



# UNIPETROL 1Q 2016 FINANCIAL RESULTS

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**#Unipetrol 1Q16**

**@unipetrolcz**



**Unipetrol**

**ORLEN** GROUP

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## Key highlights of 1Q16

Macro environment

Financial and operating results

Cash flow and financial position

Steam cracker update and operational outlook

Macro and regulatory outlook

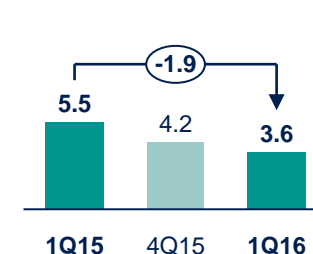
Back-up

# KEY HIGHLIGHTS OF 1Q16

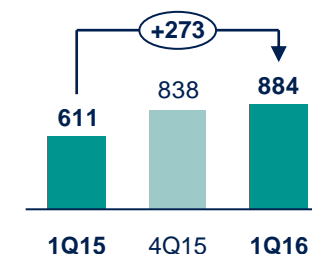
## External macro environment

- ▶ Czech GDP growth remained at high level of 4.1% y/y in 4Q15, a drop to 2.6% is expected in 1Q16
- ▶ Crude oil price declined by 36% y/y to 34 USD/bbl
- ▶ Refining model margin decreased by 35% y/y to 3.6 USD/bbl
- ▶ Petrochemical model margin increased by 45% y/y to 884 EUR/t
- ▶ Low crude oil price level continued to support external macro environment, especially petrochemical margins

Refining model margin (USD/bbl)



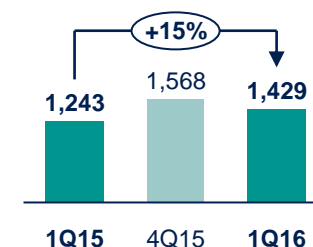
Petrochemical model margin (EUR/t)



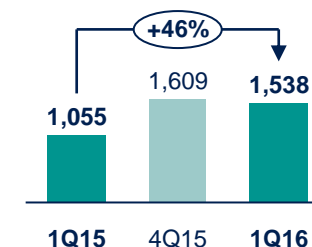
## Operational performance

- ▶ Steam cracker still out of operation which materially impacted operational performance (processed crude volume and mainly petrochemical production and sales volumes)\*
- ▶ Refining utilization ratio declined from 84% to 66% y/y as a result of the accident and turnaround in Litvínov
- ▶ Refining sales volumes profoundly increased by 46% y/y to 1,538 kt thanks to higher refining capacity (Eni's stake in Česká rafinérská)
- ▶ Benzina further increased its market share to 16.3%

Processed crude (kt)



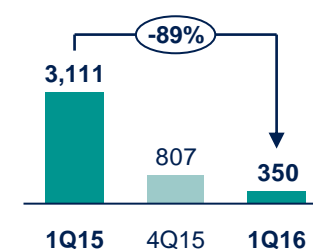
Refining sales incl. retail (kt)



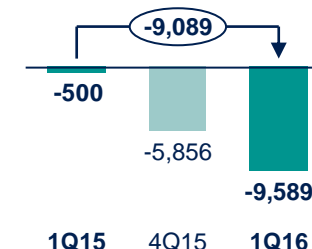
## Value creation & financial position

- ▶ Significant drop in EBITDA LIFO by 89% y/y to CZK 350 m due to steam cracker accident and turnaround in Litvínov
- ▶ Very strong net cash position of CZK 9.6 bn with operating cash flow of CZK 4.8 bn

EBITDA LIFO (CZK m)



Net debt/(net cash) (CZK m)



Key highlights of 1Q16



## Macro environment

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Cash flow and financial position

Steam cracker update and operational outlook

Macro and regulatory outlook

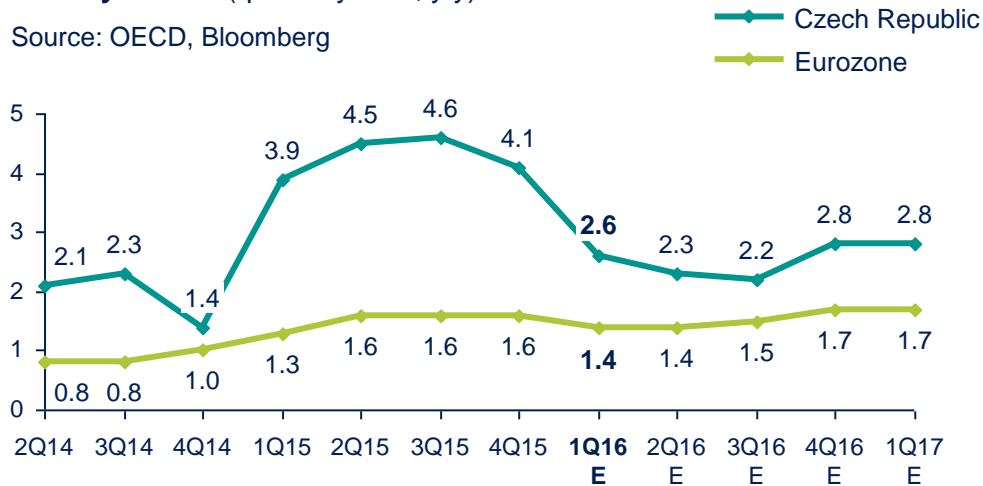
Back-up

# GENERAL MACRO ENVIRONMENT

## Czech GDP growth remained high at 4.1% y/y in 4Q15

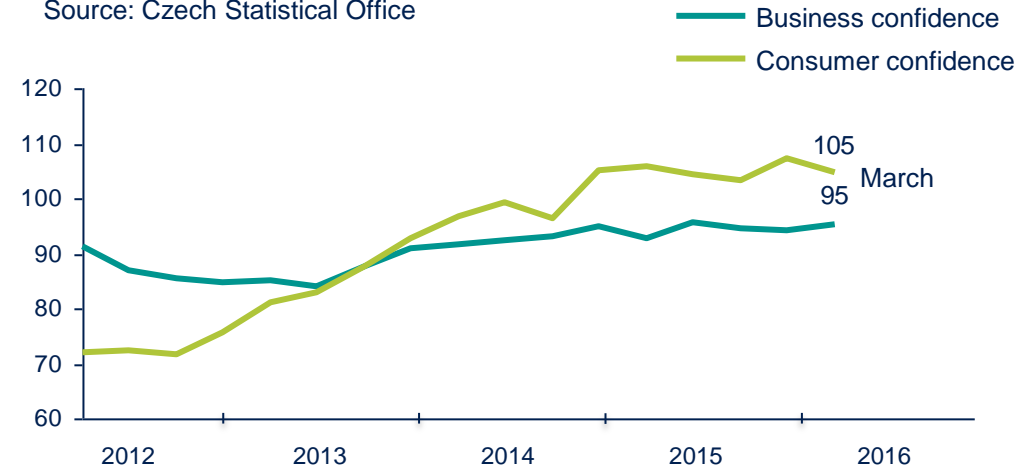
### GDP dynamics (quarterly data, y/y)

Source: OECD, Bloomberg



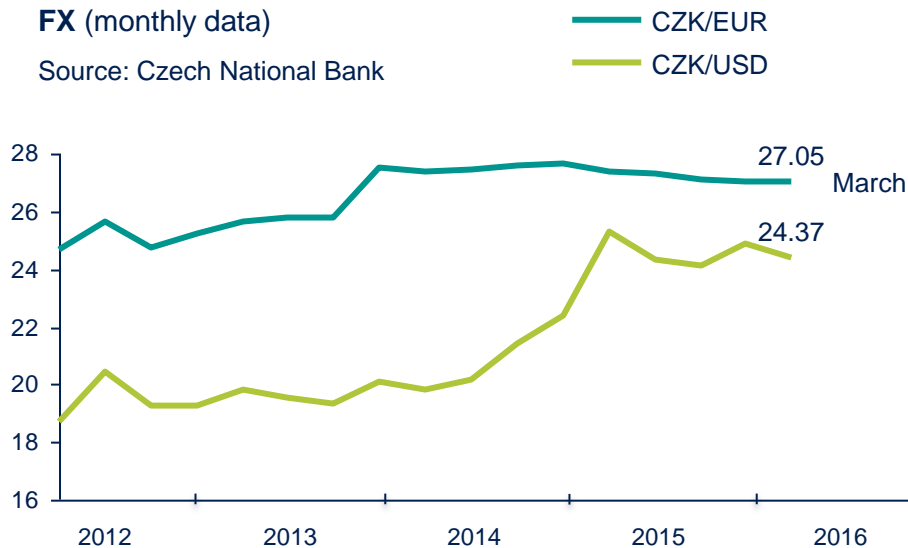
### Confidence in the Czech economy (monthly data)

