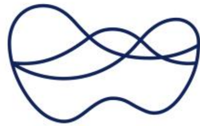

CALL TRANSCRIPT

WINTERSHALL DEA Q3 2021 RESULTS PRESENTATION

Date: 26.10.2021

Aleksander Azarnov – SVP Investor Relations

Good morning everyone and welcome to our third quarter results presentation.

As usual, together with me on the call we have our CEO Mario Mehren and CFO Paul Smith, who will go through today's presentation and answer any questions you may have at the end. Please use the chat function in the webcast to send your questions.

As customary, I'd like to draw your attention to the disclaimer. In today's presentation we will be making forward-looking statements that refer to our estimates, plans and expectations which are all subject to assumptions and risks as stated there.

With that, I'll hand over to Mario.

Mario Mehren – Chief Executive Officer

PAGE 3 – MACROECONOMIC BACKDROP

Thank you, Aleks.

Good morning everyone and welcome to our Q3 results call. It's great to have you join us today, as ever. I hope everyone continues to be safe.

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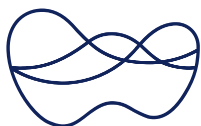


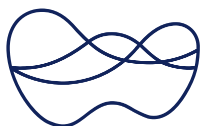
We've had an eventful quarter and we have a lot to talk about.

With the pandemic becoming more and more part of our normal life, the focus has certainly shifted to the energy situation globally. During the quarter, both oil and especially gas prices continued to go up, probably much quicker than anybody had anticipated.

If in the previous months, we have witnessed a very strong demand driven increase in gas prices with industrial activity at high levels, then now it's becoming clear that we are witnessing also lack of supply, especially ahead of the winter heating season in the northern hemisphere. With storages in Europe at multi year lows, the outlook remains fragile and we are all one cold snap away from another leg higher in terms of gas prices. Compared to the previous quarter, TTF was up 86% and as you have seen, since the beginning of this quarter, prices continued to go up.

Oil prices have also increased during the quarter, albeit more modestly. The global oil supply-demand deficit remains larger than probably expected by most. Oil market has been quick benefitting from strong demand recovery as much of the world is out of lockdowns and industrial activity remains high. Moreover, due to abnormally high gas prices, we are starting to see the switch from gas to oil further supporting oil prices.

On the supply side of the imbalance, OPEC+ countries have shown commendable compliance with their quotas and moreover OPEC+ has



decided to maintain the previously agreed 400,000 barrel increase from November onwards, which is less than many had expected.

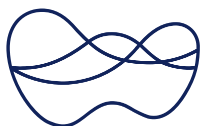
Taking it all together, we see several effects and consequences.

First, it is inevitable that such high energy prices will have a significant impact not only on our industry, but also on the economic growth globally which makes policymakers' decision even more difficult to keep the economic recovery going and inflation in check.

Second, the aggressive stance from certain groups towards natural gas in particular, is having a perverse effect also on our joint climate change challenge. Due to limited gas supply, high gas prices and lack of reliable renewable power, we are seeing an increase in fuel oil and coal fired power generation which have significantly higher carbon footprints than gas.

We continue to firmly believe that adequate natural gas supplies will make a major contribution in both, economic growth and reduction in greenhouse gas emissions. But, we also need policymakers and various groups to acknowledge that gas is a critical element in achieving both of these goals and encourage more production of natural gas.

Having said all of that, we see strong gas and oil price performance through the next few quarters, unless there is a sudden and massive COVID-19 impact or if industrial activity starts to slow down quickly.



PAGE 4 – KEY MESSAGES

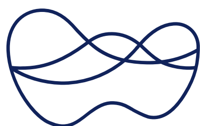
Let me go over a few key points now before Paul goes through the financials in detail.

First of all, I'm glad to see that our Lost Time Injury Frequency Rate, which measures frequency of serious incidents, has continued to improve, with LTIF now at 0.49. Unfortunately our total recordable incident rate increased slightly during the quarter. We continue to take health and safety extremely seriously and are currently running several campaigns to improve our safety performance.

Clearly, Q3 was a very strong quarter for us financially, driven by the favourable external environment. However, only about a third of our portfolio is directly linked to the European gas price indices and Brent, with the remaining based on various price formulas and domestic contracts, therefore dampening some of the effects of the drastic price moves witnessed in recent weeks. In addition, a significant part of our European gas and oil is hedged, further limiting the upside.

Nevertheless, our EBITDAX was up nearly 150% year on year at €983 million, which is a record high level for Wintershall Dea.

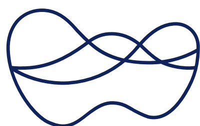
I'm sure, you have read in the media, that there was a fire in one of Gazprom Group's gas and condensate treatment plants in Novy Urengoy, which impacted our production as well. This meant that our production from Achimov areas 1A, 4A and 5A had to be temporarily shut in. Since these



contribute over half of our Russian production, the impact to the group's volumes is significant. The good news is that the Gazprom team, also supported by our Joint Ventures, has done an incredible job in finding a temporary solution and the production is back online, but the bad news is that due to the significant production impact, we also see lower production for the full year and have to lower our production guidance to 615,000-630,000 boe/d.

