



# OMV Petrom Q3 2017 Conference Call – Q&A Transcript

OMV Petrom S.A.

OMV Petrom published its results for January – September and Q3 2017 on November 9th, 2017. 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, by topic, edited for readability.

## OMV PETROM Group

### 1. Dividend policy

**Question from Oleg Galbur from Raiffeisen:** I understand that the discrepancy between Petrom and OVM's dividend policy was due to the last year's selling of Petrom shares by Fondul Proprietatea. Now that the one year period expired, are you considering updating your dividend policy, and if yes, when could we expect some news in this regards?

**Answer from Stefan Waldner:** Indeed, we indicated we would update our dividend policy and we will consider doing that after the full year results for this year, so next year.

### 2. Share price performance

**Question from Cristian Iacob:** despite the exceptional results, we don't see on the stock exchange a share price increase. We still see the OMV Petrom share price in the red, and my question is do you think that the actions of the investors might be as a result of some threats, of the deteriorating of the macroeconomic environment? Or do you see some threats from the recent fiscal changes? How do you see the whole situation regarding that?

**Answer from Mariana Gheorghe:** As for the investors, probably I should ask you that question. Investors don't tell us why they do or not trade on the market, but I definitely hear from people that they are worried, not necessarily about the GDP growth, but the structural issues, or the fiscal uncertainties with respect to Romania particularly, which could create some sort of impact on the appetite of the investors.

And I do hope that our excellent results will be reflected in excellent price evolution, but for the time being, with all the market evolutions, I think we just have to be patient, I don't know. Maybe you are more encouraging with your news.

### 3. Special items

**Question from Oleg Galbur:** could you provide more details on the special items that you booked in the third quarter both in Downstream and Upstream segment, because the amounts are not negligible? You mentioned that this is due to reassessment for some receivables and provisions?

**Answer from Stefan Waldner:** yes indeed, they are not negligible. They are mainly due to reassessment of provisions and receivables. There are, of course, several components to that. But for the nine months, the most material ones are provisions related to potential payments in connection with usage of agricultural and forest lands due to recent legislative changes as well as provisions related to personnel restructuring. It also includes impairments related to the transformers in the Brazi power plant and other impairments of receivables and related to divestments. It includes also losses from forward contracts for electricity.

**Oleg Galbur:** would it be fair to assume that a part of it could be reversed in the future and if yes, how much would you assess?

**Stefan Waldner:** It is possible, but we cannot say that at this point in time.

### 4. CAPEX

**Question from George Gorbатов from Goldman Sachs:** you have reiterated your guidance for the full year at RON 3.2 billion and as I understand, it is the upper end of the potential CAPEX range and given that in nine months you have spent only RON 1.7 billion, it seems like you will be materially below this target of RON 3.2 billion. Just wanted to get your view of what is the reasonable level of CAPEX, like what is the level of lower end



of your CAPEX guidance? And also you're expecting the CAPEX spending to accelerate in the fourth quarter. Just wanted to understand where you're going to spend this investment? So as I understood it will be a new offshore drilling program and some other drilling work in Upstream.

**Answer from Stefan Waldner:** As regards the guidance, what we are saying is that we are going to be close to the RON 3.2 billion or EUR 0.7 billion, likely going to be below that.

You're right with regards to the phasing of that CAPEX. We are really ramping up the investment as we speak. Mariana has mentioned earlier in our presentation that we are employing up to 14 rigs at the moment, we will continue to do that. And we're investing both onshore and offshore.

Also with regard to the offshore drilling campaign that we have recently kicked off, we expect to drill two more wells this year and another two early 2018. So this is really where those additional investments are going to.

## 5. Divestments

**Question from George Gorbatov:** you have recorded around RON 60 billion inflow as proceeds from sale of subsidiaries. What exact assets did you dispose and also what's your expectation for the full year? Do you expect any additional divestments in Q4 and what will be the approximate amount of these divestments?

**Answer from Mariana Gheorghe:** proceeds from the Wind park Dorobantu we have communicated, that was around EUR 23 million. We communicated the agreement with the buyer and that was not totally cashed in, but it's partially cashed in. As for the Mazarine transaction, we haven't had any disclosure agreed with our buyer. Other sales, other divestments are not foreseen to be closed in the Q4 because they have just started, so that will be clearly for the next quarters, whenever that will happen.

## 6. Taxation and Royalties

**Question from Tamas Pletser from Erste Bank:** We heard about the offshore agreement, can you tell us what's happening with the onshore and how do you see the whole situation?

**Answer from Mariana Gheorghe:** We do have two pieces of legislation currently. One is the Offshore Law which has been approved by the Government and has been sent to the Parliament for debate and approval. And obviously after the approval of the Parliament it would have to be enacted by the President and published in the Official Gazette.

We also have to include all changes in our concession agreement. So there is still quite some way to go, but what is this package which has been sent to the Parliament containing? We do have two parts, one are many details related to operations of offshore activities because these activities are quite new, particularly the deep offshore, therefore the draft law has a lot of provisions and brings clarity with respect to construction, environmental and work permits, enabling us to undertake effective offshore activity.

The second part is related to the fiscal aspect, and here what is important is that there is a provision for the legal and contractual stability for both royalty and fiscal regime which exist at the time this Offshore Law becomes effective. So whatever regime will be at the time of the effectiveness of this law will be maintained for the whole duration of the concession. Also there are some provisions with respect to the supplementary taxation related to the gas price liberalization, i.e. the 60/40 tax is not applicable for offshore.

And the last I mention of the fiscal chapter refers to a proposed offset mechanism which includes a fiscal credit and reimbursement in case of unfavorable changes in the fiscal provisions.

