
# UNIPETROL 3Q 2014 FINANCIAL RESULTS

**Marek Świtajewski**, CEO
**Mirosław Kastelik**, CFO

22 October 2014
Prague, Czech Republic

Unipetrol
ORLEN GROUP

# AGENDA

# KEY HIGHLIGHTS OF 3Q14

## External macro environment

- Significant improvement of refining margin both y/y and q/q to 2.5 USD/bbl
- Further increase of combined petrochemical margin y/y to 660 EUR/t from 615 EUR/t in 3Q13
- Grey zone reduction on fuels market with positive impact on sales volumes

## Operational performance

- Increase of crude oil throughput by 52% y/y to 1,372 kt and increase of refining utilization ratio to 93%
- Increase of steam-cracker utilization ratio y/y to 89%
- Further significant increase of sales volumes y/y across all segments
- Increase of retail market share by 0.7 percentage point y/y to 15.2%

## Value creation and financial standing

- Revenues significantly higher by 37% y/y to CZK 34.0 bn from CZK 24.9 bn in 3Q13
- Profound increase of profitability both y/y and q/q with EBITDA LIFO of CZK 2,304 m and net profit of CZK 1,399 m
- Stable financial gearing of 21%

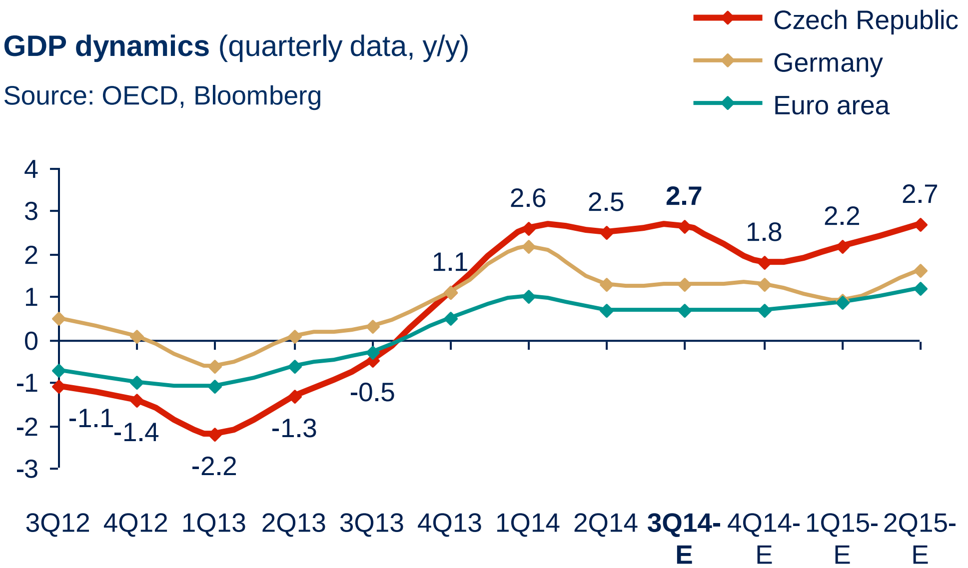
# AGENDA

# GENERAL MACRO ENVIRONMENT

## Czech GDP growth expected to maintain solid dynamics in 3Q14

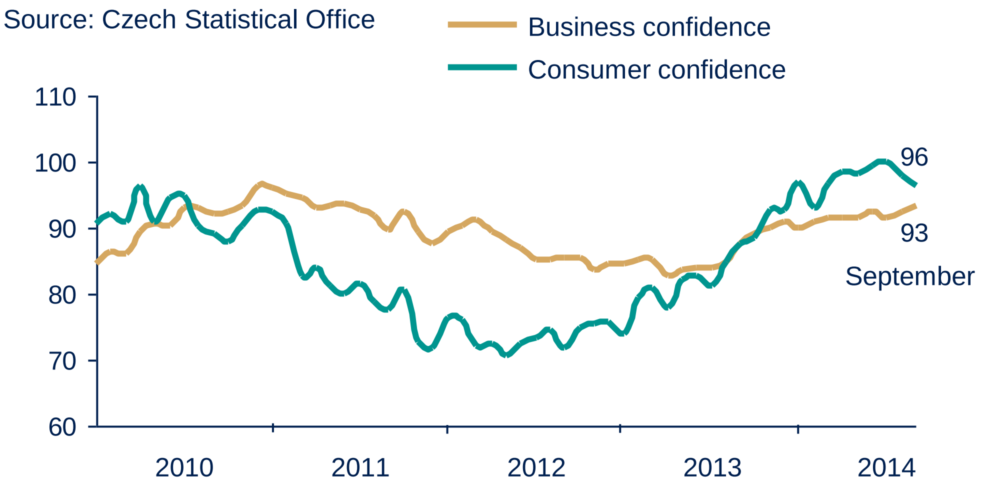
**GDP dynamics** (quarterly data, y/y)