Project delivery continues to be on track. Recently, our partners in Norway have started-up the Solveig field and are on track to deliver the remaining wells at the Ærfugl phase 2 project shortly. Despite these fields contributing relatively modest amounts to our production in Norway, they are very profitable and have low break-evens. With these two latest fields, we will have brought onstream a total of six projects this year and are making good progress on the delivery of the last three remaining major projects in Norway - Dvalin, Nova and Njord – which are on track to come onstream in the second half of next year.

We have continued to drive forward our energy transition pathway initiatives. In August, we signed a cooperation agreement with VNG to produce turquoise hydrogen in Germany, with the pilot production expected as early as in 2023. Together with VNG, we earlier invested in a highly promising hydrogen start-up called HiiROC and are excited about the prospects of the technology that is being developed and that can be utilised in our joint projects. In addition, we are in discussions with other parties about possible cooperation in this field. I'm glad to see that the industry is making good progress but we now



need policymakers to speed up their efforts to create a proper hydrogen market in Europe.

Also in August, we announced that the Project Greensand consortium is moving ahead to the pilot injection phase. To remind you, Project Greensand is one of the most progressed carbon capture projects in Denmark and targets the development of up to 8 million tonnes of CO_2 storage in depleted gas and oil fields in the Danish North Sea.

On this note, let me now hand over to Paul to go through the financial update.

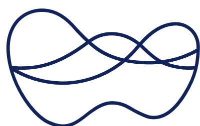
Paul Smith – Chief Financial Officer

Thank you Mario and good morning everybody from my side as well.

PAGE 6 – THIRD QUARTER PERFORMANCE SUMMARY

Let me summarize the third quarter with four key messages.

Firstly, as mentioned by Mario earlier, we had a significant unplanned shutdown in Russia caused by a fire at a third-party gas and condensate processing plant. The incident resulted in all of our Achimgaz and Achim Development volumes, or about 150 mboe/d, our share, being shut-in for about three to four weeks while recovery efforts took place by the plant operator. This resulted in circa 50 mboe/d of production impact from these large assets during the quarter, but was partially compensated by increased production in Norway and Egypt. Overall, our 3Q production came in at

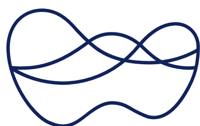


588,000 boe/d, or about 25,000 boe/d lower than in second quarter. As a result of the processing plant fire and significantly lower volumes from Russia in the 3rd quarter, as Mario has already mentioned, we've lowered our production guidance for the year to 615,000-630,000 boe/d.

Secondly, our unit production costs during the quarter increased, primarily due to the lower volumes in Russia, but with year-to-date production costs of around €3.6/boe, we remain confident that despite the operational upset experienced during the quarter that we will be able to deliver our full-year unit production costs well below the €4/boe aspiration we set out at the beginning of the year.

Thirdly, higher commodity prices have more than offset the lower than expected 3Q production levels, allowing us to deliver another quarter of robust financial performance. EBITDAX and adjusted net income came in at €983 million and €234 million respectively, up 146% and 245% compared to the same period last year and both are at record high levels since the merger.

And fourthly, strong financial performance translated to significantly improved cash flow generation, with €405 million of free cash flow for the quarter and over €1.2 billion year-to-date. This has further decreased our net debt to €3.4 billion or 1.2x net debt to EBITDAX.



PAGE 7 – REALISATIONS

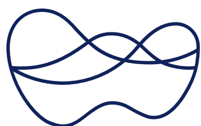
Moving on to realisations.

The improved external environment has of course translated into higher realisations. Our realised gas prices, as you all know, are a combination of spot prices in Europe, domestic prices in Russia and Argentina and formula prices in other jurisdictions. In addition, as you are aware our Russian prices are net of operating and transport costs resulting in lower headline realisations. Additionally, our realized prices are also impacted by the hedges we have in place.

All in all, our realised gas price across the portfolio averaged \$3.4/mscf, an increase of 135% on the same quarter last year, and a 42% increase on the second quarter this year. For illustrative purposes, when we exclude Russia gas effects and gas hedges, you can see that the average netback for the portfolio would be around \$9.2/mscf.

Realisations in Europe increased in line with TTF, but with 60% of our 3Q European production being hedged, realised price in Northern Europe reached \$7.2/mscf, compared to TTF of just over \$16/mscf.

Although Russian prices include an element of regulated domestic prices and often experience a six month price lag, the most recent increase seen in Europe has started to translate into higher overall Russian netbacks.



On the liquids side, our realisations moved broadly in line with the development of Brent pricing, with the average liquids barrel netback of $51/boe up nearly 100% on the same quarter last year, and up 16% on the second quarter this year.

We will continue to systemically hedge both oil and gas volumes as we move forward, with a ceiling of hedging no more than 1/3 of our next 12 month expected post tax volumes. By way of reference, our 4Q hedges include 24 mbbl/d of oil hedges at an average price of $53/bbl, and 389 mmscf/d of gas hedges at an average price of $5/mscf.

