



UNIPETROL 4Q 2016 FINANCIAL RESULTS

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#Unipetrol4Q16
@unipetrolcz



Unipetrol

ORLEN GROUP

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Key highlights of 4Q 2016

Macro environment

Financial and operating results

Cash flow and financial position

Operational outlook and achievements in 2016

Back-up

KEY HIGHLIGHTS OF 4Q16

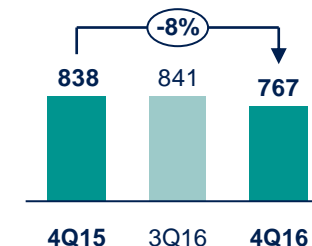
External macro environment

- ▶ Czech GDP growth slightly slowed down to the level of 1.9% y/y in 3Q16, however increase to 2.3% is estimated in 4Q16
- ▶ Crude oil price increased by 12% y/y to 49 USD/bbl
- ▶ Refining model margin slightly decreased by 5% y/y to 4.0 USD/bbl
- ▶ Petrochemical model margin decreased by 8% y/y, however maintained at solid level of 767 EUR/t

Refining model margin (USD/bbl)



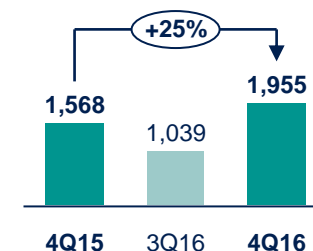
Petrochemical model margin (EUR/t)



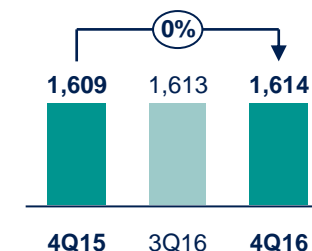
Operational performance

- ▶ Steam cracker unit and Kralupy refinery operations were restored in 4Q resulting in significant increase in processed crude oil by 25% y/y
- ▶ Consequently the refining utilization ratio increased from 72% to 90% y/y
- ▶ Refining sales volumes remained stable at the level of 1.6 mt
- ▶ Benzina further increased its market share to 17.6%

Processed crude (kt)



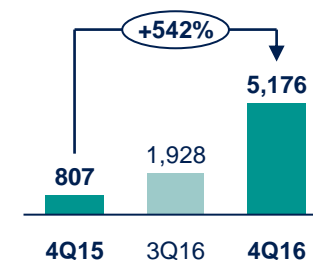
Refining sales incl. retail (kt)



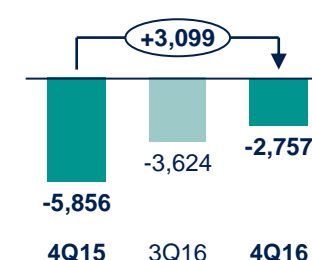
Value creation & financial position

- ▶ Profound increase in profitability y/y with EBITDA LIFO of CZK 5.2 bn:
 - CZK 1.5 bn as a result of restored operation of the steam cracker unit and Kralupy refinery
 - Agreed next payment for steam cracker accident insurance claim of CZK 1.8 bn
 - Impairment allowance of downstream segment assets of CZK 1.9 bn was reversed
- ▶ Net cash position decreased by CZK 3.1 bn y/y resulting from increased financing needs of working capital and capital spendings

EBITDA LIFO (CZK m)



Net debt/(net cash) (CZK m)



Key highlights of 4Q 2016



Macro environment

Financial and operating results

Cash flow and financial position

Operational outlook and achievements in 2016

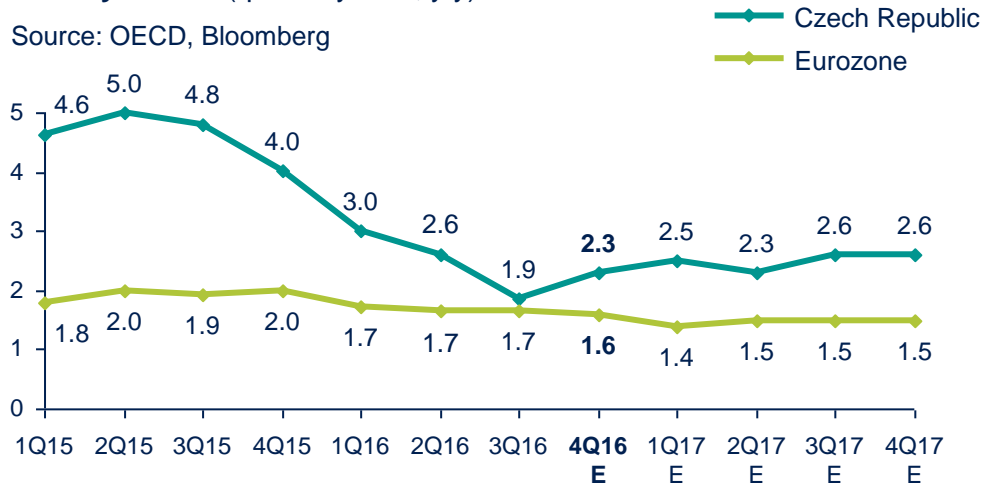
Back-up

GENERAL MACRO ENVIRONMENT

Czech GDP growth estimated at the solid level of 2.3% in 4Q16

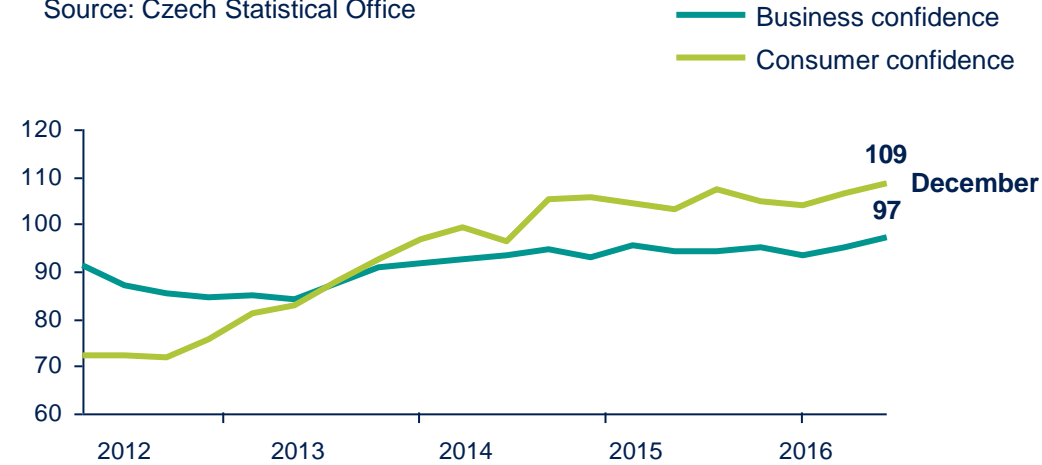
GDP dynamics (quarterly data, y/y)