Source: OECD, Bloomberg



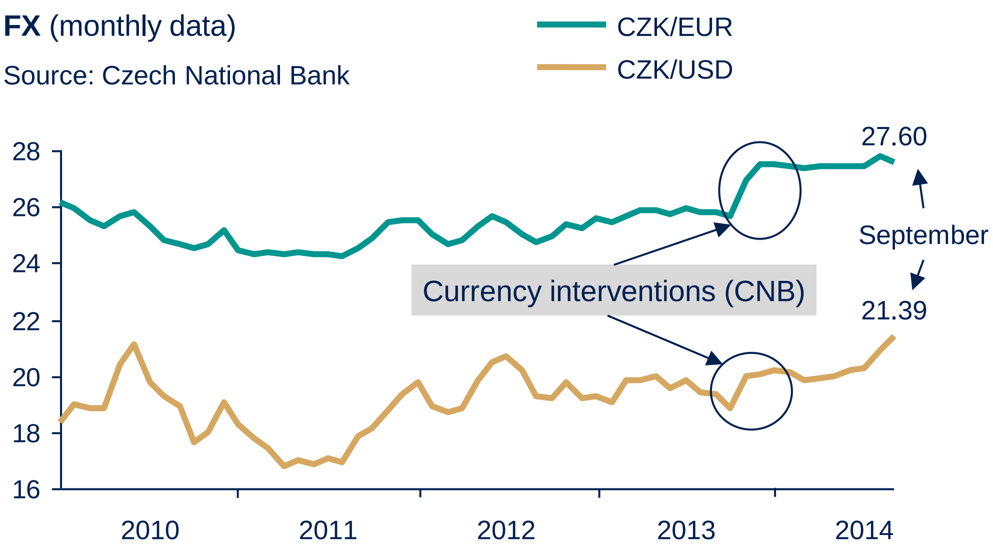

**Confidence in the Czech economy** (monthly data)

Source: Czech Statistical Office




**FX** (monthly data)

Source: Czech National Bank



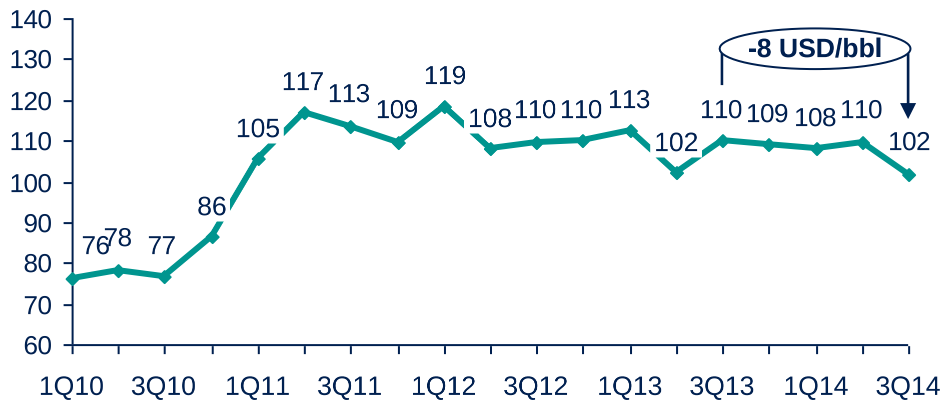

- Czech GDP growth in 3Q14 expected at 2.7% y/y maintaining solid dynamics…
- …with decline to 1.8% y/y expected in 4Q14
- Business confidence in the Czech economy stable q/q, while consumer confidence slightly declined
- CZK relatively stable against EUR around 27.60 CZK/EUR and weakening against USD to 21.39 CZK/USD in September

# DOWNSTREAM MACRO ENVIRONMENT

Significant improvement of refining margin, further increase of combined petrochemical margin

