

OMV Petrom Q2 2024 Conference Call – Q&A Transcript

OMV Petrom published its results for January – June 2024 on July 31, 2024. The investor and analyst conference call was 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): I have a couple of questions. First, regarding the gas storage obligation, you have mentioned an increase. Is this a one-off due to current regulatory framework, or should we consider higher storage obligations further on as well? And if you could tell us what is the storage obligation for the full year?

And second, I have a question regarding the renewables pipeline. You have mentioned the portfolio of two gigawatts, including partnerships. How much of the two gigawatts are attributable to Petrom? And can you give us a timeline regarding when we should see the additional megawatts being commissioned?

Answer from Franck Neel (EB member G&P): On our gas storage obligations, we have around 5 terawatt-hour obligation this year. We had about 2 terawatt-hour last year. It is an obligation. It is also linked to good news, as we increased our portfolio between last year versus this year. So, we should see it also in this spirit. This obligation is linked also to the EU regulation due to the Russian gas crisis, to have 90% of the storage filled by the end of the storage season. This will terminate at the end of this gas year. So, this obligation should not repeat next year.

Now, we will look at our storage based on our customer portfolio for the next year and based also on the summer/winter portfolio. That will be our strategy. I hope we answered your question.

Now, [as to] our portfolio, we say we have about two gigawatts [in our] portfolio. So, we have 1.1 gigawatts with Renovatio, which was already announced in the press. And now, hopefully, we will close very soon for one of the assets, one of the companies. We are developing our own assets. Also, we have the Isalnita project, which is a project on our own land, 89 megawatts. So that is something where we are going to announce very soon the EPC contract for this PV plant. We have a partnership with CE Oltenia, which is 450 megawatts. As such, it is on 50:50 per cent. And then we have Teleorman, which is a 710-megawatt PV, where we are 100% OMV Petrom.

Question from Ioana Andrei: And regarding the timeline, when we should see this megawatt in function?

Answer from Franck Neel: So, all the projects will have different maturities, but most of the power should come online in 2027. Some in 2026 and some late 2027, maybe beginning 2028. Not all of the projects have passed FID yet, but that is our forecast.

Question from Laura Simion (BRD Groupe SG): I have two questions. One, if you had any power sales on MACEE this quarter. And the second, regarding the royalties and the windfall tax that you paid in the second quarter. And in addition to that, just a confirmation, I remember you said in the previous call that you have an official point of view from the Ministry of Finance regarding the applicability of the new royalties, that are not applicable to current concessions.

Answer from Franck Neel: So, on the power sales on MACEE, in December last year, there was a contract signed as part of this regulation for sales after the 1st of April for the full year, which is covering about 50% of our power plant. Q1 was much higher because we ran nearly 80% of our output through MACEE, and Q2 much lower because, first of all, we had the shutdown, and then we did not have additional contracts. So due to the change of regulation, now it is [no longer] an obligation. It is up to us to decide if we want to sell more on MACEE or not. So, we just fulfil the contracts signed in December last year. That is our expectation until the end of the year that we will just fulfil the volume which was contracted in December last year.

Answer from Alina Popa (CFO): Moving to your next question on royalties. So, royalties that we paid for Q2 2024 were approximately RON 190 million. This covers both crude oil and gas. In addition to this, we had supplementary tax on gas, around RON 75 million. If the question was referring to the principles applicable for the royalties' calculation, as mentioned before, we apply the royalties according to our concession agreements, which are basically the ones previously in the law. The changes in the royalty rates, in our view, apply [only] to new concession agreements or to the concession agreements that do not have stipulated royalties in such agreements.

Ministry of Finance publicly declared [the above], we refer to a public declaration from Ministry of Finance in this respect. What happened in the meantime, in Q2, actually, there was a change in legislation which was approved by the Romanian Parliament and by the Romanian president, which clarified even further. Now, it is very clear that the new royalty rates are applicable for new concessions or for those concessions that do not have the royalty rate stipulated, which is a very important clarification for stability clauses for such agreements.

Question from Daniela Mandru (Swiss Capital): I have several questions. I will start with the simpler ones. First, for the E&P segment, please let us know, what are the set regulated gas volumes for the following quarters: Q3, Q4 and Q1 2025?

Now, the following question refers to G&P segment. What is the power production estimate for the full year 2024? What were the non-equity power sales in Q1 and Q2 2024? On average, how much power does the Group sell on the balancing market annually? And how many CO2 certificates were bought in the first quarter of the year? I have more, but I will stop here.

Answer from Franck Neel: I will take your question on the gas sales on the regulated volume. So, for Q3 this year, 1 terawatt-hour; for Q4, 2.3 terawatt-hour; for Q1, 2.6 terawatt-hour. And to give you maybe for the full year 2024, we expect 7.9 terawatt-hour. Q1 2025, maybe to be clear, 2.6 terawatt-hour versus 2.9 terawatt-hour in Q1 2024. So full year 2024, 7.9 terawatt-hour versus 2023, 10.4 terawatt-hour. So, we see a decrease in terms of demand on this segment as such.

