

OMV Petrom Q2 2023 Conference Call – Q&A Transcript

OMV Petrom published its results for January – June and Q2 2023 on July 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 Ioana Andrei (Alpha Bank Romania): My first question is regarding the special dividend. Obviously, it was very appreciated by investors, but I was wondering if you could give us a little bit more colour on what is going to happen next year, considering the weaker results that are expected for this year. What I am asking is, do you consider continuing with the special dividend proposal next year? I have a second question regarding Brazi output. You mentioned lower output compared to 2022. Can you give us a little bit more clarity on what are your expectations? Because 2022 was considered a high output, so for this year we are looking for something... I do not know. Is 4 terawatts reachable?

Answer from Christina Verchere (CEO): Alina, maybe you want to touch on the special dividend, and then Franck will cover your questions with regards to the Brazi power plant.

Answer from Alina Popa (CFO): Thank you, Ioana, for the question and I am happy that our announcement yesterday has been appreciated. We have a dividend policy which basically says a progressive dividend, [it] pays dividend every year, so our base dividend increases every year by 5% to 10%. In addition, we have a dividend guidance which says [that] a special dividend can be also given at management discretion in a favourable market environment and providing that our CAPEX plans are funded. So, now, the fact that we call it 'special' means that it is not every year, but on the other hand I cannot exclude it as being [one] next year, in case [it] will be a favourable market environment and provided that our CAPEX is funded.

Answer from Franck Neel (EB member Gas & Power): So, yes, we restarted the gas power plant in the first week of July, so after [four] months of shutdown. It is running well, so we are very pleased with the start-up of the power plant. You know, this was the first time we opened the steam turbine after ten years of operation, so it is always quite an event for a gas power plant. And indeed, we are expecting to deliver more than 4 terawatt hours, we are expecting 4.3 terawatt hours. We see at the moment a very good demand on power due to the hot weather and the demand on the air conditioning. The power price we expect to go up for Q3 and Q4 as well. Even if, as Christina was mentioning, demand is a bit down versus last year, we think we see for the second half of the year the potential to start a recovery, even if at the end of the year demand would still be below last year. But I think the trend is going in a good direction for the power demand at the moment. So, I hope that answers your question.

Question from Iuliana Ciopraga (Wood & Company): I have a number of questions. The first is on the production side. You are keeping production guidance despite a decline below 5% in the first half of the year. Do you expect the decline to accelerate in the second half? Secondly, on the cash inflow from changes to working capital, do you expect this positive inflow of cash from working capital to continue in the following quarters? And something on the OPEX per boe. You are now guiding for USD 16 per boe for 2023 and you were guiding before for USD 15. Do you keep guidance for the following two years at USD 16 or do you see a risk that OPEX per boe would be higher in 2024 and 2025 as well? If I may, I have one more. Regarding the cost of the refinery turnaround, you were estimating around RON 200 million impact, but the turnaround was prolonged by two weeks. Do you confirm that RON 200 million or was it a stronger impact?

Answer from Christina Verchere: [Cristi will] take your questions on production and on OPEX per barrel, and then Alina on your working capital and cash flow question, and then come back to Radu on the turnaround costs.

Answer from Cristian Hubati (EB member Exploration & Production): Yes, we are seeing the first half of the year that the decline is staying at 5%. However, at the end of the year we are maintaining 110,000 boe per day, which is basically an 8% year-on-year decline. And that is due to intensifying the efforts on the planned maintenance

of our assets. With regards to the OPEX, yes, we are seeing guidance for USD 16 [boe] for the year-end, and that is due to the pressure from the suppliers as well as the FX rate, it is influencing that. And yes, that's overall the environment.

Answer from Alina Popa: Iuliana, I will continue with your third question on the cash flow. Indeed, positive inflow from net working capital. Now, the main impact is coming from receivables going down as a consequence of sales going down as well, and seasonal receivables, so, for gas and power, so this is a temporary effect on one hand. On the other hand, we work a lot on our working capital measures, so we are very strict, and we try to optimise the best we can our working capital, so we try to keep it under control, but there is some seasonal effect which we cannot continue to see in the next quarters.

Answer from Radu Caprau (EB member Refining & Marketing): Indeed, the first number that we have indicated as an impact of the turnaround was RON 200 million. The revised number – and this is reflecting the OPEX and lost margin – due to the prolonged turnaround is RON 355 million.

Question from Iuliana Ciopraga: And if I may, almost all of this was booked in the second quarter?

Answer from Radu Caprau: Yes.

Question from Iuliana Ciopraga: Thanks a lot. And if I may, I did not quite catch that on the production side. So, you are intensifying efforts on what? I missed what you said, actually.

Answer from Cristian Hubati: Planned maintenance activities on the main assets.

Question from Iuliana Ciopraga: And is that something temporary? I mean, you are basically keeping guidance for the following years as well, so we should take that – I mean, it does not matter that it was 5%. We should take what happened, what you are guiding for – we should take those numbers, basically? That is what we should understand? Because you did announce a discovery not long ago – I think almost a month ago – but you are still keeping the same production guidance. So, I was kind of expecting a positive impact from that announcement of new resources, but I do not really see it in your guidance now.