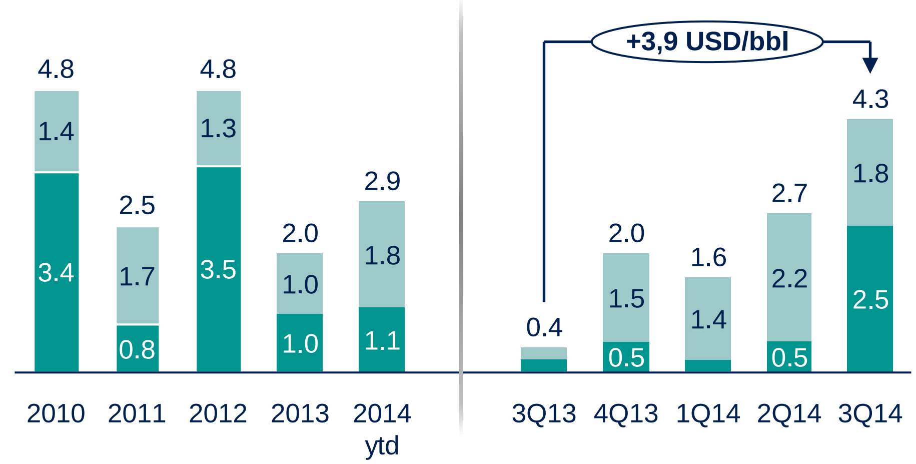
### Brent crude oil price

USD/bbl



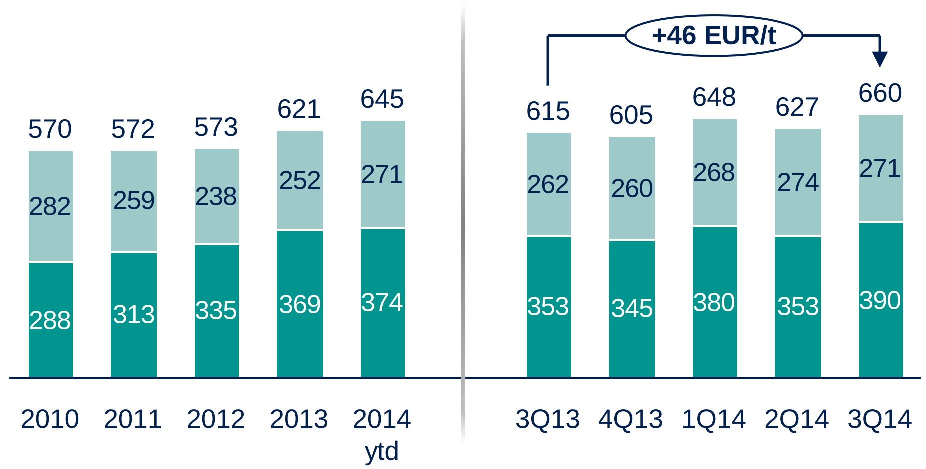

### Refining margin and Brent-Ural differential

USD/bbl




### Combined petrochemical margin

EUR/t



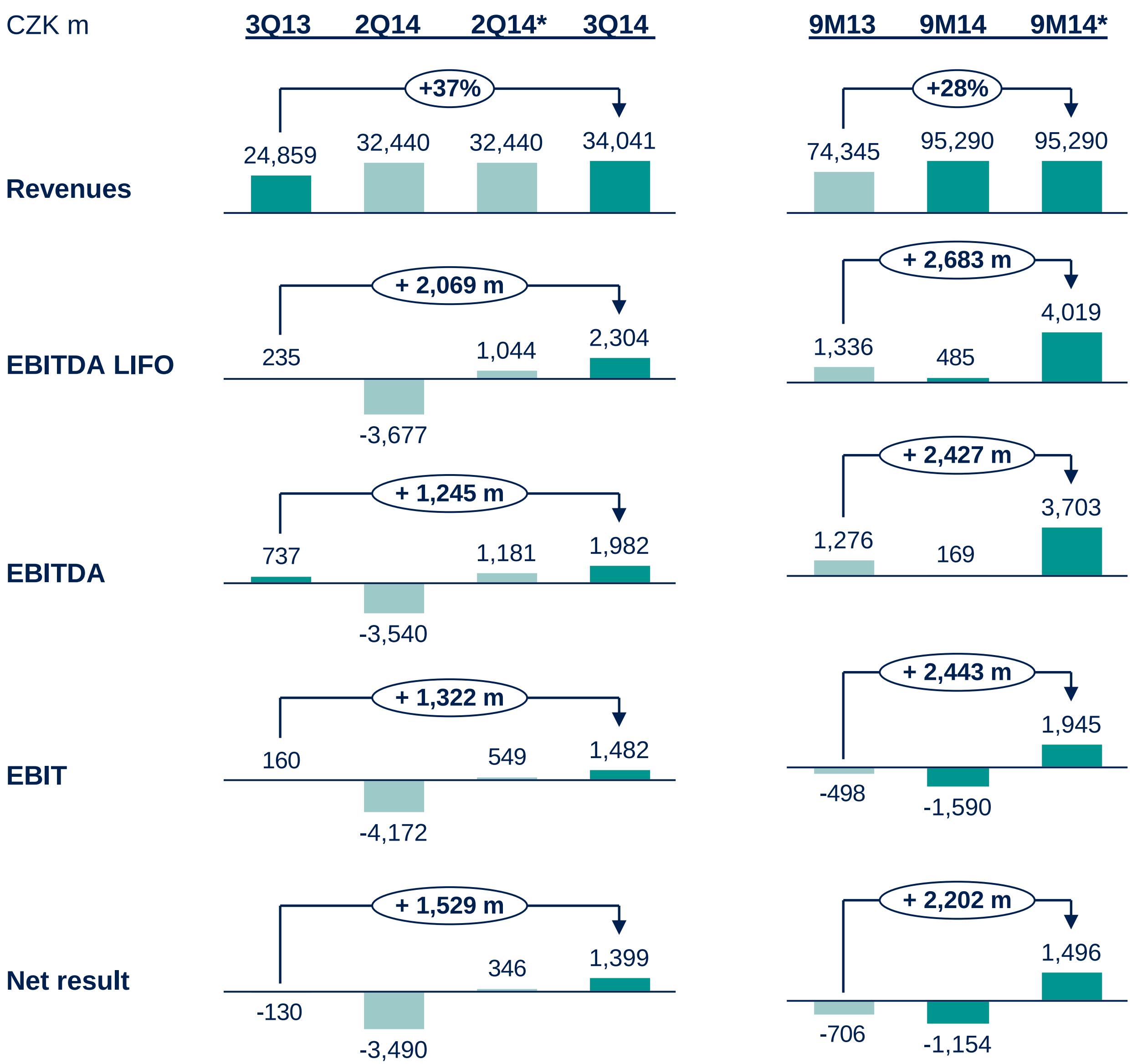

- Steep decline of crude oil price both q/q and y/y from 110 USD/bbl to 102 USD/bbl
- Significant improvement of refining margin y/y and q/q to 2.5 USD/bbl driven by higher gasoline spread y/y (by 17% to 202 USD/t) and higher diesel spread q/q (by 16% to 108 USD/t)
- Brent-Ural differential relatively stable of 1.8 USD/bbl
- Further increase of combined petrochemical margin to very solid level of 660 EUR/t driven by higher olefin margin of 390 EUR/t

