

# OMV Petrom Q4 2022 Conference Call – Q&A Transcript

OMV Petrom published its results for January – December and Q4 2022 on February 2, 2023. 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, with edits for readability and clarifications/additions included in brackets.**

**Question from Tamas Pletser (Erste Bank):** I am interested in two topics basically. Firstly, the FID on Neptun. What is the current situation with the negotiation with the Romanian government over those legislative issues that you have talked about in the last quarter? What I remember is you talked about some minor problems within the offshore law. How do you proceed as to the agreement with the government on these issues and how can you be sure that you can make the FID on Neptun in the middle of this year?

My second question is, what is your opinion about this current I would say excessive regulatory and taxation framework in Romania? Do you see some chances that the current system would ease? I see that the gas prices are now falling so maybe the government may not need to be so harsh on you and potentially they could eliminate the price caps or something like that. Do you see any chance for that to happen in the near future?

**Answer from Christina Verchere (CEO):** I will take the first question. I think we could all debate the second one as well but maybe between Alina and Franck on that one.

On Neptun FID just as a reminder we took over the operator role in August 2022. We have an international team in place working very hard on progressing to understanding ultimately the cost base and the contracting side of it. Also, we submitted our declaration of commerciality from a regulatory side, in line with our concession agreement at the end of last year. We are working on getting the key prerequisites in place. You are correct there are some aspects with regards to the offshore law that need clarification with regards to stability. We will be continuing the dialogue with the state on that, but we are continuing to progress in parallel to take the project forward.

**Question from Tamas Pletser:** That basically means that these issues are still pending so you do not have an agreement fully on these minor issues in the regulatory framework?

**Answer from Christina Verchere:** Yes. We are still working on getting the clarifications around that.

**Tamas Pletser:** Okay, that is clear now. Thank you.

**Answer from Alina Popa (CFO):** On the second question, the way I understood the question Tamas was a bit broad on the Gas & Power taxation but also going into the Solidarity contribution. Have I got it right?

**Question from Tamas Pletser:** Yes. I am thinking about the whole regulatory and fiscal framework. Do you see any chance that this very harsh environment from the side of the Romanian government would ease going forward, due to the fact that the gas prices are not as high as they were before?

**Answer from Alina Popa:** Basically, the interventions that were introduced in 2022 in Gas & Power primarily were all of a temporary nature. Indeed, at the beginning it was expected to be for a year, which was extended later on, towards the end of the year, until March 2025. The good thing is that they have a temporary nature in substance but nevertheless we are paying of course significant amounts coming from here and also, we are affected from the capping as well.

With regards to solidarity contribution, you have seen we do not qualify as OMV Petrom.

**Answer from Franck Neel (EB member Gas & Power):** On the temporary cycle of these taxes, we also wait to see the reaction of the European Commission because 'temporary' for more than two years starts to be a bit long. I think we will see if the European Commission considers this as an extreme position from the Romanian government.

Also, the European Commission is looking to propose a change on the power market design, which could also bring a solution for Romania to be closer to the European model than the heavy tax we are facing now. The 98% tax for trading is also quite extreme, I would say, compared to any other benchmark.

**Question from Raphael Dubois (Société Générale):** The first question is on Neptun. You provided us with the CAPEX budget for 2023. Is this still with the initial guidance of less than €2 billion that you would have to spend on Neptun or is there already some sort of revaluation of the CAPEX for Neptun? If you could remind us of the phasing of the spending, would you FID right in the middle of this year? That is my first question.

The second one is on Petrobrazî turnaround and Brazî power plant turnaround. If you could tell us if they will happen at the very same time?

Last question comparing the level of regulation in 4Q 2022 and 1Q 2023, would you say that this level of regulation for this coming quarter will be harsher than it was in 4Q 2022 comparing maybe taxation and the capping of the selling prices?

**Answer from Christina Verchere:** I will take the first question with regards to Neptun Deep. We have stated that the CAPEX in 2023 for Neptun will be about RON 600 million. At this point in time, we have not changed our less than €2 billion guidance that we stated in our Strategy 2030, but this is the fundamental aspect that we are actually working through with regards to, prior to FID, to confirm that number when we do actually sanction the project. Our goal is to sanction the project in the middle of the year, so yes, the CAPEX would be more geared towards the back end of 2023.

**Answer from Radu Căprău (EB member Refining & Marketing):** The Petrobrazî turnaround is planned, as mentioned by Christina, starting with the second half of April, after Easter, and will take 42 days. We have as well the power plant planned turnaround, but it is a much longer turnaround [and only partially overlapping]. It should be mentioned that there are not necessarily synergies or contradictory influences. Petrobrazî turnaround [will be of 42 days from April to mid-May, while the Brazî power plant shut down from 1 March to 19 May].

