

# OMV Petrom Q1 2023 Conference Call – Q&A Transcript

OMV Petrom published its results for January – March and Q1 2023 on April 28, 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 Oleg Galbur (Raiffeisen Bank International):** thank you for the presentation, and congratulations on the strong result. I have two questions. And the first one is on gas and power segment. Could you please provide more details on the G&P segment strong performance in the first quarter? For example, it would be very helpful for us to have an idea of the individual contribution of gas and power business in the first quarter, as well as some guidance regarding the expected performance in the current and next quarters would also be helpful, especially when it comes to the gas business.

And secondly, on the special dividend, we have now a better idea of what is the intention of the Romanian authorities with respect to the windfall tax application. Assuming that the final text of the law is promulgated by the president without major changes to what have been seen by the market, how would it change your thinking about the size of the special dividend, if at all?

**Answer from Alina Popa (CFO):** So, I will start with the first question on the gas and power results. So indeed, we had a very good result in Q1 for gas and power, and I will try to explain a bit the main drivers for that. When it comes to gas, we had very good storage margin on a higher extracted volume of gas, so we really realized very good storage margin.

And here also on gas, we are very, very regulated. So approximately 80% of gas volumes is regulated and when we say regulated, we refer not only to sales to households and district heating companies, but also, to industrial and consumer sales, which have regulated supply margins and capped prices and sales to the power plant.

If we refer to the sales to households and district heating, we indicated in our report, approximately 4 terawatt-hour to households and district heating [companies]. But coming to where is the driver for the great performance, we would highlight really the storage margin. If we move to power, the power plant was utilized for two months only. We started the shutdown at the beginning of March. Nevertheless, we managed to have good results from the power plant, and also, very good result from balancing and ancillary services, which were obtained based on the availability of the power plant. In addition to that, we had high power margin from transactions concluded outside Romania.

This would be the main things I would like to highlight. We do not give the split between gas and power, and I do recognize that it is hard to model. Nevertheless, if we look a bit into the next quarter, next quarter will be for gas and power significantly lower, and we need to have in mind the fact that the power plant has an extended outage. So, the entire Q2 will be affected by this power plant outage. For Q2, we expect an impact on EBIT of such extended outage of up to RON 150 million. And also, if we look on the gas side, of course, it is a seasonally lower quarter for gas and corroborated also with significantly lower prices, if we compare to last year, but also with the previous quarter, and in the context also of higher regulation. So, I hope it was helpful a bit on guiding also on the next quarter.

**Question from Oleg Galbur:** Maybe just a follow-up on the power trading outside Romania. Is this something to be expected also in the current quarter or this is rather on an opportunistic basis and hard to predict, how should we think about it?

**Answer from Alina Popa:** This is something which we consider going forward, however, it is not so easy to secure, so we cannot say we do expect a similar impact, it is rather opportunistic, but we continue to look into such opportunities in the next quarters as well.

Moving to the second question on the special dividends, and I think your question was corroborated with a solidarity contribution discussion. So let me start from the solidarity contribution. As you might have seen, the amendments to the law that were approved, that were proposed by the parliament were rejected by the president due to unclarity, which was very much the case because the level of unclarity was very high in that draft. We do not know where this will be concluded. So, the parliament will start working on it next week, and we do not have at all an indication where the result will be. But definitely when we have an updated law, we will look at it, calculate and communicate the impact.

Nevertheless, going to the special dividend, we have announced that we believe our balance sheet is strong enough and we should be in a position to pay special dividend mid of this year, announce mid of this year. Based on our cash position, the size of such special dividend will depend on three things. Number one is Neptun, and in mid of the year, we will have a better understanding of the course and timing related to Neptun [Deep project]. Second is regulatory and fiscal intervention, and here the main topic is the solidarity contribution. Until then, we will know exactly what the final version [of the law] will be. And the third of course, the market environment and financial performance of the firm.

We remain consistent with this message like we had it a quarter ago. And we look forward for mid of the year to give you more news about that.

**Question from Ioana Andrei (Alpha Bank Romania):** Thank you for the presentation from my side as well. Can you please disclose the gas deliveries at the regulated price allocated by ANRE in the first quarter and maybe for the full year? And additionally, can you disclose the sales on the power side that should be realized via the centralized acquisition mechanism at RON 450/[MWh]?

**Answer from Alina Popa:** When it comes to sales to households and district heating companies in Q1, they were approximately 4 TWh. And for the full year, we estimate more than double of the amount of last year, which was similarly [around] 4 TWh. That is on the households and district heating companies.