- Steep decline of refining margin, gasoline driven, from middle of October indicating deteriorated outlook for refining business profitability in 4Q14

# AGENDA

# FINANCIAL RESULTS

## Profound increase of profitability both y/y and q/q with EBITDA LIFO of CZK 2,304 m




- **Revenues** significantly higher by 37% y/y of CZK 34,041 m in 3Q14 driven by operation of higher refining capacity and higher sales volumes across all segments
- Refining assets impairment of CZK 117 m
- Profound increase of profitability both y/y and q/q with **EBITDA LIFO** of CZK 2,304 m in 3Q14 driven by higher sales volumes and higher margins in downstream segment, both refining and petrochemicals
- **LIFO effect** negative of CZK (-) 322 m due to crude oil price decline q/q…
- …and depreciation and amortization of CZK 500 m generates **EBIT** of CZK 1,482 m
- **Financial result** of CZK (-) 9 m
- **Deferred tax asset** of CZK 22 m booked in relation to the impairment
- Tax expense of CZK 75 m and **net profit** of CZK 1,399 m in 3Q14

* 2Q14 – Adjustment of profitability lines for refining segment impairment of CZK 4,721 m. Net result is also adjusted for deferred tax asset of CZK 885 m.

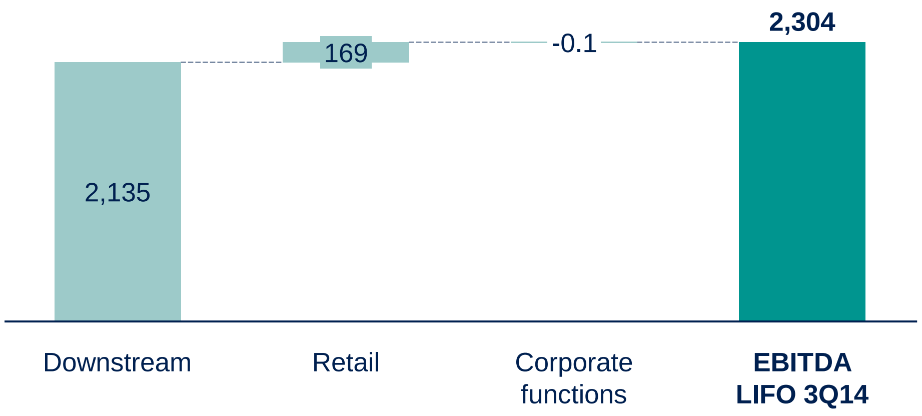
* 9M14 – Adjustment of profitability lines also for gain on acquisition of CZK 1,186 m booked in 1Q14 in relation to completion of the acquisition of Shell's 16.335% stake in Česká rafinérská.