Source: Czech Statistical Office

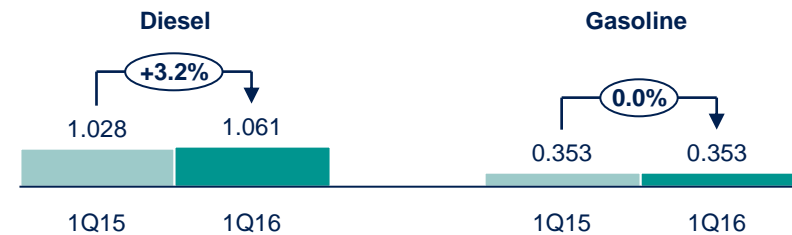


### FX (monthly data)

Source: Czech National Bank



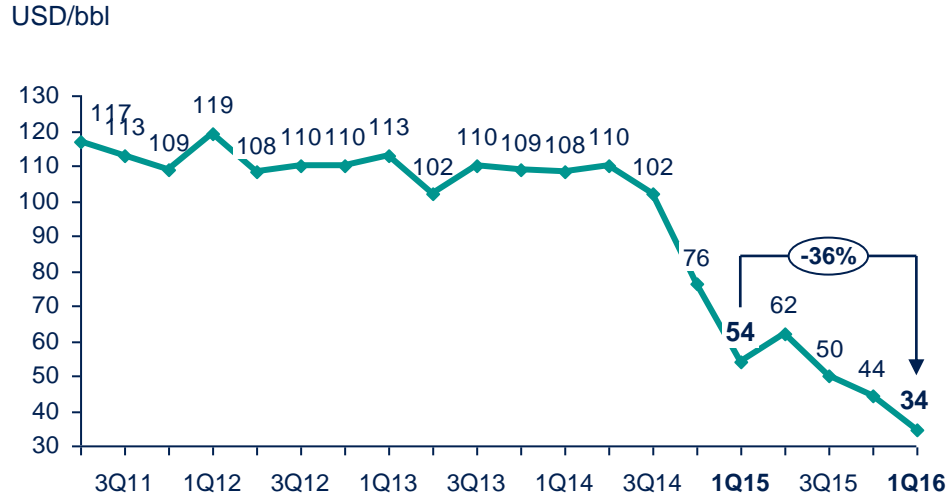
- ▶ Czech GDP growth remained at high level of 4.1% y/y in 4Q15, a drop to 2.6% is expected in 1Q16
- ▶ Stable level of business confidence in the Czech economy, consumer confidence slightly decreased but remained on relatively high level
- ▶ CZK stable against EUR slightly above ČNB's target of 27 CZK/EUR; light appreciation against USD to 24.4 CZK/USD in March; eurodollar relatively stable around 1.1 USD/EUR
- ▶ Diesel consumption increased by 3.2% y/y, gasoline remained stable in the Czech Republic (mt)\*:



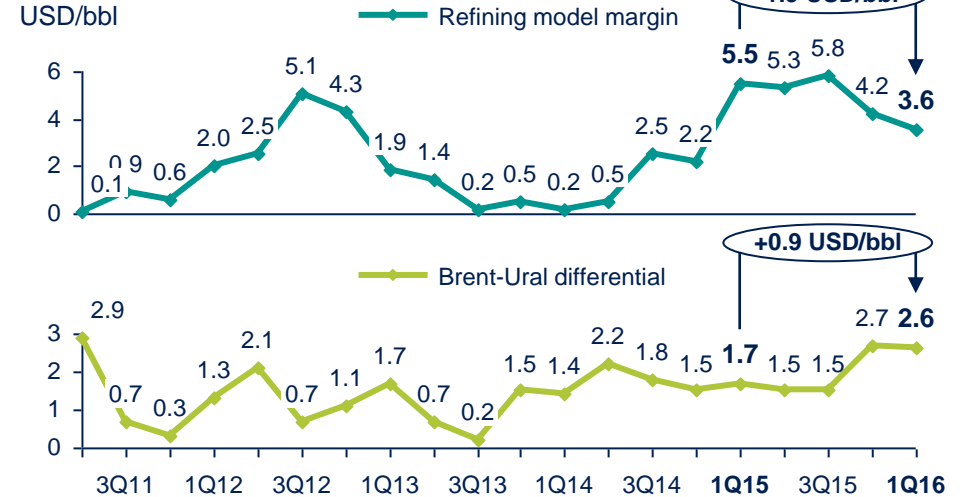
# DOWNSTREAM MACRO ENVIRONMENT

Crude oil price further dropped y/y which supported solid downstream macro environment

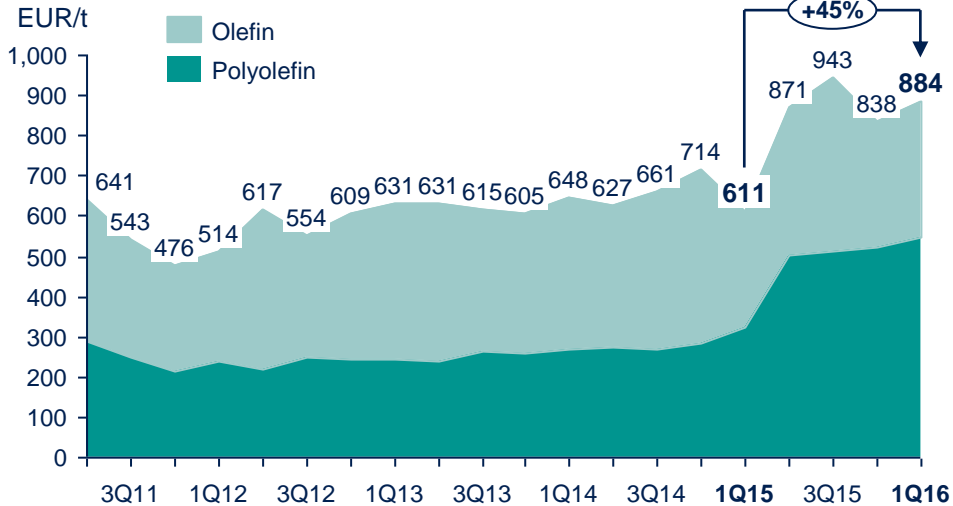
## Brent crude oil price (quarterly average)



## Refining model margin and Brent-Ural differential



## Combined petrochemical model margin



- ▶ Crude oil price declined by 22% q/q to 34 USD/bbl; 36% lower y/y
- ▶ Brent-Ural differential increased by 55% y/y to 2.6 USD/bbl
- ▶ Refining model margin decreased by 35% y/y to 3.6 USD/bbl
- ▶ Petrochemical model margin increased by 45% y/y to 884 EUR/t
- ▶ Low crude oil price level continued to support external macro environment, especially petrochemical margins

