OMV Petrom Q1 2022 Conference Call – Q&A Transcript

OMV Petrom published its results for January – March 2022 on April 29, 2022. 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.

Question from Oleg Galbur (Raiffeisen): I have two questions. The first one is on offshore law. Now that the law is in the public consultation phase, could you maybe share with us your thoughts on the proposed fiscal and legal environment and specifically based on the current draft, would you say that the proposed taxation is a fair one or you would still require additional changes in order to be able to go ahead with the FID on Neptun Deep?

Also, I noticed that the law is talking about the deep onshore development; is this something that would have a material impact on the Petrom's current gas production operation?

And my second question relates to the recently introduced caps on the energy prices, including natural gas. Could you please help us understand what impact these measures will have on the Petrom production or gas trading earnings?

Answer from Christina Verchere (CEO): I will take the first question and then Alina will take the second question. I think if we actually explained this, just stand back and say, when we last spoke to you, which was in early February, it's fair to say we've seen progress on two key aspects when it comes to Neptun Deep.

One was with regards to the Exxon-Romgaz deal, which we saw the re-approval of the transaction with Exxon yesterday (28 April) at their general shareholders meeting. And they said their estimates on finalization of the deal by the end of June, at which point in time OMV Petrom will become the operator. This is one very important step.

The second one, as you rightly mentioned, is the publishing of the draft law, which they (authorities) have said that they will put into the fast approval process and they're expecting it to be finalized by the end of June. It is really fundamental that the final draft brings strong stability, as well as free market and supportive fiscal and regulatory environment. In the event these exist in that law that is passed at the end of June, then our timeline is to be able to FID Neptun in the first half of 2023.

While I totally understand that you want our view on the current draft, given that it's still in the parliamentary process and subject to change, we are planning to express our view once it is final, but we'll be providing our opinion through the industry associations. You're absolutely right, in this offshore law, they have made some comments with regards to deep onshore. We're assessing at this point in time, just understanding what does the actual depth mean, etc., and we will be able to quantify when the law is passed.

Answer from Alina Popa (CFO): I'll continue with the Ordinance 27, indeed quite complex applicability and complex legislation. We were really working hard to implement it as such. As you know, this has a temporary impact. I would like to highlight this. It is applicable from 1st of April 2022 to 31st of March 2023.

Based on our estimation, that impact on our company is in the range of mid double digit million euros and this you will see in Gas and Power. In E&P, the lower revenues are compensated by lower taxation, because with this new law, we have two changes which impact taxation: one is the fact that for the capped prices, overtax does not apply. And the second is that for these capped prices, the reference price is not CEGH, but the capped price. So these two things decrease the taxation, therefore in Exploration and Production we do not see an impact, but when it comes to Gas and Power, we see it in the range of a mid-double digit million euro impact.

Question from Tamas Pletser (Erste Bank): I got one question or one area of questions let's say. I'm very much interested in how would you decouple from Russian crude oil? What is the timeline for that? What kind of operational challenges do you have with this kind of decoupling and what is the financial impact in your view?

I saw that your refining margin was really high in the recent past, so I suppose this should come off if you don’t access the Russian crude. I'm just really interested in what is the contribution of Russian input to your very high margins?

Answer from Christina Verchere: Just maybe as a clarifier, we import 30% of our utilisation into Petrobrazi. Relative to many other refineries in Eastern Europe, we have a low dependency on imported crude. Up until this situation that we're in, we had been importing from Russia or via Russian harbours.

What have we been doing? We have been looking to secure crude that is non-Russian crude, to be able to make sure that we are to some degree preparing ourselves in the event there is a full sanction, we are to some degree, self-sanctioning. And we are therefore able to see if we can access crude from other sources apart from Russia.

That does come with a cost increase. We've estimated this at sort of a higher cost of up to about $16 a barrel, with a single digit million Euro impact per month. Just to give you an estimation, in normal operations, we'll be taking a cargo every 45 days. You'll see that helps to quantify sort of how we're going about this and what we're doing.

Question from Tamas Pletser: Just to clarify, please, that currently you don't have any restrictions to buy Russian crude. Is it only the self restrictions or self-embargo which can affect your business, outside of the kind of mutual embargoing in the European Union? Or do you plan yourself to restrict buying Russian crude?

Answer from Christina Verchere: At this point in time, to some degree it's a preparation to make sure that we're ready in the event it does. But in the end, we are making sure that we're sourcing crude from outside of Russia. It's one cargo every 45 days.

Question from Tamas Pletser Speaker: Okay. So you want to change that? You want to cut off the Russian supply? That's what you mean?

You want to do this step – you prepare for doing this, so you are going to do that in the future. That's what you're saying?