**Answer from Alina Popa:** I will go to the third question. In 2022 we had two important interventions, one which started in April, and which was in the Gas & Power area, then this intervention was further increased starting 1<sup>st</sup> September. If we compare 2022 with Q1 2023, if we look at Q4 2022 from the level of taxation intervention, we will have similar intervention in Q1 this year. This is primarily in the Gas & Power area. When it comes to E&P, we did not have many interventions. When it comes to R&M, we had the 50 ban/l intervention as voluntary fuel discount. This was for Q3 and Q4. It is not prolonged until now. There are some rumors on the market that this might come, but from a formal point of view we have not seen any draft or any clear proposal of prolonging this until now.

**Question from Iuliana Ciopraga (Wood & Company):** I have a number of questions. First on the equity gas, can you tell us how much of the sales will be regulated in 2023? Actually, I would like some color regarding sales to households and heating producers at 150 RON per MWh.

My second question, we understand that the government is looking for some clarification on the solidarity tax from the European Commission. Can these clarifications have an impact on the solidarity tax to be paid for 2022?

Third, and maybe if I am allowed a fourth later on, on power: the regulations now limit your realized net power price at 450 RON/MWh and at the same time the gas to power transfer price at 100 RON/MWh. This basically locks in around RON 150 per MW for each MW of power produced. Should we build our assumptions for the power segment in 2023 based on this? We did not really see this in the fourth quarter because results in the fourth quarter 2022 for Gas & Power were quite low.

**Christina Verchere:** What I suggest actually is that Franck takes question one and question three but maybe let us start with question two for Alina.

**Answer from Alina Popa:** I will try to summarize the situation on the EU solidarity contribution. According to the Emergency Ordinance 186 and also according to the EU regulations, in our view it is clear that OMV Petrom does not meet this 75% threshold with activities in the areas of oil & gas extraction and refining. We are an integrated company. In addition, we have other activities, being primarily electricity, but also purchases of natural gas, petroleum product from third parties, which are being sold. So, we do not meet this threshold.

Now, what could be is that this Ordinance 186 will go through the Parliamentary process. We know that the Parliamentary process starts now, so in case there are amendments in the Parliamentary process, in our view such amendments should apply prospectively. This is in line with constitutional principles. However, we cannot exclude a different approach or a different view from the authorities. We will follow this up closely and of course we will inform the market accordingly.

With regards to clarification coming from the EU, we do not see how these clarifications could change the assessment that we are not in the scope of the 75% threshold.

**Answer from Franck Neel:** I will take the next two questions on the regulated gas price for 2023. As you mentioned, we will have to sell at 150 RON/MWh to households and to the district heating. There are also other types of regulations, not only this. We have also a price which is with a fixed regulated margin for small customers as well. You could consider that even if it is not a capped price you have a regulated margin, then you have to get to be reimbursed for the difference between your cost and the capped price. There are different pieces of legislations which makes it complex.

But one thing you also need to keep in mind is when we sell at a capped price of 150 RON/MWh, we pay some tax but only a small tax compared to the free market. In the free market you have a supplementary tax while here it is calculated differently. There is quite a difference in terms of net back if you look at it like that.

The quantity for this year will be quite high compared to 2022, because in 2022 we had contracted volumes before the regulation came in place. In 2022 we were at around 3.9 TWh for household and PET, but for 2023 we expect more quantities soon, so we did not have any contracted volumes. We do not know the volumes allocated yet; we submitted the data to the authorities. The deadline was 1<sup>st</sup> of February. We will have the results later in the month. When we get the results, we will know exactly how much regulated market is allocated to OMV Petrom.

**Question from Iuliana Ciopraga:** Can you comment on the first quarter, because I guess you have the details just for the first quarter? Just so we have some clarity on this point.

**Answer from Franck Neel:** We expect it will be quite high, around 70% of our sales. Between 70% and 75% of our sales.

Now on the power side, your calculation is not far from the reality when you look at 2023. 2022 was a very different context because we had some forward hedging, and we had some optimization which was planned and done before the regulation came. We are impacted by the regulation and especially on the tax calculation, the tax on Brazi. Now for 2023, we have a limited forward hedge, so if you add OPEX in terms of spark spread is not far from what we expect as well.

