

# OMV Petrom – Most complex and successful transformation of a state owned company in SEE

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November 2014



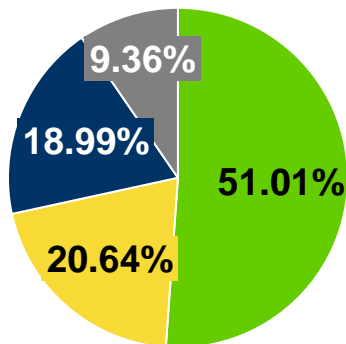
OMV Petrom

# Largest group in Romania & South-eastern Europe



- ▶ Privatized in 2004 to OMV AG (Austrian integrated oil and gas company)
- ▶ OMV Petrom is an integrated oil & gas player with international presence (RO, MD, BG, SR, KZ)
- ▶ Market capitalization: EUR 5.9 bn, as of end of 2013
- ▶ Group turnover: EUR 5.5 bn (2013)
- ▶ Total Shareholders Return<sup>\*\*</sup>: 16% in 2013

## Shareholder Structure



- **OMV\***: Austria's largest listed industrial company and integrated international oil and gas company
- **Property Fund**: listed fund, ~90% of AUM invested in the energy sector, managed by Franklin Templeton
- **State holding**
- **Free float**

\*Shareholder since Dec 2004; \*\* Dividend yield plus share price increase in gross values (2013 vs 2012)



# Operationally integrated oil & gas player

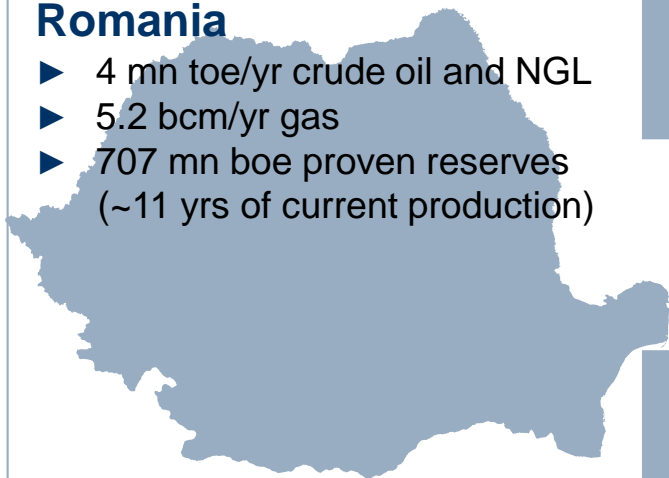
2013 FIGURES

## Exploration and Production



### Romania

- ▶ 4 mn toe/yr crude oil and NGL
- ▶ 5.2 bcm/yr gas
- ▶ 707 mn boe proven reserves (~11 yrs of current production)



### Kazakhstan

- ▶ 0.4 mn toe/yr crude oil and NGL
- ▶ 0.1 bcm/yr gas
- ▶ 21 mn boe proven reserves

**Oil:** Supplies 100% of oil for Petrobrazi refinery

**Gas:** 100% gas sales to Romanian customers

## Refining and Marketing



- ▶ Petrobrazi refinery (4.2 mn t/yr capacity)
- ▶ 3.6 mn t marketing sales
- ▶ 785 filling stations (Romania, Bulgaria, Serbia, Moldova)

## Gas and Power



- ▶ Gas sales 4.9 bcm/yr (up to 40% of Romanian demand)
- ▶ Brazi gas-fired power plant (860 MW)
- ▶ Dorobantu wind park (45 MW)



From a state owned  
company to a modern,  
competitive and  
successful European  
player



# 2005 – starting point for the transformation and modernization of OMV Petrom

## 2005

- ▶ Underdeveloped oil & gas market
- ▶ OMV Petrom: significant debts & losses, inefficient

EUR 10 bn  
investments

## 2014

- ▶ Romania back on the international oil&gas map
- ▶ OMV Petrom: pillar of stability for Romania's economy & strong presence in the region



	Before privatization <sup>2</sup>	Today
Reported EBIT	Loss	EUR >1 bn in last 3 years
State budget contribution	EUR ~0.9 bn	EUR >2 bn (~11%) in 2013
Investments	EUR ~0.3 bn	~1.1 bn EUR p.a. since privatization