Question from Daniela Mandru: And for the first quarter of next year, I understood well 2.9?

Answer from Franck Neel: 2.6 versus 2.9 in Q1 2024.

Power equity production [for 2024], we did not disclose a number, because it will really depend on the market, but we expect it to be higher than last year. So that is our forecast.

Question from Daniela Mandru: Yes, but here I want to insist a little bit. I have seen your budget. You have a quantity of 5.9 terawatts [hour] to be sold this year. For me, it looks a little bit [high] if I am looking at what happened in the first half of the year. So that is why I asked, probably it will be below this figure, below 6 terawatts [hour].

Answer from Franck Neel: Yes, because in fact, it is linked to your next question about non-equity power, because we have also non-equity power. So let us say around 2 terawatt-hour of non-equity sales of power.

Question from Daniela Mandru: In the first quarters, 2 terawatts?

Answer from Franck Neel: No, full year.

Question from Daniela Mandru: On the balancing market, on average, how much the Group sells?

Answer from Franck Neel: It is not that it is the volume which is important. I think it is more [about how much] our market share [is] in this balancing. And we are looking in the last years between 10 and 15%, we had some peak at 20%, depending on if there is a lot of water available. If there is a drought, we tend to be more at 20%. If it is a lot of water, we are more at 10%. So, you imagine we are competing against hydro on this market of balancing. But our market share is between 10 and 20% depending on the situation, on the weather especially.

Answer from Alina Popa: Your last question related to CO2 certificates. So just a bit of a reminder, for the total ETS estimated emissions for 2024 that are to be submitted by September 2025, we have approximately 3.2 million tonnes of CO2. Out of this, 500,000 are allocated for free, mostly in the refinery. The rest are to be purchased. That is our big picture.

With regards to your specific question, how much we purchased in this year, we had some small spot acquisitions, really small 15,000 certificates, and we have some forward acquisitions, about 1 million certificates, half of them with delivery this year, towards the end of this year, and half in the later years.

Question from Oleg Galbur (Raiffeisen Bank International): Thank you for the presentation and for the opportunity to ask questions. The first one is: could you please provide more granularity on the loss reported by the G&P segment? While I understand that the operating loss was mainly due to the legislative changes, but it would be helpful to understand how much of earnings decline was triggered by legislation and how much was due to other factors, such as volumes, for example. Also, could you tell us what should we expect in the next two quarters in terms of G&P earnings?

Secondly, could you help us assess the cost impact of higher storage obligations this year? And are those costs booked in the E&P or G&P segments?

And lastly do you plan any divestments of oil and gas assets this year? And if yes, what could be the impact on your full-year production guidance of more than 106 kboe/day?

Answer from Franck Neel: On the quarter for Gas and Power [result], so first of all, there is a large part which is linked to the reversal of a provision, if you compare last year's quarter [2] to this quarter. And so that was quite significant. Then there is a CO2 [cost] that we are not able to recover on what has been contracted forward from 1st April until the end of the year, in fact, so, a bit follow up on your question on that. And we say it is a high double-digit impact [in mn EUR] for the full year as such. So that is mainly for power. So, two main impacts, the CO2 lack of recovery and this reversal.

In terms of the [second] quarter, last year, we did not really produce, we were in shut down most of the quarter. So, it is really this link to the regulation and this reversal, not [from] the [shut-down] operation as such.

The rest is linked to gas activity and the high storage obligations. So, we stored 55% more than last year [in Q2]. Yes, it is a cost. It is borne by Gas and Power. But of course, we will have some benefit looking forward in Q4[24], in Q1[25] when we are going to withdraw the gas and be able to get the spread between summer [and] winter. So, there will be some benefit and increase of benefit versus last year due to the volume as such.

On the forecast for the rest of the year, I think Q3 will be a bit better than Q2 because the power plant will run, of course, a full quarter, even if you still have the CO2 impact. But I think it is still difficult because of this regulation, so we expect [the result] to be lower than last year in Q3. And Q4 really depends on the winter temperatures, how would be the [prices and the demand will be] in Q4, but we expect, again, [the result] to be lower than last year due to the change of regulation, but much better, of course, than Q2 and Q3, [where we are] impacted in general in Gas and Power due to the storage obligation.

Answer from Cristian Hubati (EB member E&P): With regards to the divestment plan for 2024, no, we do not have any plans for divestments for 2024.

Question from Tamas Pletser (Erste Bank): Actually, Oleg asked exactly the same question I wanted to ask. Just maybe a follow-up over here. Do you expect this regulation to change in favour of you from the beginning of next year, especially on referring to the CO2 cost, which now you cannot recover? So, do you expect that cost item to be recoverable from the beginning of next year?

Answer from Franck Neel: Looking forward, this regulation finishes at the end of this year, and we have no forward position for next year. So, we do not expect any negative impact anymore from this regulation for next year.

Answer from Alina Popa: But maybe just to clarify, it is not like we will recover [these costs] in next year. After Q1, next year we will have free market. So, we are not in a position to have this situation.

