

OMV Petrom Capital Market Day (CMD) Conference Call – Q&A Transcript

OMV Petrom published an Update on its Strategy 2030 on June 19, 2024. The investor and analyst conference call was broadcast as a live video-webcast starting 2:30 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): My first question is regarding the offshore Bulgarian block. Can you tell us more on this block and what are your expectations? Do you have a timeframe for it or maybe a potential FID if it will be the case?

Secondly, if you could please give us more colour on the power prices assumptions of EUR 90 to EUR 120 per megawatt and your view on what could drive prices higher towards the upper bound of the interval.

Third, can you please give us more information regarding the clean CCS EBIT 2030 target, which remains roughly the same versus the previous estimate while most metrics were revised upwards? Can you please give us more guidance on what are the main drivers of the expected higher costs?

Christina Verchere (CEO): Cristian will do Han Asparuh, Franck on power prices and Alina on the EBIT target for 2030.

Answer from Cristian Hubati (EB member Exploration and Production): Yes, as you know, in December, it was announced by TotalEnergies that they want to step out from the exploration licence in Bulgaria and Han Asparuh. I can tell you that beginning of June, the Council [of] Ministers in Bulgaria took the decision to validate this exit; so basically, we are an operator 100% in the licence, and they took the decision to extend the exploration period with 23 months. We are believing in the potential of the Black Sea. It's too early to talk about FID, of course, we are in exploration [phase].

Answer from Franck Albert Neel (EB member Gas and Power): On your question, on the power price, on the range between EUR 90 to EUR 120 per megawatt [hour] for Romania, what we look at in terms of merit order and what would be the price maker on the electricity market in Romania. By 2030, we still see the gas power plant as being the last power plant fixing the price on the market. The price is influenced mainly by the CO2 price and gas price, of course. Now looking at the range between EUR 90 to EUR 120, it would depend of course on the pace in term of electrification and the demand side. It's not just on the supply side, but also on the demand side with a high electrification, we expect to be in the higher [price] range.

Answer from Alina Popa (CFO): With regards to your third question on clean CCS EBIT, indeed we have an increase, but this increase is small, and it was reduced to an important extent by the increase in costs. These are coming from the inflationary environment we are in, but also from additional requirements on regulatory and compliance that we have to fulfil. Despite all our cost focus and efficiency programmes, we still see some costs [increases] visible there, which reduces the positive impact coming from the better commodity prices.

Question from Tamas Pletser (Erste Bank): I have the following questions. First of all, what is the reason that you increased your target for renewable energy? I mean, what has changed in the last two, three years in Romania? Why you now want to have 2.5 gigawatt of renewable power instead of one gigawatt like in the previous strategy? That would be my first question.

My second question regarding the Neptun development. Am I correct with this assumption that drilling, which you start next year, is the period where the highest risk for cost overrun or the time overrun are for this project? Is this the most critical period for you to evaluate that project? I'm interested in this respect of Neptun development.

Finally, on the sustainable fuels, do you expect Romania to have such a high demand by 2030 for these renewable fuels, or do you expect part of the production to sell abroad?

Christina Verchere: Thank you very much for your questions, Tamas. Franck will take the first one with regards to the increase in the renewable power target that we have. Martin will talk to you about sort of where's the critical path and critical potential cost risks, and then Radu with regards to sustainable aviation fuel question.

Answer from Franck Albert Neel: In terms of the target on the renewables, I think when we started to develop our pipeline of projects, first of all, we realised that there were some opportunities on the market, and very good opportunities, because it's not just about megawatts, but it's also about return on investment we are looking at.

We were able to position ourselves very early on the grid and to be able to book some capacity at early stage, which was a capacity with a very high value when you look at all the demand on the market. We were also, as it was mentioned during the presentation, looking at potentially having a pipeline to be able to rotate also some of our asset when we build the asset to increase the full profitability of the portfolio.

Large pipeline and also, I think an important topic is the capability to capture EU funds, which has increased beginning with Renovatio. In the project with Renovatio we secured a very large amount of EU funds. The possibility to reduce the CAPEX exposure help us also to increase our target as such.

Good profitability, we control the grid capacity in a very key area where we see very high potential, very good renewable project. Our partnership with Renovatio and the access to EU funds, I think it is a sum of components that helps us.

I think the last, but not least the demand that Radu will explain if you have the question on electrolyser. We decided to increase also the power demand internally for OMV Petrom, but also for our customers. We signed a PPA with Saint-Gobain, so also [see] an increase of demand from our B2B customers.

Answer from Martin Urquhart (Vice President Neptun Deep project): I will take the drilling question now. The wells are not particularly complex. We're actually starting the drilling early. In terms of the critical path of the project, the drilling does not lie on that path. We've got a very competent contractor in Transocean, and I do not see that element of the project as particularly any riskier than any other element. We're on track to start drilling next year as planned and we should have plenty of wells available for first gas.

Answer from Radu Căprău (EB member Refining and Marketing): Let us refer a bit to the expectations related to the fuels demand in 2030 and the renewable part out of it, or the biofuels in those. In 2021, when we built our assumptions for 2030, we were assuming that the demand is going to grow until 2030 on a back of increased GDP, increased motorization index and so on.

