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# WINTERSHALL DEA Q4/FY 2022 RESULTS PRESENTATION

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**Aleksander Azarnov – SVP Investor Relations**

Good afternoon, everyone and welcome to our fourth quarter and full year 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 questions at the end. Please use the chat function in the webcast to send your questions.

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, let me now hand over to Mario.

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**<u>Mario Mehren – Chief Executive Officer</u>**

**PAGE 4 – RUSSIA EXIT CONSEQUENCES**

Thank you, Aleks.

Good afternoon and good morning, everyone. Thank you for joining us today, as ever.

2022 was undoubtedly a challenging year for Wintershall Dea. The Russian war against Ukraine has been a turning point for international politics, economic co-operation, but also for us, Wintershall Dea.

Since the beginning of the war on February 24th 2022, we have consistently condemned the war and took measures. We stopped investments into new projects, but stayed in the country to support Europe's need for gas that was produced in our joint ventures, while the continent was weaning itself off of the Russian dependence. For context, our three joint ventures in Russia, produced the equivalent of around two thirds of Nord Stream pipeline capacity. In addition, we were of course aiming to protect our Wintershall Dea colleagues in Russia to the extent possible as well as the valuable assets we have established there over many years.

However, Wintershall Dea will end its Russian activities. Continuing to operate in Russia is just not tenable any longer. Russia's war of aggression in Ukraine is incompatible with our values and has destroyed co-operation between Russia and Europe.

Additionally, in recent months, limitations imposed by the Russian Government on operations of Western companies in the country and external interferences in our joint venture operations, made it impossible for us to operate in the country as before and resulted in an economic expropriation of the Joint Ventures in Russia.

Going forward and until the full exit is complete, we will report the remaining value that is left in Russia, about €250 million, as a financial asset and will measure it at fair value. We will no longer report segment Russia in our financials, not will any of our reported KPIs include the Russian segment, unless otherwise stated.

In 2022, directly or indirectly because of the war, we have recorded a net loss of €4.8 billion, which includes the loss from deconsolidation of our Russian business, full impairments of both Nord Stream AG and Nord Stream 2 AG equity and debt investments respectively and other Russia and Russia related midstream investments, totalling €7.0 billion during the year.

Clearly, this has a significant impact on Wintershall Dea, but thanks to our globally diversified portfolio and significant financial flexibility, we are in a strong position to put our new strategy to work. We will continue to secure energy supply, while tackling climate change.

**PAGE 5 – YEAR IN REVIEW**

Let me first start with a brief review of 2022 before giving an update on our strategy.

Since the merger in 2019, we have been optimising the portfolio and started 2022 with a number of portfolio measures, announcing divestments of non-core assets in Argentina and Egypt, as well as Brazil country exit. We continued with the divestments in May, announcing the sale of our own operated late life Brage field in Norway.

Since then, however, our focus shifted to acquiring new production in our growth countries. We increased our stake in the Reggane Nord gas project in Algeria, as well as acquired cost and emissions-efficient barrels by entering the producing Hokchi project in Mexico.

Out of the three major projects that we had in our portfolio in Norway, two came onstream in 2022. Our own-operated Nova field was first to come onstream this year in late July.

Another major project, Njord, came onstream at the end of December, and is now in ramp up stage.

Lastly, our own-operated gas project Dvalin development is nearing completion. All three projects combined will contribute significant volumes once fully onstream and will come a long way helping Europe with hydrocarbons when most needed.

I'd like to congratulate and thank our teams, partners and everyone involved in progressing these projects despite having to endure Covid-19 restrictions, significant disruptions in supply chains and other challenges on the way.

We are now focusing on delivering a new set of projects in Norway, having submitted 6 E&P projects for development, 2 of which own operated, Dvalin North and Maria Phase 2, along with 4 partner operated projects. Additionally, we are going ahead with two significant greenhouse gas reduction projects in Norway, Njord and Snohvit electrification from shore. Both of these are important in reducing our emissions and helping us achieve our Scope 1 and 2 Net Zero 2030 goal.

In Argentina, we approved the development of a major gas project Fenix, which will unlock significant gas volumes for over 15 years from 2025 onwards. This is a significant project for us and of course the Argentine economy, and will help the country to meet domestic demand.