# Transformed from an inefficient state-owned company into a high-performing private company

	From...	To...	Impact
<b>Corporate governance</b>	<ul style="list-style-type: none"> <li>▶ 'State company mindset'</li> <li>▶ State interference in commercial decisions</li> <li>▶ Lack of long term view</li> <li>▶ Bureaucracy</li> </ul>	<ul style="list-style-type: none"> <li>▶ Two-tier management system</li> <li>▶ Blue chip on BSE Code<sup>1</sup> ~20% of BET Plus index</li> <li>▶ A long term strategy until 2021 incorporating sustainability</li> <li>▶ Professional organization based on strategy, processes &amp; procedures</li> </ul>	<b>Transparency and adherence to international standards</b>
<b>Operational efficiency</b>	<ul style="list-style-type: none"> <li>▶ Large non-core businesses</li> <li>▶ Declining production and aging underinvested assets</li> <li>▶ Lack of management systems</li> <li>▶ HSSE<sup>3</sup> standards</li> </ul>	<ul style="list-style-type: none"> <li>▶ Focus on oil &amp; gas core</li> <li>▶ Stable production at 171 kboed</li> <li>▶ Modern technology, facilities and management systems</li> <li>▶ LTIR<sup>4</sup> 0.33</li> </ul>	<b>ROACE<sup>2</sup> 19%</b>
<b>Management turnaround &amp; commitment to excellence</b>	<ul style="list-style-type: none"> <li>▶ Lack of risk management</li> <li>▶ Lack of monitoring and reporting systems</li> <li>▶ HR limited to personnel administration function</li> </ul>	<ul style="list-style-type: none"> <li>▶ Risk management framework</li> <li>▶ Performance Culture</li> <li>▶ Sustainability</li> <li>▶ Human resources management &amp; talent development</li> <li>▶ Diversity programs</li> </ul>	<b>Performance mindset</b>

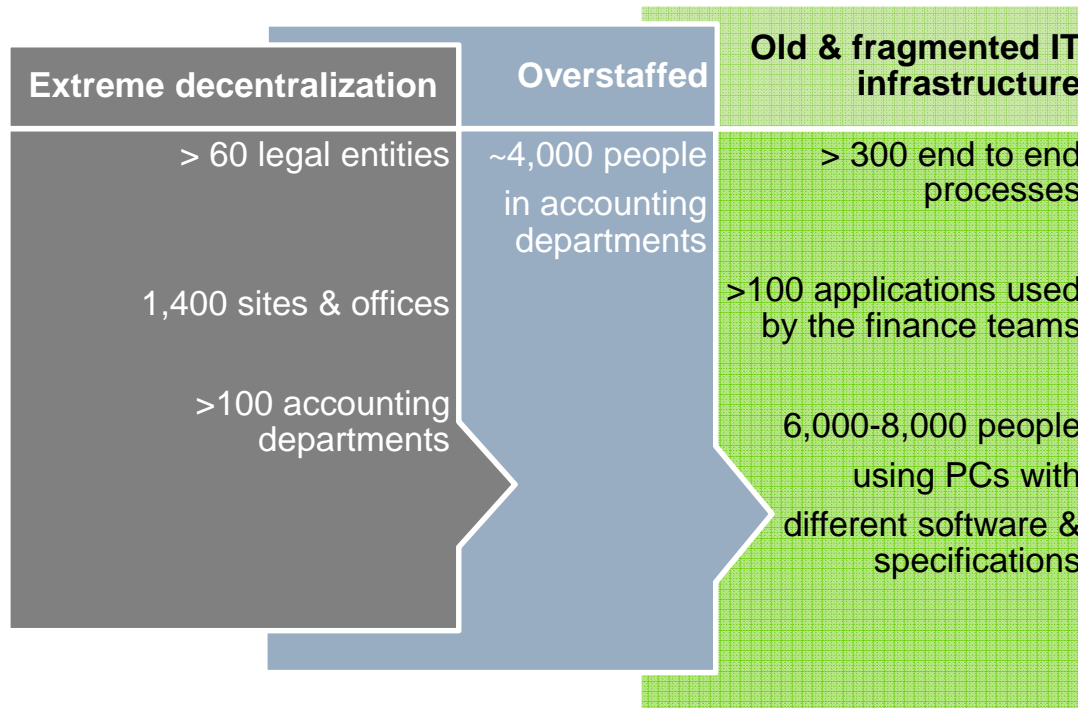
<sup>1</sup> Bucharest Stock Exchange Code of Governance in adherence to OECD standards <sup>2</sup> ROACE as of 2013 <sup>3</sup> HSSE: Health, safety, security and environment

<sup>4</sup> Lost time injury rate for 2013 compared with 1.11 in 2004



# Complex & decentralized organization with no central control - 2005

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**7 months**  
to produce the IFRS  
financial  
statements!

