

# OMV Petrom Q2 2022 Conference Call – Q&A Transcript

OMV Petrom published its results for January – June and Q2 2022 on July 28, 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 Tamas Pletser (Erste Investment):** I got two questions. First of all, you mentioned in the report that your refinery utilization was down to 86%. What was the reason that it went down? Did you have some maintenance shut down for any other work? Basically the environment was very encouraging and very strong so I suppose you should have had higher utilization.

My second question is, and you probably mentioned during the presentation, that your operating cost in E&P went down due to one-off issue, one-off item. Can you just elaborate what it was and what would have been the operating expense without this one-off?

**Answer from Christina Verchere (CEO):** Tamas, thank you for your questions and thank you for joining us today. Radu will answer the question on the refinery utilization, why it was down, and Alina with regard to the one-off in the E&P operating costs.

**Answer from Radu Caprau (EB member R&M):** Tamas, thank you for the question, the refinery utilization was on the level of 86% in the context of the planned shutdown, we are in the cycle of a 5-year shutdown and therefore it was a necessary shutdown, maintenance shutdown meant to help us running high until the big shutdown which we are going to have in 2023. So it was a planned shutdown, this is the reason why we were running on 86%, but right now we have all the technical pre-requisites in place to run high until the next spring.

**Question from Tamas Pletser:** So could I have a follow-up here? Will this maintenance shutdown affect also the third quarter period or did you finish this during the second quarter?

**Answer from Radu Caprau:** No, it was just in the second quarter, reflected in the numbers of the second quarter.

**Question from Tamas Pletser:** So that means that in the third quarter you should have basically a full capacity utilization?

**Answer from Radu Caprau:** We are having obviously all the incentives to run on the highest level, yes.

**Answer from Alina Popa (CFO):** I will continue with the second question related to the one off in E&P. It is related to our fiscal audit, which covered the previous period between 2014 and 2016, quite old period, in which we managed to recover some money, which had a positive impact on the production cost. This had an impact of approximately \$2.2 per barrel, so without this, [we were close to 11], so it would have been around \$13.2 per barrel production cost.

**Question from Irina Railean (BT Capital Partners):** I have several questions. The first one is related the Offshore Law. You have mentioned that you still need some clarifications regarding the law and I'd like to know what you still need to make clear there from the authorities.

Also I'd like to ask regarding the impairments; is there any chance to reverse some of the impairments you have registered in 2020, given the current market context and favorable energy prices?

And the third question relates to the international gas transactions you have mentioned in your report; I'd like to know: are these imports, exports, or how could you detail here a little bit; I mean is there about importing exporting or gas; you've mentioned like 5% of sales is from imports, if you could just detail it a bit here.

**Answer from Christina Verchere:** thank you, Irina, I will take your first question on the Offshore Law, Alina will cover impairments, and Franck will talk about the international gas transactions that we mentioned.

Let me just have a Neptun moment overall: Romgaz and ExxonMobil we believe are close to having the deal completed actually in this quarter, we are ready with our team, an international team set up to take operatorship of the block. The Offshore Law changes did absolutely bring some improvements, and we welcome them, however we do see a need for clarifications, particularly on the aspects of the free market provisions. Once we are the operator and we see these clarifications provided from the Romanian State, then it will be nine to twelve months needed for FID, which is why we're estimating at mid-2023. So, in summary the main areas that we're looking for clarifications with regards to right to freely market our gas. If I just take you back, there were three kind of key prerequisites that we needed with regards to the Offshore Law, one is the improvement in fiscal terms, the second is the stability around those fiscal terms, and third was the right to freely market our gas. So in the context of the current very challenging environment, there are aspects of the Offshore Law that have been put in place that we need to understand further.

**Question from Irina Railean:** And how should this clarifications look like? Should they be like something of a guarantee that the price or the market will be liberalized and no longer will be regulated again, or what exactly should it look like, to be, to meet your expectations? What form should they have?

**Answer from Christina Verchere:** At this moment in time, we're just looking for clarifications to understand what has been put in the Offshore Law, and therefore how they will be implemented, to several articles about it to understand that. How those clarifications come about will be up to the authorities.