What you need also to take into account is the depreciation of this asset. It is not just the margin. [Moreover] we [can] have some unplanned shutdowns. It is not 100% availability of course because we have some unplanned shutdowns. Unplanned shutdowns can be difficult to forecast how much they will cost. It will really depend on how many days it will take. Historically we have a very good track record, but we have a big shutdown now, so we have to see when we restart the plant. Historically a good track record but it is a costly exercise if you have to buy on the market and to sell at 450 RON/MWh. We have to make sure during the shutdowns we do all the maintenance to guarantee the high availability of the plant and much more than we were planning before.

**Question from Iuliana Ciopraga:** Regarding the 70-75%, does that include the sales of the power plant or not?

**Answer from Franck Neel:** Yes, it includes everything we consider as kind of regulation.

**Question from Iuliana Ciopraga:** Okay, so it is not just households and the power plant. It includes the rest as well.

**Answer from Franck Neel:** No, no. It is the total regulated quantity.

**Question from Irina Railean (BT Capital Partners):** I have a question regarding the impairment. If you could detail a little bit what we should expect. We understand you reassessed the future prospects of production decline. What should we expect in the mid-term? Can we see higher declines or maybe larger CAPEX mix to maintain this decline rate?

Also related to this, the reserve replacement ratio, we saw it was quite low in 2022. Should we see it at a similar level until Neptun Deep comes on stream, or could we see some improvement here until the first gas from Neptun?

One more question on special dividends. We understood your intention to distribute and to announce something maybe towards the middle of the year. Do you see any risks or any factors that would stop you from distributing a special dividend? Here I would like to understand if this potential taxation, solidarity tax, could impact the special dividend you plan to distribute or not, in the unfortunate scenario that the legislation is changed, and the ordinance is changed and not necessarily in your favor.

**Christina Verchere:** Chris will talk about decline rates in E&P and reserve replacement ratio. Then the question with regard to special dividend for Alina.

**Answer from Christopher Veit (EB member Exploration & Production):** Let us start with E&P. As you know, we are fighting every year natural declines of between 10% and 20%. This means that to bring this down to a lower level, needs of course continuous investment. Last year we ended up with 5.6% decline and by the way, maybe you also noticed that in last quarter we had only 3%. Where did this come from? This came out of extraordinary wells in Bustuchin area, gas wells, and these brought the decline actually to this low level.

However, for the planning we did not take these extraordinary successes into consideration. We took again the average numbers of all the wells actually. That is why we foresee in 2023 about 8% decline. On the compounded annual decline rate, we actually communicated this -3% by 2025. We are increasing it now to -6%. This is closer to rates we see in the performance of the wells.

On the reserve replacement ratio, it is 10% for last year. You see that the three-years reserve replacement average is about 31% and we think it may stay between 10% and 20% for the years until Neptun Deep gets on stream [assuming no impact from portfolio optimization programs]. Then of course we go above 100% on the reserve replacement ratio.

**Answer from Alina Popa:** I will continue with the special dividend. At the middle of the year, we will analyze and evaluate the following three dimensions, I would say. Christina mentioned we plan for FID Neptun middle of 2023. Until then we will have updated cost assumptions for our biggest project. This will be a really important element for us to consider. Of course, we will follow the regulatory and fiscal interventions, and here you made a reference to the solidarity contribution topic. We will have more clarity until the middle of the year on how this will be changed, if any changes will come. We will also assess the overall market environment and our financial performance in the first half of the year. With all these elements being clearer at that moment we will be able to define the value.

Now, in our view we should be in a position to give a special dividend. It is just a matter of the amount, which will be influenced by these three dimensions, and that is why we decided to announce it now in order to give this perspective for all investors that we are planning to do this in the middle of the year.

**Question from Ioana Andrei (Alpha Bank):** I was wondering if you can disclose your allocated volumes under the centralized mechanism on the power market for 2023? Second of all, I would like to know, you have mentioned the

proved and probable reserves increased due to Neptun Deep. Can you please disclose exactly what you have recorded for Neptun?

**Answer from Christina Verchere:** I will just do a quick one to answer the second question. Actually, we do not disclose that level of granularity. At the time when we FID the project, we will provide an update on the resource position. Franck, with regards to allocated volumes to the centralized power market?

**Answer from Franck Neel:** I think it is a very good question Ioana because I have to say that there is still some clarity that we expect from the regulator but at least 80% is what we understood in December from the new legislation. 80% of output has to be sold to OPCOM.

But on the other 20% we had two different communications from the regulator. So, we are waiting for clarification on the last 20%. At the moment we will offer 100% to OPCOM and we will seek clarity for the 20%.

**Question from Ioana Andrei:** Okay but basically what you are saying is that you are actually locking the RON 450 per MWh fixed as a regulated price for your whole volumes. Am I understanding correctly?