Source: OECD, Bloomberg



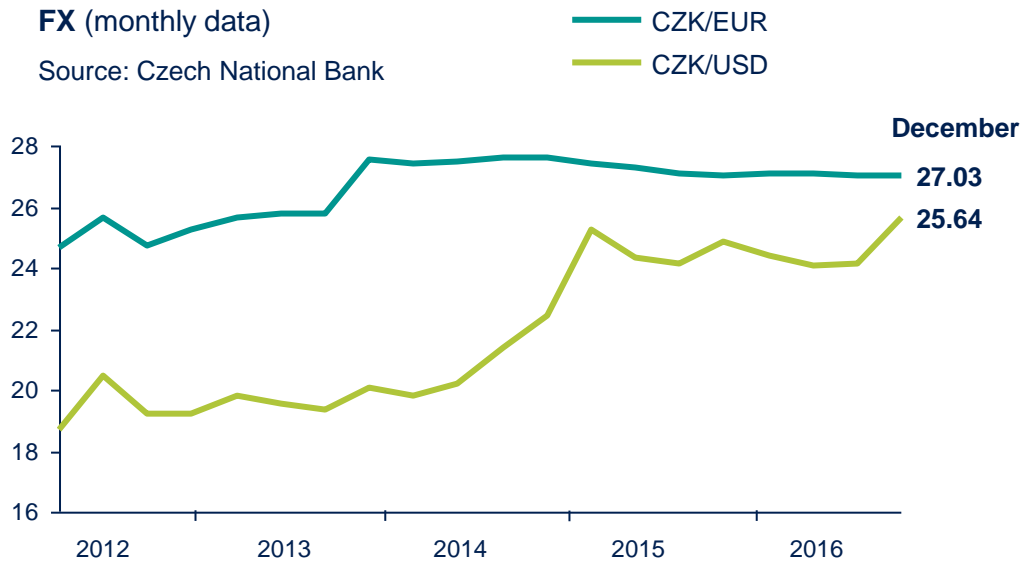
Confidence in the Czech economy (monthly data)

Source: Czech Statistical Office

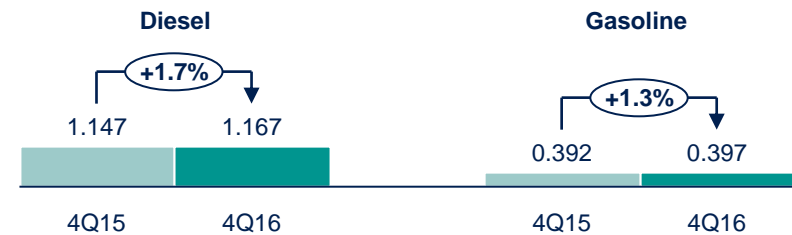


FX (monthly data)

Source: Czech National Bank



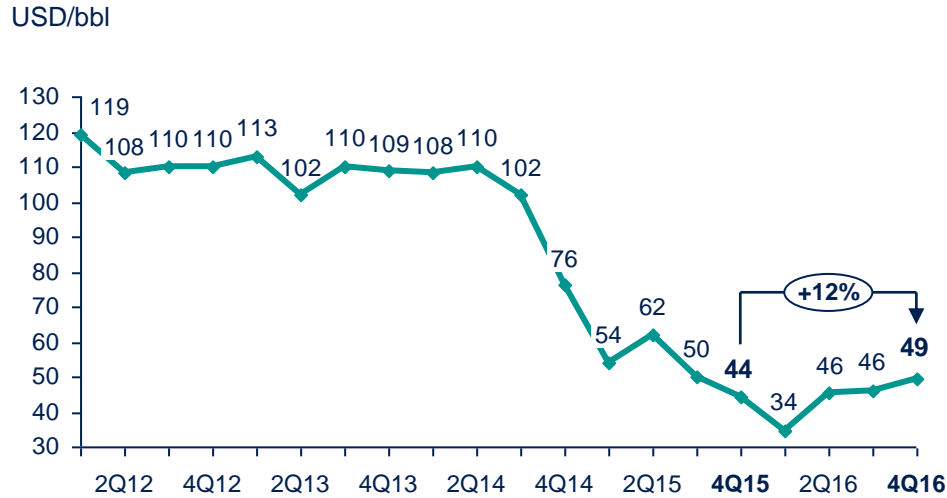
- ▶ Czech GDP growth in 4Q16 estimated at the solid level of 2.3% with further increase expected in upcoming quarters
- ▶ Increase in both business and consumer confidence in the Czech economy in 4Q16
- ▶ CZK stable against EUR, slightly above ČNB's target of 27 CZK/EUR; depreciation against USD to 25.64 CZK/USD in December; USD appreciated against EUR to 1.05 USD/EUR
- ▶ Diesel consumption increased by 1.7% y/y, gasoline consumption increased by 1.3% y/y in the Czech Republic (mt)*:



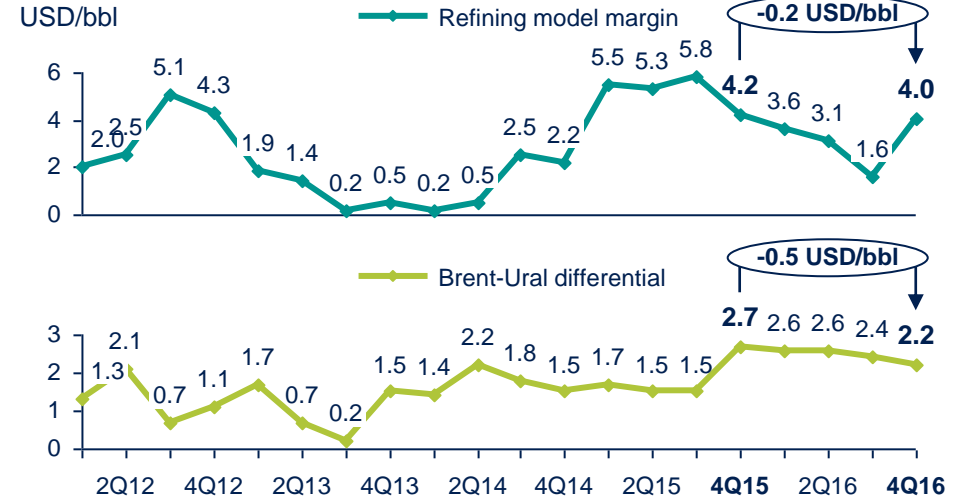
DOWNSTREAM MACRO ENVIRONMENT

Crude oil price increased to 49 USD/bbl

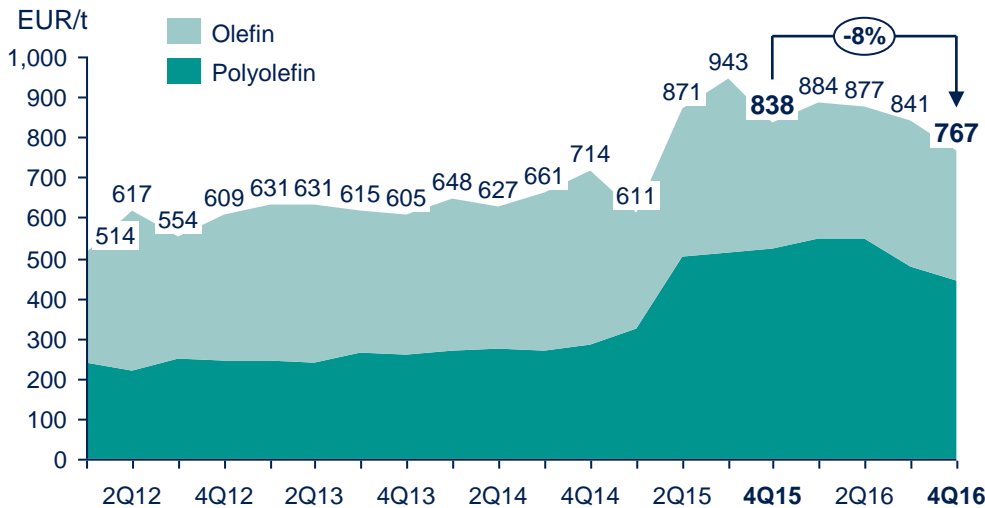
Brent crude oil price (quarterly average)



