



# UNIPETROL 3Q 2015 FINANCIAL RESULTS

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Prague, Czech Republic



**#Unipetrol3Q15**  
**@unipetrolcz**



**Unipetrol**

**ORLEN** GROUP



## Key highlights of 3Q15

**Macro environment**

**Financial and operating results**

**Cash flow and financial position**

**Plans and market outlook**

**Recap**

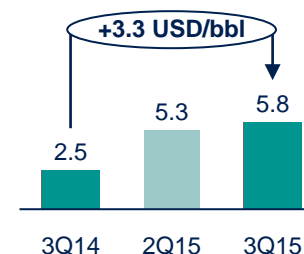
**Back-up**

# KEY HIGHLIGHTS OF 3Q15

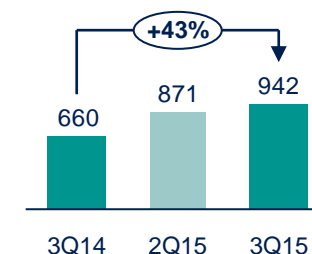
## External macro environment

- ▶ Czech GDP growth further accelerated at 4.6% y/y in 2Q15, 3Q15 is expected to show another solid number
- ▶ Crude price declined by 19% q/q to 50 USD/bbl
- ▶ Multi-year high of refining margin at 5.8 USD/bbl
- ▶ Record high petrochemical margin at 942 EUR/t
- ▶ Low crude oil price level continued to significantly support both refining and petrochemical margins

**Refining margin**  
(USD/bbl)



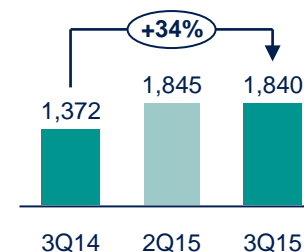
**Petrochemical margin**  
(EUR/t)



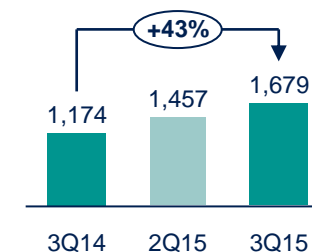
## Operational performance

- ▶ Steam cracker accident on 13 August materially impacted operational performance (processed crude volumes, refining and mainly petrochemical sales volumes)
- ▶ Refining utilization ratio declined from 95% to 85% q/q as a result
- ▶ Refining sales volumes profoundly increased by 43% y/y to 1,679 kt thanks to higher refining capacity (Eni's stake in Česká rafinérská)
- ▶ Benzina continued to significantly increase fuel sales y/y

**Processed crude**  
(kt)



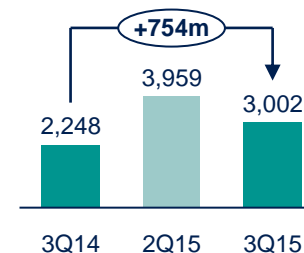
**Refining sales incl. retail**  
(kt)



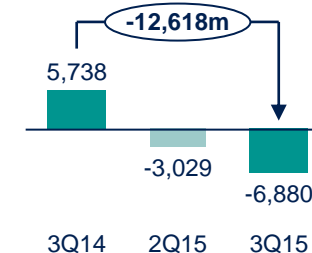
## Value creation & financial position

- ▶ EPC contract on construction of the new polyethylene unit (PE3) signed with Technip Italy S.p.A. on 10 September (contract price CZK 5.76 bn and total planned CAPEX for the whole project ca CZK 8.5 bn)
- ▶ High EBITDA LIFO of CZK 3.0 bn despite steam cracker accident
- ▶ Very strong cash generation with operating cash flow of CZK 6.5 bn and free cash flow of CZK 3.8 bn
- ▶ Free cash flow generation further strengthened financial position with net cash of CZK 6.9 bn at quarter end

**EBITDA LIFO**  
(CZK m)



**Net debt/(net cash)**  
(CZK m)





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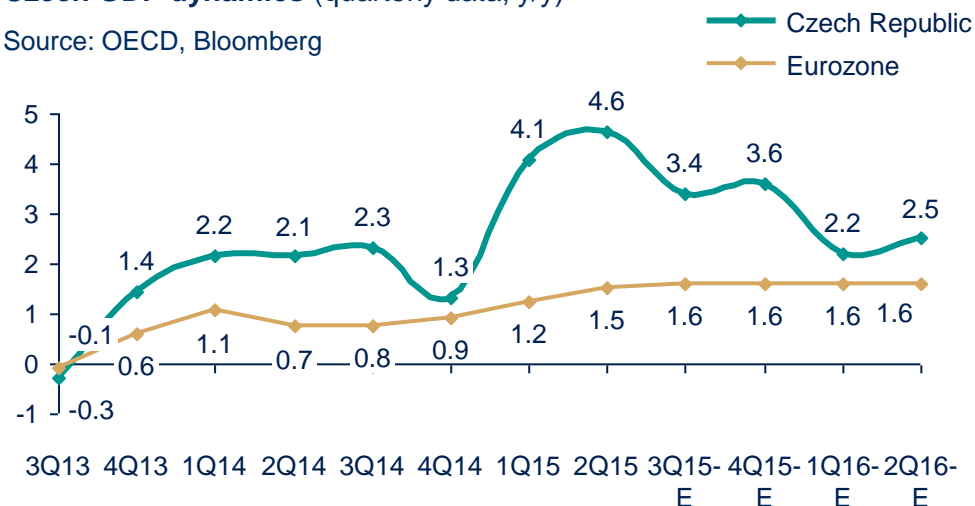
**Back-up**

# GENERAL MACRO ENVIRONMENT

Czech GDP growth further accelerated at 4.6% y/y in 2Q15

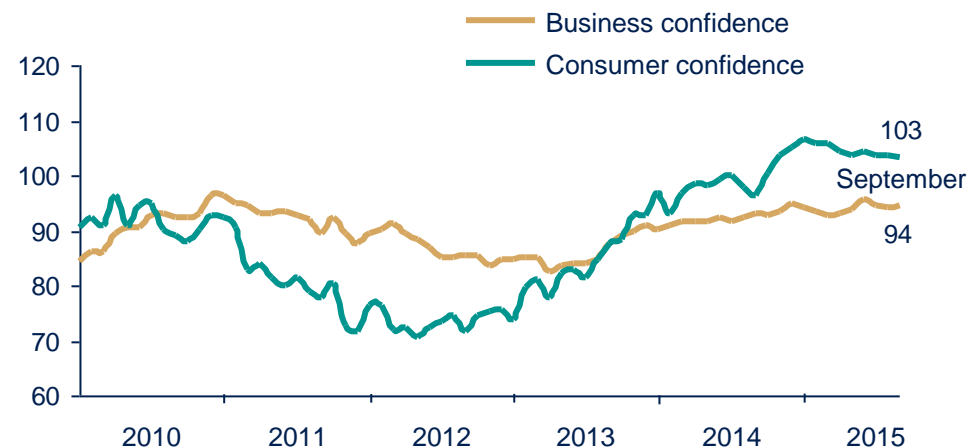
## Czech GDP dynamics (quarterly data, y/y)