In Egypt, following the completion of the first stage of the West Nile Delta development, we are now focusing on expanding production in our own operated Disouq field by developing the North West Sidi Ghazi project to maximise the potential of that area. In addition, we are active in exploration projects, like East Damanhour and North West Abu Qir, both of which benefit from being adjacent to our two projects in the country, Disouq and West Nile Delta allowing for rapid development.

**PAGE 6 – KEY MESSAGES**

Our exploration team has once again had a successful year. In addition to a gas discovery in the abovementioned East Damanhour, in Norway, we've made 6 nearfield discoveries with estimated resources of 88 - 286 million barrels of oil equivalent.

Lastly, during the year, we announced our ambition in low carbon solutions by complementary growing carbon management and hydrogen business in a phased manner to be able to potentially abate 20-30 million tons of $CO_2$ per annum by 2040. This is an ambitious target, but Wintershall Dea is well placed to achieve that given our location at the heart of Europe, having access to promising carbon sinks and of course considerable technical and geological know-how.

Let me update you on two of our most promising projects. Project Greensand in Denmark, where we are one of the core partners, is progressing with pilot $CO_2$ injections to start imminently. This is without exaggeration a milestone project, since it will be the first-ever injection of $CO_2$ in Denmark and in many ways will be the template for future carbon capture and storage developments in Europe.

Secondly, we have signed a partnership agreement with Equinor for the new Nor-Ge project. This cooperation is meant to bring together two countries, Germany, the largest European $CO_2$ emitter and Norway, the country with the largest $CO_2$ storage capacity to build the first ever end-to-end CCS value chain. Ultimately, we strive to be able to store up to 40 million tons of $CO_2$ per year once the entire value chain is built up. Our first $CO_2$ storage license, Luna in Norway, that we have been granted in October 2022, is ideally located to contribute to the Nor-Ge project.

Our teams are engaged in developing many other opportunities in CM&H, and I look forward to updating you as we progress these. I am convinced that we are at an inflection point and with the right political will, these projects can make a big difference in Europe's Net Zero ambitions.

**PAGE 8 - STRATEGY – OUR WAY FORWARD**

Let me update you now on our updated strategic thinking.

The Russian war of aggression in Ukraine results in an irreversible pivot not only for Europe, but also for us. Having announced our exit of Russia, we will continue to focus on gas-weighted E&P business in what we consider attractive markets, which includes our core countries, but also new jurisdictions.

We will be looking to strengthen our core business by investing circa €1 billion per annum to high-grade and sustain production at around 350,000 barrels of oil equivalent per day. In parallel, we are looking to moderately grow and diversify our portfolio through value accretive M&A and highly focused exploration to reach production levels of 350,000 – 400,000 barrels of oil equivalent per day in the midterm.

As already mentioned earlier, we intend to grow in low carbon solutions, first by reducing our Scope 1 and 2 emissions reaching 25% net reduction by 2025 and ultimately Net Zero 2030. In parallel, we plan to develop opportunities in complementary carbon management and hydrogen business in a phased manner with the goal to be able to potentially abate 20-30 million tons of $CO_2$ per year by 2040. We've made a good start with the projects we already initiated, but it will require significant efforts not only from us, but from partners in the industry and politicians.

All of the above, we can't achieve without having the right capabilities. Thankfully, with our global footprint and vast experience in operations and project delivery, we are in a good place to build on our strengths and capabilities.

We are currently undergoing a full review of our operating model to ensure our organisation is well suited to deliver our strategy. This will mean both making certain parts of our organisation significantly leaner, but also expanding, if and where necessary. We'll update you on this in due course, including what it means for the company financially.

Lastly, one thing that has not changed in our strategy is our financial policy, which Paul will summarise in his remarks in a moment.

## PAGE 9 – OUR EVOLUTION

As you can see from our strategy, Wintershall Dea aims to evolve over time from the leading European independent gas and oil company which we have been since the merger, to a leading European independent gas and carbon management company. We will continue to explore and produce hydrocarbons efficiently since the world will need gas and oil for decades to come in order to achieve economic prosperity. In parallel, we will build out a complementary carbon management and hydrogen business to pursue our climate targets.

## PAGE 10 – WINTERSHALL DEA AT A GLANCE

Before handing over to Paul, I wanted to take a step back and present to you Wintershall Dea, as it is right now, following our Russian exit announcement.