# OPERATING PROFITABILITY BY SEGMENTS

## Downstream segment with operating profit EBITDA LIFO of CZK 2,135 m

### Segment results – EBITDA LIFO – 3Q14

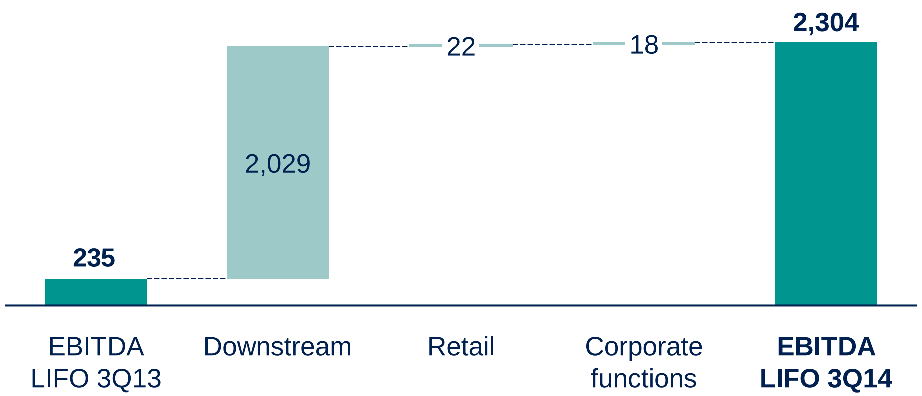
CZK m




- **Downstream segment** (combination of refining and petrochemicals) with operating profit of CZK 2,135 m, of which:
  - Refining: CZK 798 m
  - Petrochemicals: CZK 1,336 m
- **Retail segment** with positive contribution of CZK 169 m
- **Group EBITDA LIFO** of CZK 2,304 m in 3Q14

### Change in segment results y/y

CZK m




- Profound improvement of profitability y/y by CZK 2,069 m…
- …driven by downstream segment (combination of refining and petrochemicals), of which:
  - Refining: CZK 1,054 m
  - Petrochemicals: CZK 975 m
- Retail segment improvement by CZK 22 m y/y
- Decreased cost base within corporate functions by CZK 18 m y/y

# AGENDA

# DOWNSTREAM – EBITDA LIFO

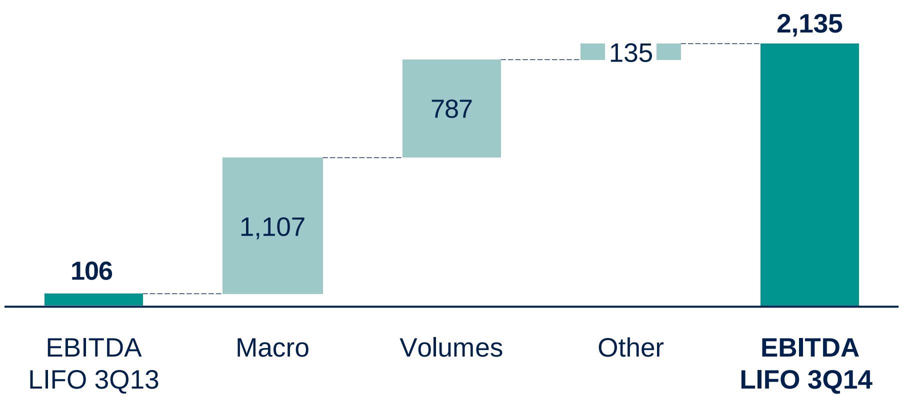
Profoundly positive impact y/y of both macro and volumes factors

**EBITDA LIFO quarterly**

CZK m (w/o impairment in 2011, 2012, 2Q14 and gain on acquisition in 1Q14)


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

CZK m




\+

- Positive macro impact of CZK 1,107 m y/y driven by higher Brent-Ural differential, better margins (both refining and petrochemicals) and FX
- Positive volumes impact of CZK 787 m y/y (both refining and petrochemicals)
- Grey zone reduction on fuels market with positive impact on sales volumes
- Ongoing positive impact of Operational Excellence Initiatives

–

- Refining assets impairment of CZK 117 m (category Other)
- One-week unplanned shutdown of FCC unit at Kralupy refinery at the end of September