Refining model margin and Brent-Ural differential



Combined petrochemical model margin



- ▶ Crude oil price increased by 12% y/y to 49 USD/bbl
- ▶ Brent-Ural differential decreased by 19% y/y to 2.2 USD/bbl
- ▶ Refining model margin slightly decreased by 5% y/y to 4.0 USD/bbl, however improved significantly q/q
- ▶ Petrochemical model margin further decreased by 8% y/y, however still maintained at very good level of 767 EUR/t

Key highlights of 4Q 2016

Macro environment



Financial and operating results

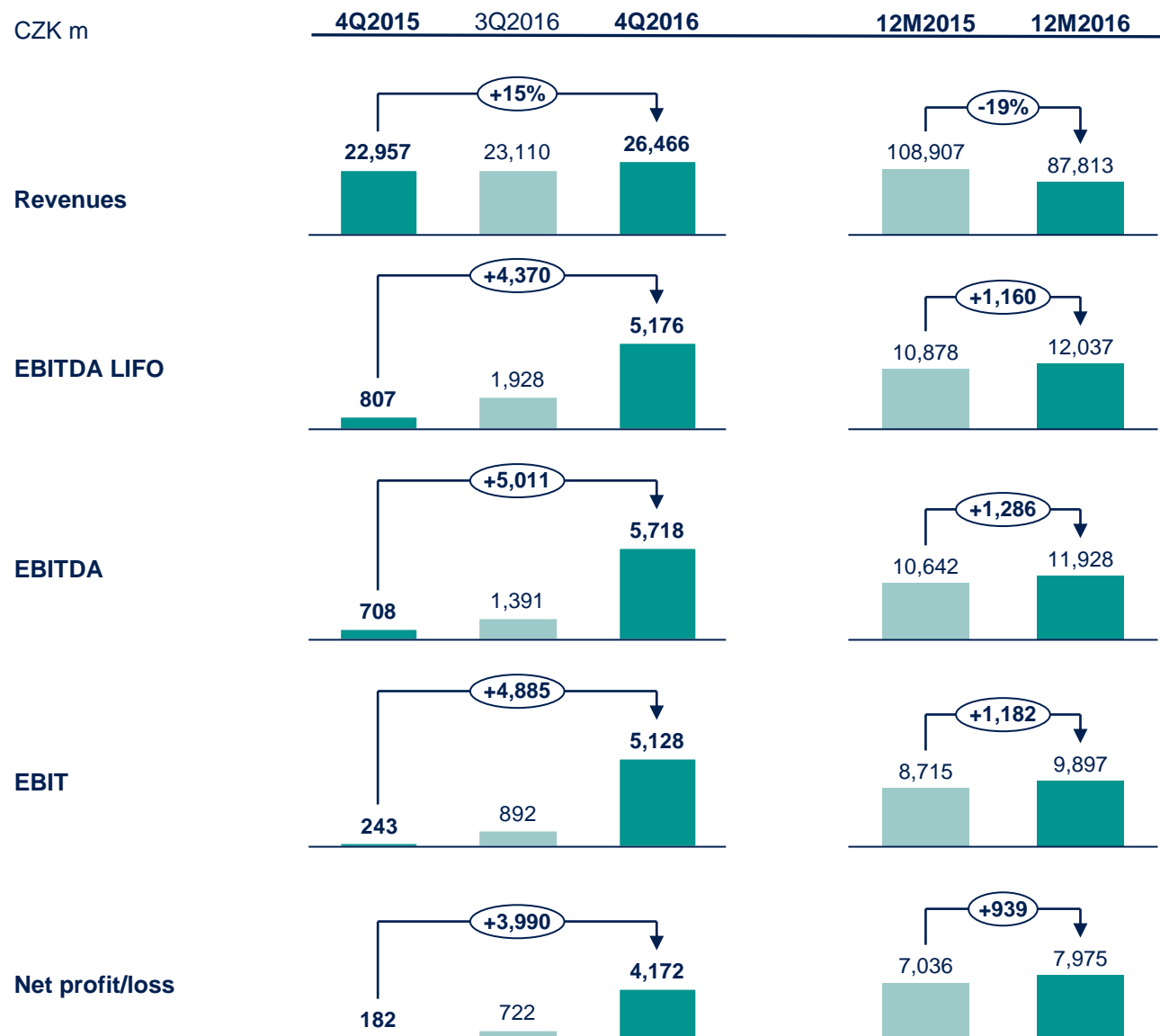
Cash flow and financial position

Operational outlook and achievements in 2016

Back-up

FINANCIAL RESULTS – REPORTED NUMBERS

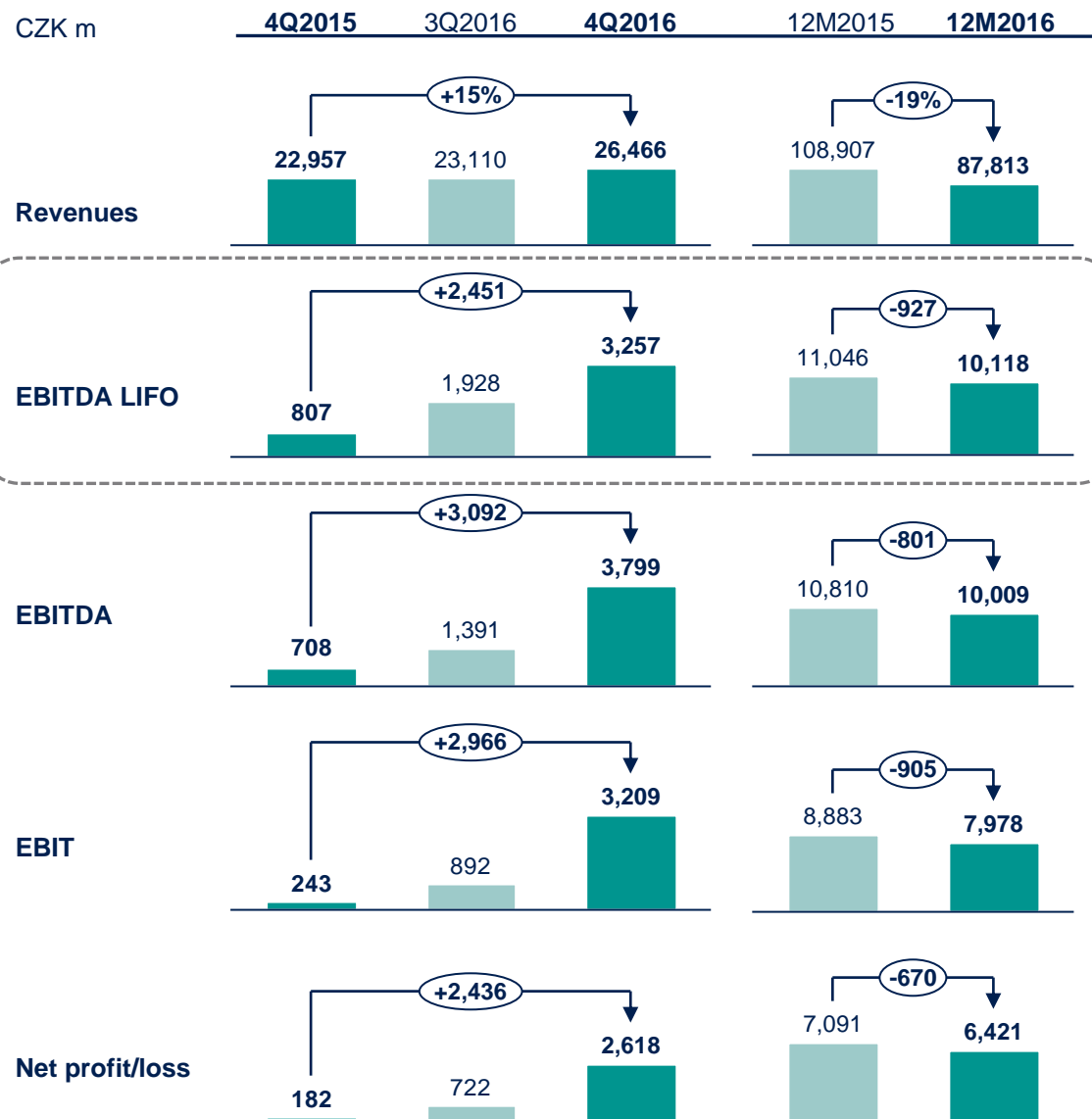
Reversal of impairment allowance of CZK 1.9 bn