Key highlights of 1Q16

Macro environment



## **Financial and operating results**

Cash flow and financial position

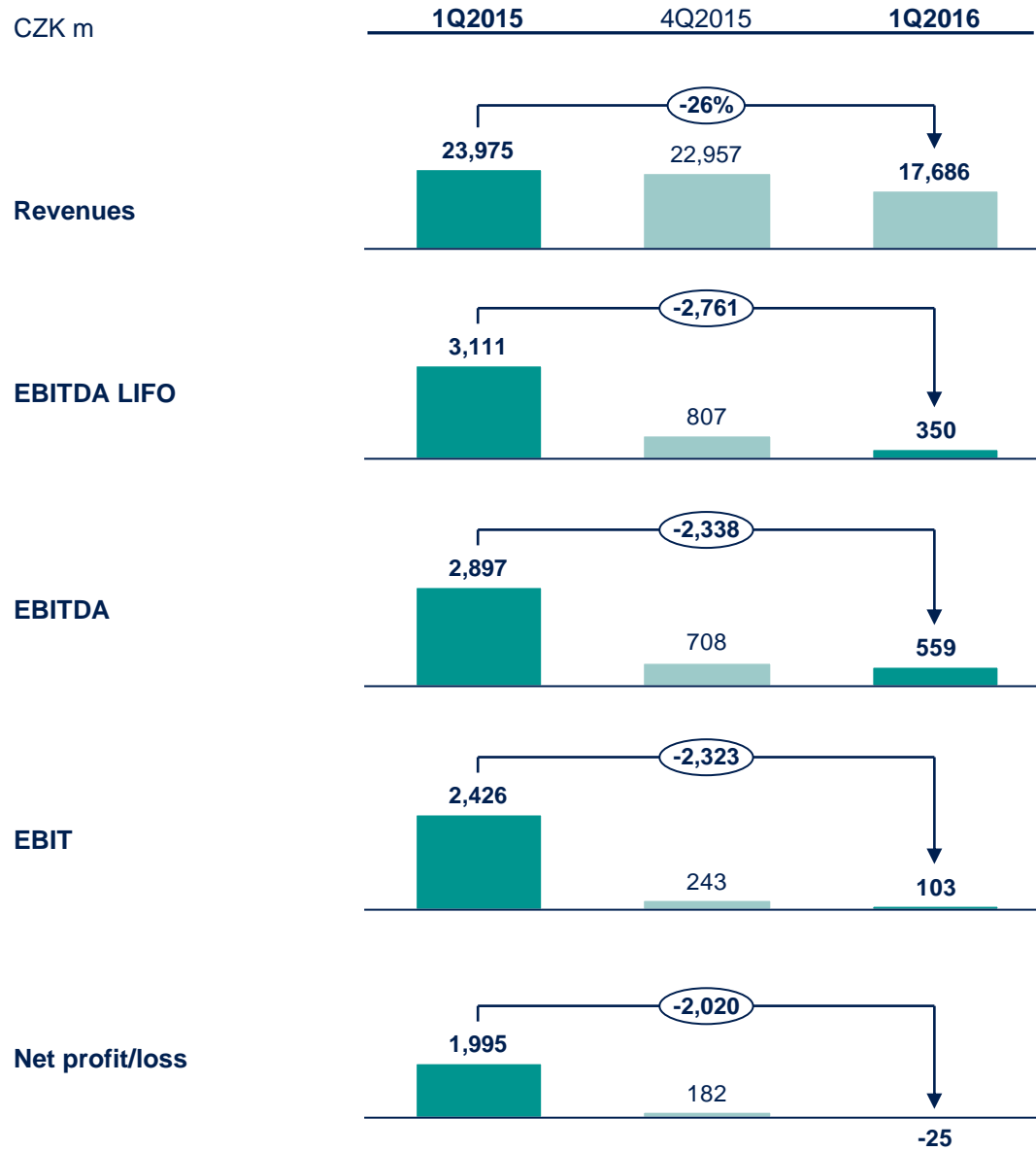
Steam cracker update and operational outlook