**Question from Irina Railean:** Yes, and what will happen, do you estimate to even postpone the final investment decision? And you mentioned something like mid-2023? I'm asking just because the context is, of these high energy prices, is that governments all around Europe I think are trying to compensate or somehow to limit this growth in energy prices with different kind of measures, for particular states, and that's why I'm asking how you will approach this, because it may still take some time for the governments to totally liberalize the markets, because they somehow tried to compensate and help consumers; how is your approach here? Will you wait until the market will be totally liberalized, or how do you see the situation?

**Answer from Christina Verchere:** So I think you touched on a few very important points there. I think it's definitely fair to say that Neptun Deep is a very strategic project for the company, but also for the country, especially in the current geopolitical context, and the strong need for non-Russian or indigenous European gas to be produced, in that context, we have seen improvements and therefore we are looking for clarifications.

We also have seen a changing in pace, which we welcome as well. But I think your points are exactly right, we are seeing lots of interventions into the free market at this point in time, and that's why we're searching for clarifications because this gas, if we're able to stick to the timeline, will come in 5 years' time, and actually will be in production for over 20 years.

So just really understanding this and making sure that we understand that despite some of the interventions that are going on in the market right now, and this is why we need some clarifications.

But our goal remains to get those clarifications and move the project forward as quickly as possible. Everybody is incentivized to do that, and we are definitely part of that.

**Answer from Alina Popa (CFO):** I will continue with impairments. So from today's perspective we do not see any impairment reversal situation, the reason for that being that these high crude prices that we see right now we believe are temporary. So the long term assumption for crude price remains unchanged from our perspective.

Of course, we look at this on a quarterly basis and will continue trying to understand and reevaluate if there is any trigger, but from today's perspective there is no trigger for a reversal of the impairment.

**Question from Irina Railean:** Could you remind us what is the long term assumption for the oil price?

**Answer from Alina Popa:** Somewhere between \$60 to \$70 per barrel.

**Answer from Franck Neel (EB member G&P):** So for some of the questions, we go back a bit to the history, 3 years ago, we started to develop a trading position and a trading portfolio, mainly looking at South East Europe, so not just Romania, from Hungary to Greece, including Moldova, and we have started to build positions in these different countries or to diversify our position from Romania, to complement equity gas.

So first of all, all equity gas is sold in Romania, and the international trading you are talking about is mainly buy and sell we are doing abroad, so from LNG to Greece/in Greece to gas on the MGP in Hungary. So that's where this international trading is coming from.

**Question from Irina Railean:** So basically, it's trading activity not necessarily exporting actual production or importing volumes.

**Answer from Franck Neel:** yes.

**Question from Oleg Galbur (Raiffeisen Centrobank):** I have three sets of questions. And I'll start with the Upstream segment. I was wondering whether the new Offshore Law would already have an impact on your second quarter results? And if yes, maybe you could share with us what was the magnitude of this impact. And also regarding the new Offshore Law, it is talking about the so-called deep onshore gas which is also subject to more favorable taxation. Could you tell us what is the percentage of totally produced onshore gas which would qualify as a deep onshore gas at Petrom?

And then on refining, clearly refining margins have been very supporting during the second quarter however, you have guided for lower levels in the second half of this year of approximately USD 15 per barrel according to my calculation. Could you please explain why do you expect the European refining margins to decline? While the European oil embargo on Russia is still not taking a full effect, which means probably even less export or import of oil products from Russia until the end of the year. And also maybe you can share with us what level of refining margins do you see or have you seen in July and how do they compare with the second quarter average?

And lastly, it's a bit more challenging on the gas and power segment. While I understand that Petrom has strongly benefitted from a favorable market environment in both power and gas business, without the proper split it is, as I understand, very difficult for us to properly analyze how much of the second quarter result was driven by, let's say, one-off developments such as gains on the trading activities that you just were talking about.

So could you please provide hopefully some details on the key earnings drivers in the segment? For example, what was the rough split of earnings between gas and power? And what was the level of earnings contributed by let's put it non-repeatable activities?