Source: OECD, Bloomberg



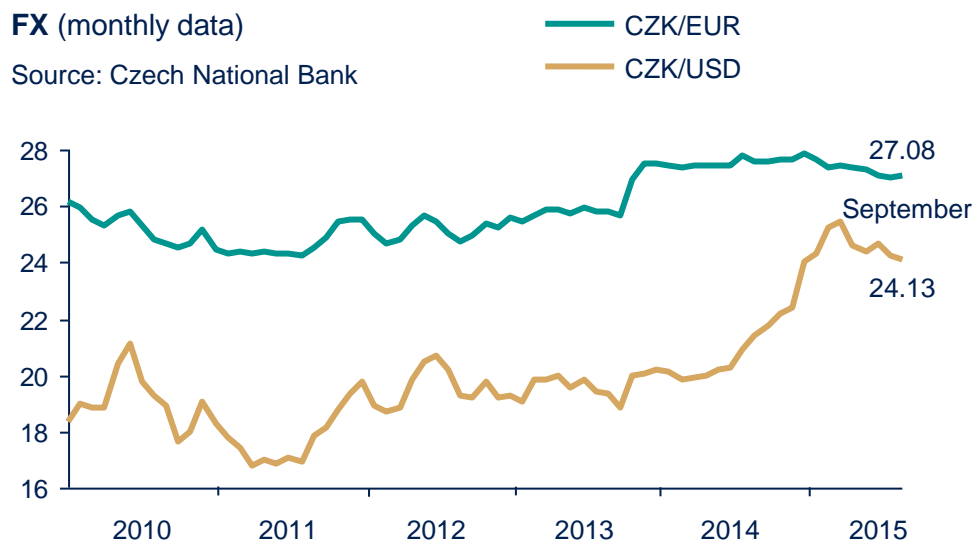
## Confidence in the Czech economy (monthly data)

Source: Czech Statistical Office



## FX (monthly data)

Source: Czech National Bank

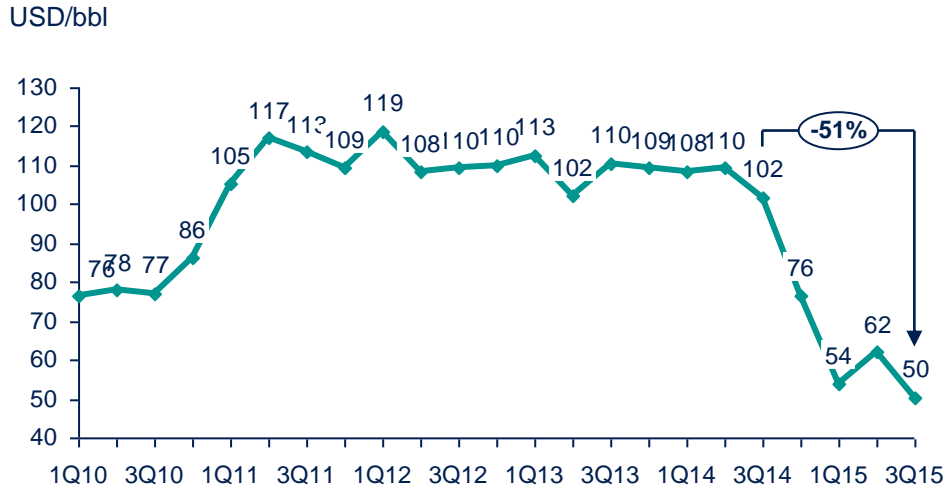


- ▶ Czech GDP growth further accelerated at 4.6% y/y in 2Q15...
- ▶ ...3Q15 is expected to show another solid number
- ▶ Continuation of stable business and consumer confidence in the Czech economy on relatively high level
- ▶ CZK stable against EUR slightly above ČNB's target of 27 CZK/EUR; light appreciation against USD to 24.1 CZK/USD in September; eurodollar relatively stable around 1.1 USD/EUR

# DOWNSTREAM MACRO ENVIRONMENT

Multi-year high of refining margin, another record high combined petrochemical margin

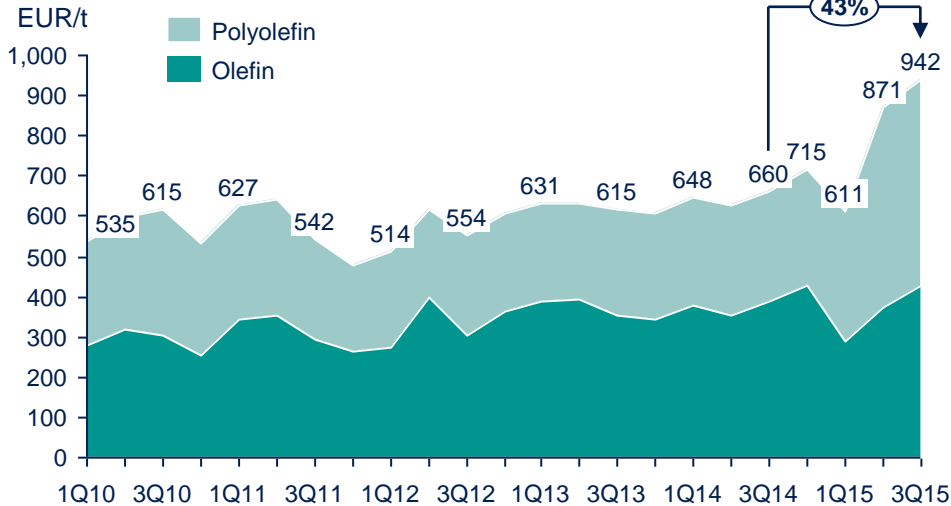
**Brent crude oil price (quarterly average)**



**Refining margin and Brent-Ural differential**



**Combined petrochemical margin**



- ▶ Crude price declined by 19% q/q to 50 USD/bbl; 51% lower y/y
- ▶ Brent-Ural differential stable at 1.5 USD/bbl
- ▶ Multi-year high of refining margin at 5.8 USD/bbl, q/q increase driven by crude price decline
- ▶ Another record high combined petrochemical margin at 942 EUR/t driven by increase of olefin margin
- ▶ Low crude oil price level continued to significantly support both refining and petrochemical margins



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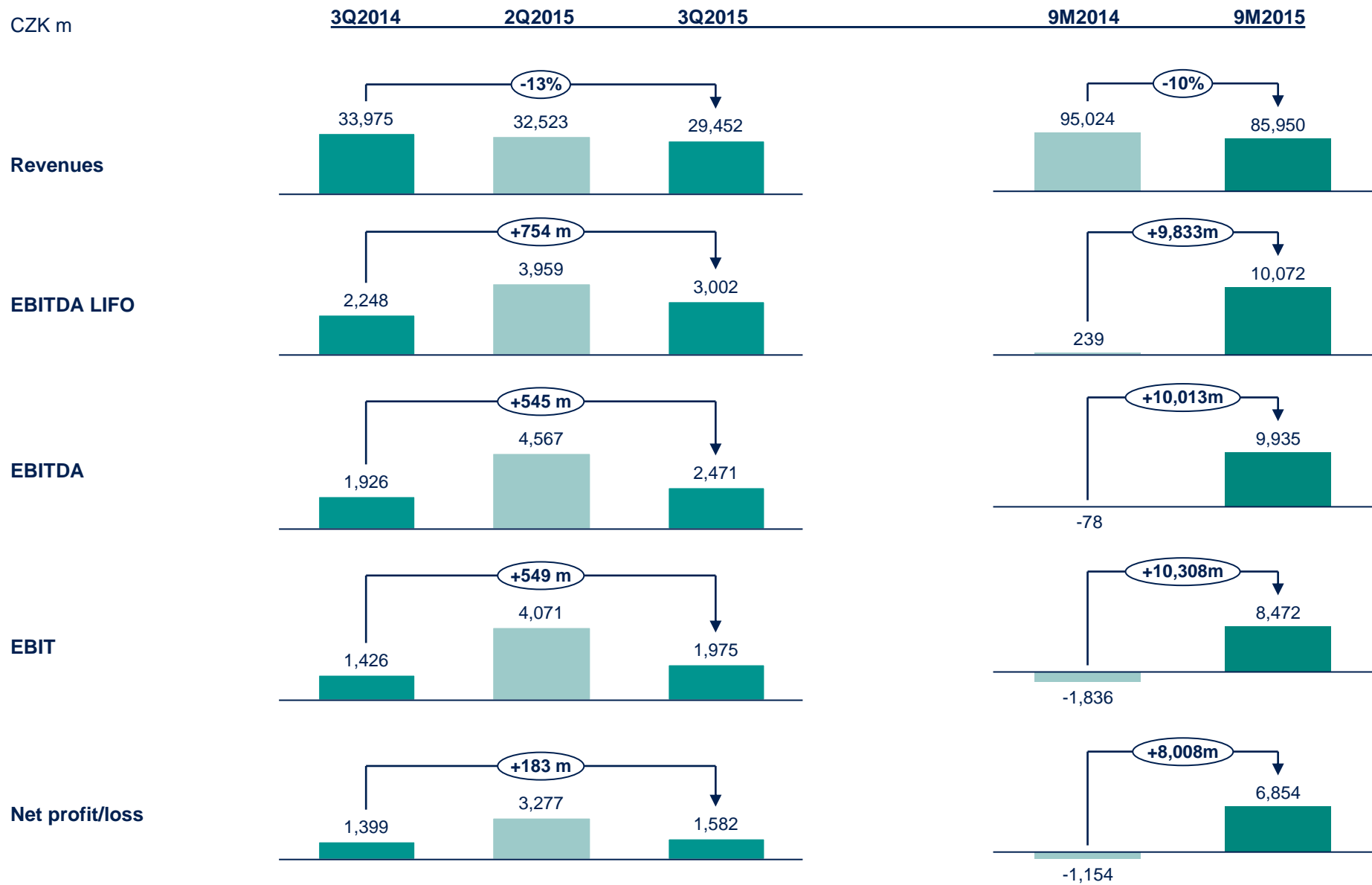
**Plans and market outlook**

