

OMV Petrom Q3 2018 Conference Call – Q&A Transcript

OMV Petrom published its results for Q3/18 and January – September 2018 on October 31, 2018. The investor and analyst conference call was broadcast as a live audio-webcast at 2:30 pm local time. Below is the transcript of the question and answer session, by topic, edited for readability.

Group

1. Cancellation of the credit line

Question from Oleg Galbur (Raiffeisen Bank): My question indirectly relates to Neptun, and I am just trying to understand what is the reason behind your cancellation of the credit line that was announced earlier today? Is it the delay on the FID on Neptun, or there are other reasons behind?

Answer from Stefan Waldner (CFO): the cancellation of the credit line really has nothing to do with Neptun or the FID. It is really part of our financing strategy that we are reviewing. As you know, we have built up a very strong balance sheet over the last couple of years and we also have other credit facilities in place, both committed as well as uncommitted facilities. That is why we have decided to cancel this one, because we have enough other options to support our investment plans, as well as our dividend policy.

This is a facility that we put in place in a lower price environment with, of course, also higher costs, so this is really an optimization of our credit facility portfolio.

2. Other goods and services

Question from Irina Railean (Banca Transilvania): in the income statement regarding the group revenues from contracts with clients. Here we have a position called Other Goods and Services, where you show the breakdown by items: gas, power, and last position is Other Goods and Services. What does it include? It is RON 2.7 billion for the nine months.

Answer from Stefan Waldner: That would be petroleum products and the rest of our products. But I think if you want to have the details, I would refer you to our Investor Relations colleagues. And it is mainly the refined product, the petrochemicals and non-oil business. All that is not included in power, would be in this other line.

3. Strategy

Question from Oleg Galbur: there have been rumors that at the beginning of the next year you might come up with a strategy update. Is that a possibility in light of the delay of FID on Neptun?

Answer from Christina Verchere (CEO): No, we issued our strategy in early 2017, and that is the strategy that we are working towards. Neptun is a key part of that and so there are no plans to change that. As I said, with regards to Neptun, it is a very important part of our portfolio, and we will be working to move it forward towards a decision.

Upstream

4. Offshore Law and Neptun Deep

Question from Alexander Burgansky (Renaissance Capital): On the offshore law, I was wondering if you could share with us, your first impressions of this document. When do you plan to take the final investment decision on Neptun, now that you have delayed it into the next year?

Answer from Christina Verchere (CEO): So firstly I think with regard to the offshore law you will recall, maybe if you were on the call on the second of August actually, we were at a similar place, and I think just after that call the law was actually sent back; we went through a re-examination process.

So we are at a similar place, the law has then been now sent forward for promulgation. The text became available at the close of business on Monday (29 Oct). Thus at this point in time we are just looking at it to really understand it; the key aspects that we will be looking at are around fiscal stability, around the competitive terms with regard to fiscal take, as well as understanding the central market obligations and

extension rights. Those are the aspects that we will be looking at. I think it would be premature at this point for me to give an impression on that.

As we said, we will not be making the FID decision in 2018; I think what I would like to say is that it is about timing, not about our assessment of the law. As we have said, it has been a three month delay on the offshore law, so we will not be able to make it this year.

There are certain things that we see that are needed in place that are beyond the offshore law, as well, one of which is about gas market liberalization and the other one with regards to infrastructure developments, to be able to do this project. We will be looking at our gas marketing strategy, as I said, looking at central market obligation and assessing the important infrastructure developments that we think are necessary in Romania.

We will then be going into internal governance and it will ultimately be a joint decision between OMV Petrom and the operator, Exxon.

The decision to move Neptun forward is our priority, given its importance for our business.

Question from Oleg Galbur (Raiffeisen Bank): I will start with the hottest topic, which is Neptun and the offshore law. The first question is, in the form the law was sent for promulgation to the President, in your opinion, what are the main drawbacks of the law that would lower the probability of an FID on Neptun?

Answer from Christina Verchere: at this point it will be premature to put impressions on the law given we got the text less than 48 hours ago. I would outline what is important for us about the law.

Obviously that there is a framework in place, and a regulatory framework is very important. What we will be looking closely at is fiscal stability, the overall competitive returns, understanding the central market obligation and understanding extension rights within the law. Those are the key aspects that we would be looking at. I think at this point it would be premature to pass comment on it.

Question from Oleg Galbur: You are talking about this secondary legislation related to the offshore law; is this something that would help you assess the point that you mentioned earlier?

Answer from Christina Verchere: Just to clarify, this is not about secondary legislation; we are talking about that it will be promulgated. So actually that it will come into law, if that is what you are referring to; promulgation will happen once it has been approved by the President. But secondary legislation may be in reference to a conversation that we had in the last results, which regards the Law 123. Is that what the question was about?