Macro and regulatory outlook

Back-up

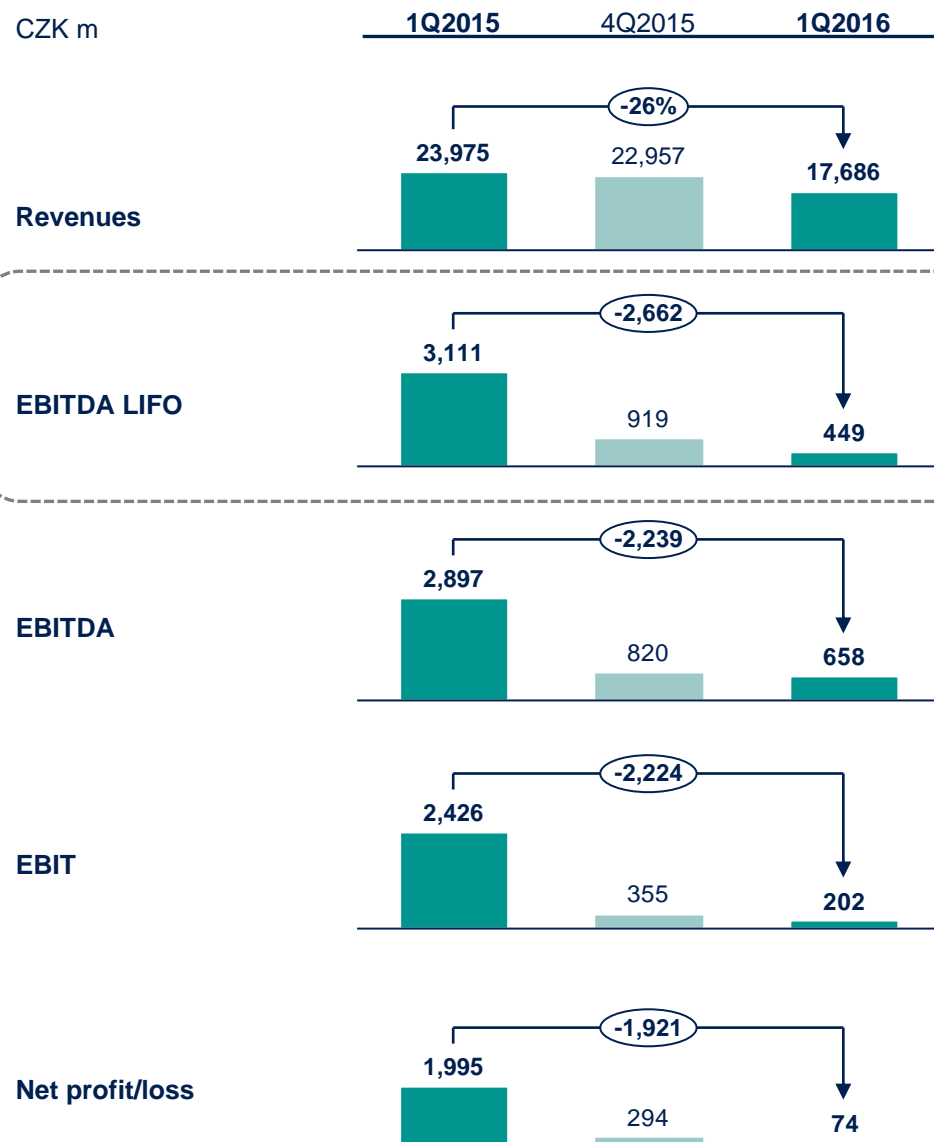


# FINANCIAL RESULTS – REPORTED NUMBERS



# FINANCIAL RESULTS – NUMBERS ADJUSTED FOR ONE-OFFS

Lower adjusted EBITDA LIFO of CZK 449 m due to steam cracker accident



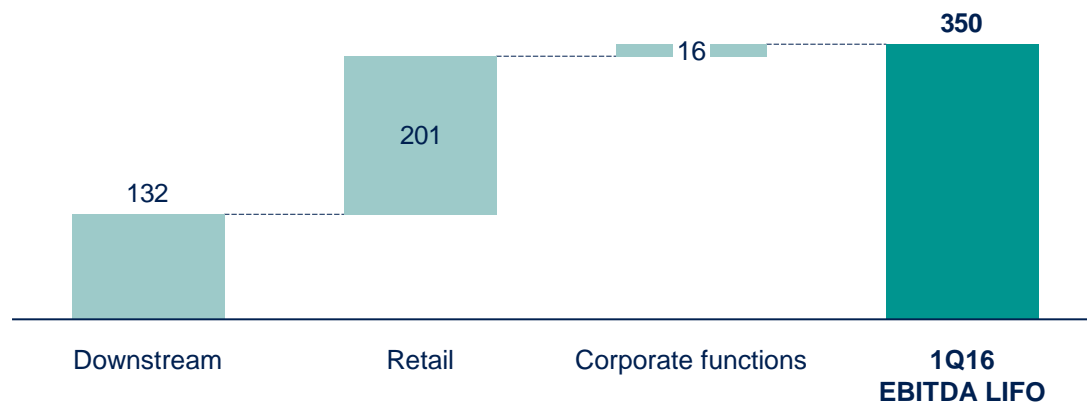
- ▶ **Revenues** decreased by 26% y/y due to lower crude oil prices, lower petrochemical products sales volumes and refinery utilization resulting mainly from the steam cracker accident and also due to ongoing turnaround of Litvínov chemical complex
- ▶ Lower adjusted **EBITDA LIFO of CZK 449 m** mainly due to lost sales volumes / profit because of steam cracker accident
- ▶ Estimated **lost business profit** in 1Q16 resulting from steam cracker accident expected to be recovered from insurer amounts to CZK 2.9 bn (not included in financial results)
- ▶ Other one-off operating cost incurred in 1Q16 in connection with the fire of **steam cracker** in amount of CZK 99 million
- ▶ **LIFO effect** positive of CZK 209 m
- ▶ **Depreciation and amortization** of CZK 456 m
- ▶ **EBIT** of CZK 202 m in 1Q16
- ▶ **Positive result from financial operations** of CZK 12 m
- ▶ Tax expense of CZK 140 m and **net profit** of CZK 74 m in 1Q16

# OPERATING PROFITABILITY BY SEGMENTS

Significant drop in operating profitability due to steam cracker accident

## Segment results – EBITDA LIFO

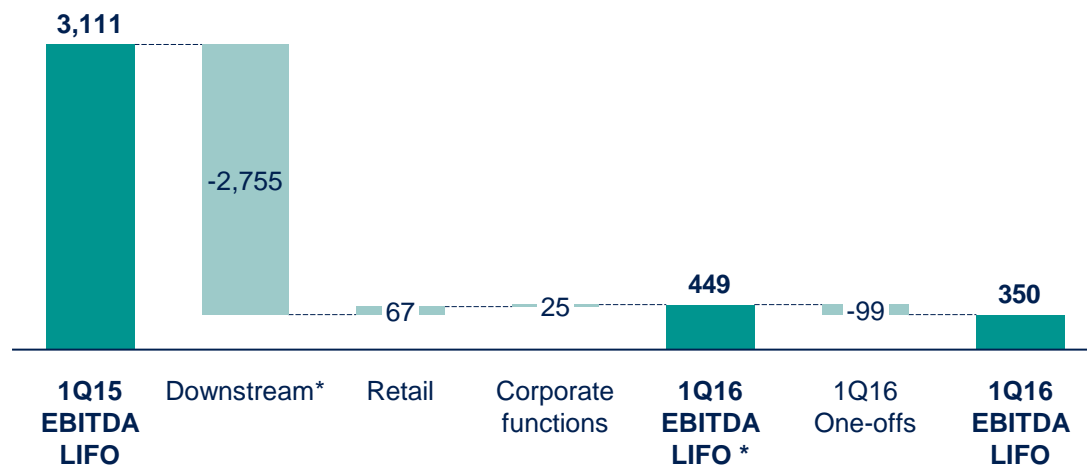
CZK m



- ▶ **Downstream segment** (combination of refining and petrochemicals) EBITDA LIFO of CZK 132 m represents significant drop due to not operating steam cracker unit in 1Q and ongoing turnaround of Litvínov chemical complex
- ▶ **Retail segment** with positive contribution of CZK 201 m

## Change in segment results y/y

CZK m



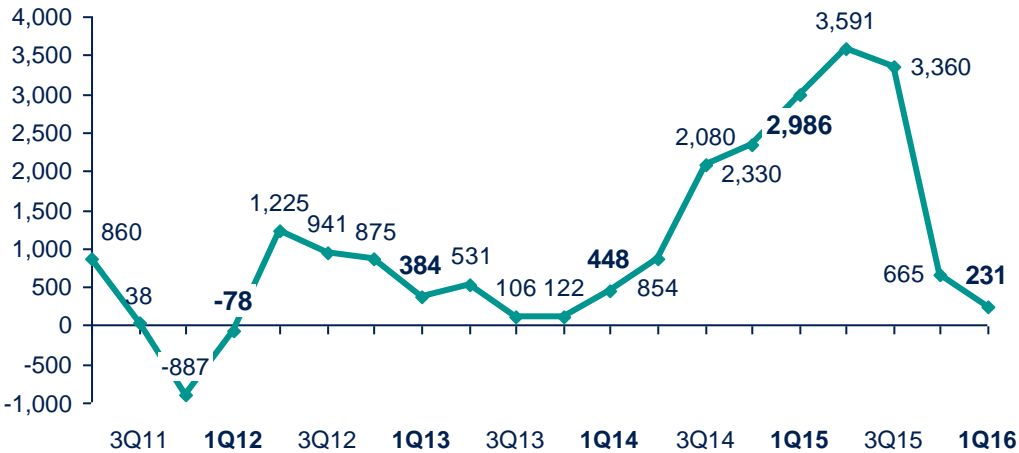
- ▶ **Considerable decrease** in operating profitability y/y by CZK 2,761 m...
- ▶ ...**driven by downstream segment** with drop of CZK (-) 2,755 m y/y caused mainly by steam cracker accident
- ▶ **Retail segment** increased by CZK 67 m y/y

# DOWNSTREAM – EBITDA LIFO

Adjusted EBITDA LIFO significantly decreased to CZK 231 m

## EBITDA LIFO quarterly – Adjusted\*

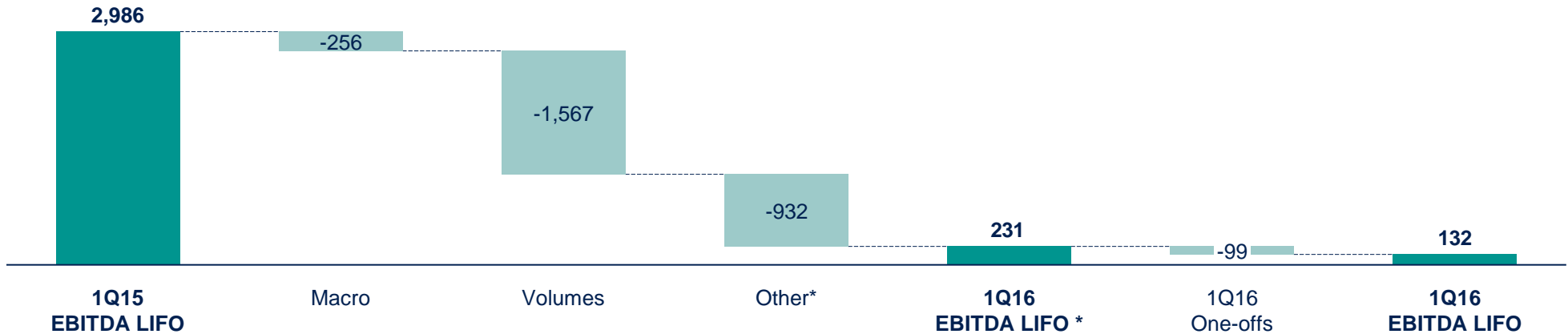
CZK m



- ▶ Negative macro impact of CZK (-) 256 m y/y driven by lower refining margins partially compensated by lower crude oil prices
- ▶ Negative volumes impact of CZK (-) 1,567 m y/y driven by:
  - Significantly lower petrochemical sales volumes due to steam cracker accident and ongoing turnaround of Litvínov chemical complex
  - Partially compensated by higher refining sales volumes (higher available capacity in Česká rafinérská)
- ▶ Negative impact of Other category of CZK (-) 932 m y/y driven by:
  - Inventory revaluation effect (NRV) due to declining of crude oil price
  - Higher fixed costs in Česká rafinérská (Eni's stake)