Answer from Franck Neel: Yes, but even for Q1, we do not have a forward position.

Question from Tamas Pletser: But you are generally looking for a positive change afterwards? If there is a free market, you probably have more chance to pass this cost to the end [customers'] prices.

Answer from Franck Neel: Of course, we have a positive change, but I think also what we have seen this summer is that the government realised the importance of the gas assets to be able to maintain the network, to maintain the frequency and the voltage on the network. And I think our message is you need this type of asset to run, so make sure that we have an incentive to run on the market. And I think definitely, we have had difficult last two months in terms of supply/demand in Romania.

Question from Daniela Mandru: Regarding the low and zero carbon operating profit, I know from previously when you announced first time the Strategy 2030, you said that by that time, the operating profit from this segment will be around 15% of EUR 1.5 billion estimated for that year. Do you keep the estimate?

Answer from Christina Verchere: Yes, in our strategy update, we keep the estimate of about 15%, maybe a little bit higher, coming from our low and zero carbon pillar by the end of the decade, yes.

Question from Daniela Mandru: But you are aware that it is more than RON 1 billion. So why I am asking, because from your IR, I received this feedback that my estimates for this segment by 2030 are too high. So that is why I wanted to check with you again. Okay, I understood.

Now still regarding the Strategy 2030, last time, I was not able to clarify some points from that strategy. What I noticed, but also the other analysts noticed, that your estimate for Brent, for power prices are relatively high versus what the consensus is now, regarding the Brent price, regarding the power price. For example, for the Brent price, Bloomberg [consensus] is around \$72, \$70 per barrel. Why are you coming with an \$80 per barrel? What source did you use for this estimate, and what justifies this relative optimism? That would be the question.

And this question applies also to your power price estimates. The EEX power future curve indicates a level of around €60 per megawatt, while you are coming with a range of €90-120 per megawatt. I understand that you also plan to sell on the balancing market where the prices are very high, but still the price is much above what the future curves indicate for the power prices. That would be the questions related to the estimates for 2030.

And the other question regards to the E&P OPEX estimates for 2030. I made a simple computation. You said that you estimate \$8 per boe. But at that time, 44% of the Group's hydrocarbon production come from Neptun Deep gas, and the remaining 56% will come from current operations. For simplicity, let us put 50:50, that 50% of \$3 per boe, \$1.50 boe will come from Neptun Deep. The rest of \$6.50 per boe, representing 50% of the current operation, will come from the current operation, of course. That would imply that your OPEX estimate for 2030 from the current operation will be around \$13 per boe, but right now it is \$16 per boe. And probably the trend is upward, not downward. So how do you plan to achieve this reduction?

Christina Verchere: Thank you for the questions. Alina is going to take your prices question, and Cristian, your OPEX per barrel questions.

Answer from Alina Popa: With regards to the prices, we have a market intelligence team that is analysing basically supply and demand perspectives on the long term. And also, they look into the geopolitical context and so on. So, this was done. We also compared ourselves with peers, with market expert agencies and so on. And at that time, which was approximately May this year, we were in line with everybody based on all the analysis I have seen. Of course, in our industry, we are very much used to volatility. Things are changing. In few months, you can be in another situation, and we do not rely to the maximum [extent] on these prices. We always test, and we tested our strategy for the downside scenario. And our strategy is robust, and then maintains its key principles also in a downside scenario. And that is, I believe, most important. Otherwise, we publish sensitivities, and we are resilient with our integrated business model in any volatility we might face over the next six-seven years.

With regards to power, the same principle applies. And if we refer to the why we see [the prices] so high, we expect a significant growth in electrification, which we believe should drive, on a medium- long-term, prices up on the power side.

Question from Daniela Mandru: Yes. On the other side, the others are saying also that the renewables will increase significantly, so that will reduce the prices. Anyway, these are estimates for the long term. Nobody knows what will happen.

Answer from Franck Neel: No, it is also a baseload price we are talking about here. So, it is not the captured price [spread]. It is for renewables. It is the baseload price. And today, you have a spread between Germany and Romania, quite big, nearly €30/[MWh]. When you look at the next month, for example, next quarter, you have €30 spread between Germany and Romania.

Answer from Cristian Hubati: With regards to the OPEX, thank you for the question. So basically, we are looking to work with OPEX costs per barrel in the range of \$16 per barrel in the next few years until Neptun is coming onstream. And this will be done through a very strict cost management. And we are installing different programs in place for that, as well as very strong management of the deferrals and of the decline. So, we are optimising all our shutdowns in order to bring ultimate performance also from there.

Question from Daniela Mandru: So, basically you are expecting the OPEX from current operations to decline significantly. I have computed exactly, I can send you my Excel. It is very simple. But basically, you are expecting your OPEX from current operations to decline by a compounded annual growth rate of around 6%, while the inflation over the period is around 3%.

Answer from Alina Popa: If you can send us the calculation – it sounds high, what you just said, but please send it to our Investor Relations, and we will come back to you.

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