Answer from Cristian Hubati: Indeed, we announced a discovery, but you know that the discovery needs to be matured. Verguleasa in production already, but it is only one well. The other two are to come in the next end of the year. So, year-on-year, as I said, we will stay with around 8% decline, closing the year with 110,000 estimated average boe per day.

Question from Iuliana Ciopraga: And for the following years, 95 to 100 does not really account for any upside from this discovery, or does it?

Answer from Alina Popa: No, for the time being we do not change our guidance, Iuliana. We will come back with this at the end of the year when we have our year-end results. We will present you the guidance for the next two years as well. For the time being, we keep it the same level as last year.

Question from Oleg Galbur (Raiffeisen Bank International): I have three questions. The first one is very short. What was the impact of the Brazi power plant shutdown in the second quarter? If I remember correctly, initially you estimated it at some RON 150 million. Second question also relates to the G&P segment. You have, again, achieved very strong earnings despite the complete shutdown of Brazi power plant, and in the last earnings call, Alina was able to provide more colour on the G&P earnings development, in particular, the development of the gas and of power trading business. So maybe could you, again, say a few more words about what drove earnings in gas and power trading in the second quarter, and perhaps also share your expectations for the current quarter. And lastly, on this solidarity tax, just a clarification, what is the estimated impact in the third and fourth quarter of this year and am I right in presuming that the solidarity tax will be booked on a quarterly basis?

Answer from Christina Verchere: I think Franck will take on your first two questions with regards to the Brazi power plant impact as well as the good performance EBIT in that context and then Alina, with regards to the solidarity contribution impact in the second half of the year.

Answer from Franck Neel: For the Brazi shutdown down, we had an extension, which was not planned, of course, but from mid-May till end of June plus the start-up of the first week of July. So, the estimate was now moved from RON 150 million to RON 200 million. I think the good news, compared to where we were at end of Q1, was [that] we mitigated some of the potential losses due to the June extension, especially thanks to trading outside of Romania and to import of electricity to compensate the lack of power from the Brazi power plant.

So that was one of the good achievements and to come back to your second question was also, of course, the sale of gas because, in a depressed market, where the gas consumption in Romania was quite low, we had to secure the sales of additional [up to] one terrawhat hour of gas per month due to the Brazi power plant and I think the team has done a very good job looking at the gas market not only from Romania but [based on], I would say all optimisation and trading we put in place the last years from Greece to Hungary and Moldova. I think we have managed to secure opportunities in this region and that has continued in Q2, even in this current depressed [market] demand for gas.

The same on power. We have been quite active on the Hungarian market on the power trading and cross-border with Bulgaria and Serbia as well. So, all this cross-border trade has benefited also the Q2 results. In terms of looking forward for Q3, keep in mind that in Q2 we had a reversal of a provision. So, there was an impact, of course, in Q2 results on power, which we cannot of course have in Q3, but I will say we're quite bullish for Q3 in terms of gas and power. We have seen the power plant running well as I mentioned before, due to the [higher] power demand and power price going up.

On gas, we have also secured some export contracts and some customers in Romania as well. So, we see also a good increase of market share and we secured some increase of volume compared to what we were forecasting at beginning of the year. So good expectations, but I would say not necessarily well above Q2 because of its reversal of provision, but I would say good expectations for a summer quarter, where it's always more difficult for gas and power due to the [low] gas demand and the fact we need to inject the gas in the storage.

Answer from Alina Popa: From my side with regards to the solidarity tax, your assumption is correct. We'll book it on a quarterly basis and with regards to the calculation itself, you can take the refinery capacity, 4.5 million tonnes, 80% utilisation, and RON 350 per tonne. So that will give you the estimated number to be booked.

Question from Laura Simion (BRD-GSG): I have just a few couple of questions regarding the refinery turnaround. You mentioned the impact of RON 355 million, but you also mentioned in the report some reassessment of some provisions. Could you give us an idea about the amount in this case and what additional gain do you expect at the level of clean EBIT in R&M after this turnaround?

Answer from Christina Verchere: Alina will take on your question with regards to the provisions and then on the clean EBIT. I have to be fair; we don't tend to talk about the forecast of EBIT going forward. So maybe I'll just do that for Alina and rather and say we don't give an indication of the forward look on the results until obviously, we start with the trading update and the results in the third quarter, so, but maybe Radu can give you a little bit of an operational feel of what's going on in the refinery right now. Maybe that will give you an indication here.

Answer from Alina Popa: So, the topic about provision, indeed, it's about the environmental provision, which has been reassessed at the end of Q2. This is a normal IFRS treatment. IFRS 37 requires when we have a legal obligation for past events and no future economic benefits to book provisions. Environmental provision was in connection with a terminal, where we got the documentation related to a legal obligation, and then also some additional costs for the Arpechim environmental provision, all in all, RON 60 million in Q2 2023. And to say this is

not in connection with the turnaround, nothing to do with the turnaround, they have affected Q2 R&M results, but nothing to do with the turnaround.