## Downstream segment results – Drivers of change y/y

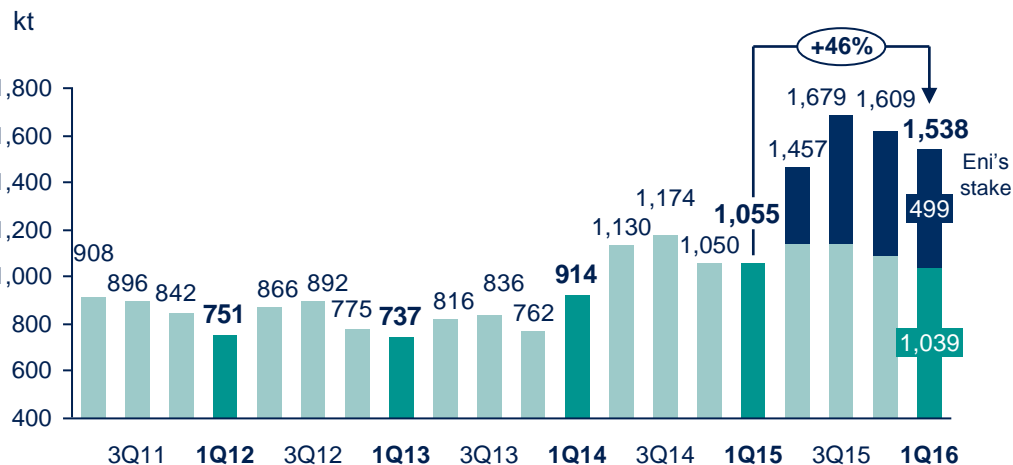
CZK m



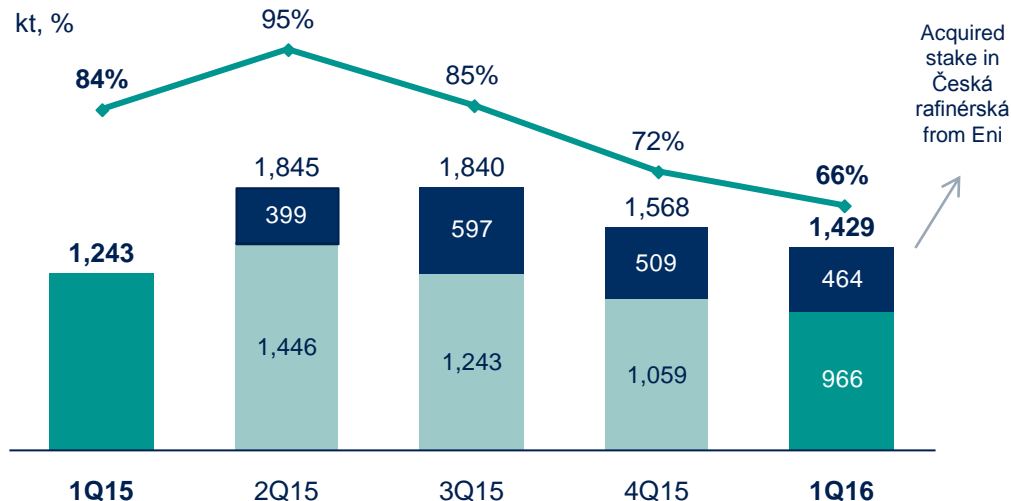
# DOWNSTREAM (REFINING) – OPERATIONAL DATA

Significant increase in refining sales volumes by 46% driven by higher refining capacity

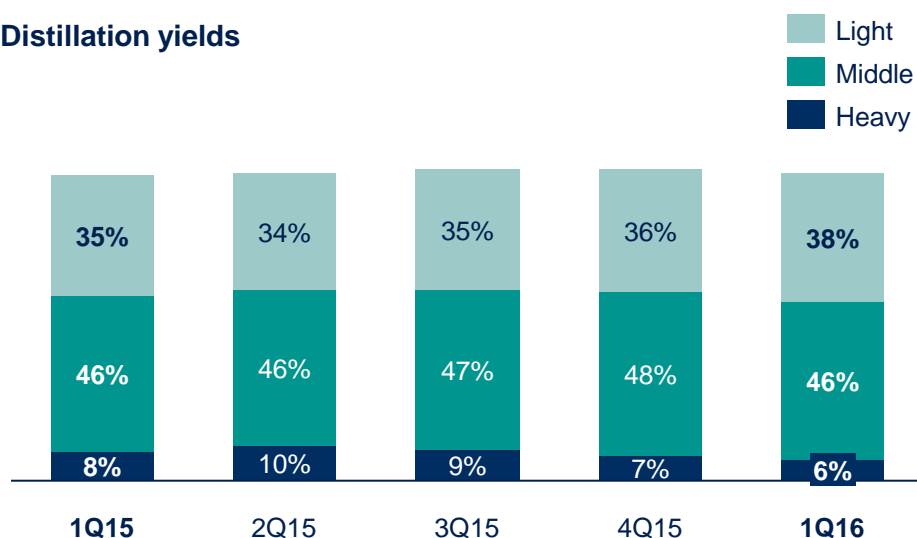
## Sales volumes of refining products, incl. retail (Benzina network)



## Processed crude and refining utilization ratio



## Distillation yields

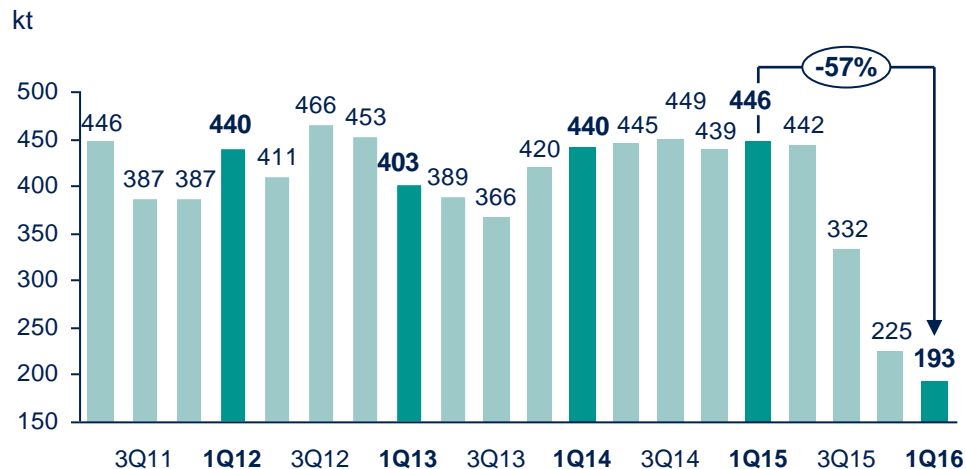


- ▶ Sales volumes increase by 46% y/y to 1.5 mt driven by:
  - Higher refining capacity (Eni's stake in Česká rafinérská)
  - Operating of refineries to maximize fuels production
  - Increased imports of fuels
  - Sales of steam cracker feedstock
- ▶ Higher level of processed crude of 1.4 mt compared to 1Q15 (Eni's stake in Česká rafinérská)
- ▶ Refining utilization ratio declined from 84% to 66% y/y due to ongoing turnaround in Litvínov and steam cracker accident which caused reduction in refinery production
- ▶ Higher yields of light and middle distillates thanks to higher utilization of Kralupy refinery y/y