Question from Oleg Galbur: I was referring rather to the regulation on how the law would actually practically be applied.

Answer from Christina Verchere: at this stage it would be premature to answer that with regards to how it will be implemented. I think there will be some additional regulations that might be put into place, but I think we need to wait and see.

Question from Oleg Galbur: could you please remind us what is the level of CAPEX Petrom spent on Neptun so far?

Answer from Stefan Waldner: Together with our partner, Exxon, we have spent USD 1.5 billion, and half of that is our share.

Downstream Oil

5. Fuel demand

Question from Alexander Burgansky: On the fuel demand you mentioned in your presentation that it is essentially flat in the third quarter; what is the outlook for domestic fuel demands for 2019?

Answer from Christina Verchere: with regard to the fuel demand, for the rest of 2018 I think we see that being flat, in line with 2017. At this stage we do not put projections yet in for 2019; we will probably do that in our conversations with you in Q1/19.

Question from Oleg Galbur: My next question relates to the domestic environment on the fuel market, which you have already touched on a bit earlier. I am just trying to understand, you mentioned that there is a slowdown of GDP growth in Romania. Also, in light of the strengthening oil prices, do you already see

slowing down of demand for motor fuels in your key markets? Or still the demand remains robust and supportive?

Answer from Christina Verchere: we have talked actually about that overall demand; we see it actually remaining relatively flat for the remainder of this year. We could see some slowdown, and part of that will be seasonal and part of that will be how individuals refuel and how much they refuel. And to some degree, it is an amount they refuel, and the frequency of which they refuel, we could start to see that trend to come in as well as coming off the summer, which is the highest seasonality of driving here in Romania.

Question from Oleg Galbur: And anything for 2019? What are your expectations for next year?

Answer from Christina Verchere: We will provide that to you when we talk to you in first quarter of next year.

6. Non-oil business

Question from Irina Railean: regarding the non-oil business, how much does it count in the overall Downstream Oil operating performance?

Answer from Stefan Waldner: we do not really disclose that breakdown, but it is of course an important part and an increasing part of the profitability of our business.

Downstream Gas

7. Domestic gas prices: trends in Q3/18, convergence with EU prices

Question from Alexander Burgansky: On the domestic gas prices, you reported quite a bit of an increase in your third quarter report, and I was wondering what that means now for the gas price going forward? I remember earlier this year there was some call to reintroduce regulation of domestic gas prices. And I assume that politicians probably do not like the fact that the gas price has increased even further. So what do you think the future for the gas price holds in Romania?

Answer from Stefan Waldner: on the gas prices, you are right, we saw an increase in the third quarter, and throughout this year. This is mainly driven by two factors. On the one hand there is lower gas volumes that are available for sale as domestic gas production, clearly also here at Petrom, is declining.

And on the other hand, there is a strong demand for gas which means that there is also demand for higher imports of gas into Romania. As you know, around 90% of the gas volumes are produced in Romania; about 10% are imported. Going forward we continue to see strong demand, but clearly there is some seasonality in the gas business, which will be reflected also in the gas prices and volumes that you see going forward.

As regards regulations, clearly the gas market in Romania has been liberalized since 2017. It is a fully liberalized market at the producer level and therefore gas prices are clearly the result of supply and demand.

There is a difference between gas price levels here in Romania, and the rest of Europe - Romanian gas prices are still at a discount to European prices, which to a large extent is also due to the fact that the Romanian market is not yet fully connected to neighboring markets. We believe that as the infrastructure is being built and this interconnectivity is being increased, there should be a convergence of gas prices in Romania with those in Europe.

8. Revenues from insurance Brazi power plant

Question from Oleg Galbur: You have received certain compensation for Brazi power plant. And I was wondering, what is the level of remaining compensation that you would expect to receive for Brazi?

Answer from Stefan Waldner: On the insurance, we have, in total, booked EUR 45 million, of which we have cashed in about EUR 34 million. So in this quarter, we have booked EUR 10 million. We are still in final discussion with the insurance companies.

9. Optimisation of products and client portfolios

Question from Irina Railean (Banca Transilvania): I would like to ask something about Downstream Gas, especially the optimization of products and client portfolios. In what capacity is this optimization and what are aiming to achieve throughout each?

Answer from Stefan Waldner: Historically we have been selling a lot of our gas to large industrial customers. As part of our strategy, what we are doing is diversifying that customer base and also increasingly looking at small-, medium-size enterprises and customers. Really diversifying the customer base and also of course supplying power generation with gas volumes as well.

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