- ▶ **Revenues increased by 15% y/y** driven by much higher petrochemical products sales volumes thanks to restored operation of the steam cracker and higher crude oil price
- ▶ As at 31 December 2016 in accordance with the IFRS (IAS 36 – Impairment of assets) the Unipetrol Group has verified the existence of impairment indicators and carried out the impairment tests
- ▶ Based on the results of the analysis performed **impairment allowance of CZK 1.9 bn was reversed** and it is a non-cash item
- ▶ **Net profit** of CZK 4.2 bn in 4Q16
- ▶ **Full year net profit of nearly CZK 8.0 bn** in 2016

FINANCIAL RESULTS – ADJUSTED FOR ONE-OFFS

Adjusted net profit of CZK 2,618 m



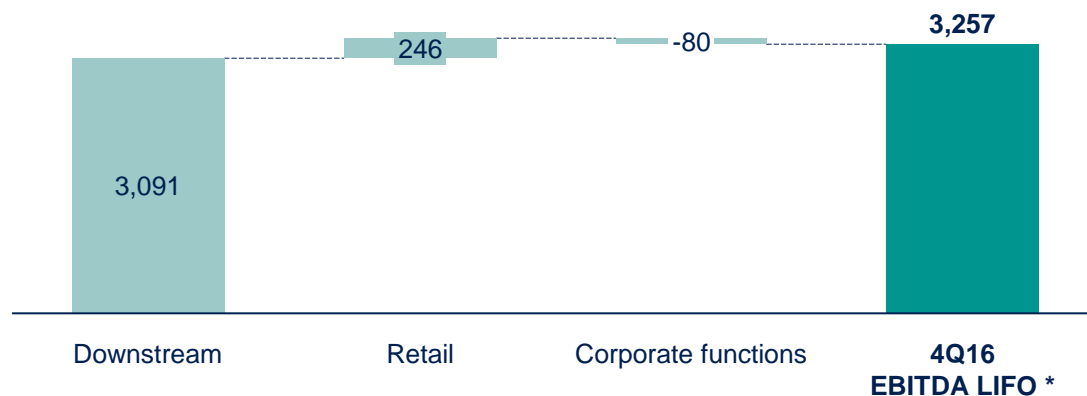
- ▶ Profound increase in **adjusted EBITDA LIFO** to the level of almost CZK 3.3 bn
- ▶ Agreed next payment for steam cracker accident insurance claim of CZK 1.8 bn
- ▶ Company expects, based on internal estimates, it should be in a position to recover from insurer **lost business profit** for 4Q16 resulting from both steam cracker accident and Kralupy refinery shutdown of CZK 0.5 bn (not included in financial results)
- ▶ **LIFO effect positive** of CZK 542 m
- ▶ **Depreciation and amortization** of CZK 590 m
- ▶ **Adjusted EBIT** of CZK 3.2 bn in 4Q16
- ▶ **Positive result from financial operations** of CZK 28 m
- ▶ **Adjusted net profit** of CZK 2.6 bn in 4Q16
- ▶ **Full-year adjusted net profit** of CZK 6.4 bn

OPERATING PROFITABILITY BY SEGMENTS

Downstream segment recorded adjusted EBITDA LIFO of CZK 3.1 bn

Segment results – Adjusted EBITDA LIFO

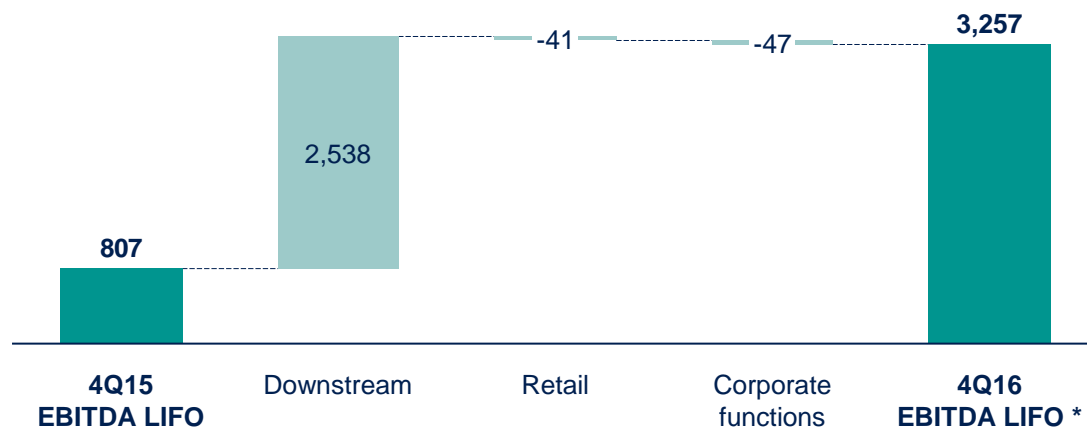
CZK m



- ▶ **Downstream segment** (combination of refining and petrochemicals) EBITDA LIFO at the level of CZK 3.1 bn
- ▶ **Retail segment** positive contribution of CZK 246 m

Change in segment results y/y

CZK m



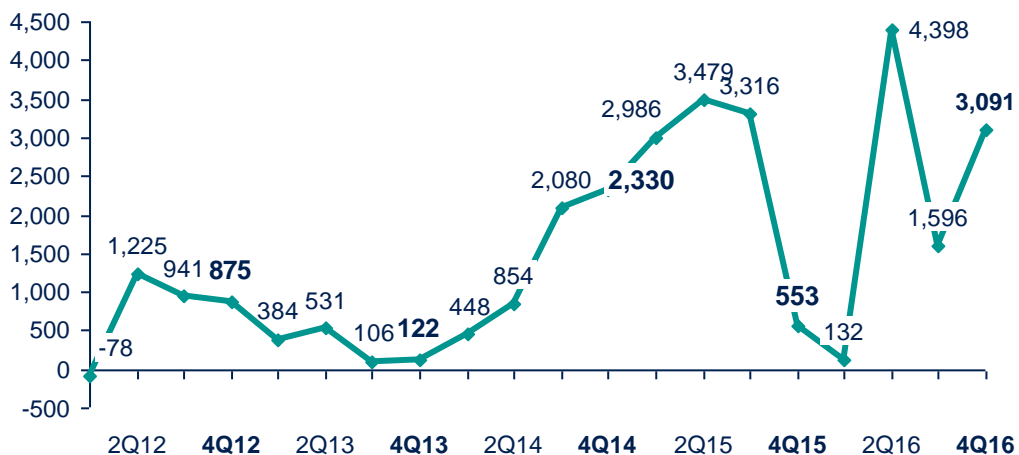
- ▶ **Increase** in operating profitability y/y by CZK 2.5 bn...
- ▶ ...driven by **downstream segment improvement** of CZK 2.5 bn y/y
- ▶ **Retail segment** worsened by CZK (-) 41 m y/y