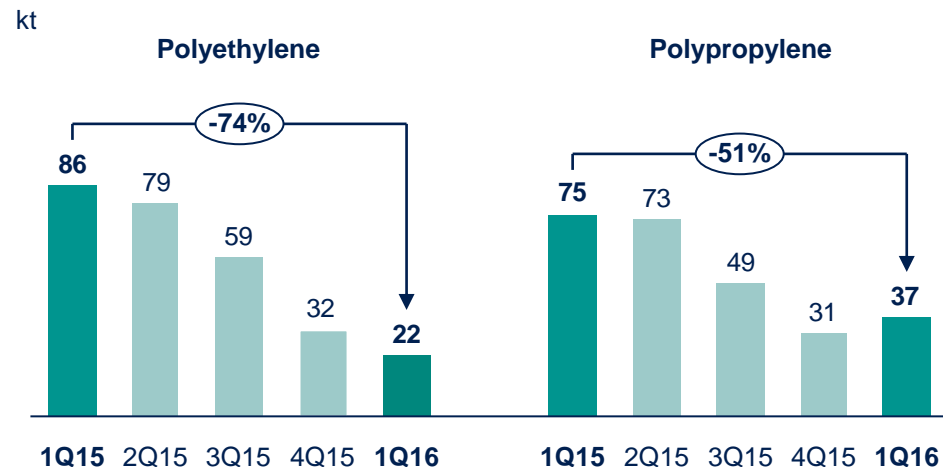
# DOWNSTREAM (PETROCHEMICALS) – OPERATIONAL DATA

Petrochemical operations materially impacted by steam cracker accident on 13 August 2015

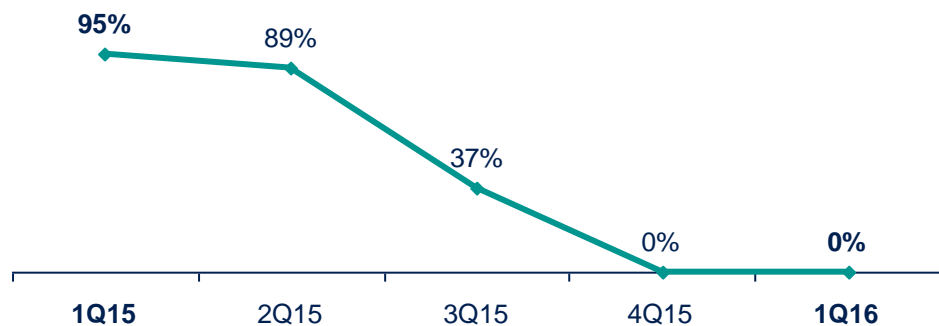
## Sales volumes of petrochemical products



## Sales volumes of polyethylene and polypropylene



## Steam-cracker utilization ratio



► Petrochemical operations materially impacted by steam cracker accident on 13 August 2015 and ongoing turnaround of chemical complex in Litvínov

- Steam cracker unit out of operation
- Sales volumes declined by 57% to 193 kt

# RETAIL SEGMENT

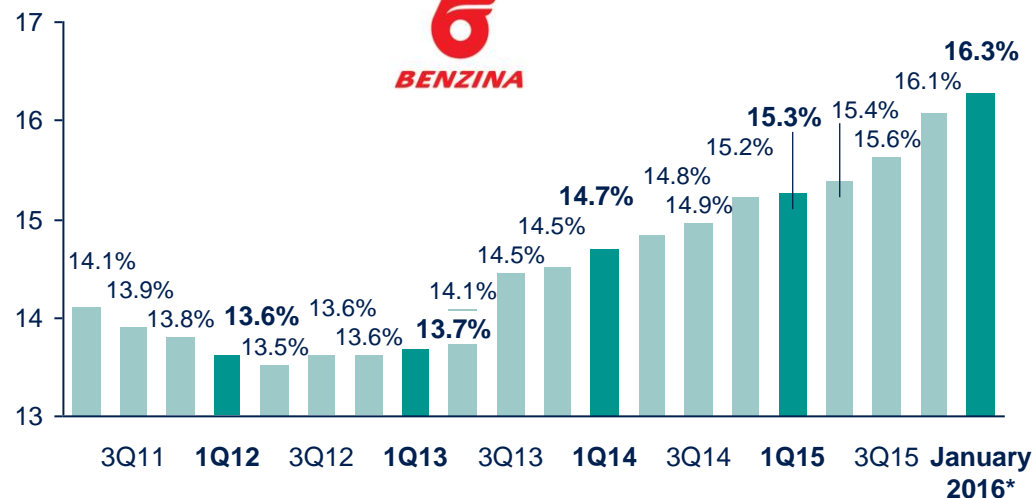
Continuation of a good profitability with EBITDA LIFO of CZK 201 m

## EBITDA LIFO quarterly

CZK m

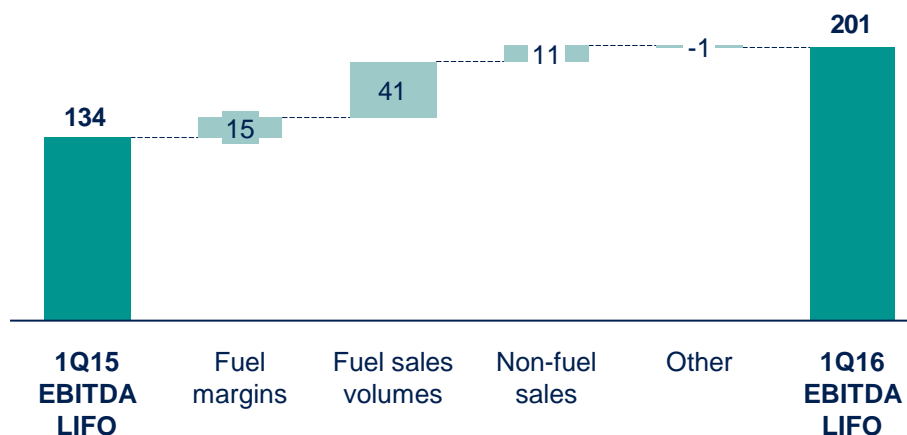


## Benzina market share



## Retail segment results – Drivers of change y/y

CZK m



- + Positive fuel margin impact of CZK 15 m y/y resulting from higher margin on diesel
- ▶ Positive fuel sales volumes impact of CZK 41 m y/y thanks to set of marketing activities and solid dynamics of Czech GDP
- ▶ Positive impact of non-fuel sales of CZK 11 m y/y driven by expansion of StopCafe concept and various promotions
- ▶ Further increase in Benzina market share to 16.3% at the end of January 2016