Answer from Radu Caprau: for the second half of the year, refinery utilisation goes high. So what was indicated so far, July average will be around 80%, but right now we are operating on a 95% utilisation rate, which is a high level on any standard. And as indicated in the earlier presentation, the fact that the refining margin will be expected to be above 10 [USD/bbl] towards end of the year. A solid – still a solid quarter three, of course, when you talk about the sales because we talk about the driving season, and then of course, a much lower demand in Q4, but otherwise, you should expect normal operation and normal performance for the second half of 2023.

Question from Laura Simion: So, the turnaround was not for gaining some more efficiency in operations, but just a normal turnaround in the business cycle.

Answer from Radu Caprau: I understand the question now. So the turnaround is an important activity in the life cycle of a refinery. Why? Because it's ensuring a high utilisation between the two cycles of the turnaround. So if you look back to the performance of our refinery in the previous years, you'll always see it's quite a strong performance from this perspective above the average, European average as a reference, and in this turnaround, beyond ensuring the high utilisation in [between] cycles, we are as well going for several inspections, which are related to the permitting that we need to obtain, and some other activities, which are all ensuring this high utilisation. And of course, the tie-ins of the future investments or of the existing investments, which we'll do, and [of] the future installations, which we are going to bring into the refinery in the next years, like, for example, the new aromatic complex and other similar ones.

Question from Iuliana Ciopraga: I also noticed something in investments as investment in financial assets. Can you clarify what are those? I mean, is that something we should assimilate to cash, these short-term securities that you bought, and can you tell us what's the total amount that you have invested in that because I don't think we can find it in the balance sheet separately?

Answer from Alina Popa: Indeed, in the financial assets, current assets, current financial assets, you see an increase there. It's investment which we did in government bonds, treasury bills of RON 0.8 billion in total as of [end] June.

Question from Daniela Mandru Petrovici (Swiss Capital): I have some two questions related to G&P. Can you disclose the reflected amount, the reversals of provision reflected in the clean G&P EBIT? And the second one related to the same segment regards the power acquired from third parties in terms of quantities. And then if you can let us know what the amount of gas would be, or the regulated prices estimated by you, and partially communicated by the regulator for the full year. So, I'm referring to the quantities of gas to be sold at the regulated prices of 150 RON per megawatt hour.

Answer from Christina Verchere: Alina will address your question with regards to provision reversal, and then Franck will cover the power from third party as well as regulated prices for gas.

Answer from Alina Popa: With regards to provision reversal, just to explain it a little bit. In 2022, we had significant regulatory and fiscal changes where we had a lot of unclarities. So at the end of the year, we booked some provisions where we were not sure about the treatment. We could clarify in the meantime and then this triggered to some reversal that it would be in Q2. Indication for that would be mid-double digit million in euro.

Question from Daniela Mandru Petrovici: But this amount is reflected in clean G&P EBIT operating profit.

Answer from Alina Popa: Yes. In clean, yes. When we booked it, we booked it together with taxation. It was not because it was part of our interpretation of taxation, and then when we reversed it, we had to follow the same treatment as a clean item.

Question from Daniela Mandru Petrovici: That explains a lot of your good results in the [second] quarter.

Answer from Alina Popa: Indeed, yes.

Daniela Mandru Petrovici: [You] should have started with this.

Answer from Alina Popa: Yes, we have explained it in our investor news.

Answer from Franck Neel: First, I realise I confused with the exchange rate before on the turnaround of Brazi impact. So maybe I will clarify for – I forgot who asked the question, but the estimation at the end of Q1 for the extension of the Brazi turnaround was EUR 30 million, I will say euro to make sure I don't make another mistake. Yes, it was Oleg's question. EUR 30 million and [now, after having terminated] the shutdown, we are at EUR 17 million impact. So, we reduced the impact quite significantly thanks to what I was mentioning. Sorry for the confusion on the numbers.

In terms of your question for the gas to the regulated market, our forecast for the full year is about 25% of our total sales. So that's to give you, the volumes [to be sold] at RON 150 per per megawatt hour. And for the sale of power, as mentioned, all those power sales we did in Q2 were linked to power trading because we were not running the power plant. So that's what the full number was for a power trading.

Question from Daniela Mandru Petrovici: Yes, but I don't know the number, so at least I didn't see it in the presentation. So, for my understanding, you bought power and sold it forward, of course, but from third parties. The question is how much did you acquire in the second quarter of the year? Because I know the figure for the first quarter.

Answer from Franck Neel: We don't provide this [information]. It is quite confidential.

Question from Iuliana Ciopraga: Actually, after Daniela's question, I have one more. So, 25% of gas sales for the full year are at regulated prices, but sales from E&P or are you looking at sales from G&P? So, sales to third parties at the G&P level or total sales of gas from E&P? It is just a clarification.

Answer from Franck Neel: Yes. The total sales for gas and power because we're looking at the full sales.

Question from Iuliana Ciopraga: Total sales including internal?

Answer from Franck Neel: Yes.

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