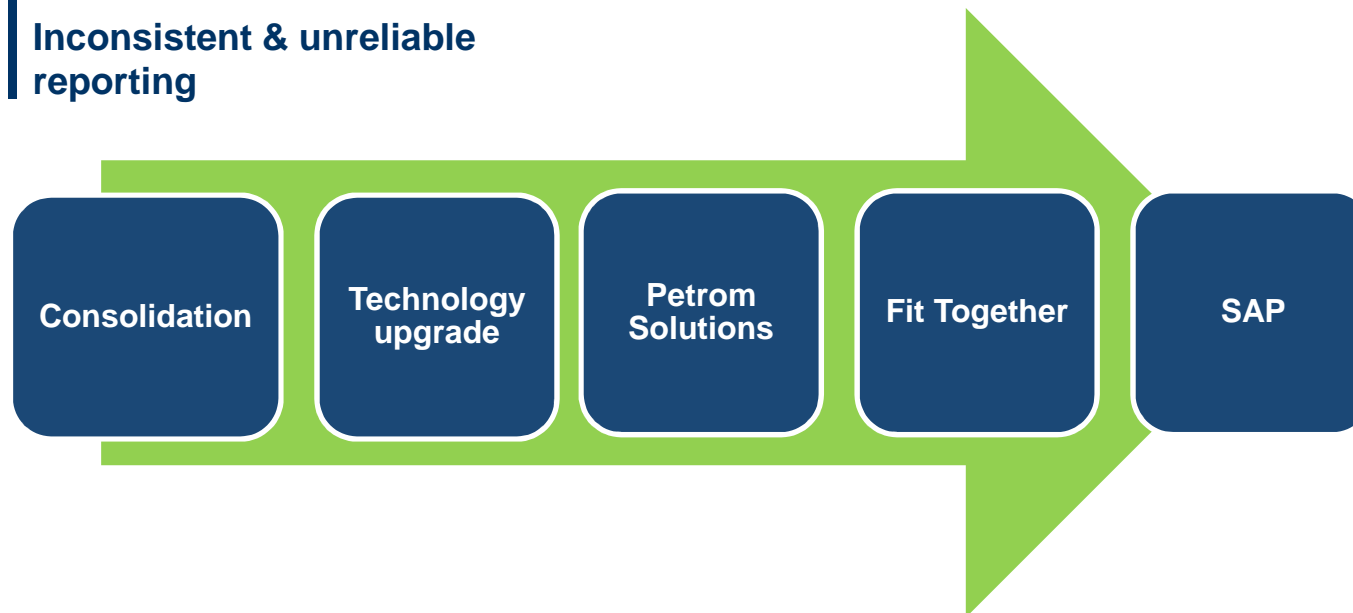
“OMV acquired not one company, but more than 100 companies, at more than 100 locations, with more than 100 cultures”



# Lay the foundations: focus on Finance, Controlling & IT

**2005**

Inconsistent & unreliable reporting



**2014**

Quality & consistency of overall reporting, planning and analysis

10 days for monthly closing;

6 weeks to produce the consolidated IFRS quarterly results for the capital markets

“Reliability of management information systems leads to faster & better business decisions”





# Office environment then and now

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# Current situation: effective management of the group's financial resources and activities

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## CONTROL

Ensure compliance, control and risk optimization based on transparent management information

## CHALLENGE

Enable business to optimize performance and to achieve competitive advantage for the group

## SUPPORT

Drive business and finance integration through effective and efficient finance processes and systems

### Added value:

Contribution to clear profit orientation, to increase shareholder value and to an excellent external reputation of the group