On the sales of this MACEE mechanism, we do not disclose, but most of our sales are subject to this [obligation] starting the beginning of this year.

**Question from Tamas Pletser (Erste Bank):** I got only two questions in my mind. First of all, on the Petrobrazi shutdown, can you tell us some details about it, the potential financial impact, and how do you manage the situation? And my second question would be just a follow-up on Oleg's question on the gas and power side. Do we have a significant seasonality in the gas and power business going forward? And is the new requirement to fill 90% storages? Are this affecting your business positively? As far as I understand from your explanation, this is the case. So, could we expect, let us say again, much better earnings in the fourth and the first quarter coming forward?

**Answer from Alina Popa:** So, to start with Petrobrazi shutdown, as we announced, we will have six weeks turnaround for Petrobrazi. We started on 21st of April. The impact in the EBIT is approximately RON 200 million. Half of this impact is coming from maintenance cost, that will be booked in the P&L, and the other half is coming from lost margin, from not having the refinery available in these six weeks. I think that is clear. And then of course we do have CAPEX that we spend for Petrobrazi in this period as well.

On the gas and power, I try to guide for Q2, we expect to be significantly lower due to the combination of both power and gas seasonality. On Q3 and Q4, we talk about the significance, and I mean, the regulation is significant. 80%-90% level of regulation on the gas and power side. So, from that perspective, it is not much opportunity to do, except for sales outside Romania or transactions outside Romania. On the storage side, it depends a lot on the prices or on the evolution of the prices versus the moment when we put the gas into storage and the moment when we sell it out, which was favorable in Q1. Now, we will have to see how this goes. I cannot provide guidance in this respect right now.

**Answer from Christina Verchere (CEO):** I was going to add one thing to Alina's comment, if that is all right. With regards to the Petrobrazi turnaround and actually, this is the first time we have gone five years since our last turnaround. Prior to that, we were doing almost every two to three years, so we are increasing the cycle time, which overall means that the utilization of the refinery over sort of a five-year period is much higher than we had in the past.

**Question from Iuliana Ciopraga (Wood & Company):** Just again, on the gas and power, so there are no limits to the margin on storage because actually, trading is regulated and there you are allowed just a 2% gain. The supply is regulated as well. So, what I mean, how can you generate such a high profitability on the gas side? Is there a lot of trading outside of Romania as well? If you could explain this a bit.

**Answer from Alina Popa:** It is not so easy to generate additional profitability in gas and power going forward. I think my colleagues do a great job. They look in the region, and they try to see if they can have anything around Romania, so, in the region also. Also, they look into import possibilities, to extend to LNG and with Greece, as well, as a hub for that. But otherwise, if we look strictly into Romania, it is quite limited. Possibilities are quite limited considering the limitation and the regulation that you know very well.

**Question from Iuliana Ciopraga:** But the result of the first quarter, did that come from Romania or outside of Romania on the gas side?

**Answer from Alina Popa:** On the gas side, it came from storage margin, as I mentioned. Not that much from outside Romania on the gas side. On the power side, it came from outside Romania.

**Question from Iuliana Ciopraga:** But on the gas side, on the storage, is there a fixed margin that you can add or how does that work?

**Answer from Alina Popa:** I mean it is the margin that you achieve considering the cost of the gas that you had when you put it in the storage, the difference from that to the final price to the customers that you achieved. So, it is not necessarily a fixed one for us.

**Speaker:** I see. Okay. But that is basically a one-off, right. And secondly on the power side, you had losses on the revaluation of the hedging contracts for power, 371 million, that do not affect the Clean Result. However, power prices declined significantly in the first quarter. And I was wondering what generated the losses? One would have expected gains on that side. **Answer from Alina Popa:** These are forward contracts to purchase power. That is why they generated an unrealized loss.

**Question from Oleg Galbur:** I have a follow-up question. Could you please provide some details with respect to the gas sales portfolio, the split of which you show on slide number five? This is very helpful, but we are missing the quantities of the volume based on which the share of different segments or type of sales are presented here.

**Answer from Alina Popa:** I mean, what we disclosed, Oleg, in detail with regards to quantities are the sales to households and district heating companies, which in Q1 was 4 TWh. That is the level of sales to households and district heating companies. And then you might have also of course sales to the power plant, you can deduct that from the utilization of the power plant as well.

**Question from Oleg Galbur:** But I was rather looking for the total volume of gas in the first quarter so that I can also calculate the volume sold on free market and on the regulated sales to third parties?

**Answer from Alina Popa:** I think total sales volume we have in our report and just opening now to tell is 13.13 TWh for the Q1, which is the total sales. Approximately 80% of that overall was regulated and the remaining is free market.