Despite Russia being a significant part of our reserves and production in the past, Wintershall Dea remains one of the largest independent E&Ps in Europe with 2P reserves of 1.4 billion barrels of oil equivalent and production of 321,000 boe/d giving us a long reserves life ratio of 12 years and reserves replenishment ratio of 223% in 2022. Our production continues to be gas-weighted with two thirds of our production being gas which puts us in a strong position to play an important role in European energy security.

We are globally diversified, yet with focused core operations. Wintershall Dea is present in 11 countries, with Norway, Argentina, Egypt and Germany being the backbone of our current production, Mexico and Algeria particularly suitable for growth and the remaining countries provide further optionality.

Even without the very low cost Russian business, our portfolio remains profitable, with production costs ranking favourably at less than €6 per barrel.

In 2022, excluding Russian contribution, we generated €5.9 billion of EBITDAX and €2.5 billion of free cash flow, allowing us to end the year with a strong balance sheet and a cash position of €3.1 billion to enable us pursue our strategy. Around 90% of our earnings come from OECD countries.

And with that, let me pause here and hand over to Paul.

**Paul Smith – Chief Financial Officer**

**PAGE 12 – GAS AND OIL PRICE DEVELOPMENT**

Thank you, Mario, and good afternoon to everyone, also from my side.

Let me start with a very brief macro overview.

During the 4th quarter we saw a sharp decline in European gas prices which when compared with the historic high point of European gas prices in Q3 last year, declined by nearly 50% to $28/mcf during the 4th quarter. The primary drivers for the softening of gas prices in recent months have been a combination of reduced industrial and consumer demand which has fallen by an estimated 15-20% in reaction to the high prices experienced in the first three quarters of 2022, political prioritisation of filling gas storage levels across the continent, and an unseasonably warm winter to date have allowed Europe to navigate through a difficult winter, with the focus now shifting towards the winter 2023/2024.

Whilst we do not believe that gas prices will spike again to the levels seen last year, we continue to expect a fair amount of forward volatility, driven by a number of uncertainties in a year when Europe cannot rely at all on filling storage from Russian supplies, and hence will need to rely once again on LNG imports to make up the shortfall against the backdrop of China's post-Covid economic recovery.

On the oil side we have seen prices modestly soften in 4Q compared to 3Q, oil prices continue to look to be range bound between $75-90 per barrel, with recent pressure on prices from the uncertainties around global growth and demand, offset by the pricing support provided by recovering Chinese demand and reductions in Russian oil export volumes driven by the EU embargo and price cap.

**PAGE 13 – 2022 PERFORMANCE SUMMARY**

Let us move on to our Q4 and full year performance summary. Please note that in the slides ahead, we have presented our 2022 and historical numbers excluding the Russian contribution to allow for a clearer comparison of the underlying remaining business, and allows for a better comparison for our 2023 guidance which of course going forward excludes Russia following the deconsolidation of the business, and the announced intent to exit.

Starting with **health and safety.** During the year, our health and safety was disappointing, with a deterioration in performance. Our Total Recordable Injury Rate deteriorated including eight lost time incident cases. We continue to take measures to improve our safety culture throughout the organisation, and we will continue to focus this year on ensuring that every colleague can come home healthy and in the same condition as they arrived to work with the company.

Moving on to financial and operational performance.

Here are the 4 messages I'd like to leave you with.

**First and foremost**, as already mentioned by Mario, Russia's war in Ukraine has had a fundamental impact on our company. The ever-increasing restrictions imposed on us by the Russian government as the year developed, meant that we no longer had control or significant influence over our joint ventures, ultimately resulted in the economic expropriation of our assets, and the need to deconsolidate our Russian upstream assets during the 4th quarter.

The retroactive nature of some of the Presidential Decrees, meant that the circa €2 billion of working interest cash that had been generated within the JV's and had become trapped due to dividend restrictions at the outset of the war, was also in essence economically expropriated. Going forward, the drastic price caps imposed on the joint ventures means that the JVs in their current form are basically by design, barely, breaking even.

The deconsolidation resulted in the company writing down its upstream investments in Russia from €4.7 billion to €240 million, and hence took a €4.5 billion one-off non-cash charge in the 4th quarter in line with IFRS9.

