

OMV Petrom Q3 2024 Conference Call – Q&A Transcript

OMV Petrom published its results for January – September 2024 on October 29, 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 some questions. Firstly, you mentioned the portfolio optimization through assessing selective field divestments. Can you please give us a guidance on what and when to expect regarding divestments?

Secondly, if I may, a clarification regarding taxation. You currently have a tax on turnover that stands at 0.5%. Starting with 2026, this tax will increase to 1%, and is there a time frame?

And my last question, regarding the refining margin, you lowered the guidance for 2024, but what about 2025/2026? I know that you mentioned that this is under review, but can you give us here your view on refining margins?

Answer from Christina Verchere (CEO): Ioana, thank you very much for your questions. I will take your first one, then Alina will take your second one on taxation, and I will come back to your third one.

I think your question on portfolio divestments was referring to a statement we have with regards to our E&P portfolio. We do not actually give any details. The main point is to say that we will continue to look about whether there is value in high-grading our portfolio to make sure that we are concentrating on investing in [those] areas. So, at this point in time, there is nothing to announce to you, but when there is, we will, of course, let you know.

Answer from Alina Popa (CFO): With regards to your question related to taxation, so basically for the years 2024 and 2025, this 0.5% tax on revenues is applicable to both OMV Petrom S.A. and OPM, our OMV Petrom Marketing entity. This tax is applicable only for these two years. Now starting 2026, OPM will go into this the highest between 1% of sales and 16% of profit tax. This will be applicable only for OPM. And with regard to a bit of an estimation, so if we look at 2024 and 2025, this 0.5% tax is up to RON 250 million per year for each of these two years. And when it comes to 2026, we talk about less than RON 100 million per year for OPM only.

Answer from Christina Verchere: Coming back to your third question on refining indicator margin, you are correct, we have lowered the estimate for 2024, as we mentioned. For the third quarter, this was mainly due to weaker gasoline and middle distillate crack spreads. When you look at the full year, we do see an oversupply position in diesel, in part because of a new refinery in Africa coming on. However, also we can see the shifting of demand in gasoline as well, coming after the end of the driving season in the third quarter, in part being replaced with heating and agricultural demand [for diesel] in the fourth quarter.

I heard your question with regards to 2025 and 2026. You are right that we will look to give you an indication of that when we give you an update in February.

Question from Oleg Galbur (Raiffeisen Centrobank): I have three questions, rather, some clarifications. The first one is on the E&P segment. I have noticed that the evolution of the depreciation expense for the segment stood on a declining trend in the previous two quarters. Firstly, could you please explain why is the depreciation decreasing in Q2 and Q3 on a quarter-on-quarter basis? And secondly, what should we expect going forward?

And then on OPEX per boe, which has increased quite [a lot] in Q3, and I understand the drivers behind this increase. However, since based on your full-year production guidance, the oil and gas output in Q4 should not increase on a quarter-on-quarter comparison. Should we expect a continuation or continuous deterioration of the OPEX per boe in the last quarter of this year?

And lastly, on Refining and Marketing, just a few words, and if you cannot answer it right now, I am happy to talk to your IR team afterwards. I noticed that the CCS inventory variation effects were higher than at least my expectations in the third quarter. For example, last year in the third quarter, the change in Brent price was even higher than this year. However, the inventory variation effects were significantly lower, so maybe you can elaborate a bit on it.

Answer from Alina Popa: With regards to depreciation, there are two main impacts that trigger the depreciation decline. On one hand is the unit of production (UOP [method]), depreciation in E&P is always based on unit of

production, so lower production, lower depreciation. And the second reason is that Q3 last year, we had some one-off type of impairments booked at that time. By comparison, this shows a decline in depreciation in this quarter.

If we look going forward, I think the only thing we can predict, you should calculate based on the unit of production, so estimates based on our production guidance, because otherwise the one-off impairments, this is not something we can predict.