**Answer from Franck Neel:** That is the legislation. We cannot do differently.

**Question from Ioana Andrei:** Basically, you are selling all your volumes on this centralized mechanism?

**Answer from Franck Neel:** Yes, and if we sell the 20% to the market, we will pay 100% tax on the difference between the actual price and the 450 RON/MWh. The net impact will be the same.

**Question from Ioana Andrei:** There is no possibility for the contracts you made previously at a higher price to gain anything else, right?

**Answer from Franck Neel:** Due to the many changes we saw in the regulations last year, we had very limited hedge for 2023. That is not going to have a huge impact. This hedge will also be taxed above 450 RON/MWh, so it is not really a difference. On the 450 RON/MWh, it does not include the cost of CO2. CO2 is on top of that.

**Question from Oleg Galbur (Raiffeisen Bank International):** I have two questions now and two follow-up questions. The first question relates to your CAPEX guidance, which is about RON 2.5 billion higher for this year. According to your guidance and based on the previous years' experience, I have concluded that the E&P incremental CAPEX and the allocation for the turnaround of the Petrobrazi refinery could amount to some RON 0.5 billion, which leaves another RON 2 billion for other investments or other projects. So, I was wondering whether you could provide more details with respect to those projects?

The second question is on your guidance for the free cash flow before dividends in 2024-25. I was wondering what is the reason for the improvement of free cash flow generation, while at the same time you expect a less supportive market environment, with a lower upstream production and higher CAPEX?

Then I have two follow-ups. The first one relates to the RON 1.8 billion impairment that you booked in the E&P segment. You have talked a bit about the expectations for the production decline, but I was wondering whether you could provide more details with respect to the production decline separately for oil and gas fields? Also, just to comment here, when looking at your 2024-25 guidance and comparing this guidance with the previous guidance, I do not see much difference in terms of production decline. So, I was wondering whether this impairment was triggered mainly by a longer term, or a long term, decline rate, worsening, or also by significantly higher production costs, which you are also referring to, and if it is the case for a higher OPEX per barrel of oil equivalent? Maybe you can also say a few words about the cost drivers behind this revision?

Lastly, on your special dividends, just shortly, would the last year's level of special dividends be some sort of reference for this year?

**Christina Verchere:** Maybe we start with coming back to some of your follow-up questions, so we go on to the conversation with regards to oil and gas production forecast in the multi-years out, and then we can come back to CAPEX, free cash flow for dividends and then special dividends after that.

**Answer from Christopher Veit:** Maybe a little bit on the production, on the declines, that you are addressing. Yes, of course, there is a difference on the gas wells, and gas wells normally decline much faster than the oil wells because in the oil wells we are on the long-tail production, and this means the changes there are not as significant as on the gas side. It could be twice to triple, actually, on the gas side, which means 10% plus.

On the other hand, we also have some gas production coming out of the associated gas, and this is rather similar to the oil declines. And that's the big difference. So, obviously, also these good wells that we drilled in 2022, we expect them to decline more or less by 5%-10% every year.

Was there another question, on the costs maybe? On the costs, of course you know that the reserve base is defined by several factors: that is the product price, that is the productivity of the reservoirs, it is the cost base, but also the tax side. This means, specifically on mature fields, if the cost base increases, the total reserve base is shrinking, and that is actually what we have seen and what we have considered in the impairment. So not all fields and all cash generating units we had to impair. It was primarily on the oil side, actually.

**Answer from Christina Verchere:** I will touch quickly on the CAPEX. We have tried to provide some sort of list of the different expenditures that you would see in this slide, slide eight, because I hope, actually, this CAPEX shows strategy in action. Because what you can see is we will have more CAPEX in there for growing regional gas, with the Neptun Deep project, but also with regards to turnarounds for the traditional optimization business, which will be for Brazi and Petrobrazi, but also in the energy transition. We have already FID-ed the spend for the new aromatic unit. Then also looking at potential new renewable power projects, as well as biofuels: advanced ethanol, HVO and SAF on the project side. So, I think it is a combination of the fact that we have some turnaround activity going on, but actually a lot about our strategy in action overall.

I will hand over to Alina for free cash flow before dividends, as well as special dividends.

**Answer from Alina Popa:** So, on the free cash flow before dividends, you know we have an integrated business model, which gives us strength and we are able to adapt, depending on how markets evolve and so on. Now that we have quite a clear understanding, also, on the regulatory situation, we will adapt our business based on our planning assumptions. We see and we believe we will be on a free cash flow before dividends position all this year, technically.

So, with regards to special dividends, unfortunately I cannot give any reference at this moment. We will announce this to the market at the middle of the year.