**Answer from Christina Verchere:** Alina's going to touch on the impact of the Offshore Law and the second quarter results. Maybe I'll just do a quick one on the deep onshore. You're absolutely right, it's an Offshore Law but it touches on the onshore as well and the deep onshore. Right now we are still waiting for clarifications from the regulator on this. We have submitted a list of fields, but I think what we would say, maximum is about 15% of our total gas production in Romania. But I would say we are still waiting on clarification on this.

Alina, maybe do you want to touch on the Offshore Law impact in the second quarter?

**Answer from Alina Popa:** So basically the Offshore Law has been approved and adopted at the end of May so we we had the June month which was covered by the new offshore law. And we had the positive impact of single digit EUR million.

**Answer from Radu Caprau:** Let me start with the last part or the last question, from the one on the refining margin, about the July indication. So we see July indication lower, below the average of Q2. And then, in this context, I would be going to explain why we go for an indication of above 15 for the rest of the year.

It is because we have been seeing in Q2 record margins in the context of very high quotations for the diesel and gasoline. So we've been seeing a complete decoupling of those quotations versus the crude. And indeed, you're right, even though we are going to see in the next period further restrictions for the products and the crude from Russia, we already recognize that the majority of the players are trying to find alternative solutions for supplying

products from different sources on one hand. And on the other hand because of the high prices we recognize at end of Q2, and there's a trend that we see as well in July, some demand destruction.

So in this context we believe that it's reasonably to assume still a very pretty high Q3. But relatively lower in Q4 versus what we have been seeing so far. And therefore the indication of about 15 for the year.

**Answer from Christina Verchere:** Oleg, you're right. We don't provide more granularity with with regards to gas and power. I think that the way Frank would indicate it is roughly that we would say 2/3 gas, 1/3 power at this point in time. We'll come back and have a look at whether we're ready to give more transparency, but at this point in time that would be the indication that we would give.

**Question from Iuliana Ciopraga (Wood & CO):** Two questions from my side. First, can you comment on your gas price expectations for the following quarters in the Upstream segment? What you see in the second quarter, there was a decrease compared to the the first quarter if you could explain that as well.

And also related to gas, if you could give us some insight into potential sales to households and heating producers in first quarter of 2023. And also regarding retail margins for refining, are you seeing any improvement now after the recent decrease in oil prices?

On the retail margins, are you seeing the improvement now in retail margins on R&M side from the lower crude price? We are seeing the decrease in the fuel prices and I was wondering if you see any improvement in margins coming from that.

**Answer from Franck Neel:** Yes, I think I don't have the value for Q1 2023, I have to say. But for the full year 2022 it's about 3.4 TWh for total gas for this segment. And it's linked to the fact that when the regulation came in place, we had already contracted some of our gas and therefore it was what is was available. I would say for Q1/23 it would be something in the same ratio of what we have in 2022.

**Question from Iuliana Ciopraga:** Which is quite low because I think you guided 10% of sales from April to December. So you see that 10% in the first quarter of 2023, right?

**Answer from Franck Neel:** Yes. Because we have also some gas sold to the gas release program, the previous program before the new regulations. We had also about six TWh on the gas release program for 2022.

On the gas prices, so in Q2 we have impact from the cap on the gas price, of course, as a consequence, on the sales through Upstream. Expectation for Q3, I would say, we expect a slight increase because regulations have changed again in July. So we have another change in July. But I expect an increase due to the fact that new regulation has been drafted in July. So slight increases.

**Question from Iuliana Ciopraga:** Can you comment on what has changed in July?

**Answer from Franck Neel:** There was at the beginning of July a modification of the emergency ordinance where the capped price for producer would [have applied] to any customers, which would have been quite an impact because it means that even for B2B we'd have [had] to sell at the cap price. This has been cancelled now. So we don't have to sell anymore at the capped price but at market price for B2B customers.

**Answer from Radu Caprau:** Yes, on retail margin, I would just mention the fact that our pricing policy is a moderate pricing policy. So, in times when we have an increasing pricing environment, our retail margin is under pressure. And that's something that we were feeling strongly in Q2 and that's the reason why the retail margin was under pressure at the time. We are seeing now a slightly different trend that is definitely helping the retail margins. But at the end of the day, it's a very high volatility. So it's very difficult to predict how this will go. But again, if we see in the next period the decreasing trend in quotations, this will definitely help improve the retail margin.