Answer from Christina Verchere: Your question on the OPEX per barrel was, obviously you understood our explanation with regards to the third quarter and your estimate with regards to the fourth quarter, given the production we had put out. I think it is fair to say that we continue to see increasing pressures on the cost side, particularly on personnel costs, given the inflation rates that we have seen in the past few years, and continue to see. However, we work very hard to try and offset them through efficiencies overall. I think our forecast that we have for the year is here [around 16 USD/boe], but we are constantly having to work and then fight against an increasing cost base, particularly when the production is going down. However, we continue to focus on that and have lots of efficiency efforts underway.

With regards to the third question, should we cover that offline on such a specific one, if that is okay with you, Oleg?

Oleg Galbur: Yes.

Alina Popa: It was nothing special or adjustment or anything like that, so we will have to look, and we will come back to you.

Question from Tamas Pletser (Erste Group Research): I have one question. How do you see the development of the gas prices in October and during the fourth quarter, and how does this regulatory change affect your profitability? I know that you have a higher storage obligation this year than previous years, so will it increase, or will it boost your fourth quarter earnings, especially if the prices are getting higher in the gas side during this period?

Answer from Alina Popa: On the gas price, we see an increase in Q4. Still, what we see is that BRM prices remain lower than CEGH and TTF, so there is a decoupling there. If we look historically, we see a difference of €1, €2 per MW[h]. Now we see that it is much more than that: €5, €6 per MW[h]. This is driven by different market fundamentals in Southeastern Europe, where gas is mainly pipeline gas and less LNG, while in Central and Eastern Europe, we see more LNG and also some uncertainty with regards to Ukraine-Russia transit agreement. This is foreseen to continue and, yes, we see some increases in gas price also here in our region [vs Q3/24].

With regards to regulatory changes, we have these changes starting April 2024 which affect us quite significantly. I would say the more negative impact is on the power side, and this comes mainly from this non-recoverability of CO₂ [costs]. There is some impact, also, on the gas part, not to a significant extent.

Question from Tamas Pletser: This gas storage issue, does it have an impact on your profitability? Because, as far as I know, you had to store more gas ahead of the winter heating season.

Answer from Alina Popa: Yes, we do. It all depends, in the end, on what level we will be able to sell this gas, but for the time being, yes, we do have higher storage than in the previous year, indeed.

Question from Tamas Pletser: But is my assumption correct, if the gas prices are higher generally in the fourth quarter and in the first quarter next year, this is going to be an addition to your profitability?

Answer from Alina Popa: Yes, and it will be reflected primarily in the E&P segment.

Question from Jonathan Lamb (WOOD & Company): I wanted to ask a question around oil prices. We have seen oil prices come off quite dramatically and I am wondering how this is going to impact you in the fourth quarter in terms of working capital. Also are we getting close to a level where there might need to be impairments in upstream, or are you not there yet?

Christina Verchere: Thanks for your question, Jonathan. I will let Alina talk particularly on the impairment side, but I feel like we have a pretty robust E&P business.

Answer from Alina Popa: Indeed, we do the impairment testing, and we look for triggers for impairments every quarter, but we do a more thorough analysis every year in the fourth quarter. Based on what we see right now around us, we do not see anything significant, but of course we need to do this work in the fourth quarter. And if there is anything with regard to that, we will come [back to you] at the beginning of February.

With regards to the impact on net working capital, indeed, if we see a decline, we will have a positive impact at least from the inventory side in the net working capital from a decline in oil prices. We do expect, seasonally, some decline on gas volumes as well, which should trigger some positive impact on the net working capital in Q4 as well.

Simona Crutu (moderator): While we are waiting to see further questions, maybe we can take some questions that we got offline, so I will read all three of them. What is the current status of the oil and gas reserves of OMV Petrom, the reserves' life? Also, related to that, if there are any plans to upgrade our producing facilities in the E&P. Secondly, do you have any plans to move into petchem? The third one, if you can elaborate on the "Other adjustment line" in the operational cash flow.