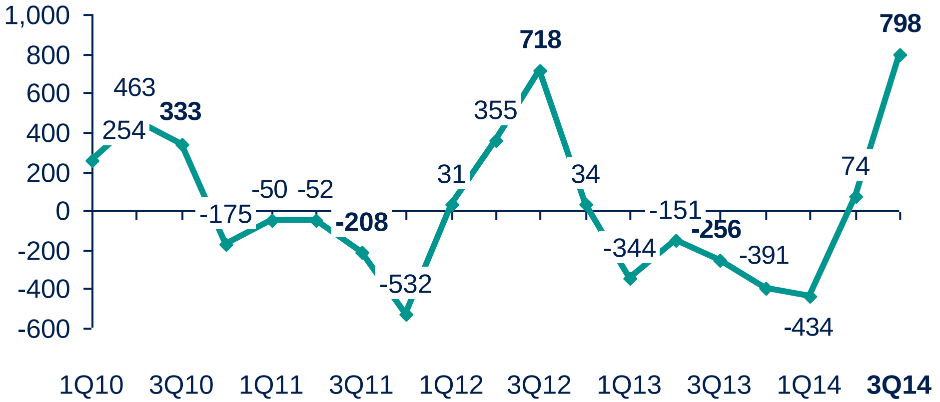
# DOWNSTREAM – EBITDA LIFO

Refining and petrochemicals contribution to results

## Refining

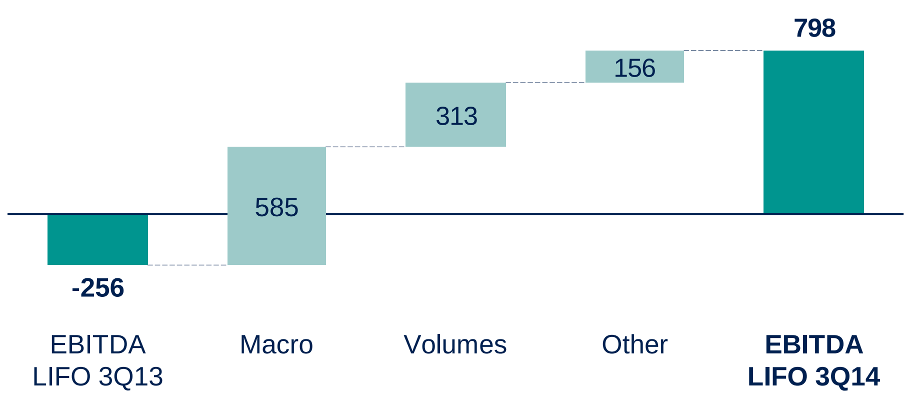
### EBITDA LIFO quarterly

CZK m (without impairment in 2011, 2012, 2Q14 and gain on acquisition in 1Q14)