# Profound restructuring & transformation in all business segments

## Exploration and Production

- ▶ Natural decline largely mitigated
- ▶ New technologies
- ▶ Infrastructure modernization
- ▶ New frontiers

Before



After



## Gas and Power

- ▶ Expanding gas value chain: Brazi gas-fired power plant (860 MW, 57% efficiency)
- ▶ Renewable: Dorobantu wind park (45 MW)
- ▶ Strong position in the Romanian market: 28% market share on the gas free market
- ▶ Total net electrical output of 2.9 TWh in 2013, covering around 5% of the national electricity production

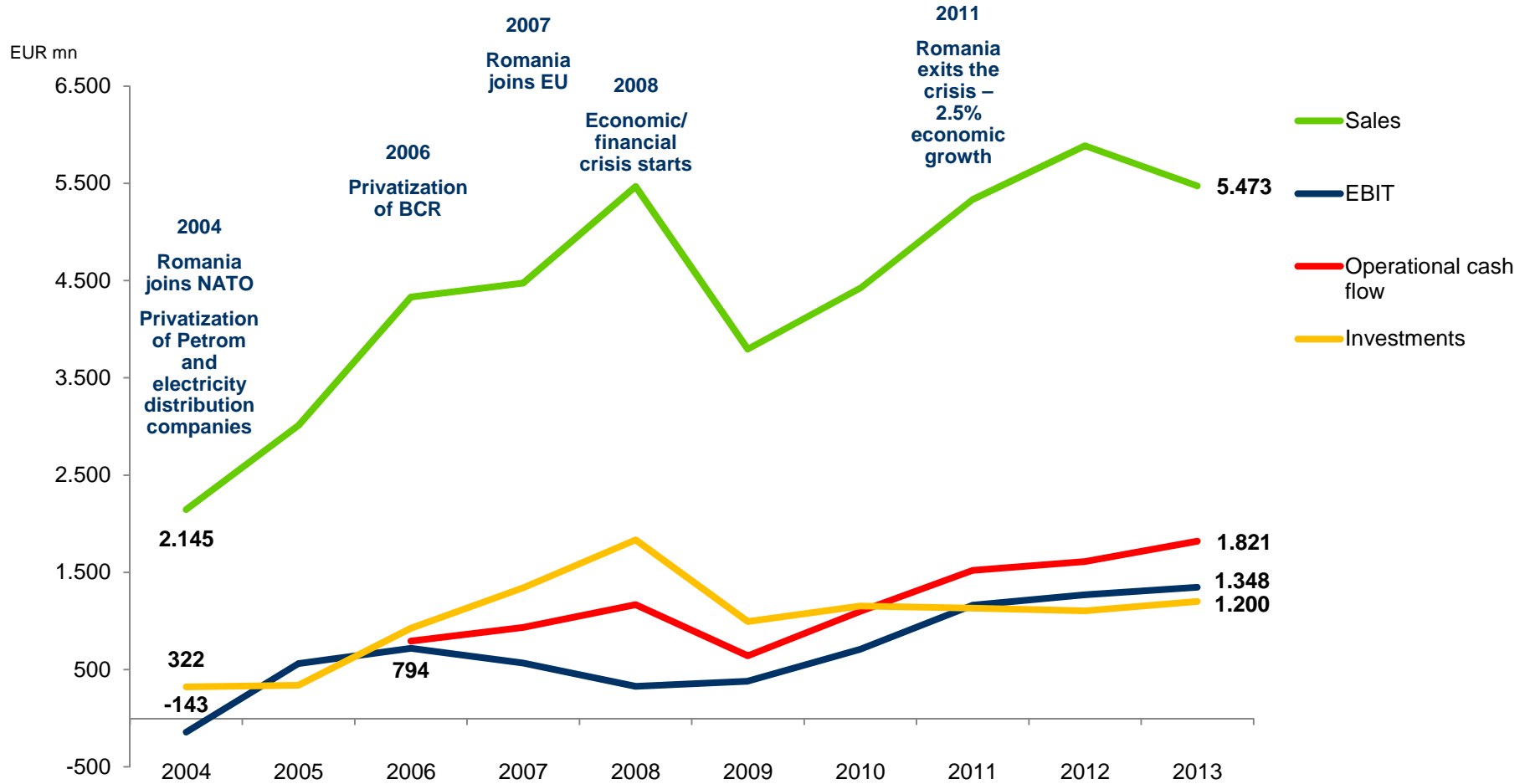


## Refining and Marketing

- ▶ Modernization: Petrobrazi refinery (upstream integrated, 4.2 million tons per year)
- ▶ Optimized filling stations network (2013: 785 filling stations under Petrom and OMV brand in Romania, Serbia, Bulgaria and Moldova)