**Recap**

**Back-up**

# FINANCIAL RESULTS – REPORTED NUMBERS

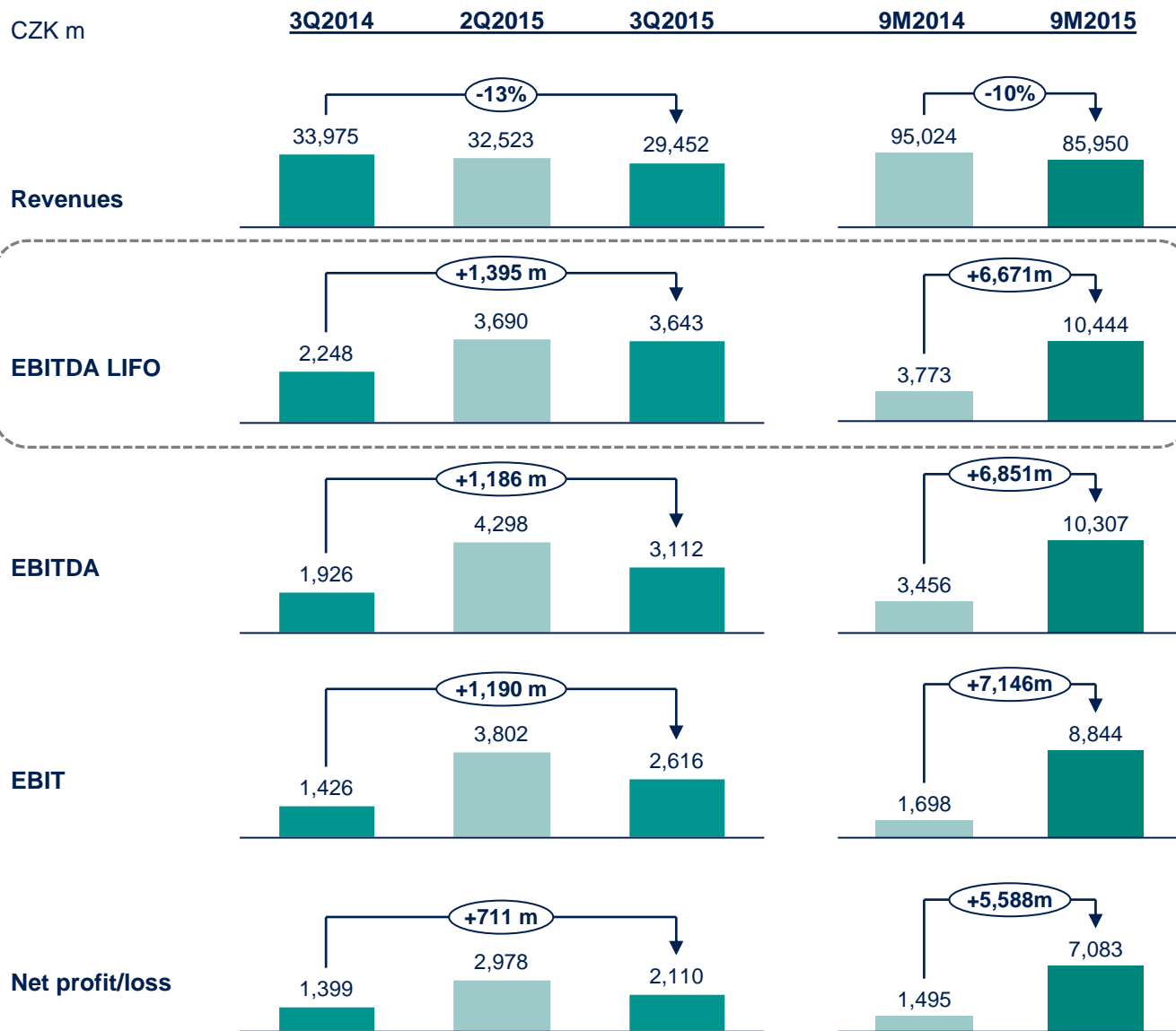
CZK m





# FINANCIAL RESULTS – NUMBERS ADJUSTED FOR ONE-OFFS

## High adjusted EBITDA LIFO of CZK 3.6 bn despite steam cracker accident



- ▶ Despite operation of ca 50% higher refining capacity y/y in 3Q15 (Eni's stake in Česká rafinérská) and much higher refining sales volumes, **revenues** declined by 13% y/y to CZK 29.5 bn due to 51% slump of crude oil price y/y
- ▶ High **adjusted EBITDA LIFO of CZK 3.6 bn** despite lost sales volumes / profit due to steam cracker accident
- ▶ **Positive factors** driving CZK 1.4 bn improvement y/y of adjusted profitability in 3Q15 – better downstream macro environment (profoundly lower crude oil price driving refining and petrochemical margins up) and significantly higher refining sales volumes, incl. retail Benzina
- ▶ Impairment to damaged assets on steam cracker unit of CZK 597 m (net book value) & deferred tax asset of CZK 113 m; related costs of burned inventories and cleaning of CZK 44 m – booked in 3Q15
- ▶ Estimated lost profit, due to steam cracker accident and its following shutdown, not covered by business interruption insurance in 3Q15 amounts to approximately CZK 1.6 bn based on market quotations and margins for refining and petrochemical products
- ▶ **LIFO effect** negative of CZK (-) 531 m due to lower crude oil price q/q...
- ▶ ...and depreciation and amortization of CZK 496 m generates **EBIT** of CZK 2,616 m in 3Q15
- ▶ **Financial result** of CZK (-) 21 m
- ▶ Adjusted tax expense of CZK 485 m and adjusted **net profit** of CZK 2,110 m in 3Q15

