upstream going forward into 2022.

2. Dacian divestment, impact on production

Question from Irina Railean (BT Capital Partners): my question relates to the potential expected impact from the divestment to Dacian Petroleum in terms of million BOEs for production.

Answer from Christina Verchere: on Dacian, this is actually going back to our strategy, a consolidation and focus on our core assets and removing the smaller ones that do not attract as much investment in our portfolio. It is actually 40 fields, so quite a large number of fields, but actually quite a small amount of production. It accounts for about 1% of our production, about 1,300 barrels a day (in 2020). So, a small but important divestment for us. We are still working on finalizing the completion of that, having signed it, so just working through the regulatory process to get that closed.

3. Opex

Question from Irina Railean: I would like to ask regarding the OPEX, if you could provide us more details. What can we expect from the OPEX per BOE in the next three - four quarters, considering the recent increases that we saw?

Answer from Christina Verchere: On the OPEX per barrel, we were indicating that we are definitely seeing two aspects. One is upward pressure on the absolute cost, driven by the environment, electricity, CO2, inflation in general that is going on, combined by, as we said, slightly steeper decline. And our prediction is that we see it going to about \$13 per barrel over the next couple of years for that. So, we are seeing that upward pressure.

4. Bulgaria

Question from Jonathan Lamb (WOOD & Company): On the Bulgarian business, very little has been said about that business. You were saying in the presentation, you are looking at the drilling targets. What kind of timetable do you see for the development of the offshore in Bulgaria?

Answer from Christina Verchere: For Bulgaria, what we have been doing actually since we bought into it, is reprocessing the site. Just as a reminder, we bought into the block, Total is the operator, we are there with them and

we have been processing the seismic to decide on what the next drill option is. We are looking at that, the potential either to drill a well in 2022 or 2023. And just as a reminder to everybody, that is the block that sits in the Bulgarian waters totally adjacent to the Neptun block, so this is why we believe we understand the geology well, because obviously we understand the geology of the Neptun block well.

Follow-up question from Jonathan Lamb: I am just wondering, if everything went to plan, when would you be thinking that this (development) could be producing, if it ever does?

Answer from Christina Verchere: On the basis, obviously, it's commercial discovery and, then appraisal wells after that, and then the development plan, probably the standard time of trying to get it is towards the end of the decade.

Downstream Gas

5. The new regulation on capping electricity and gas invoices

Question from Tamas Pletser: And my question regarding what you said, Christina, at the beginning, about this new Romanian subsidy system. It was not really clear for me why the impact is minimum on your activity. That is somehow what I understood you said.

Answer from Christina Verchere: with regards to this new law, we have got to be fair, we are just analyzing it, obviously. We got it on Wednesday, it got promulgated today, but maybe two things I would highlight. One for the Power business, the over-taxation does not include fossil fuels; therefore, it doesn't include Brazi. We do not see an impact therefore to our Power business from this. And with regards to the gas price cap, it is for households and we do not have many households in our customer base, and this is why we think it has little impact with regard to our numbers. We are still analyzing it. But that would be our basic rationale, as to why we do not see it having too much impact to us overall.

6. Gas prices, bilateral contracts

Question from Raphael Dubois (Société Générale): Can you give us an update on the renegotiation of bilateral contracts, and if you could remind us as well what percentage of your sales are those bilateral contracts?

Answer from Alina Popa (CFO): every year for our bilateral contracts, we start negotiations for the new gas year. The gas year starts in October to September the following year. Partly we have negotiated new contracts with our customers and there are also some negotiations going on right now as we speak. With regards to the impact of that, indeed, you should expect in Q4 to see some increase in our gas prices versus Q3, when most of our contracts were coming from the previous year. That is why it is at a lower level.

But important to consider is the impact of taxation on our results, because gas prices are significantly impacted by taxation in two dimensions. One is about supplementary taxation, which goes to 80% at prices above RON 85 per megawatt hour. And then the second is the impact on the reference price. You might remember, the reference price is related to CEGH, which is higher than our realized price and it also impacts quite significantly the results for Petrom.

Question from Irina Railean: on gas prices could detail a little bit what we should expect in the following quarters. Why did gas prices in Romania surge so much? And if the levels that we can see now on the Romanian commodity exchange, are they indicative to what can happen in the next quarter?

Answer from Alina Popa: With regards to the gas prices, we see indeed gas prices at quite a high level continuing in Q4 and most likely in Q1 next year, until we could see at the European level new supply possible, and also we could see Nord Stream 2 coming on stream. So, gas prices in our view will continue to remain at high level until Q2 next year, when we could see some softening of gas prices.

Downstream Oil

7. MyAuchan: impact, margin

Question from Jonathan Lamb: You have increased the number of MyAuchan stores quite a lot in the quarter and I am wondering what kind of uptick in sales, both of fuels and non-fuels, you are seeing as you add these stores to your forecourts. Is it having visible impact on fuel, for example?

Answer from Christina Verchere: We do not disclose that level of granularity with regards to it, but what we can say is that we are very happy with it. It is proving to be very successful for us and we are also very pleased with the progress, as we are managing to get them all upgraded. But it is going well, that is what I would say, and we believe that it offers a really distinctive customer service for those people who choose to come into our Petrom stations.

Follow-up question from Jonathan Lamb: Do you have any targets for where you are going to be this time next year or the end of next year?

Answer from Christina Verchere: Yes. Our goal is to do 400, roughly 100 a year. I would say right now we are slightly ahead of that, so we are going to take four years to do the Petrom set of filling stations that we have got. So, 400 over four years and we are ahead of target.

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