**Question from Oleg Galbur:** I do not know; it does not add up. If I take this, if I calculate 63% of 13 terawatts, I do not get to these 4 terawatts of gas sold to households and district heating companies, unless you include something else here or exclude something.

**Answer from Alina Popa:** This is just a part of it. So, 4 out of 13 represents the regulated sales to households and district heating companies, approximately 30% of that.

**Oleg Galbur:** Maybe then I will follow-up with your IR to clarify this.

**Question from Daniela Mandru Petrovici (Swiss Capital):** Thank you for the presentation. I have a very quick and simple question regarding the regulated volumes. Just a clarification because I am not sure if the volumes that I heard are correct. So, you said that for this year, you are estimating 8 TWh to be sold at regulated prices for households and non-households, correct?

**Answer from Alina Popa:** We said more than double, that is more than 8.

**Question from Daniela Mandru Petrovici:** More than double, okay. But you sold 4 terawatts in the first quarter, and for the full year, you estimate only 8.

**Answer from Alina Popa:** More than 8.

**Question from Daniela Mandru Petrovici:** More than 8, meaning, there could be – more than 8 could be 20. So more than 8, meaning this is the minimum amount that you estimate?

**Answer from Alina Popa:** Yes.

**Question from Daniela Mandru Petrovici:** Okay, good. Not 8, not so the minimum amount.

**Answer from Alina Popa:** But of course, Daniela, Q1 and Q4 are with the biggest quantities. So Q1 was 4 and the rest of the year is more than 4.

**Question from Daniela Mandru Petrovici:** But did ANRE not publish the allocated volumes for this year?

**Answer from Alina Popa:** Not entirely.

**Question from Daniela Mandru Petrovici:** Not entirely. Okay. Thank you. This is all.

**Question from Iuliana Ciopraga:** Coming back to the gas sales, just very briefly, how much of these sales were done outside of Romania? I mean, of the total 13 TWh, how much was outside of Romania, because that is actually what the missing piece is.

**Alina Popa:** For Q1 2023, 0.9 TWh were outside Romania.

**Question from Iuliana Ciopraga:** And can I clarify, are there any, I mean, I guess you also import gas into Romania because most likely there was more trading. What are the regulations on the import side? Is there a limit on the margin for imports or were there some changes on the regulations? I am not sure now.

**Answer from Alina Popa:** We do not have a limit on the import.

**Question from Iuliana Ciopraga:** So, there is no fixed margin for import.

**Alina Popa:** Yes, free-market.

**Question from Iuliana Ciopraga:** And something very basic actually, what is the transfer between bcm and megawatts, just to clarify? So, you report production in bcm, what would be in MWh?

**Answer from Alina Popa:** This is around 11, but I will ask my colleagues in IR to follow-up with you.

**Question from Tamas Pletser:** I would have also a follow-up, and I am sorry for my ignorance for this question. But when you talk about the storage business, basically, it means that you buy some gas, [by] your G&P from your E&P segment during the summer, let us say for 100, and you sell it later on the free market, let us say in February.

So, during the first quarter at 120, let us say that. So, is this the simple business model, when you talk about the storage margin, and would you just talk about the gain on this? And is it only affecting the free market, if I am correct?

**Answer from Alina Popa:** Yes, in principle most of the gas is bought from our E&P segment. We have some quantities also from third parties, which are put into storage. And on the sale side, we sell the best we can sell. I mean, if it is free market, at free market prices, otherwise we need to follow the regulations now.

**Question from Tamas Pletser:** So, most of the margins, you basically earn only on your 22% sales during the quarter, which went to the free market, if I understand correctly. So, are most of the margins, what you gained during the first quarter 2023, you earned on this 22% free market sales?

**Answer from Alina Popa:** Not only, I mean, I cannot say only that.

**Question from Tamas Pletser:** That is the crucial part of it.

**Answer from Alina Popa:** Yes. It was an important part on the free market, but not all. We have also some sales which are at cost plus, which are [sold] to end users with bigger volumes. So that part also generated good result.

**Question from Tamas Pletser:** And what was the reason that you were able to increase this storage business so much? Was it because let us say your customers were afraid of the security of supply issues, and were they willing to pay some premium to you for this business or was there any particular reason in relation to the energy crisis to these good margins here?

**Answer from Alina Popa:** First of all, we had a bigger obligation. Our obligation to store was higher than in the past. And it was in the context of everybody being afraid of last winter, what will happen in the current geopolitical context. So, from that perspective, yes. And customers also tried to have secured volumes. That is why we were able to do contracts for the quantities from storage.

## **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.*