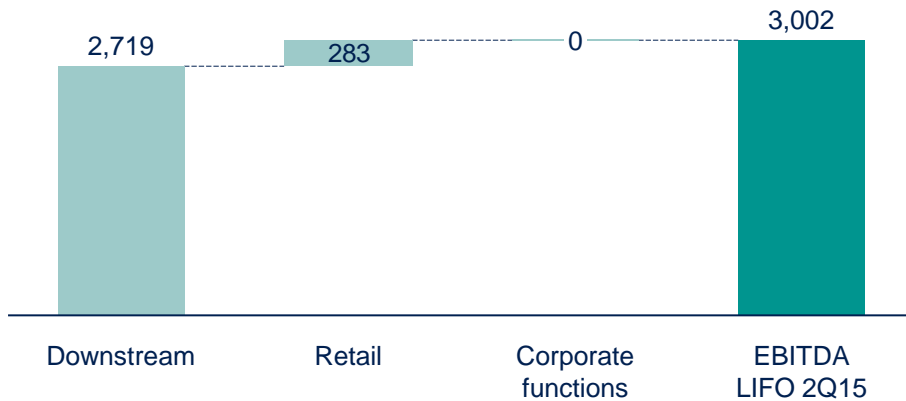
• 9M2014 – Gain on acquisition of CZK 1,186 m (Shell's stake in Česká rafinérská) – booked in 1Q2014; Downstream (refining) segment impairment of CZK 4,721 m & deferred tax asset of CZK 885 m – booked in 2Q2014.  
 • 3Q2015 & 9M2015 – Gain on acquisition of CZK 429 m (Eni's stake in Česká rafinérská); Provision for removal of old ecological burdens CZK 160 m (o/w CZK 110 m in downstream and CZK 50 m in Corporate functions) & related deferred tax asset of CZK 30 m – booked in 2Q15; Impairment to damaged assets on steam cracker of CZK 597 m & deferred tax asset of CZK 113 m; related costs of burned inventories and cleaning of CZK 44 m – booked in 3Q15.

# OPERATING PROFITABILITY BY SEGMENTS

Downstream segment EBITDA LIFO of CZK 2.7 bn

## Segment results – EBITDA LIFO – 3Q15

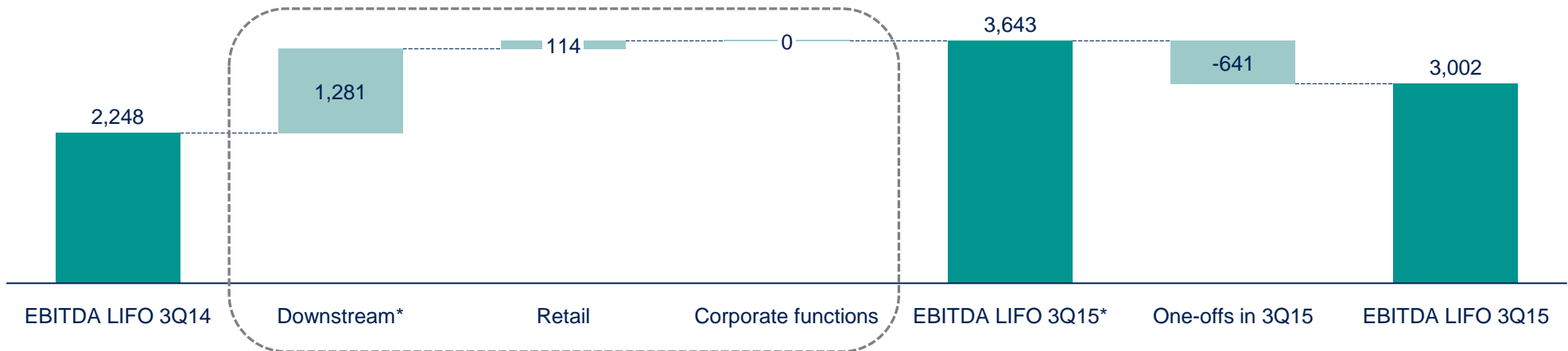
CZK m



- ▶ **Downstream segment** (combination of refining and petrochemicals) EBITDA LIFO of CZK 2.7 bn m represents, when adjusted for one-offs in 3Q15 related to steam cracker accident, improvement of CZK 1.3 bn y/y
- ▶ **Retail segment** positive contribution of CZK 283 m represents profound improvement of CZK 114 m y/y

## Change in segment results y/y

CZK m

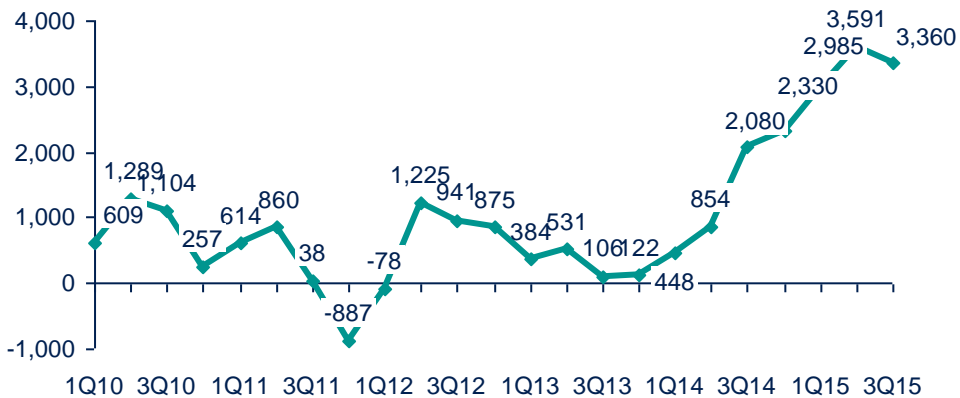


# DOWNSTREAM – EBITDA LIFO

Adjusted EBITDA LIFO of CZK 3.4 bn

## EBITDA LIFO quarterly – Adjusted\*

CZK m



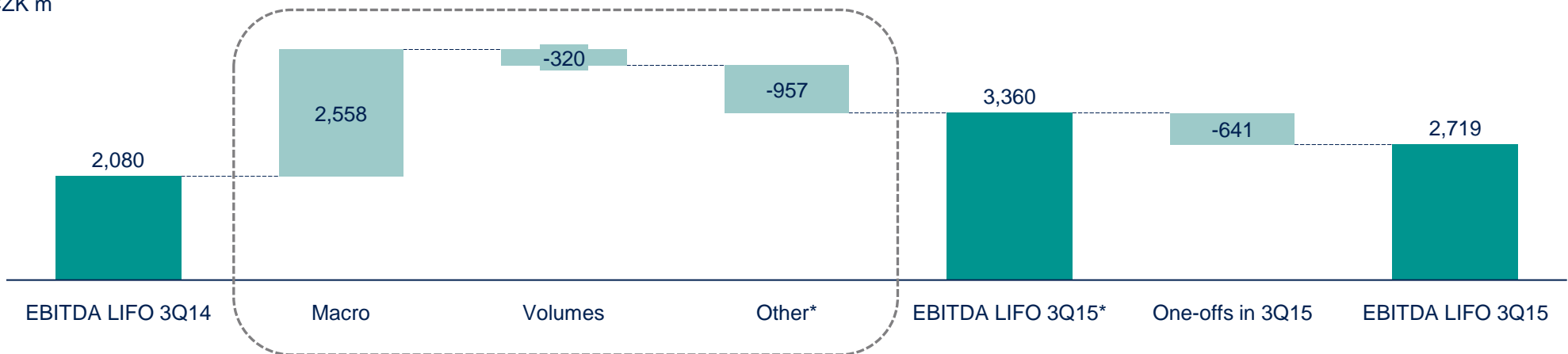
- ▶ Positive macro impact of CZK 2.6 bn y/y driven by:
  - ▶ Multi-year high refining margins and record high petrochemical margins, both driven by profoundly lower crude oil price (lower costs of internally consumed crude)