# Successful transformation during a challenging macro environment



# Pillar of stability and reliable partner for the Romanian economy

2013 FIGURES



## Largest private employer

~20,000 direct employees and more than 50,000 indirect jobs



## Main energy supplier

Accounts for ~40% of oil, gas and fuel supply, and up to 10% of power generation capacity in Romania



## Largest investor in the energy sector

Over EUR 1 bn/year investments since privatization



## Largest contributor to state budget

EUR ~2.3bn in 2013 (~11% share of non-consolidated budget)<sup>1</sup>

<sup>1</sup> Equivalent share of state budget income in 2013e (non consolidated); Include: profit tax, royalties, employer social contributions, excises incl. custom duties, VAT, employee related taxes, other direct and indirect taxes, dividends paid to state



Efficient management  
of cost & investment  
within OMV Petrom

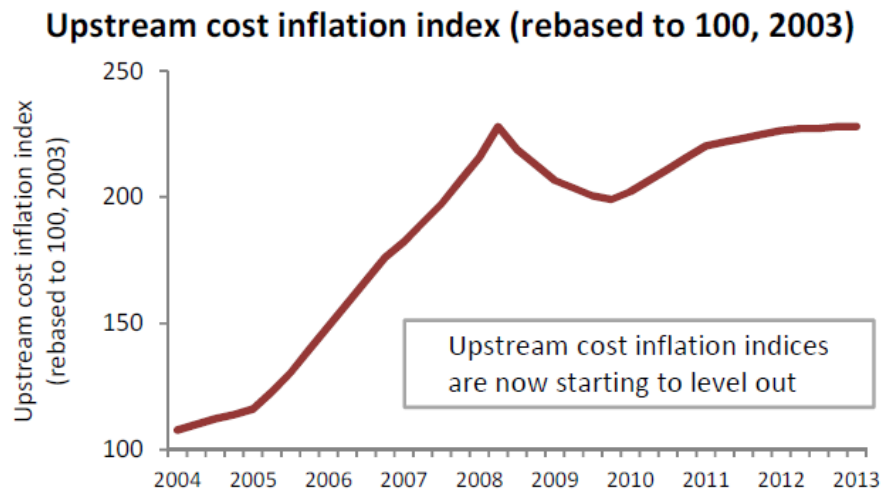


OMV Petrom



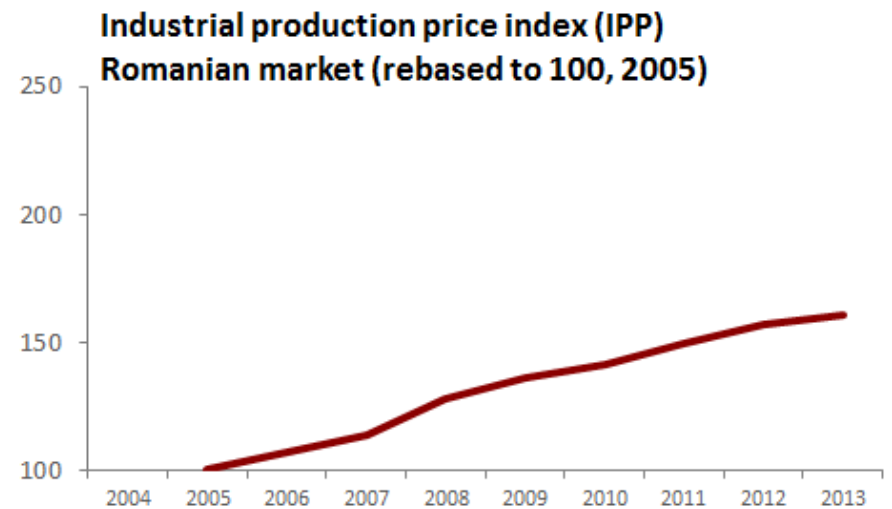
# Oil and gas industry faces increasing cost inflation