All in all, we took a €7.2 billion one-off, non-cash, loss from deconsolidation and impairments – €7.0 billion relating to the Russian upstream business as well as other Russia related midstream impairments including the complete write down of our interests in Nord Stream and Nord Stream 2, as well as a partial write down of the Opal midstream pipeline in our WIGA midstream business - resulting in the annual net loss of €4.8 billion.

Adjusting for the impairment and deconsolidation losses, among other effects, our Adjusted Net Income was 130% higher compared to 2021 at €928 million, like-for-like excluding the Russian segment.

**Second**, our operational performance remained strong.

Our full year average daily production was 321,000 barrels of oil equivalent, with two thirds being gas. We ended the year within the range indicated in our 3Q earnings call for our business excluding the Russian volumes.

With the three Norwegian projects, Nova, Njord and Dvalin all nearly completed, we expect to average 325,000-350,000 barrels of oil equivalent in 2023 up to 10% higher year over year. I'll come back to guidance shortly.

**Third**, our strong operational performance, coupled with macro tailwinds, allowed us to generate close to €2.5 billion of free cash flow or 58% higher than last year, ending the year with cash balances of €3.1 billion, which leads me to my **fourth and last point**. After excluding the Russian assets including cash, our balance sheet remains exceptionally strong, which allowed us to put the totality of our capital allocation framework to work in 2022.

During the year, we signed two M&A transactions – Reggane Nord share increase in Algeria and Hokchi share acquisition in Mexico, paid our shareholders an extraordinary dividend of €1 billion at the end of 2022, whilst deleveraging to only 0.2x from a comparable 0.9x in 2021, leaving us in a strong position to further pursue our strategic goals in 2023 and the years ahead.

**PAGE 14 – FINANCIAL PERFORMANCE**

Let me go over a few more aspect in more detail.

On the back of a strong external environment, our realised gas prices were up 96% year over year on gas at $11.0 per mcf and up 31% on oil at $76.9 per barrel including hedge result.

As a reminder, our non-Northern European gas realisations are lower compared to the TTF development due to the nature of the contractual agreements in those jurisdictions. For example, in the MENA region we realised $4.32 per mcf, whilst in LATAM, $3.45 per mcf.

In Northern Europe, our realisations are of course impacted by the forward sales based on our previous three year-rolling hedging program.

In terms of realised oil prices, the regional variations are less significant, with the largest impact being timing of liftings in North Africa and of course hedge result in Northern Europe.

Full year EBITDAX and ANI were up 91% and 130% to €5.9 billion and €928 million, respectively.

A significant decrease in commodity prices in 4Q - with gas prices down about 50% and oil prices down 12% QoQ - impacted our earnings in the quarter, with EBITDAX circa 40% lower QoQ.

It is worth noting, that since the midstream segment comprises our participation in WIGA and Nord Stream AG, due to impairments in the midstream assets and lower net results, midstream result was significantly lower than in 2021, having generated €21 million of EBITDAX compared to over €200 million in 2021.

Our G&A was up 5% to €405 million, primarily due to higher salaries, higher pension costs, but also due to the expenses associated with the Brazil exit and other non-recurring costs. As mentioned by Mario, following the Russia exit announcement, we have commenced reviewing our G&A cost base and will be looking to right-size the organisation in the coming months. We'll be providing more guidance on this in the upcoming quarters.

**PAGE 15 - PRODUCTION COSTS**

Let me go over our production costs briefly.

Including Russian volumes, our production costs of around €4/boe were peer-leading, in part due to the low cost, high volume, barrels that came with the legacy business in Russia.

With 2022 production costs of €5.8 per barrel, the remaining business continues to benchmark favourably against peers and provides the foundations for a resilient portfolio going forward. Production costs were just slightly higher than the comparable number of €5.6 per barrel in 2021, primarily resulting from higher energy input prices in Northern Europe. Going forward, we expect our production costs to remain in a similar range of €5.5-6.0 per barrel.

**PAGE 16 – CASH FLOW**

Moving on to cash flow. On the back of high earnings in 2022, we moved into a significant tax paying position for the Group. In total, excluding royalty and other production related taxes, we paid €1.9 billion in cash income taxes for the full year, with the vast majority paid in Norway. In 2023, we anticipate cash taxes in Norway alone of €3.5 – 4 billion.