- ▶ Negative volumes impact of CZK (-) 320 m y/y driven by:
  - ▶ Significantly lower petrochemical sales volumes due to steam cracker accident
  - ▶ Partly compensated by much higher refining sales volumes (Eni's stake in Česká rafinérská)
- ▶ Negative impact of Other category of CZK (-) 957 m y/y driven by:
  - ▶ Inventory revaluation effect (NRV) of ca CZK (-) 1 bn
  - ▶ Higher fixed costs in Česká rafinérská (Eni's stake)

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

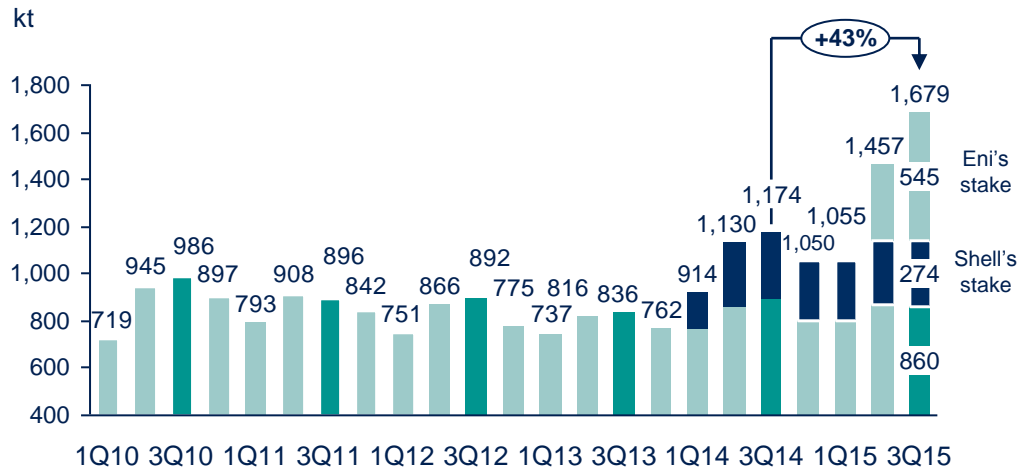
CZK m



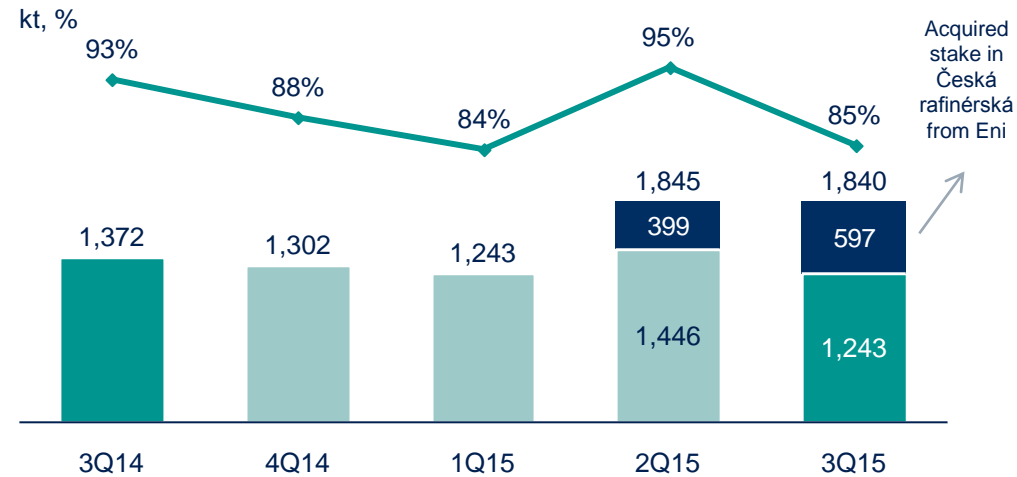
# DOWNSTREAM (REFINING) – OPERATIONAL DATA

Refining utilization ratio declined from 95% to 85% q/q due to steam cracker accident

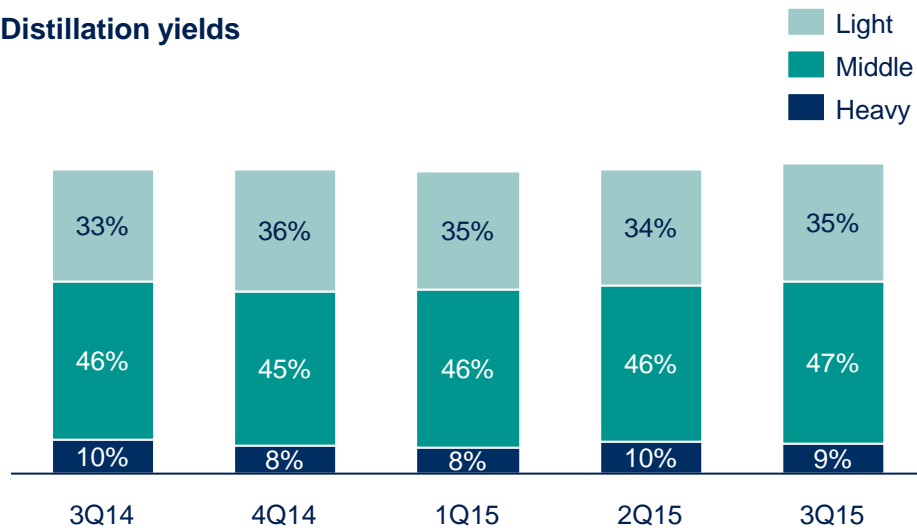
## Sales volumes of refining products, incl. retail (Benzina network)



## Processed crude and refining utilization ratio



## Distillation yields

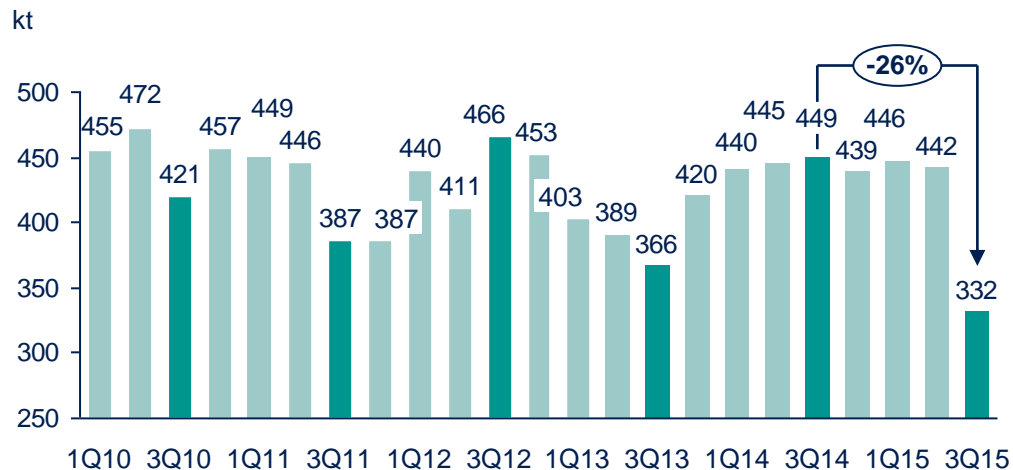


- ▶ Refining utilization ratio declined from 95% to 85% q/q due to steam cracker accident...
- ▶ ...however same processed crude of 1.8 mt as in 2Q15 (3Q15 was the first whole quarter of Eni's stake operation)
- ▶ Sales volumes increase by 43% y/y to 1.7 mt driven by higher refining capacity (Eni's stake in Česká rafinérská)