Key highlights of 1Q16

Macro environment

Financial and operating results



## Cash flow and financial position

Steam cracker update and operational outlook

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Back-up

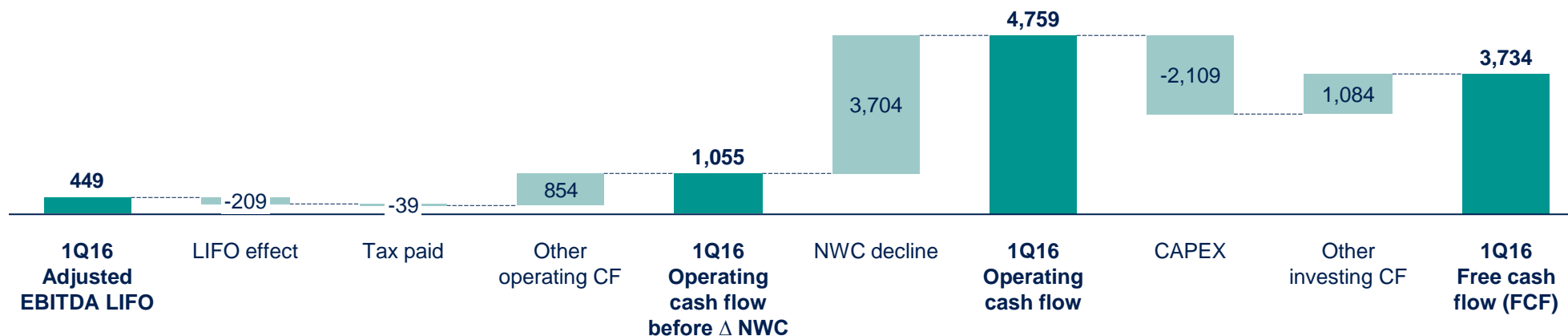


# CASH FLOW & NET WORKING CAPITAL

Very solid operating cash flow at the level of CZK 4.8 bn

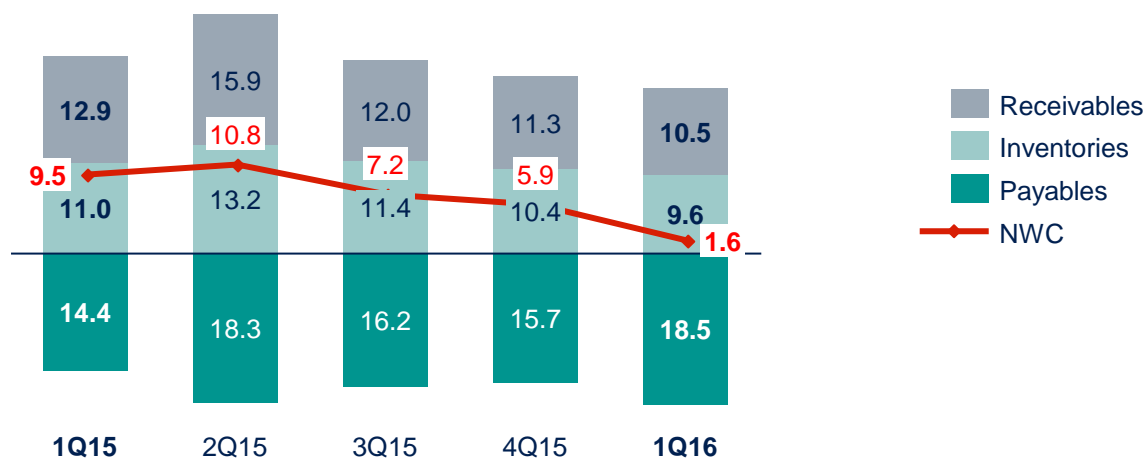
## Free cash flow (FCF) reconciliation

CZK m



## Net working capital (NWC)

CZK bn



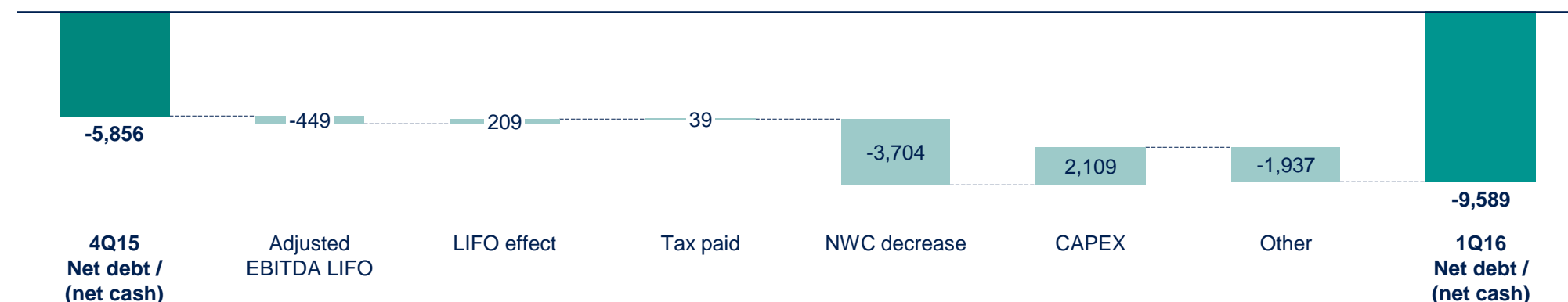
- ▶ Continuation of solid cash generation:
  - Operating cash flow CZK 4.8 bn (CZK 1.9 bn related to advance payments received from insurer)
  - Free cash flow CZK 3.7 bn
- ▶ CAPEX CZK 2.1 bn
- ▶ NWC declined by CZK 3.7 bn mainly due to lower crude oil prices and advance payments received from insurer

# FINANCIAL GEARING

Very strong net cash position of CZK 9.6 bn at the end of 1Q16

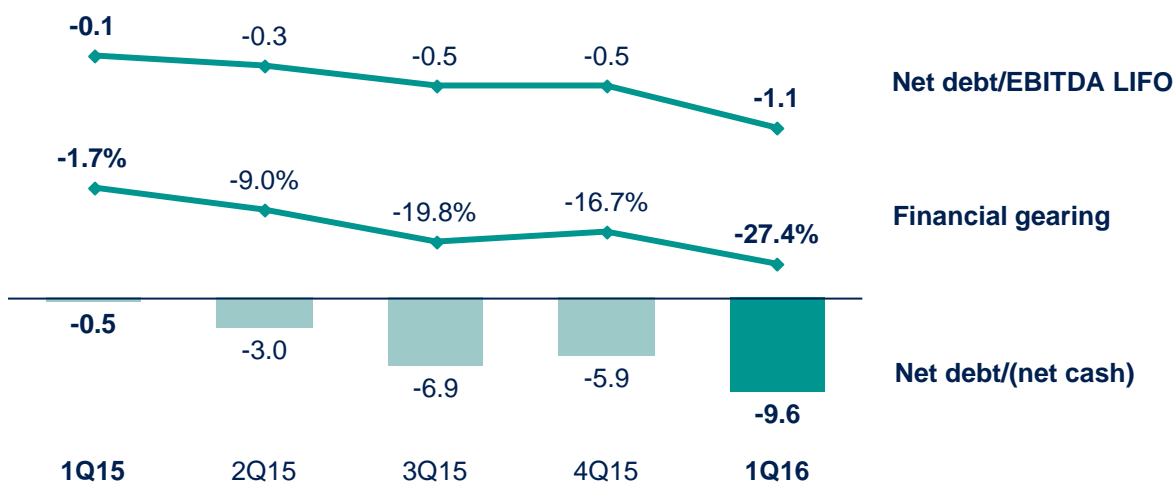
## Net debt/(net cash)\* change

CZK m



## Net debt/(net cash)\*, financial gearing & Net debt/EBITDA LIFO\*\*

CZK bn, %



- ▶ Increase of net cash position q/q to CZK 9.6 bn...
- ▶ ...with corresponding decrease in financial gearing to the level (-) 27.4%.
- ▶ Net debt/EBITDA LIFO indicator at the level (-) 1.1

- Net debt/(net cash)\* – includes cash pool liabilities.
- Net debt/EBITDA LIFO\*\* – 4-quarter trailing adjusted EBITDA LIFO.

Key highlights of 1Q16

Macro environment

Financial and operating results

Cash flow and financial position



## **Steam cracker update and operational outlook**

Macro and regulatory outlook

Back-up

## Steam cracker unit update

- ▶ Based on the updated estimations the company expects to complete the repair works during July.
- ▶ Due to complexity and focus on safety the restart schedule has been adjusted. The steam cracker unit will be restarted at 80% capacity utilization at the end of August 2016. Full capacity is expected to be reached at the end of October 2016.
- ▶ Unipetrol is insured against both property & mechanical damages and business interruption. Based on the estimates made at the end of March 2016 cost of repair are at the level of CZK 4 bn and Q1 2016 lost business profit at the level of CZK 2.9 bn.

## Agreement with MERO

- ▶ Representatives of Česká rafinérská and MERO ČR have signed an amendment concerning transportation tariffs via the IKL and Družba pipelines and new contract on arrangement of crude oil transportation via the TAL pipeline in April 2016.
- ▶ The annual value of the contracts exceeds CZK 1 bn.
- ▶ Following the contract implementation Unipetrol assumes to achieve savings comparing to previous conditions, level of which depends on the volume of transported crude oil.