**Question from Iuliana Ciopraga:** Just as a follow-up, the first question on the gas price, I mean it is a bit surprising because Romgaz was guiding that they are selling 80% at regulated prices in the first quarter of 2023. So you're confirming that you expect to sell just 10% of first quarter volumes at regulated prices?

**Answer from Franck Neel:** I have to say I don't have the figure with me for Q1 next year. I mentioned the figure for 2022. But the differences vs. Romgaz, and I cannot really comment on Romgaz figures, of course, as you can imagine. But we have a gas power plant running, it's quite a big internal consumer. And we have an end user portfolio, which would be a hedge for the gas year. So, it was quite significantly already hedged when the regulation came in place.

**Question from Laura Simion (BRD Groupe SG):** Congratulations on the result. Part of my questions to you were already answered. For the follow-up question on regulated gas market, you mentioned this quarter the quantity was small. And for the rest of the year, you're expected to sell about 3.4 TWh. Is this correct?

**Answer from Franck Neel:** Yes. For full year 2022.

**Question from Laura Simion:** And another short question on windfall tax for power, did you pay in Q2 windfall tax for power? And if you could give an indication about the amount.

**Answer from Alina Popa:** Yes, I can confirm that windfall tax for power was applicable in the second quarter and we have paid it. We do not disclose the exact amount. We had a disclosure when it comes to the entire implication of the Ordinance 27, which was mid double digit million Euro overall, and this includes the windfall tax for power. The amount is for the entire year. Starting from the beginning of the of Q2 to the end of the year.

**Question from Cristian Petre (NN):** Congratulations for the good results. Just if you can comment on the demand destruction and if you see any slowdown in the demand growth due to these high prices?

**Answer from Christina Verchere:** I wasn't sure if you were interested in one particular product or not, but maybe we look a little bit on the demand destruction that we're seeing in the second quarter with regards to fuels. And then after that go to the gas and power markets, if that's okay?

**Answer from Radu Caprau:** So, indeed, with the fuels, we see demand destruction on the finished products, especially at the end of Q2, in the context of the high prices. And that's the trend we face, also in July on one hand. On the other hand, if you look to the commercial business, here we still see solid demand, so that will stay solid probably for the rest of the period.

Aviation stays high, we mentioned a good recovery here. Still, even though we reached 100% increase in demand versus the prior year on a cumulative picture for 2022, the aviation will be at a 15% level lower than in 2019. So, that means that most probably we are going to see a complete recovery to the prior level of the pandemic in aviation in 2023.

**Answer from Franck Neel:** For the gas, we have seen, I think it was in the presentation, 19% reduction vs last year. Part of this is linked to weather. When we look at the consumption on the Transgaz network vs. DSO, we can see a different value for this decline. We see, especially in Q1, we have quite a strong decline on the Transgaz network, which it should be more industrial consumption.

But in Q2 it was more stable. So, I think it still maybe too early to judge on the demand destruction. We have seen clearly some reduction, but I think we need to wait. Some of the customers have been protected with a gas cap, especially the SME sectors and the households. So, it's a bit too early. And we have seen some chemical plants, of course, stop during these high prices in Q1. But let's see what impact will have in the second half, because we still expect a decrease of consumption for the year versus last year.

On the power, we see a 6% decline in demand, I mean, for some energy-intensive consumers, who have reduced their consumption due to the high price. It's clearly something which will have an impact on the supply-demand.

**Question from Iuliana Ciopraga:** Just a follow-up question, regarding the new Offshore Law and the gas production. So, you're seeing 15% of total gas production in Romania that you mean onshore, for that part, the new Offshore Law could be applicable, but you don't know yet. And that adds to the offshore production, current production. So, basically, it will be around 40% with the Offshore Law would apply if we include the 15%, is that right?

**Answer from Alina Popa:** Yes, that's right.

Just to maybe reemphasize again, that the 15% is the maximum. And then we got from the regulator a lot of requests to come up with a lot of details. And it will be a process that will take several months to identify exactly how much would be the real one, yes. So, that's maximum value.

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