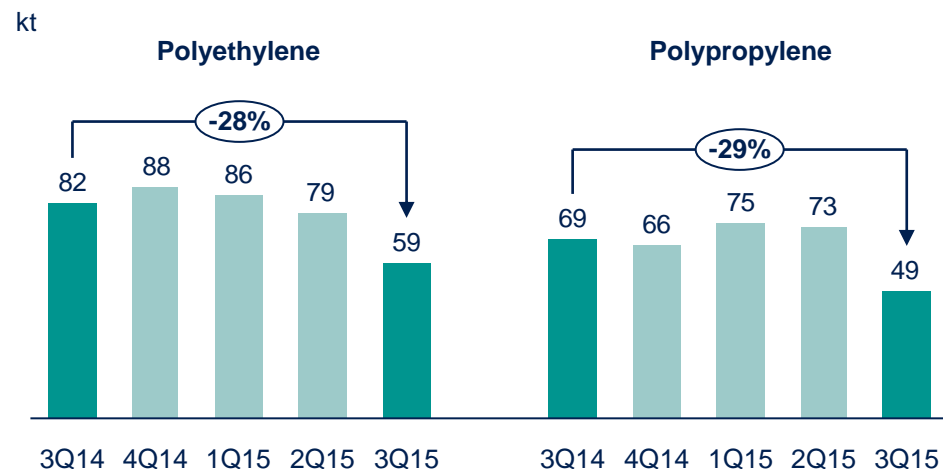
# DOWNSTREAM (PETROCHEMICALS) – OPERATIONAL DATA

Petrochemical operations materially impacted by steam cracker accident on 13 August

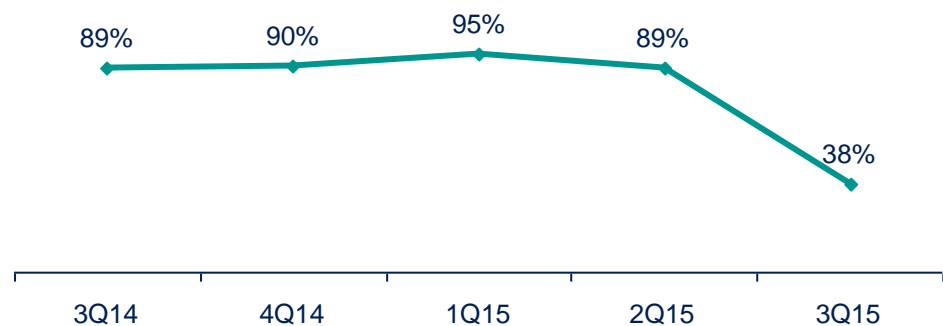
## Sales volumes of petrochemical products



## Sales volumes of polyethylene and polypropylene



## Steam-cracker utilization ratio



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

- Steam cracker utilization declined to 38%
- Sales volumes declined by 26% to 332 kt

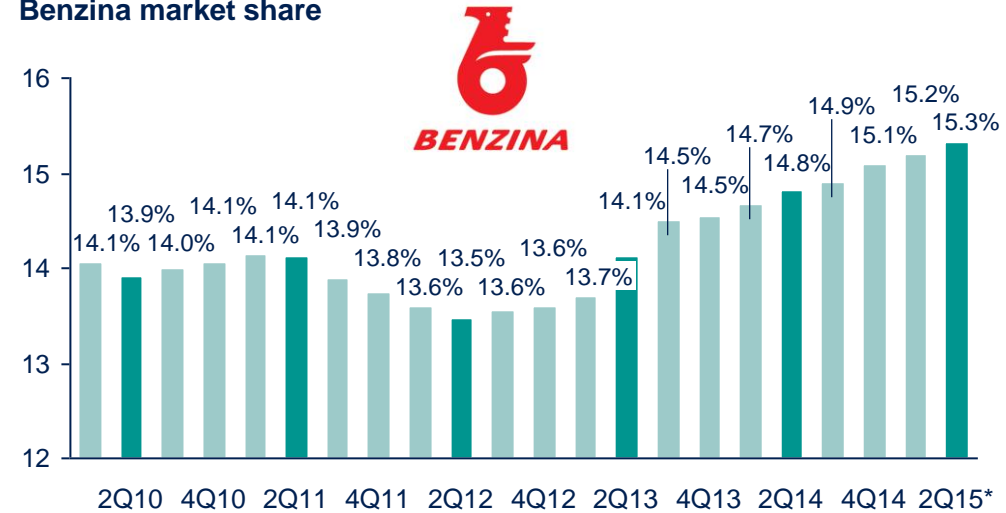
# RETAIL SEGMENT

Significant improvement of profitability with EBITDA LIFO of CZK 283 m driven by higher fuel margins

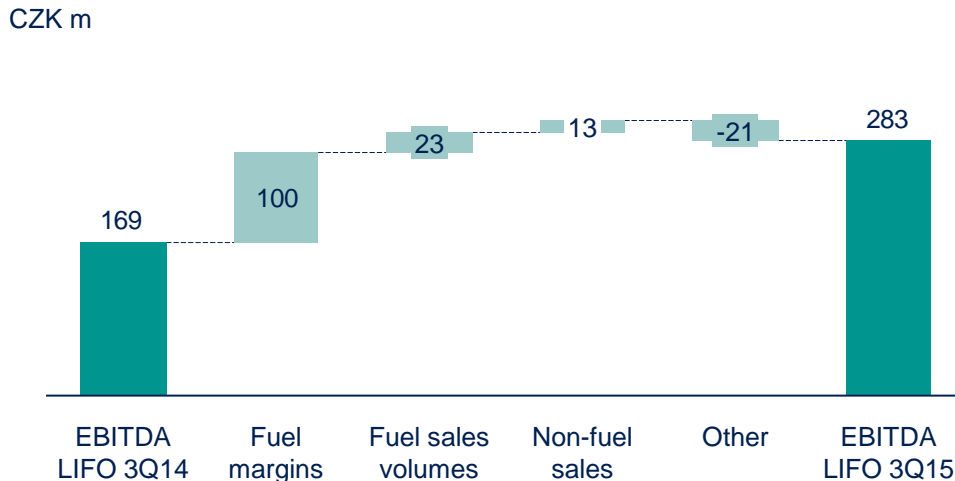
## EBITDA LIFO quarterly



## Benzina market share



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



- ▶ Positive impact of higher fuel margins of CZK 100 m y/y driven both by gasoline and diesel
- ▶ Positive fuel sales volumes impact of CZK 23 m y/y thanks to set of activities in sales, marketing and standards increase, lower crude oil price and solid dynamics of Czech GDP
- ▶ Positive impact of non-fuel sales of CZK 13 m y/y driven by shop and gastro sales



- ▶ Negative impact of Other category of CZK (-) 21 m y/y driven by higher maintenance and repair services costs and impairment reversal in 3Q14



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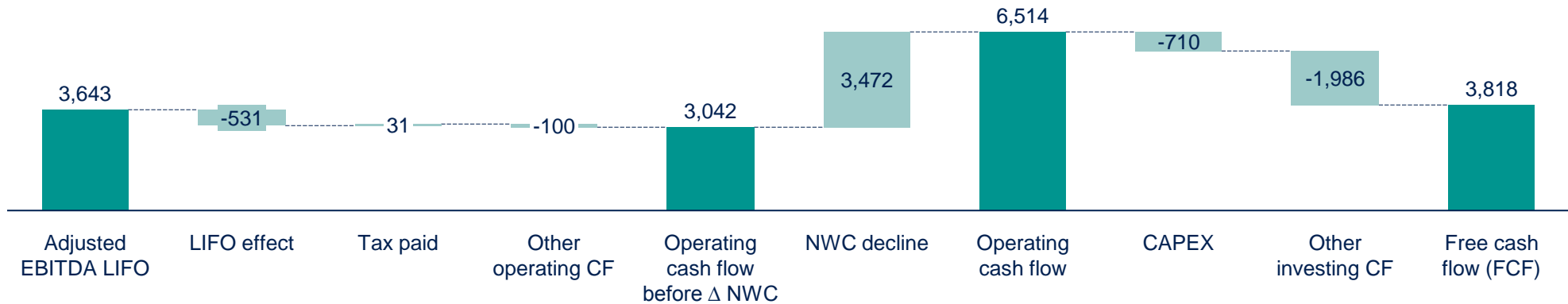
**Back-up**