## Global Business environment



Source: TOTAL, Guinness Asset Management estimates

## Romanian Business environment

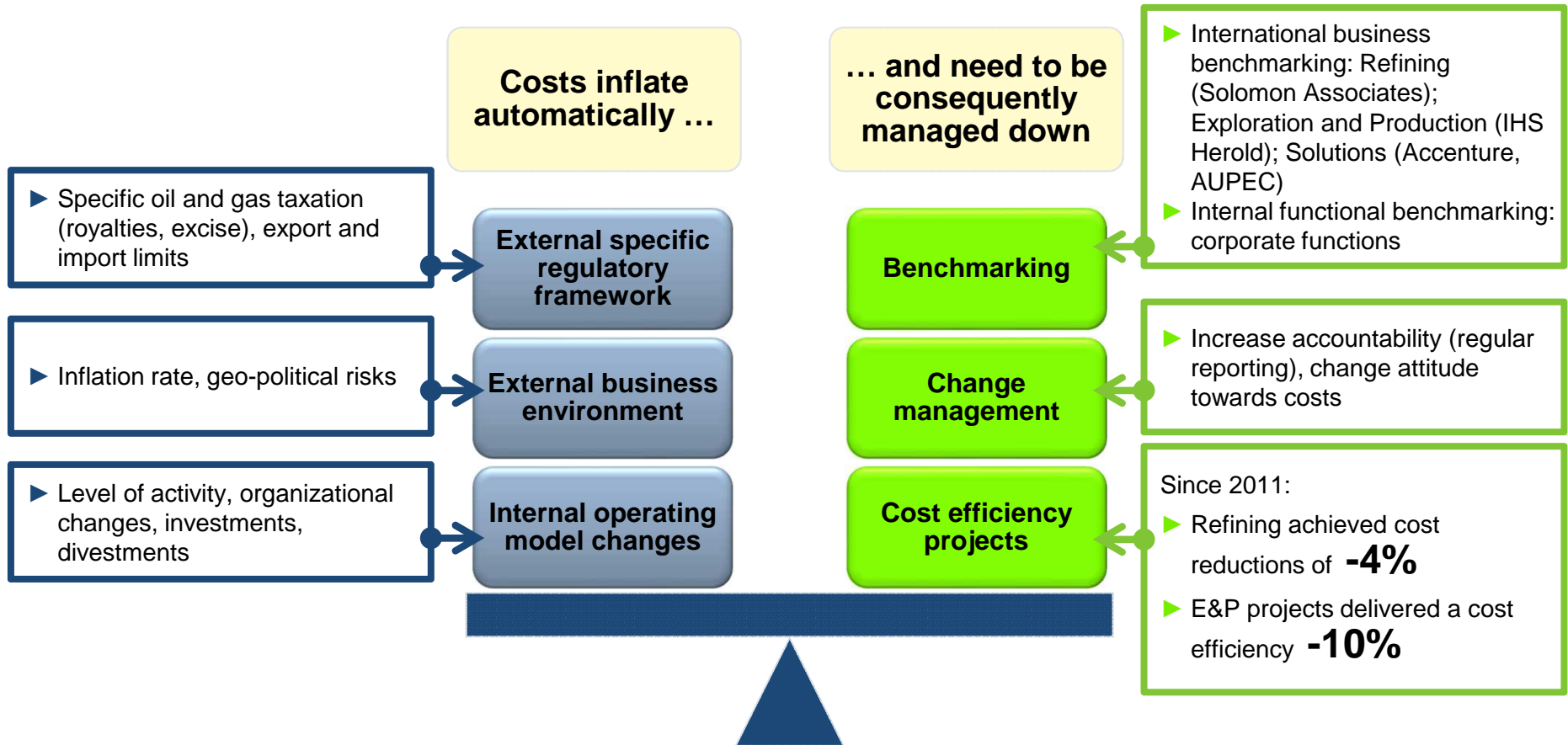


Source: own calculations based on INSSE data