Answer from Christina Verchere: Yes, we are.

Question from Tamas Pletser: And when does it start, when do you expect your next cargo I mean, the first non-Russian cargo to arrive?

Answer from Christina Verchere: It's in the April - May timeframe because we had a short shutdown for slightly more than one week in Petrobrazi.

Question from Irina Railean (Banca Transilvania): My questions are more of follow-up questions. Regarding this Ordinance 27, in your view, what's more profitable: to sell at regulated prices for households or to sell at market prices and pay the taxation? If you could disclose how much volumes are you required to put on this regulated market, maybe in terawatts or in percentage points out of the delivered volumes, that will be very useful.

Regarding this new storage obligation, how does it impact you? And can you speak of any additional costs that the company will incur and will not be able to pass to clients? Or how does it work for producers like Petrom?

Answer from Christina Verchere: Maybe I'll just add a couple of philosophical points and then hand over to Alina for the detail of this regulation. Fundamentally, we absolutely understand the need that governments, actually across Europe are doing interventions. But to come to your point of which one do we prefer, with regards to a cap price, but no tax: to me, the fundamental principle we believe in is a free market, and a liberalised market. Then we want competitive fiscal terms that go with that, as a fundamental philosophy.

So with that, I'll hand over to Alina for the details.

Answer from Alina Popa: Yes. I'll try to clarify a bit. So when it comes to the gas market, we have different categories of sales. Would be sales to suppliers of households and district heating companies where prices are regulated at 150, respectively, RON 250 per megawatt hour. This represents approximately 10% of our total sales in the period from April to December.

Then we go to the sales to end users where the annual consumption is below 50,000 megawatts hour per year. These are kept at the maximum 370 RON, including tariffs and taxes. This is quite small, approximately 5% of our total sales in April to December.

Then we have sales to end users with annual consumption above 50,000 megawatt hour per year, where we have the cost plus concept; it is the acquisition cost/ transfer price plus tariffs plus tax and the regulated margin, which is 12 RON per megawatt hour. Here we talk about approximately 20% of our sales. This is when it comes to the Ordinance, the rest of our sales are really to the wholesales, which are on the free-market, and the GRP, which was done previously. As you know, GRP is not applicable anymore, but we still have quantities coming from the GRP obligations in the past.

When it comes to the storage obligation, basically this is roughly the 30% of the end user portfolio consumption, estimated for the period from November 2022 to March 2023, we will comply with it. Yes, we will have additional cost coming from storage, but we will comply like always with the regulations, any regulation, when it comes to implementation. I think I covered your questions.

Question from Irina Railean: This additional cost, it depends on what kind of contract do you have? I mean, should you pass it to the clients?

Answer from Alina Popa: This depends very much. I mean, it's very hard to predict right now. We will see how the market will be, with so much volatility. It depends on the supply-demand situation.

Question from Irina Railean: Could this anyhow impact the FID, if you are adding Neptun, I mean, should it be delayed, as the free market and competition were among your requirements.

Answer from Alina Popa: It is applicable just only until 31st of March 2023. It has a limited period of time of applicability. In the current context and in the current crisis, we do not see at all this impact for a longer term.

Question from Kian Huat Lim (CSAM): Congratulations for the excellent results. My first question is that given that you are almost self-sufficient in your crude input, can you advise how you managed to achieve that spectacular refining margin compared to other industry players that were using Russian crude? That's my first question.

My second question would be, would you be able to provide some colour on the realized gas price in the first quarter? Is it in a region of closer to 300 RON per megawatt hour, or would you be able to give some ballpark on that?

Answer from Alina Popa: To come to the first question with regards to the refining margin, as Christina explained, we have 70% domestic crude and 30% imported crude in our refinery. But the domestic crude basically has a transfer price, which is linked to Urals. Historically. This is the case for many, many years. And that's why you see an impact in the refining margin coming from this Urals to Brent differential, which became very high.

Now, of course, in the end, this is just an internal transfer price. What is important overall for the company is the difference between the selling price to the market and the costs overall in E&P and on the value chain. But it creates this situation due to this transfer price linked to Urals.

And moving to the second question on the realised gas price. As you might know, we do not disclose the exact realized gas price, but I can give a bit of information around the market. We have seen in Q1 very high CEGH day head prices at around EUR 100 per megawatt. When we look at the BRM, which is Romanian Gas Market, this is also quite high on the day ahead, but if we look on the BRM monthly delivery, it's around EUR 75 per megawatt hour. Our prices are definitely reflecting, always, not only contracts on the spot, but also contracts previously concluded. That's why you should always consider this when you do any estimation around gas price.

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