# CASH FLOW & NET WORKING CAPITAL

Continuation of strong cash generation with free cash flow CZK 3.8 bn

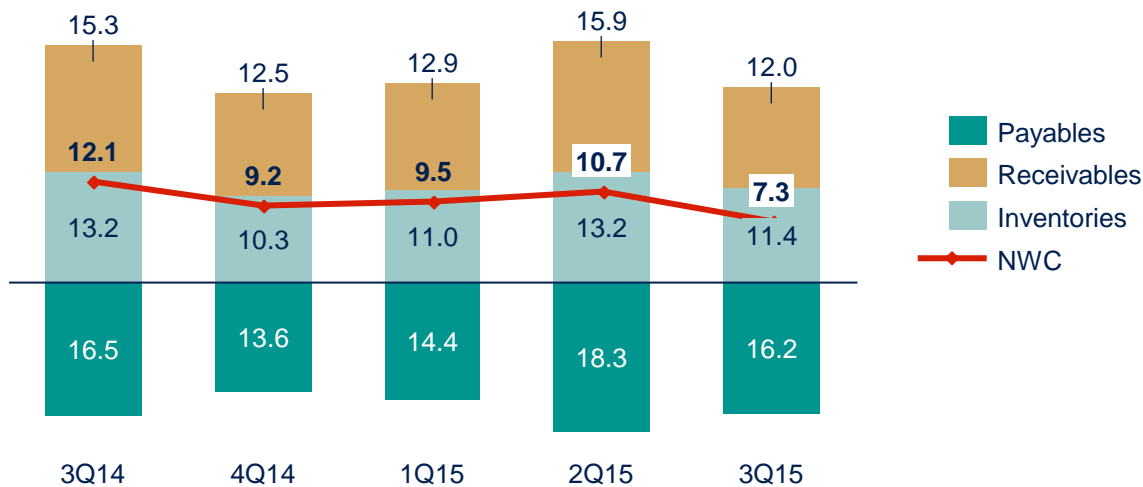
## Free cash flow (FCF) reconciliation in 3Q15

CZK m



## Net working capital (NWC)

CZK bn



- ▶ Continuation of strong cash generation :
  - ▶ Operating cash flow CZK 6.5 bn
  - ▶ Free cash flow CZK 3.8 bn
- ▶ CAPEX CZK 710 m
- ▶ Strict working capital management:
  - ▶ NWC declined by ca CZK 3.5 bn driven by q/q decline of crude oil price and destocking following on steam cracker accident

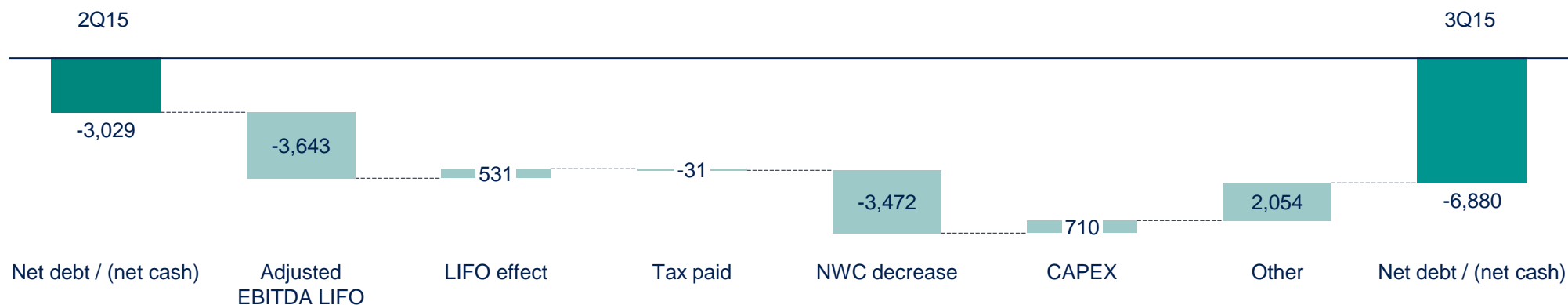


# FINANCIAL GEARING

Very strong financial position with net cash of CZK 6.9 bn m at the end of 3Q15

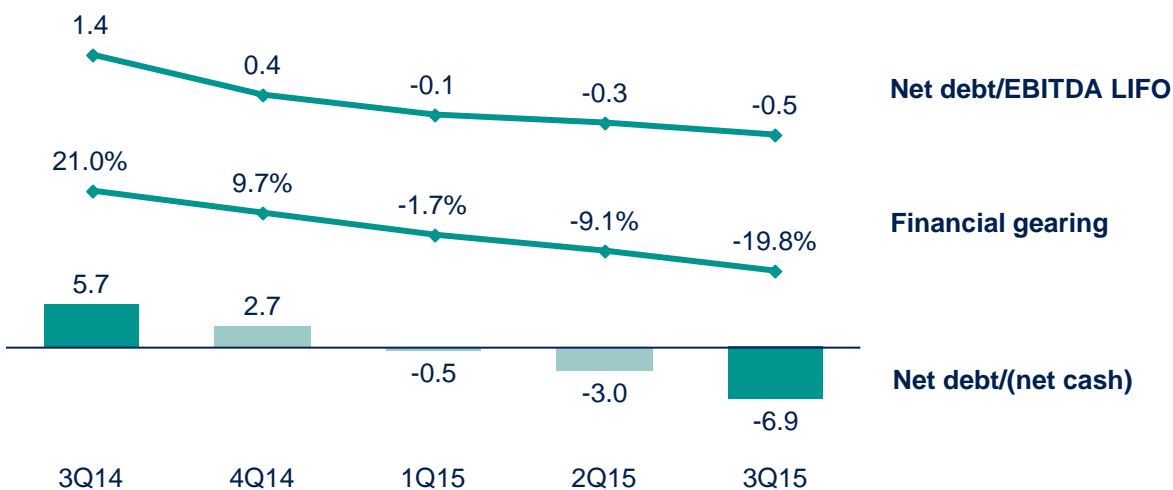
## Net debt/(net cash)\* change in 3Q15

CZK m



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

CZK bn, %



- ▶ Additional significant increase of net cash position q/q to CZK 6.9 bn driven by strong EBITDA and cash release from NWC...
- ▶ ...corresponding additional decline of financial gearing and net debt/EBITDA LIFO indicator

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



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## New polyethylene unit (PE3)

- ▶ EPC contract signed with Technip Italy S.p.A. on 10 September (contract price CZK 5.76 bn and total planned CAPEX for the whole project ca CZK 8.5 bn).
- ▶ PE3 unit will be among the most advanced units of this type in Europe. Its construction is the key investment project within Unipetrol Group Strategy 2013-2017.
- ▶ PE3 unit will enable a higher utilization of the steam cracker unit producing ethylene which is further processed on polyethylene units and will also contribute to higher integration of Unipetrol Group's refining and petrochemical production. PE3 unit is expected to bring a significant positive impact on Unipetrol's Group profitability as well.
- ▶ Technip will start construction works during second quarter 2016. End of the construction is planned for the first quarter 2018 and commissioning for mid-2018.