## Turnaround of chemical complex in Litvínov

- ▶ Turnaround activities in chemical complex in Litvínov started on 15 March 2016. Engineering works have been finished on all units except Vacuum Distillation Unit where a fire happened during finalization of maintenance works. Due to the event, only a part of refinery operations is being started.
- ▶ Total related CAPEX spent at level of CZK 2.5 bn.
- ▶ More than 70 investment projects have been realized with planned budget CZK 1.3 bn.



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**Macro and regulatory outlook**

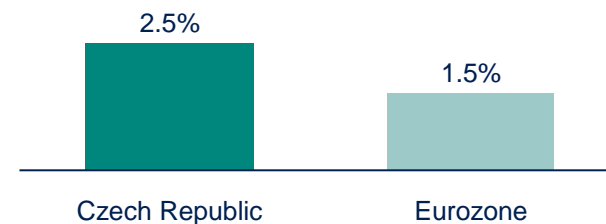
Back-up

## Macro environment

- ▶ **Brent crude oil price** – in base case scenario crude oil price is expected at comparable level to an average crude oil price from 2015. Factors that may cause crude oil price increase: demand increase, limited number of drillings in USA and high geopolitical risk.
- ▶ **Downstream macro environment** – expected decrease of yearly average comparing to 2015, mainly due to lower cracks on diesel and petrochemical products. Despite the drop, downstream margin should still be pretty high due to favorable macro environment, i.e. lower crude oil price and increase in fuels and petrochemical products consumption.

## Economy – GDP growth

- ▶ **GDP** – Czech Republic GDP expected to keep reasonable momentum during 2016 at 2.5% (Bloomberg).



## Regulatory environment

- ▶ **Amendment to the Act on Fuels**
  - Transposition of EU Directive on deployment of alternative fuels (CNG, hydrogen, electrical energy).
  - Unipetrol urges an unification of petrol stations construction and operation conditions – the same level of technical and safety requirements for all petrol stations.
- ▶ **Amendment to the Act on Air Protection**
  - Unipetrol urges reduction/removal of the 4% fuels emission reduction target till the end of 2017 from the Act – it is not obligatory, only indicative in the EU Directive → assumption of advance fuels usage, but very limited offer on the market, if available very expensive, threat to competitiveness.





# Thank you for your attention

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**Back-up**



# EBITDA & EBIT – REPORTED NUMBERS

## Detailed breakdown

	CZK m	1Q 2015	2Q 2015	3Q 2015	4Q 2015	1Q 2016
<b>Group</b>	<b>EBITDA LIFO</b>	<b>3 111</b>	<b>3 959</b>	<b>3 002</b>	<b>807</b>	<b>350</b>
	EBITDA	2 897	4 567	2 470	708	559
	<b>EBIT LIFO</b>	<b>2 640</b>	<b>3 463</b>	<b>2 506</b>	<b>342</b>	<b>-106</b>
	EBIT	2 426	4 071	1 975	243	103
<b>Downstream</b>	<b>EBITDA LIFO</b>	<b>2 986</b>	<b>3 910</b>	<b>2 719</b>	<b>553</b>	<b>132</b>
	EBITDA	2 772	4 518	2 188	454	341
	<b>EBIT LIFO</b>	<b>2 388</b>	<b>4 110</b>	<b>1 783</b>	<b>82</b>	<b>-25</b>
	EBIT	2 388	4 110	1 783	82	-25
<b>Retail</b>	<b>EBITDA LIFO</b>	<b>134</b>	<b>122</b>	<b>283</b>	<b>288</b>	<b>201</b>
	EBITDA	134	122	283	288	201
	<b>EBIT LIFO</b>	<b>54</b>	<b>41</b>	<b>200</b>	<b>204</b>	<b>125</b>
	EBIT	54	41	200	204	125
<b>Corporate functions</b>	<b>EBITDA</b>	<b>-9</b>	<b>-73</b>	<b>0</b>	<b>-33</b>	<b>16</b>
	EBIT	-16	-80	-7	-42	3

- ▶ **Refining margin** = revenues from products sold (96% Products = Gasoline 17%, Naphtha 20%, JET 2%, Diesel 40%, Sulphur Fuel Oils 9%, LPG 3%, Other feedstock 5%) minus costs (100% input = Brent Dated); product prices according to quotations.
- ▶ **Conversion capacity of Unipetrol's refineries** = Conversion capacity till 2Q2012 was 5.1 mt/y (Česká rafinérská – Kralupy 1.642 mt/y, Česká rafinérská – Litvínov 2.813 mt/y, Paramo 0.675 mt/y). From 3Q2012 till 4Q2013 conversion capacity was 4.5 mt/y, i.e. only Česká rafinérská refineries conversion capacity, adjusted for 51.22% shareholding of Unipetrol, after discontinuation of crude oil processing in Paramo refinery (Česká rafinérská – Kralupy 1.642 mt/y, Česká rafinérská – Litvínov 2.813 mt/y). From 1Q2014 till 1Q2015 conversion capacity was 5.9 mt/y after completion of acquisition of Shell's 16.335% stake in Česká rafinérská, corresponding to Unipetrol's total stake of 67.555% (Česká rafinérská – Kralupy 2.166 mt/y, Česká rafinérská – Litvínov 3.710 mt/y). In 2Q15 conversion capacity increased to 7.8 mt/y driven by operation of Eni's 32.445% stake in Česká rafinérská from May. From 3Q15 conversion capacity is 100% of Česká rafinérská, i.e. 8.7 mt/y (Česká rafinérská – Kralupy 3.206 mt/y, Česká rafinérská – Litvínov 5.492 mt/y).
- ▶ **Light distillates** = LPG, gasoline, naphtha
- ▶ **Middle distillates** = JET, diesel, light heating oil
- ▶ **Heavy distillates** = fuel oils, bitumen
- ▶ **Petrochemical olefin margin** = revenues from products sold (100% Products = 40% Ethylene + 20% Propylene + 20% Benzene + 20% Naphtha) minus costs (100% Naphtha); product prices according to quotations.
- ▶ **Petrochemical polyolefin margin** = revenues from products sold (100% Products = 60% Polyethylene/HDPE + 40% Polypropylene) minus costs (100% input = 60% Ethylene + 40% Propylene); product prices according to quotations.
- ▶ **Free cash flow (FCF)** = sum of operating and investing cash flow
- ▶ **Net working capital (NWC)** = inventories + trade and other receivables – trade and other liabilities
- ▶ **Net debt** = non-current loans, borrowings and debt securities + current loans, borrowings and debt securities + cash pool liabilities – cash and cash equivalents
- ▶ **Financial gearing** = net debt / (total equity – hedging reserve)



The following types of statements:

Projections of revenues, income, earnings per share, capital expenditures, dividends, capital structure or other financial items; Statements of plans or objectives for future operations; Expectations or plans of future economic performance; and Statements of assumptions underlying the foregoing types of statements are "forward-looking statements", and words such as "anticipate", "believe", "estimate", "intend", "may", "will", "expect", "plan", "target" and "project" and similar expressions as they relate to Unipetrol, its business segments, brands, or the management of each are intended to identify such forward looking statements. Although Unipetrol believes the expectations contained in such forward-looking statements are reasonable at the time of this presentation, the Company can give no assurance that such expectations will prove correct. Any forward-looking statements in this presentation are based only on the current beliefs and assumptions of our management and information available to us. A variety of factors, many of which are beyond Unipetrol's control, affect our operations, performance, business strategy and results and could cause the actual results, performance or achievements of Unipetrol to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. For us, particular uncertainties arise, among others, from: (a) changes in general economic and business conditions (including margin developments in major business areas); (b) price fluctuations in crude oil and refinery products; (c) changes in demand for the Unipetrol's products and services; (d) currency fluctuations; (e) loss of market and industry competition; (f) environmental and physical risks; (g) the introduction of competing products or technologies by other companies; (h) lack of acceptance of new products or services by customers targeted by Unipetrol; (i) changes in business strategy; (j) as well as various other factors. Unipetrol does not intend or assume any obligation to update or revise these forward-looking statements in light of developments which differ from those anticipated. Readers of this presentation and related materials on our website should not place undue reliance on forward-looking statements.