Christina Verchere: Alina, I will take the first three. If you want to take the "Other adjustments" in the cash line. So, thank you for your questions overall. Maybe I will start with the petchem's one. Actually, in our strategy, we have laid out quite clearly [where] our big growth areas and investment areas stay, around growth in regional gas, as well as low and zero carbon transition projects that we want to invest in. We are doing some work on a new aromatic complex in the Petrobrazzi refinery, but the bulk of our new investments are going towards energy transition projects and to gas opportunities in the Black Sea overall.

With regards to the oil and gas reserves, I think it was the R/P ratio that you are looking for. It is just over 10 [years], it is about 10.3 for the company overall. That does include a small amount [of reserves related to] Neptun Deep.

Looking at what we call our traditional E&P business, which is a huge part of our near-term cash generation of the firm, we are investing around €400-450 million a year into that business. Obviously, we focus a lot on the drilling and the workover program, as well as on facilities and general maintenance. And we have been very pleased with the production performance that we have seen from the E&P team so far this year, hence the increase in expectation of the full-year production number.

Answer from Alina Popa: With regards to the other adjustments line from the cash flow, the previous quarters, both Q2 2024, but also Q3 2023, were influenced by the solidarity contribution. This is adjusted in the other adjustment line in order to reflect in the operating cash flow overall the payment done for the solidarity contribution. This was not the case in this quarter, in Q3 2024, and also, we had some net expenses for fair value for derivatives through P&L, mainly related to our CO2 [costs] in our contracts, that were reflected in these lines. In the quarter, we also had very small amounts with regards to such derivatives.

Question from Daniela Mandru Petrovici (Swiss Capital): Regarding the last quarter of the year, where do you see the refining margin in Q4 this year? Going forward, with the indicator refining margin declining sharply, what is Petrom's outlook for refining margins in 2025? I know the question was already raised, but I prefer to insist a little bit on it. More than this, are there plans to adjust refining operation or diversify the product slate to enhance resilience here?

Then, for the full year, regarding the sales of regulated gas volumes, my last information is that for the full year the amount stands at 7.9 TW[h], I want to confirm this with you. What is the regulated volume allocated for the first quarter next year? I would like to know this if possible and if it is available.

Now, also regarding the total gas sales for the year, I know your budget is 39.3 TW[h]. I have a preliminary estimate of 40.8 TW[h]. I would like to confirm my estimate with you, if I am in line with what you would estimate for the full year – revised estimate, of course, because the budget is 39.3 TW[h].

Christina Verchere: So, I will take your refining-orientated questions, and Alina will take your gas-orientated questions. With regards to the indicator refining margin, it is probably possible, given what we say, to some degree, to back-calculate what the fourth quarter would look like. And I think we estimate that to be around seven.

Then, with regards to 2025, I think I will have to hold to my same comment that I said earlier, otherwise I would be unfair to, I think it was Ioana who asked that. But be sure we will come back to you in February when we meet again.

With regards to the overall refinery, of course we are confidently looking to flex where we can, to make sure we optimize the asset. The performance has been very strong on its utilization. We were at 99% in the third quarter, and we are quite good at knowing how to optimize, depending on the different product slates as we go on, and on how the prices are changing in the market overall. We will obviously continue to look to do that.

Answer from Alina Popa: So, first, with regards to regulated sales volumes, volumes that we sell to households and district heating companies. For Q[4], we have 2.3 TWh, which makes an overall 8 TWh for full-year 2024. When it comes to Q1 2025, we have indicated a volume of 2.6 TWh.

With regards to your second question, related [to] total gas sales, so our total gas sale volumes are envisaged to decrease versus previous year, mainly on lower supply, both from equity and third parties. We cannot disclose exactly the value. You are not far away with your estimation.

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