DOWNSTREAM – EBITDA LIFO

Adjusted EBITDA LIFO at the level of CZK 3.1 bn

Adjusted EBITDA LIFO quarterly *

CZK m



+

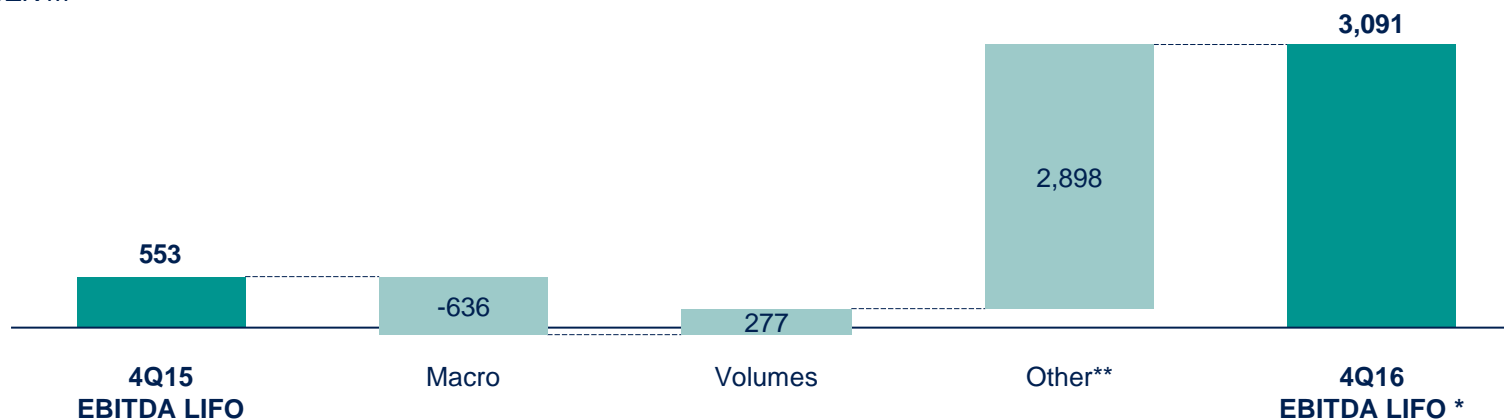
- ▶ Positive volumes impact of CZK 277 m y/y driven by:
 - Significantly higher petrochemical sales volumes resulting from the steam cracker unit restart and restore of the full operation of the polymer units
 - Stable refining sales volumes supported by Kralupy refinery restart
- ▶ Positive impact of Other category of CZK 2.9 bn y/y mainly driven by agreed next payment from the insurer of CZK 1.8 bn and reversal of NRV provision of CZK 1.0 bn

-

- ▶ Negative macro impact of CZK (-) 636 m y/y driven by slightly lower refining and lower petrochemical margins

Downstream segment results – Drivers of change y/y

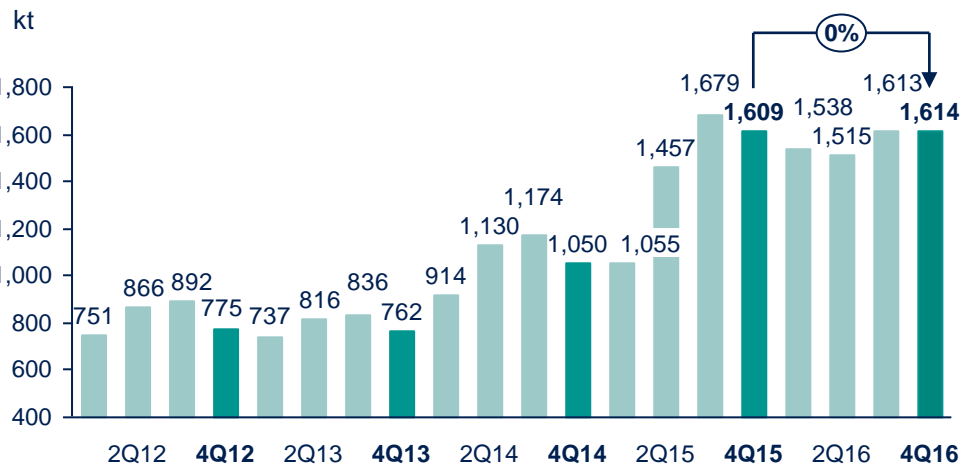
CZK m



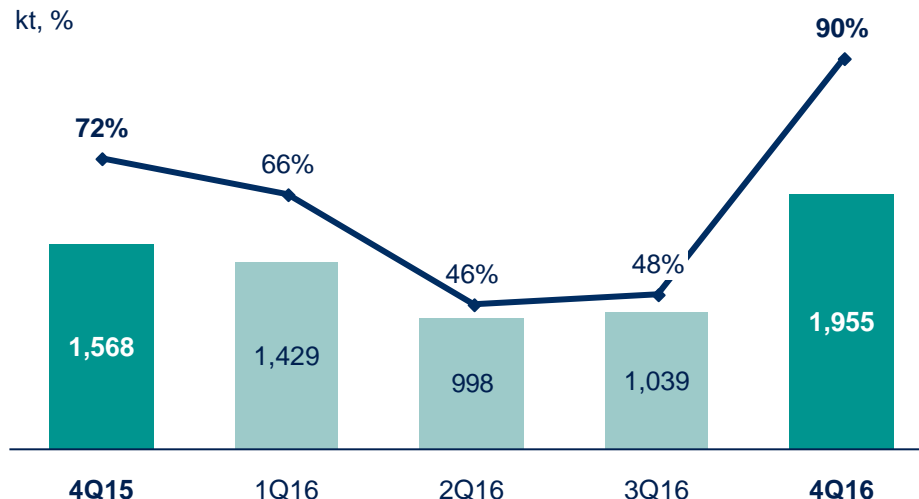
DOWNSTREAM (REFINING) – OPERATIONAL DATA

Refining utilization ratio increased to 90% driven by the restart of the shutdown production units

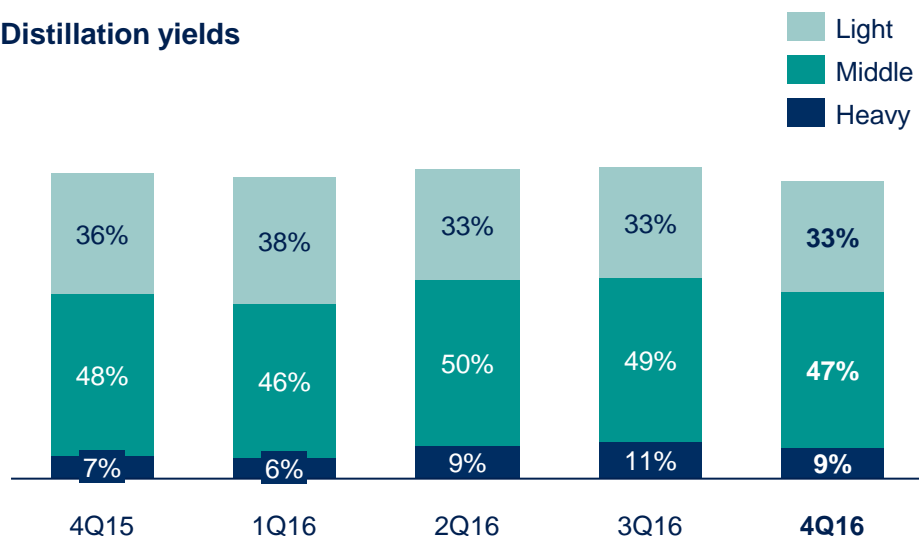
Sales volumes of refining products, incl. retail (Benzina network)