## Steam cracker unit update

- ▶ Unipetrol is currently in a final phase of securing future repair works on steam cracker unit to be carried out by contractors.
- ▶ Based on current estimations steam cracker unit will be restarted at minimum capacity utilization (ca 65%) in July 2016, and maximum capacity utilization will be achieved in October 2016.
- ▶ Unipetrol is insured against both property & mechanical damages and business interruption. It is currently too early to estimate any amount of future payments from insurer to Unipetrol.
- ▶ Current production at Litvínov refinery is running on decreased capacity and Kralupy refinery on full capacity. Unipetrol has already restarted polymers production at Litvínov plant – polyethylene and polypropylene – at limited extent thanks to external feedstock deliveries of ethylene and propylene.

## Macro environment – assumptions

- ▶ **Brent crude oil price** – We expect stabilization of crude oil prices at the current levels. Crude oil price also depends on geopolitical risks.
- ▶ **Downstream macro environment** – We expect slight increase of yearly average of integrated margin (combination of refining and petrochemical margins) in 2015 y/y due to favorable macro environment, i.e. stable crude oil prices and increase in fuels and petrochemical products consumption.

## Economy – GDP and fuels consumption growth

- ▶ **GDP** – Czech Republic GDP expected to keep reasonable momentum during 2015 (Bloomberg)



- ▶ **Fuels consumption** – Continuation of demand increase for diesel with a slight drop in demand for gasoline in CEE region in 2015 – JBC Energy (October 2014).



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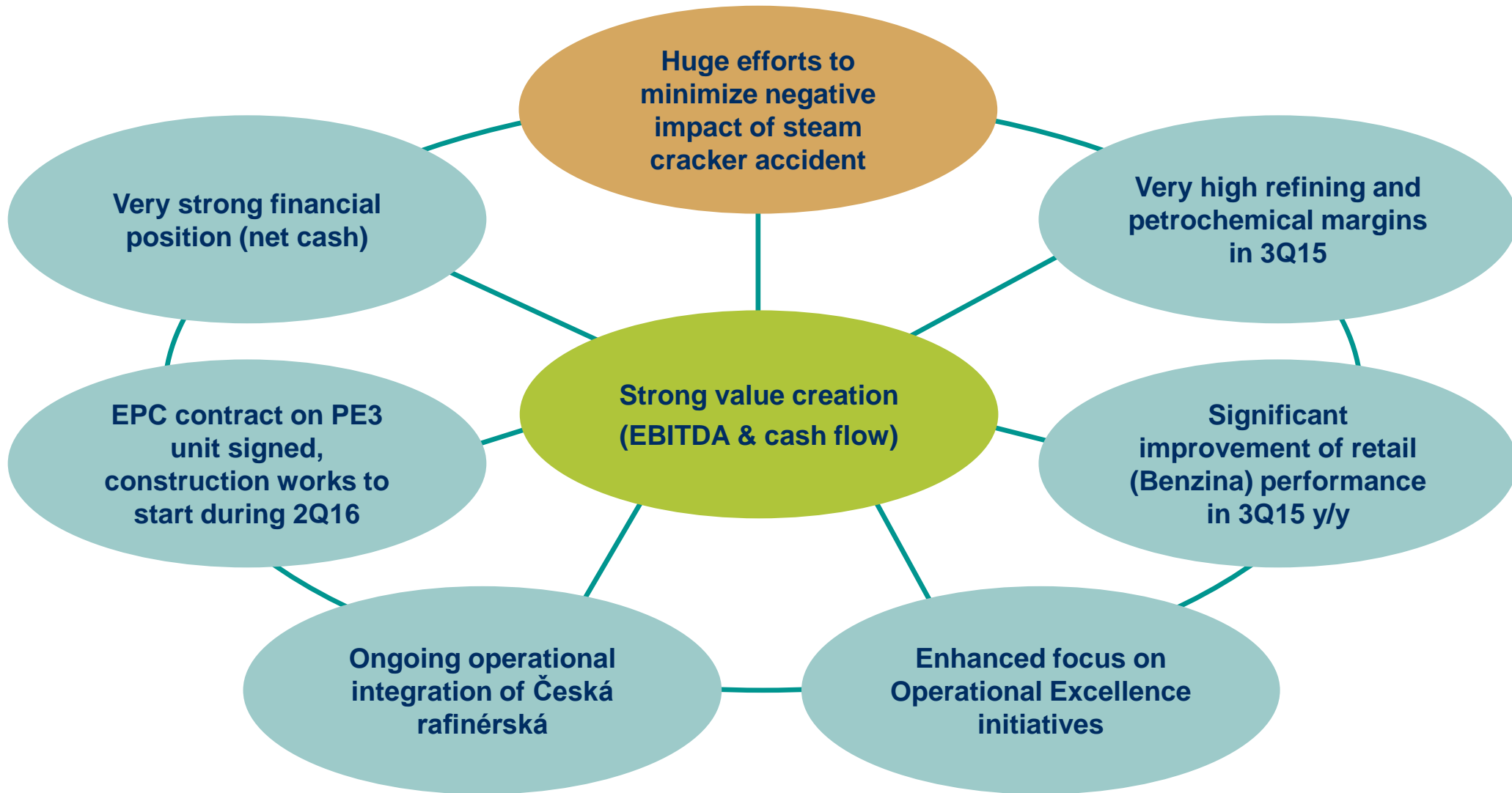
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# Thank you for your attention

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# EBITDA & EBIT – REPORTED NUMBERS

## Detailed breakdown

	CZK m	1Q 2014	2Q 2014	3Q 2014	4Q 2014	1Q 2015	2Q 2015	3Q 2015	9M 2014	9M 2015
<b>Group</b>	<b>EBITDA LIFO</b>	<b>1,743</b>	<b>-3,753</b>	<b>2,248</b>	<b>2,617</b>	<b>3,111</b>	<b>3,959</b>	<b>3,002</b>	<b>239</b>	<b>10,072</b>
	EBITDA	1,611	-3,615	1,927	1,105	2,897	4,567	2,470	-77	9,934
	<b>EBIT LIFO</b>	<b>1,117</b>	<b>-4,385</b>	<b>1,748</b>	<b>2,106</b>	<b>2,640</b>	<b>3,463</b>	<b>2,506</b>	<b>-1,520</b>	<b>8,609</b>
	EBIT	985	-4,247	1,426	593	2,426	4,071	1,975	-1,836	8,472
<b>Downstream</b>	<b>EBITDA LIFO</b>	<b>1,634</b>	<b>-3,867</b>	<b>2,080</b>	<b>2,330</b>	<b>2,985</b>	<b>3,910</b>	<b>2,719</b>	<b>-153</b>	<b>9,614</b>
	EBITDA	1,508	-3,735	1,759	877	2,771	4,518	2,188	-468	9,477
	<b>EBIT LIFO</b>	<b>1,108</b>	<b>-4,397</b>	<b>1,681</b>	<b>1,921</b>	<b>2,602</b>	<b>3,502</b>	<b>2,314</b>	<b>-1,608</b>	<b>8,417</b>
	EBIT	982	-4,265	1,360	468	2,388	4,110	1,783	-1,923	8,280
<b>Retail</b>	<b>EBITDA LIFO</b>	<b>100</b>	<b>120</b>	<b>169</b>	<b>316</b>	<b>135</b>	<b>122</b>	<b>283</b>	<b>389</b>	<b>541</b>
	EBITDA	93	126	168	257	135	122	283	388	541
	<b>EBIT LIFO</b>	<b>21</b>	<b>39</b>	<b>88</b>	<b>234</b>	<b>54</b>	<b>41</b>	<b>200</b>	<b>148</b>	<b>296</b>
	EBIT	14	45	87	175	54	41	200	146	296
<b>Corporate functions</b>	EBITDA	9	-6	0	-29	-9	-73	0	4	-82
	EBIT	-11	-26	-21	-50	-16	-80	-7	-59	-104



- ▶ **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.