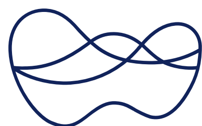
PAGE 8 – PRODUCTION AND OPERATING EXPENSES

Moving on to costs.

Our 3Q production costs were primarily impacted by the production interruption in Russia. Having largely flat absolute costs compared to 2Q, but with volumes significantly lower than planned, left us with somewhat higher unit production costs of €3.8 per barrel.

Our year-to-date 9 month production costs were around €3.6 per barrel of oil equivalent, and with Russia fully back on stream we expect strong operating momentum during the 4th quarter, allowing us to bring in our production costs to well below the €4/boe target we set earlier this year.

In terms of other non-production related opex, the costs associated with the trading activities have increased substantially due to the increase in gas



prices and accounted for €662 million for the quarter. As a reminder, these costs do not affect the bottom line, since they are offset by the corresponding increase in trading revenues.

PAGE 9 – STRONG FINANCIAL PERFORMANCE

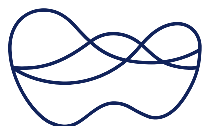
On to financial performance, where of course on the back of current strong market environment, our financial performance continued to further improve during the quarter.

EBITDAX increased 146% year over year to €983 million, and over 50% compared to 2Q. This is a record number for us since the merger.

Our hedge book had a significant impact on our earnings for the quarter. We realised a €374 million pre-tax hedging loss for the quarter, €36 million on oil and €338 million on gas hedges – bringing our year-to-date hedging losses incorporated in to our results to €588 million pre-tax.

Following 2Q, with several one-offs impacting our G&A, 3Q was once again at a lower run rate of about €90 million.

Our adjusted net income for the quarter of €234 million was 245% higher year on year. In 2Q, on the back of strong operational performance and robust commodity prices, we pivoted in to a tax paying position in Norway. During the 3rd quarter, corporate income taxes totalled €295 million compared to tax income of €21 million in the same period last year.



PAGE 10 – Q3 SOURCES AND USES OF CASH AND CASH FLOW

Moving on to cash and cash flow.

Our operating cashflow for the quarter came in at €619 million, or over 50% higher year on year. This was the first quarter this year with no significant one-off items such as tax reimbursement from the Norwegian government, and can be viewed as the first 'clean' underlying benchmark for the company at current production and commodity price levels.

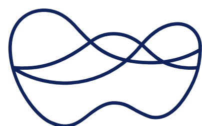
Our total capex continued to fall in line with our projections, coming in at €210 million for the quarter and €672 million year-to-date. In total, we generated €405 million of free cash flow for the quarter, taking our year-to-date Free Cash flow before M&A to €1.2 billion.

PAGE 11 – NET DEBT AND LEVERAGE

On to leverage and the balance sheet.

We started the year with a net debt position of over €5.5 billion, and leverage of 3.4x and have made significant efforts during the last 12-18 months to strengthen our balance sheet through the decisive measures we took early on in the pandemic, combined with the issuance of the €1.5 billion of subordinated notes earlier this year.

Strong free cash flow generation during the quarter allowed us to grow our cash and cash equivalents to over €1.2 billion, reducing our net debt to €3.4 billion, and LTM leverage to 1.2x net debt to EBITDAX.



Our Russian JV - Achim Development - has recently successfully completed a refinancing facility with a Russian commercial bank, allowing the JV to repay the initial shareholder loans used to finance the development. As a result, we have received over €100 million earlier in October from Achim Development, further strengthening our balance sheet.

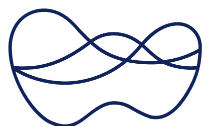
PAGE 13 – GUIDANCE AND OUTLOOK

Let me move on to guidance and outlook for the remaining quarter this year.

As already mentioned, due to the unexpected operational events experienced during the quarter in Russia, we have revised our production guidance down from our original guidance of 620,000-640,000 boe/d, to our revised full-year guidance of 615,000-630,000 boe/d. However, we anticipate exiting the year with robust operational momentum during the 4th quarter, and will of course look forward to the start-up of our three major projects in Norway – Nova, Njord and Dvalin – in the second half of 2022, and will share more details around our guidance for next year alongside our full year results in February.

In terms of development capex, we have remained focused on capital allocation and phasing throughout the year, and expect to invest at the very low end of our guidance of €1.0-1.1 billion.

And finally, we have continued to successfully manage our exploration expenditures, and expect to come in also at the very low end of our guidance of €200-250 million.



And with that I will now hand it back to Mario.

Mario Mehren

Thank you very much Paul.

Our operational and financial performance remains robust, despite the brief production interruption in Russia. All of our businesses are focused on delivering strong results and we expect to end the year on a high note.

Next year is going to be another pivotal year for our company with the remaining three legacy development projects coming onstream in the second half of the year and several CCS and hydrogen projects progressing to the next phase.

We look forward to reviewing the year with you and discuss our future plans during our full year earnings call on February 24th.

With that – let's go to Q&A. Operator over to you.