Processed crude and refining utilization ratio



Distillation yields

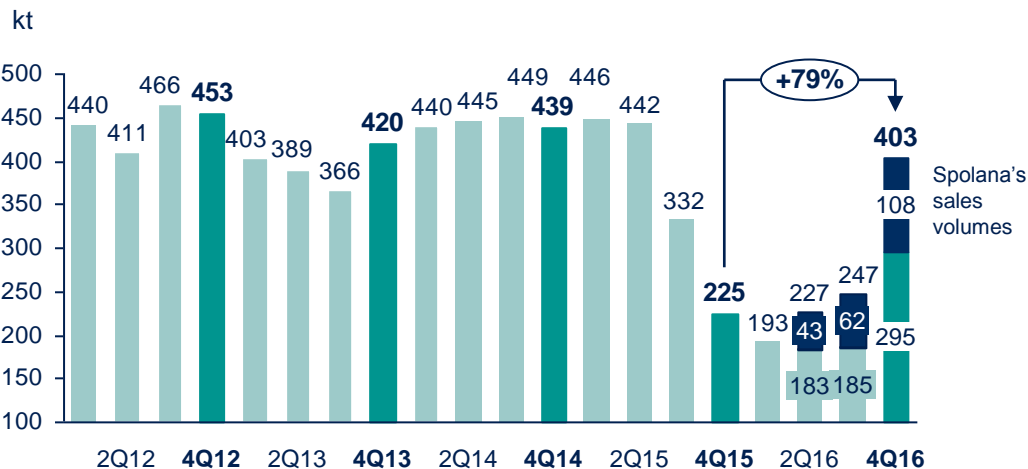


- ▶ Sales volumes of refining products remained stable y/y at 1.6 mt, however compared to previous quarter the trading activity was replaced by the sale of own production
- ▶ Much higher level of processed crude of 1,955 kt compared to 3Q16 driven by Kralupy refinery and steam cracker unit restart
- ▶ Consequently refining utilization ratio increased to the level of 90%
- ▶ Restart of Kralupy refinery reduced the share of heavy and middle distillates yields q/q

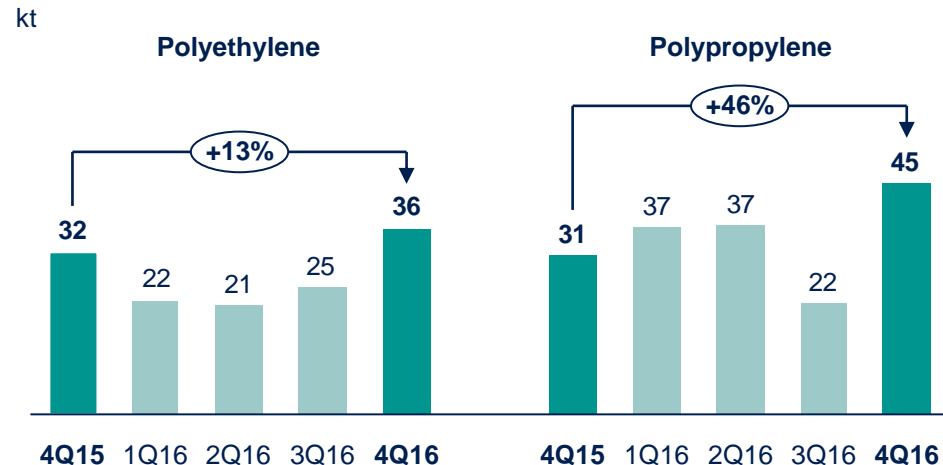
DOWNSTREAM (PETROCHEMICALS) – OPERATIONAL DATA

Petrochemical operations positively affected by the restart of the production units

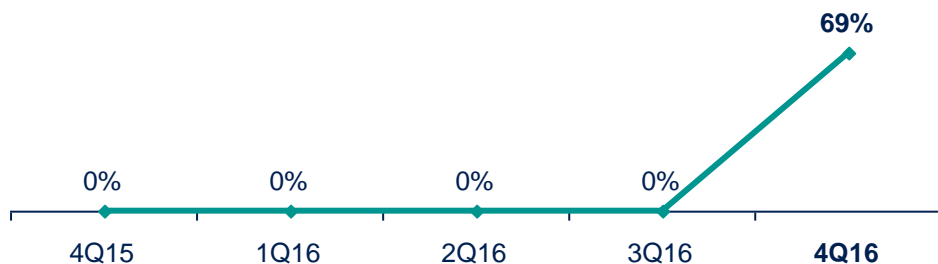
Sales volumes of petrochemical products



Sales volumes of polyethylene and polypropylene



Steam-cracker utilization ratio



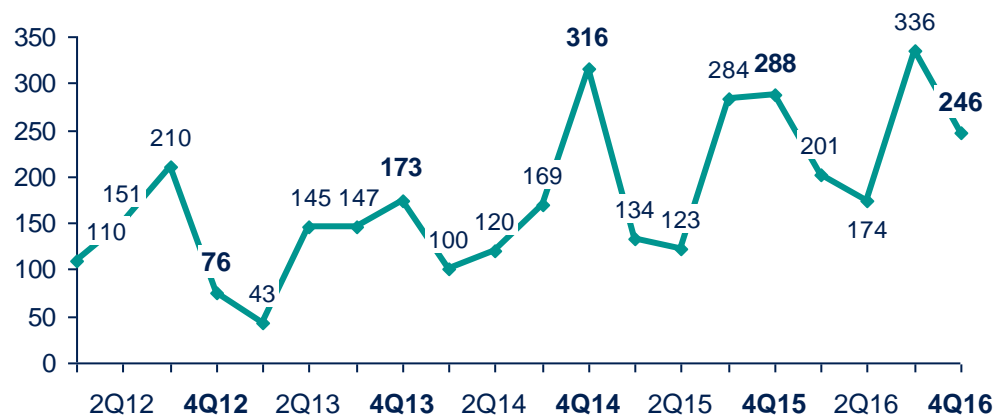
- ▶ Restore of the steam cracker unit production in the second half of October implies utilization ratio at 69%
- ▶ Corresponding rapid increase in petrochemical products sales volumes by 79% y/y:
 - Increase in Spolana's sales volumes thanks to restored ethylene deliveries from Litvínov
 - Polyethylene sales up by 13% y/y at the level of 36 kt
 - Polypropylene sales up by 46% y/y at the level of 45 kt

RETAIL SEGMENT

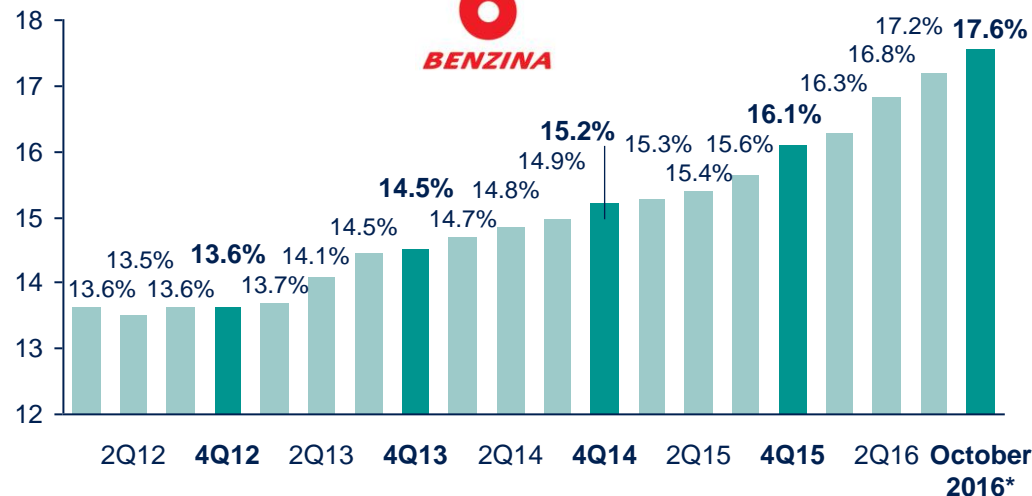
Continuing trend of increase in Benzina fuel sales volumes y/y