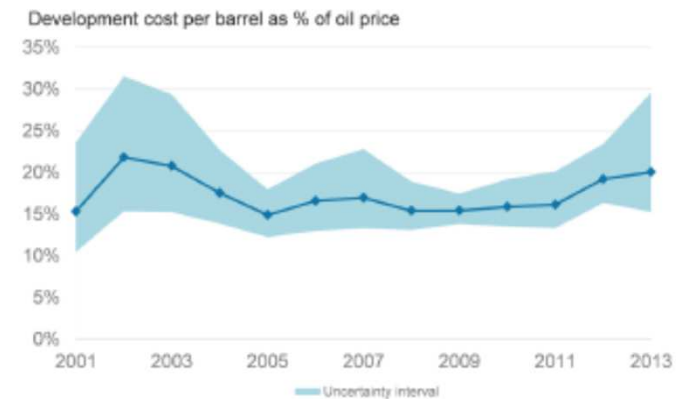
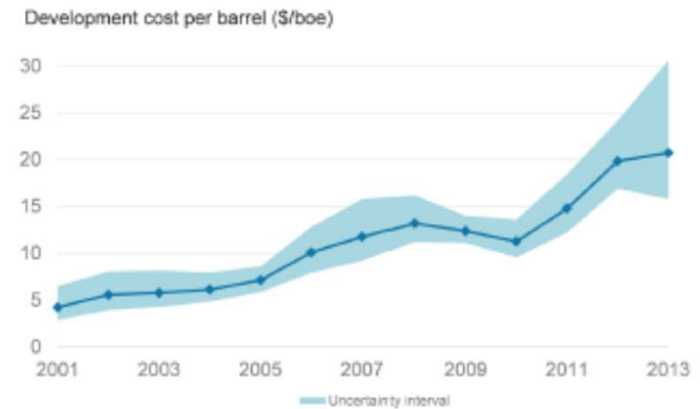
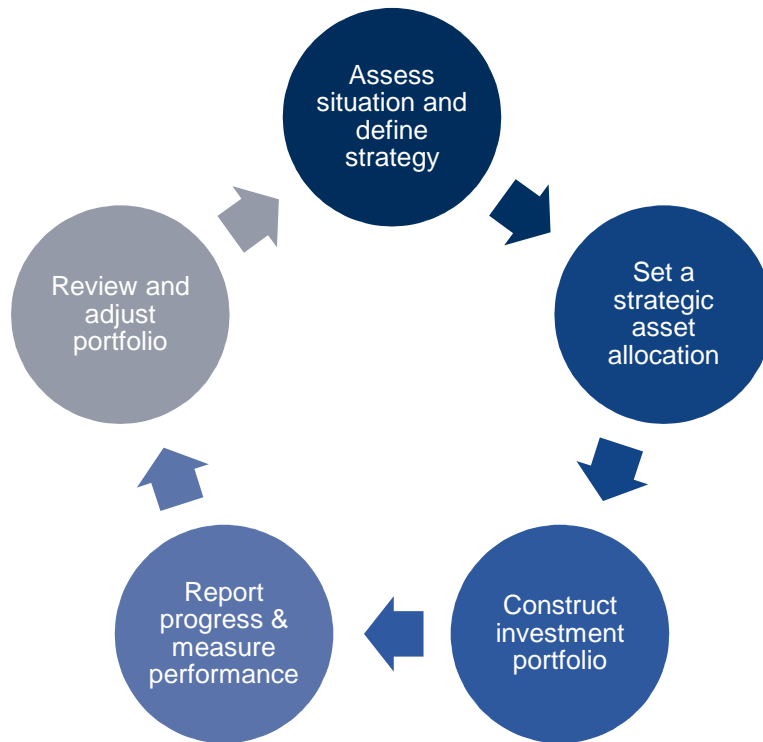
INSSE = Romanian National Institute of Statistics