So, this is the Offshore Law which will take its course in the Parliament and we'll see it in the coming months hopefully approved. But maybe you follow a little bit the Romanian politics, there is a lot of uncertainty in the Parliament and we do have to watch what will be the text of the law which will be finally approved by the Parliament. What I just explained is the content of the law as we saw it after the approval of the government.

The second piece of legislation is related to the royalties in general, it's not only onshore. So this Royalties Law which was published for consultation by the Ministry of Economy covers not only hydrocarbons, but other mineral resources in Romania.

It is in public consultation stage, and then it will be approved by the government, submitted to the Parliament, and all the process I mentioned for the other law.

What are the provisions for this draft law? There is also here a provision with respect to the principle of stability of royalties. For the onshore royalties, the rates are the same as in the current regime. As for the offshore royalties, there is a different lower end of the range, the higher end is still the same: for oil between 8% and 13.5% and for gas 10% to 13%. As for the volumes, when we talk about Neptun, you would expect 13%. There

are different royalty rates applicable only for new concessions and for the prolongation of concessions, so they are not applicable for the current terms of the concession. There are also provisions with respect to the reference prices which are the gas prices for transactions on OPCOM and the Brent for oil.

These laws clearly provide more clarity on the taxation front and that's as much as we know at this stage. But we will see how that moves into the Parliament in the coming months.

**Tamas Pletser:** it seems to me that this kind of simplification with regards to market is not really happening or do you see this new regime simpler for you to calculate the royalty?

**Mariana Gheorghe:** Yes. I mean it clearly will provide more clarity and the rates are more or less the same; as for the reference prices, we have now these centralized platforms where, as I mentioned earlier, the current price is RON 72/MWh.

There are still unclear aspects for which we provide comments through our industry associations, but we do expect to be able to take some investment decisions both for offshore as well as onshore projects.

## 7. Employees

**Question from Cristian Iacob from Bancpost:** I noticed a reduction in the number of employees and my question is: is it related to the headcount or consolidation of the branches and which is your next intention, which is your policy for the next period.

**Answer from Mariana Gheorghe:** we have seen a reduction of the number of employees and that's a result of two actions; one is related to some divestments and we have mentioned Dorobantu as well as the 19 marginal fields. Whenever these divestments happen, people are transferred to the new buyer and that was a big component.

The second component is also related to a reduction caused by efficiency improvements. The mean time between failure increased quite a lot thanks to the operational improvements and initiatives that our colleagues have taken there. As a result, the number of crews or the number of employees which are needed for different maintenance or other works could have been reduced. So it's a combination of divestments as well as efficiency measures.

What is the policy for next year? We need to focus on efficiency, our cost position; although it is improving with the USD 10.4/bbl (current production cost in Upstream), we still need to focus on the improvement of our competitiveness and cost position is the key in that regard.

We started the next round of divestments with 50 to 60 fields, and we are at the very beginning. That will also lead to some reduction of employees.

So it's more business and efficiency improvement driven, but we want to become and to be a very solid business proposition for our investors on the long-term.

## DOWNSTREAM OIL

### 1. Results' drivers; wholesale margins

**Question from Oleg Galbur:** We know that you do not disclose the retail and refining results separately. Still, could you help us understand what was driving the third quarter Downstream Oil earnings? For example, some of your regional competitors were saying that wholesale margins were under pressure in the third quarter and that put pressure on the inland premium leading to lower refining results. So I wonder if that was the case in Romania for Petrom as well, and if not, how would you guide us to assess the refining and retail results on a year-on-year comparison?

**Answer from Stefan Waldner:** I cannot confirm what you referred to in other companies with regard to wholesale margins. The Downstream Oil profitability was mainly driven by very strong refining margins as well as a further increase in volumes in the retail segment. So those are clearly the main drivers of the Downstream Oil segment result.

### 2. Excise duties

**Question from Oleg Galbur:** Did the reintroduction of the excise duties in October somehow put pressure on sales volumes in retail, or that was absorbed by the market?

**Answer from Mariana Gheorghe:** It's too early to say, but obviously when we have higher prices, we see an impact. But at the end of September, which is the reporting period, we've seen actually even an increase in sales due to the fact that there was expectation of an increase of excise on 1st of October, thus people were buying more ahead of this already announced second increase of the excises. So we didn't see in September a negative impact. However, we do expect some impact in October coming from the higher prices due to higher excises and generally quotations, because the increase in prices would not be caused only by the excise increase but also by the product quotations' increase.

## **DOWNSTREAM GAS**

### **1. Gas prices**

**Question from Tamas Pletser:** we saw on the European gas markets that the day ahead prices rose significantly since the mid of October. Did you see the same phenomenon on the Romanian markets, or did the Romanian gas prices follow the European gas prices in the last couple of weeks? And also, how did it affect on your Brazi power plant's profitability?

**Answer from Mariana Gheorghe:** the gas prices are rather flat. After liberalization of producers' prices, we have had some increase of the sale price on the centralized platforms. We have reported that the level of these prices was around RON 72 /MWh for the nine months. We have forward positions also. We reported that the price you see on the centralized platforms includes not only the sales for the next day, but also the forward positions which could be for different types of products. And we have rather limited potential for big volatility and big changes in the pricing.

I think the prices now are similar to European levels, but volatility still is not as big as we have seen it in Western Europe. This creates obviously an impact on the Brazi profitability, but the spark spreads are still good. As we reported also for the nine months, because the electricity prices have seen also good developments, although the gas prices increased, the overall spark spreads were solid. We have seen high electricity prices not only at beginning of the year, but throughout the year.

Thus the profitability is okay as long as we operate it. We will put in function also the second turbine sometime in the near future, as we have received also the second transformer.

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