EBITDA LIFO quarterly

CZK m

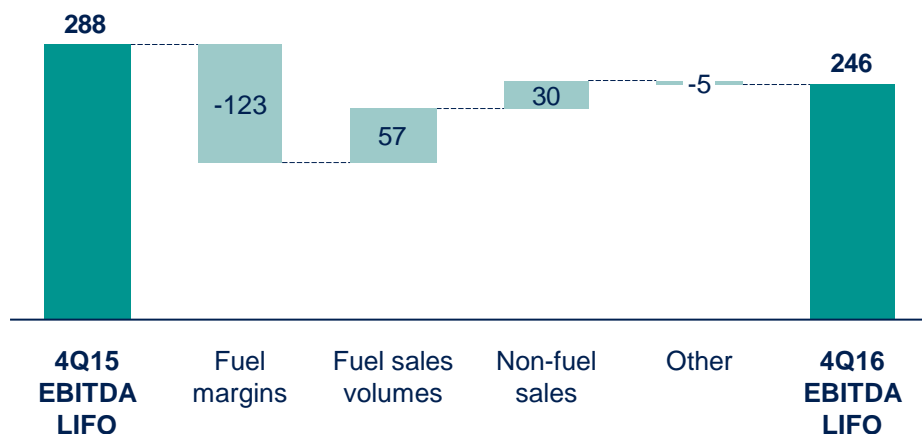


Market share of Benzina



Retail segment results – Drivers of change y/y

CZK m



- + Positive fuel sales volumes impact of CZK 57 m y/y due to ongoing offer improvement, takeover of OMV filling stations and higher demand resulting from positive macro development
- + Positive impact of non-fuel sales of CZK 30 m y/y driven by expansion of Stop Cafe concept (10 new Stop Cafe opened in 4Q) and various promotions
- + Further increase in market share of Benzina to 17.6% at the end of October 2016
- Negative impact of lower fuel margins of CZK (-) 123 m y/y

Key highlights of 4Q 2016

Macro environment

Financial and operating results



Cash flow and financial position

Operational outlook and achievements in 2016

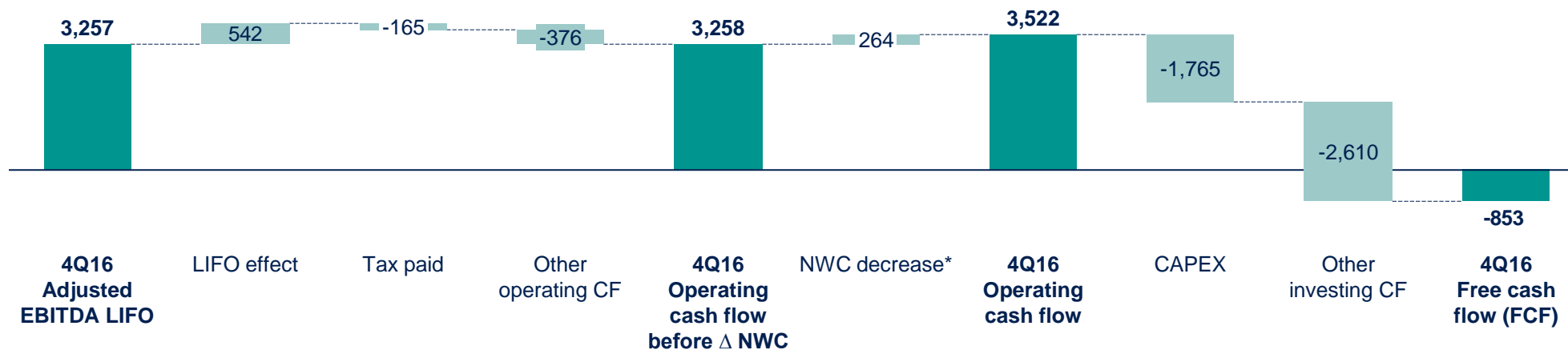
Back-up

CASH FLOW & NET WORKING CAPITAL

Positive operating cash flow of CZK 3.5 bn

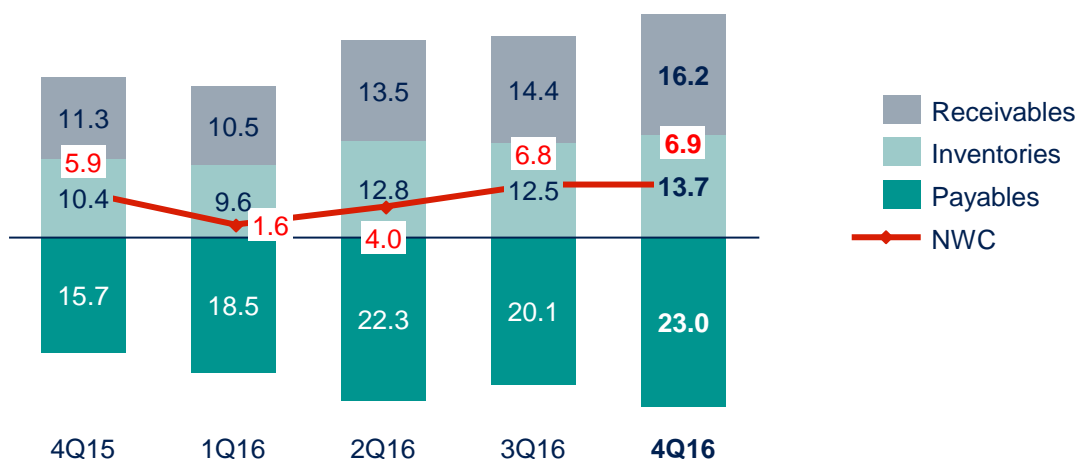
Free cash flow (FCF) reconciliation

CZK m



Net working capital (NWC)

CZK bn



- ▶ Operating cash flow of CZK 3.5 bn
- ▶ Free cash flow negative of CZK (-) 853 m due to extensive CAPEX spendings - construction of PE3, OMV filling stations takeover and rebranding
- ▶ NWC stable q/q at the level of CZK 6.9 bn, however y/y increased by CZK 1.0 bn
- ▶ Balance of accounts payables includes CZK 3.5 bn CAPEX payables to be paid in Q1/2017
- ▶ Full year CAPEX spendings of CZK 10.8 bn

* **Free cash flow (FCF) reconciliation**

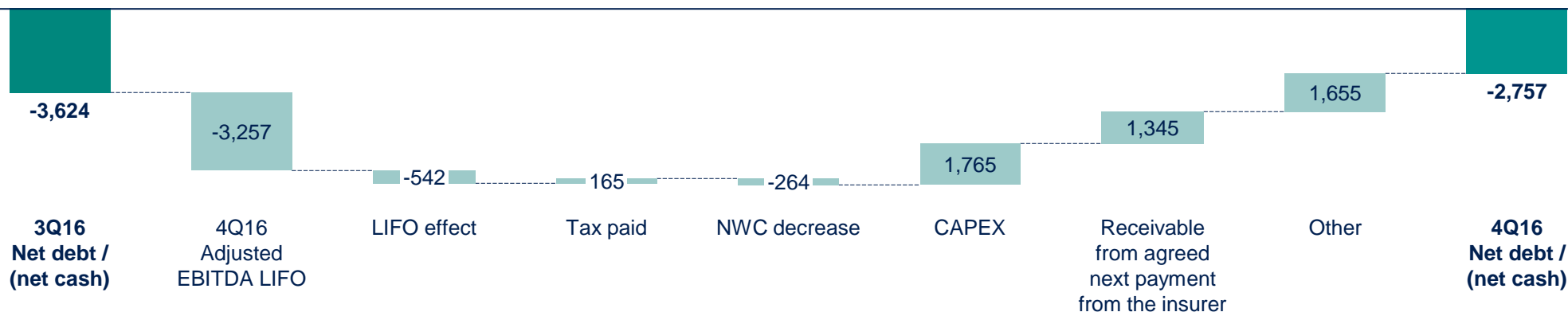
Net working capital (NWC) – NWC on cash flow basis adjusted for change in investment payables, receivable from prepayments for assets and dividend payables.