During the year, we generated €3.4 billion of operating cash flow and in addition received €211 million of sales proceeds from our two divestments last year, Aguada Federal and Bandurria Norte in Argentina and Brage in Norway.

As mentioned in my earlier remarks, we paid a €1 billion common dividend to our shareholders at the end of 2022. In total, since the merger in 2019, we have paid €1.6 billion of common dividends to our shareholders, averaging €400 million per year. Going forward, and taking into account the new parameter excluding Russia, we expect to be able to distribute an annual base dividend in the range of €400 – 500 million assuming mid-cycle commodity prices.

**PAGE 17 – STRONG BALANCE SHEET**

On to the balance sheet.

During the year full of uncertainties, we continued to prioritise our balance sheet, in line with our financial policy. Strong operational and financial performance allowed us to decrease net debt from €2.8 billion to €1.3 billion, ending the year with leverage of 0.2x.

This year, we have our first bond redemption in September 2023, which we don't plan to refinance and therefore will further delever the balance sheet and reduce gross debt by €901 million.

We have significant financial flexibility having built a cash cushion of €3.1 billion which puts us in a fortunate position to pursue our strategic ambitions to high grade the asset base while maintaining production in the 350 – 400 thousand barrel per day range in the medium to long term.

**PAGE 18 – ROBUST FINANCIAL FRAMEWORK**

Whilst the company has changed materially following the expropriation of our Russian business, one element that has remained unchanged and a constant is our financial framework.

We remain committed to having a strong balance sheet and our rating. As indicated, we expect to redeem the first bond without refinancing, allowing us to make the first step to right-size the balance sheet and capital structure for a smaller business going forward.

The next pillar of our financial framework, as mentioned above, is securing a base dividend through the cycle for our shareholders, always subject to securing our balance sheet first.

Next, and relatively more important following the Russian exit come sustaining capex and disciplined investments to enhance returns. We plan to invest about a €1 billion per year to roughly sustain our production at around 350 mboe/d, and slightly more to grow the business modestly to within the 350-400 mboe/d range.

In 2023, we expect to invest €1.2 – 1.4 billion on development capex to do exactly that, reach our target production of 350 mboe/d and modestly grow it beyond, partially driven by a big step-up in investment for the major project Ghasha in the UAE.

Taking into account a smaller business going forward, we have reviewed and amended our hedging policy. Going forward, we'll be looking to hedge about half of our in-year annual economic exposure with a rolling hedge program of two years ahead, subject to minimum prices. In practice, this will mean that at any given time, about half of our forward 12 month cash flow will be secured and half subject to market prices, with 25% secured for the following 12 months.

Our goal is ensure less earnings and cash flow volatility to help us plan, and of course protect the balance sheet and the base dividend.

**PAGE 20 – GUIDANCE**

Let me now go over our guidance for the year.

As mentioned earlier, whilst we do not expect to see the record gas prices experienced in 2022, we do expect to see continued volatility and support for robust gas prices for the coming years until such time as we see the gas markets in Europe rebalance through incremental LNG supply from 2025 onwards. The significant underinvestment on the oil supply side over recent years when compared with historic norms, combined with uncertainty of the supply of Russian hydrocarbons globally, is likely to see oil prices continue to be range bound at $75 – 90 in the medium term.

We expect our production to increase as we progress through the year with the three major projects, Nova, Njord and Dvalin, ramp-up and to have full year average production between 325,000 and 350,000 barrels of oil equivalent per day.

In terms of development capex, as indicated in the earlier remarks, we have approved 8 projects in Norway, as well as the Fenix development in Argentina and of course are progressing the Ghasha development in the UAE. Taking it all together, we expect to invest €1.2 – 1.4 billion in 2023.

And finally, in terms of exploration expenditures, we expect to spend about €200 – 250 million this year, with a large part going towards appraisal of our exploration successes over the last 24 months.

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

**Mario – Summary**

Thank you, Paul.

2022 was a turning point in our company's history. We needed to react to the crisis and to the unknowns quickly and decisively.

Having built significant flexibility during 2022, the company will take actions in line with its financial policy to maintain a strong balance sheet consistent with its investment grade rating commitment and in parallel profitably grow and diversify its business outside of Russia.

With that, operator over to you.