**Question from Daniela Mandru (Swiss Capital):** I have several questions. So, one of them are follow-ups. Regarding the CAPEX, can you detail, or can you say to us what is the amount allocated for Neptun Deep explicitly? The other question is regarding the offshore production. Can you give us an absolute amount of a percentage of production?

The third one refers to the deep onshore. Please let us know if you clarified with the authorities the number of fields that qualifies as deep onshore and so does for lower taxation?

The fourth question relates to power sales. From my understanding, you also sell third-parties' power. Can you tell us what is the amount of power sold forward from third parties?

**Answer from Christina Verchere:** Maybe I will start quickly with the CAPEX one, just as a continuation. The Neptun Deep amount that we have set aside is RON 600 million, on the basis of an FID in the middle of 2023.

Maybe Alina can just do the clarification with regards to the deep onshore, because we were in discussions with the government on that.

**Answer from Alina Popa:** On the deep onshore our conclusion so far is that we will not have deep onshore fields which will qualify for the new offshore law. So that is our conclusion so far, based on the analysis done on all of our fields.

**Answer from Christina Verchere:** Maybe just for a quick answer on the offshore production, I think Chris was just saying that about 20% of our production is roughly offshore.

Franck, with regards to power sales?

**Answer from Franck Neel:** I do not know which period you are mentioning, but on top of the sale of Brazi that we are performing, as we discussed before, we are also developing, like with gas, some trading of power. Not at the same level in terms of volumes, but of course power price is much higher. It was less than one terawatt hour in 2022, but we try to double this year, so we are hoping to have a better revenue on sales coming from this activity and mainly outside of Romania.

**Question from Daniela Mandru:** Regarding – I am not sure if you commented on this – the offshore production, so we have this indication, 25% of the production, but meantime the production declined a lot, so what is now the offshore production? What was last year, for example?

**Answer from Christopher Veit:** It was around 20% [in 2022: 15% of total production and 24% of gas production]

**Question from Daniela Mandru:** May I dare another question? With this impairment you announced also some production decreases. Can you give us an indication for the OPEX this year and for the next two years, so 2024-25? So, should be about \$13 per barrel or more?

**Answer from Christopher Veit:** OPEX for 2023, what we have planned is 15, and for the two following years we will be hovering around 16 USD/boe.

**Question from Daniela Mandru:** Regarding the production, out of last year's production, how much is the decline from divestments? Because I have some data, but I want to be clear on this.

**Answer from Christopher Veit:** Last year we did not do any divestments. The last divestment was done in end of 2021, and it is the 40 fields, last year we did not do anything.

**Question from Daniela Mandru:** So last year you did not have any divestments, anything, so it is the natural decline of last year?

**Christopher Veit:** Yes [the decrease in production last year was mainly due to natural decline. In 2021, the production from the 40 marginal fields divested in December 2021 was of 0.9 kboe/d].

**Question from Iuliana Ciopraga (Wood & Company):** Regarding production decline for 2023, this is faster than what I expected, based on the strategy released in 2021. I was wondering, do you still see achievable a decrease in the decline rate in the medium term, as you were expecting in the strategy, considering also the impairments that you have made? And if you can clarify a bit on the decline rate for gas and oil in 2023.

**Answer from Christina Verchere:** So, I think Chris has mentioned earlier that, actually, we had originally signaled about a 3% decline rate and now that was actually changing to a 6% decline rate in the near term. So, Iuliana, yes, you are correct that he had mentioned that.

**Question from Iuliana Ciopraga:** The 6% would be starting in 2025? Starting 2025 you basically see a decline of around 6% per year?

**Answer from Christina Verchere:** 2022 to 2025.

**Question from Iuliana Ciopraga:** Because your strategy included some numbers for 2030. If we deduct Neptun from the 2030 numbers, production would have been around 90,000 barrels per day. Is that still valid or not really?

**Answer from Alina Popa:** Iuliana, this is reason why we booked the impairment, because we have revised our production decline rate from 3% on average to 6% by 2025. This, in corroboration with an increase in operating costs, triggers the impairment. These were the reasons.

**Answer from Iuliana Ciopraga:** Is 6% the average rate from 2022 to 2030?

**Answer from Alina Popa:** We only communicate until 2025. 2022 to 2025 is approximately 6%. We do not give further information. It is a bit more complex in the second part of the decade.

**Question from Iuliana Ciopraga:** If you can comment a bit on the split between gas and oil, what should we expect?

**Answer from Christopher Veit:** The oil, long term of course, let us say with the additional gas we will still be a bit more. Right now, we are around 52% on the gas side, and this will, of course, increase when Neptun Deep comes on stream, helping on the gas side.



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