FINANCIAL GEARING

Net cash position of CZK 2.8 bn at the end of 4Q16

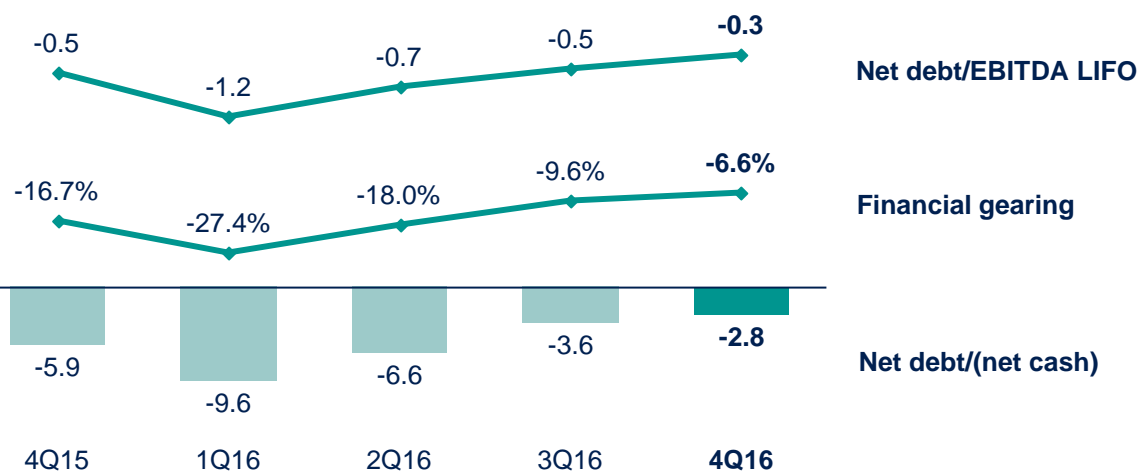
Net debt/(net cash)* change

CZK m



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

CZK bn, %



- ▶ Net cash position decreased to CZK 2.8 bn in 4Q16 resulting from intensive capex spendings
- ▶ Negative level of financial gearing at the level of (-) 6.6%
- ▶ Net debt/EBITDA LIFO indicator at (-) 0.3

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

Key highlights of 4Q 2016

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Cash flow and financial position



Operational outlook and achievements in 2016

Back-up

Insurance claim processes

- ▶ Both production plants are back to full operation.
- ▶ Based on internal estimates made at the end of 2016, the company should be in a position to recover from insurer costs of repair at the level of CZK 3.9 bn and lost business profit at the level of CZK 10.1 bn related to the steam cracker accident. The final amount of compensation will depend on the final agreement with insurers.
- ▶ Based on internal estimates made at the end of 2016, the company should be in a position to recover from insurer costs of repair at the level of CZK 0.3 bn and lost business profit at the level of CZK 0.9 bn related to the FCC unit accident. The final amount of compensation will depend on the final agreement with insurers.
- ▶ Unipetrol recognized in financial statements 2016 amount of CZK 7.9 bn related to steam cracker claim only.

New polyethylene unit (PE3) construction

- ▶ Close to CZK 3 bn already spent on the construction of the new polyethylene unit (PE3).
- ▶ Construction of the PE3 production unit itself started in the 2Q2016 – foundations of Natural line were built, mixing silos were installed.
- ▶ Unipetrol has successfully coped with the issue following the break of services of a major contractor.



Consolidation of the Group

- ▶ Till the beginning of 2017 the following companies were merged with Unipetrol RPA – Polymer Institute Brno (PIB), Benzina, Unipetrol Services, Unipetrol Rafinérie, Chemopetrol and Česká rafinérská.
- ▶ The consolidated structure helps to simplify administrative procedures and streamline intragroup processes which increases competitiveness and operational excellence of the whole Unipetrol Group.

Upcoming events

- ▶ Announcement of new strategy in March 2017.
- ▶ Publication of Unipetrol Annual Report 2016 on 23 March 2017

ACHIEVEMENTS IN 2016

- ✓ Resuming of the steam cracker unit and Kralupy refinery operations in October
- ✓ Major consolidation of Unipetrol Group structure completed
- ✓ Commencement of construction of a new polyethylene unit (PE3) in Litvínov
- ✓ New contracts signed for REBCO crude oil deliveries
- ✓ New contract signed with MERO ČR securing the transportation of crude oil to the Czech Republic
- ✓ Acquisition of 100% share capital of Spolana securing stable offtake of ethylene
- ✓ 20 filling stations already taken over from OMV in 2016
- ✓ Further increase in market share of Benzina up to 17.6%
- ✓ Dividend of CZK 1 bn approved by the General meeting and paid to shareholders
- ✓ Full year very high CAPEX spendings of CZK 10.8 bn invested in modernization and reconstruction of production technologies



Thank you for your attention

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Key highlights of 4Q 2016

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Back-up

EBITDA & EBIT – REPORTED NUMBERS

Detailed breakdown

	CZK m	1Q 2015	2Q 2015	3Q 2015	4Q 2015	1Q 2016	2Q 2016	3Q 2016	4Q 2016	12M 2015	12M 2016
Group	EBITDA LIFO	3 111	3 959	3 001	807	350	4 582	1 928	5 176	10 878	12 037
	EBITDA	2 897	4 567	2 470	708	559	4 260	1 391	5 718	10 642	11 928
	EBIT LIFO	2 640	3 463	2 505	342	-106	4 096	1 429	4 586	8 950	10 006
	EBIT	2 426	4 071	1 975	243	103	3 774	892	5 128	8 715	9 897
Downstream	EBITDA LIFO	2 986	3 908	2 719	553	132	4 398	1 596	5 010	10 166	11 136
	EBITDA	2 772	4 516	2 188	454	341	4 075	1 058	5 552	9 930	11 026
	EBIT LIFO	2 602	3 502	2 313	181	-234	4 002	1 189	4 516	8 598	9 473
	EBIT	2 388	4 110	1 783	82	-25	3 680	652	5 058	8 362	9 364
Retail	EBITDA LIFO	134	123	284	288	201	174	336	246	829	958
	EBITDA	134	123	284	288	201	174	336	246	829	958
	EBIT LIFO	54	41	200	204	125	96	255	163	501	639
	EBIT	54	41	200	204	125	96	255	163	501	639
Corporate functions	EBITDA	-9	-71	-2	-33	16	11	-1	-80	-116	-55
	EBIT	-16	-80	-7	-42	3	-2	-15	-93	-146	-106

- ▶ **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.