# Constant focus enables keeping manageable cost broadly stable



# Taking investment decisions in a challenging environment



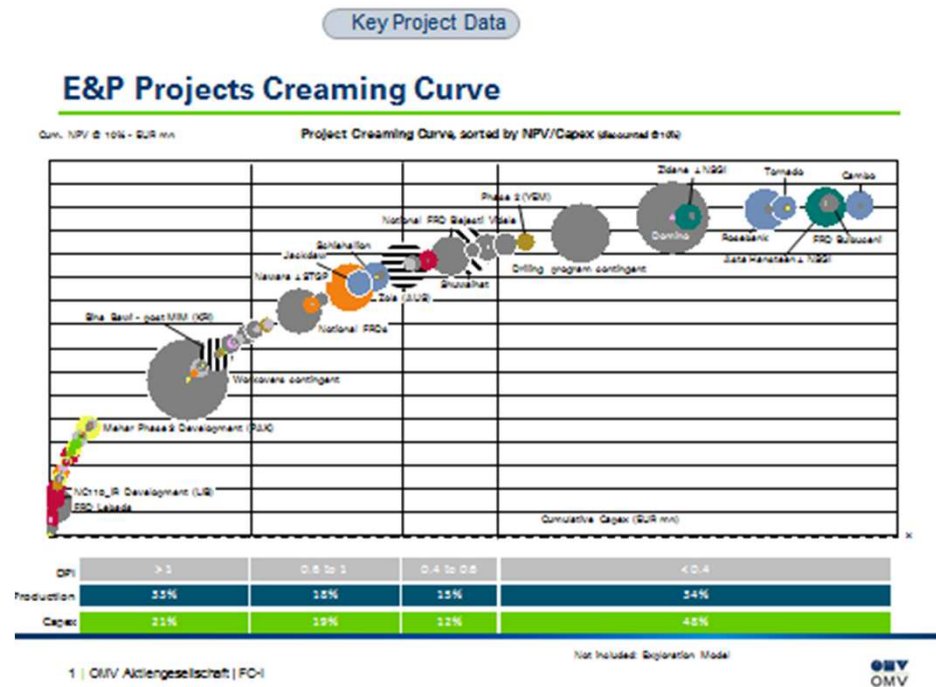
# Investment projects need to meet hurdle rates and compete along the creaming curve

**Hurdle Rates** are set based on WACC and differ per segment due to

- different risk profiles and
- strategic intent

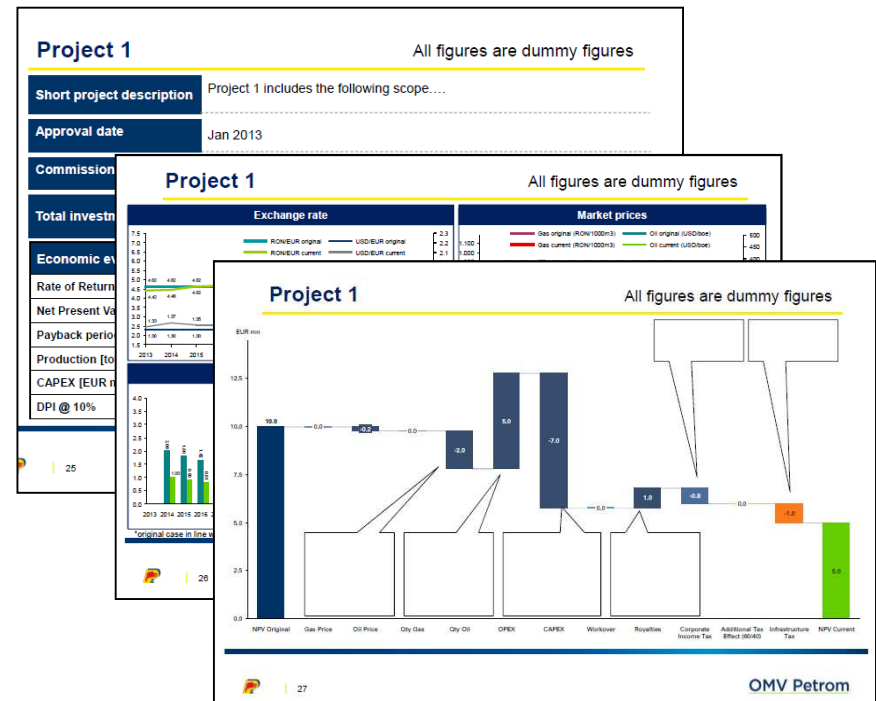
**Project selection criteria** include

- Internal Rate of Return
- Net Present Value
- Discounted Profitability Index
- Amortization time



# Regular monitoring and assessments to improve project decisions and execution

- ▶ Monthly report on project / program level (including Forecasts)
- ▶ Ad hoc analysis and deep dives
  - performance of drilling
  - work-over performance
- ▶ Annual post investment appraisals
- ▶ Interim investment appraisals







**OMV Petrom**