The next years actually were showing even a higher increase than we expected. So, our assumptions for 2030 are saying that we will still be seeing significant fossil [fuels] increased volumes that moment. However, Romania, not [only] Romania, but the whole Europe, has assumed certain targets for 2030 and we talk about the RED III, which sets 29% renewables [share] into the transportation or 14.5 [% GHG intensity] reduction versus [the current] 6%. Now, for this to be reached in 2030, biofuels are going to play an essential role. They are a key element to reach this ambition of Romania and Europe in 2030. Therefore, we see that as a significant demand at the end of the decade.

The entire production of HVO is going to be used for the equity production from Petrobrazi, so we will be blending [it] completely in our fossil [fuels] production. While for the SAF, we will be supplying airports in Romania and the neighboring markets, so we talk for the moment, at a 2% [mandatory quota] target in 2025, while in 2030 it is going to be 6%. The demand is going to significantly increase in 2030, and we will be in a good position to supply the markets at that moment.

Question from Oleg Galbur (Raiffeisen Centrobank): I have three questions as well. My first question refers to your updated dividend policy, which continues to be centred around future operating cash flows. Does it mean that the development of operating cash flow is the key determinant factor for future dividends? In other words, will CAPEX intensity in specific years have no impact on dividends? That would be my first question.

Secondly, could you share with us what made you revise downwards the target for sustainable aviation fuel production in 2030? If I got it right from your presentation that you had a higher target previously versus now.

Thirdly, on the Bulgarian block Han Asparuh, do we have already, or can you share already with us by when do you expect to have a first indication of potential level of gas reserves of the block?

Christina Verchere: Alina will take your question on dividend, Radu with regards to the biofuels target and Cristian on Bulgaria opportunity.

Answer from Alina Popa: With regards to dividends, I recap a bit the criteria on which we define the dividend. When we talk about base dividend, we have three elements, which we take into consideration. First is financial

performance, second is investment needs and the third element is the long-term financial health of the company. These are relevant for the base dividend and there we talk about progressive base dividends. These three elements are analysed to decide where we are in the interval, 5-10% growth for base dividend. That's number one.

When we go to special dividends, we also look first at the market environment. If we are in a favourable market environment, then we are considering special dividends, provided our [capex plans] are funded, and also having a gearing below the 20%. We went to operating cash flow to give you a [clearer] guidance, as we listen to the feedback received from capital markets, [and] we wanted to have a bit more clarity around when we give dividends and to what extent. That's why we revised our dividend guidance with a link to operating cash flow, but of course, we are considering not just operating cash flows in that year, but also the other elements that I mentioned before.

What is new now, is the fact that not only that we have an overall increased guidance from 40% to 50% of operating cash flow over the entire period of the strategy, but we also gave a yearly guidance saying that dividends will be overall, base and special, at minimum 40% but we could go up to 70% maximum.

Answer from Radu Căprău: I will move to the question related to the new target we have for the biofuels; and I think I would mention biofuels because in 2021 when we were communicating 600,000 tonnes, we were having two big segments of products considered. It was the second-generation bioethanol and HVO/SAF.

For the second-generation bioethanol [initial target of] 150,000 tonnes, we need to be cognisant on the technological evolutions of the solution. Existing solutions [are] not viable for the moment on any economics, [but] we are still very well connected with this topic and trying to see the right moment when we can progress on this one.

When we talk [about] HVO/SAF, we need to be as well cognisant and realise what are the market demands and expectations and we see short-term, potentially long HVO position in Europe and some would say SAF would be long for the years 2027, 2028, 2029, while super short market in 2030. We are not cancelling [those plans], but actually, we are phasing these investments and we still plan to bring additional HVO/SAF production in place, but towards the beginning of the next decade.

Answer from Cristian Hubati: As I said, we are in the exploration phase basically, and this is supposed to last 23 months starting November. After the exploration phase is proved successful, we'll come and update you; we are believing in the potential of the Black Sea.

Question from Laura Simion (BRD Groupe SG): I have a question about some details regarding investments from 2027 to 2030. I saw that you gave us a breakdown by divisions, and I was wondering what the projects in R&M are. I saw that you are planning to invest about 35% of the total of EUR 1 billion in R&M. Is this for e-mobility or there are also other projects? And also, for the E&P, you said you will invest in the traditional business about EUR 400 million, but in the breakdown, there are EUR 600 million in E&P, so the other two [hundred] millions where are they directed?

Christina Verchere: Thank you, Laura. Alina will give you some of the breakdowns that sit behind the CAPEX to try and help you understand them a bit better.

Answer from Alina Popa: Indeed, in the interval 2027 to 2030, we [will be] investing in Refining and Marketing approximately 35%. We continue with the transformation, so the investments in the area, sustainable fuels will continue also in the second part of the decade, so most of them are related to this, and of course, [we have] all traditional investments in the refinery business as well, but quite significant into the sustainable fuels.

With regards to E&P, indeed we have a part, which is related to traditional business, which you see on the graph on the left-hand side, but in addition to that, we have carbon capture and storage, which is in the second part of the decade, and that is visible in the E&P side, in the 60% ratio that you see for 2027- 2030 for the E&P segment.

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