### Drivers of change y/y

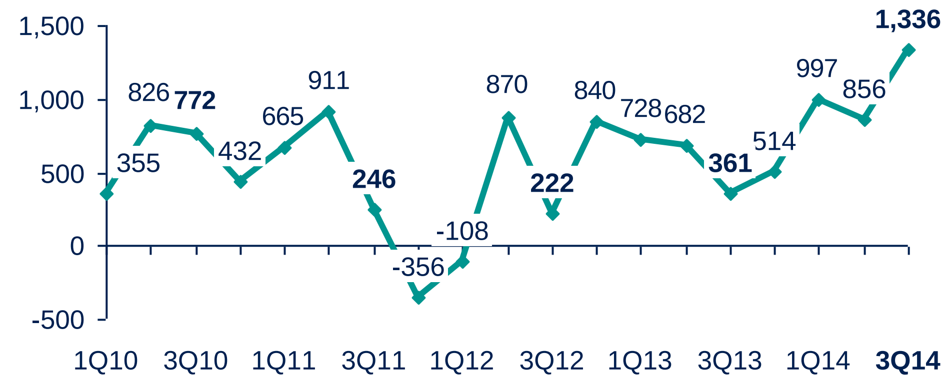
CZK m




## Petrochemicals

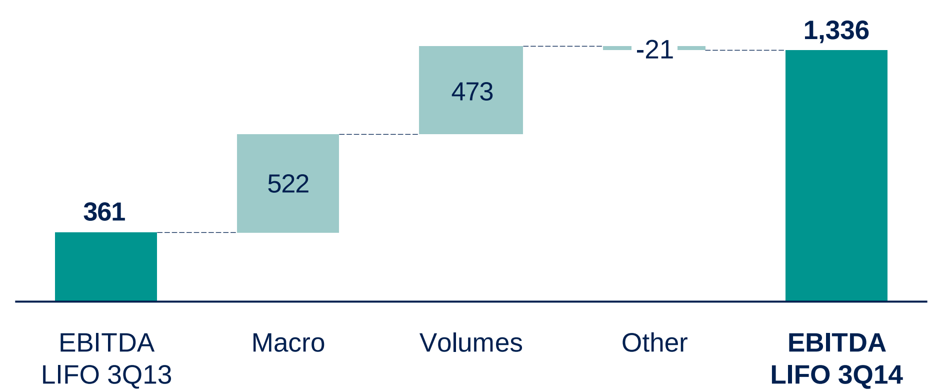
### EBITDA LIFO quarterly

CZK m (without impairment in 2011)




### Drivers of change y/y

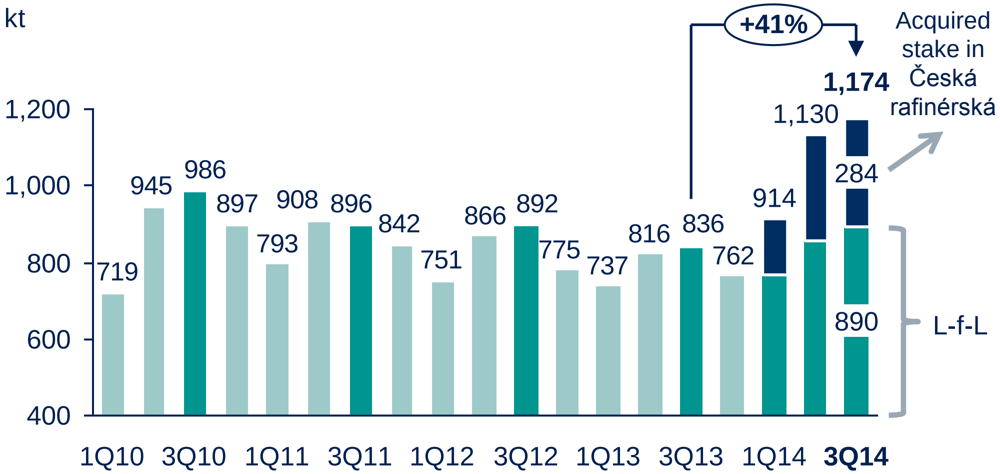
CZK m



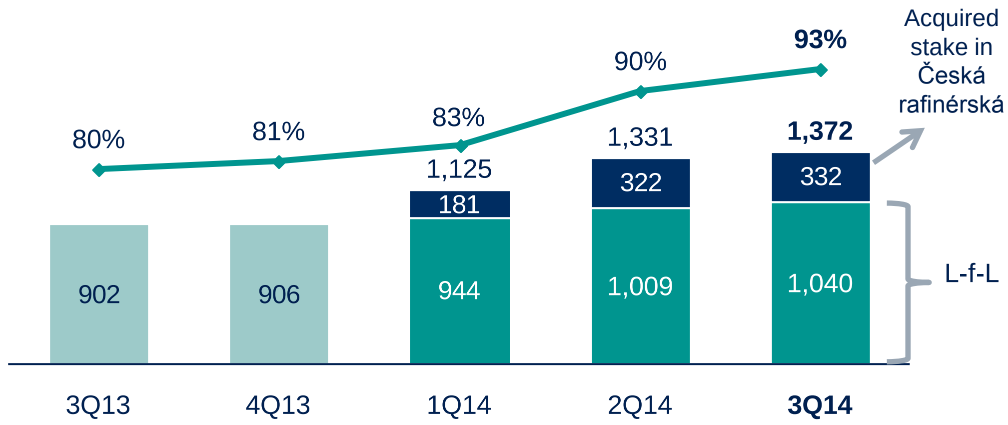
# DOWNSTREAM (REFINING) – OPERATIONAL DATA

## Increase of utilization ratio to 93% and sales volumes by 41% y/y to 1,174 kt

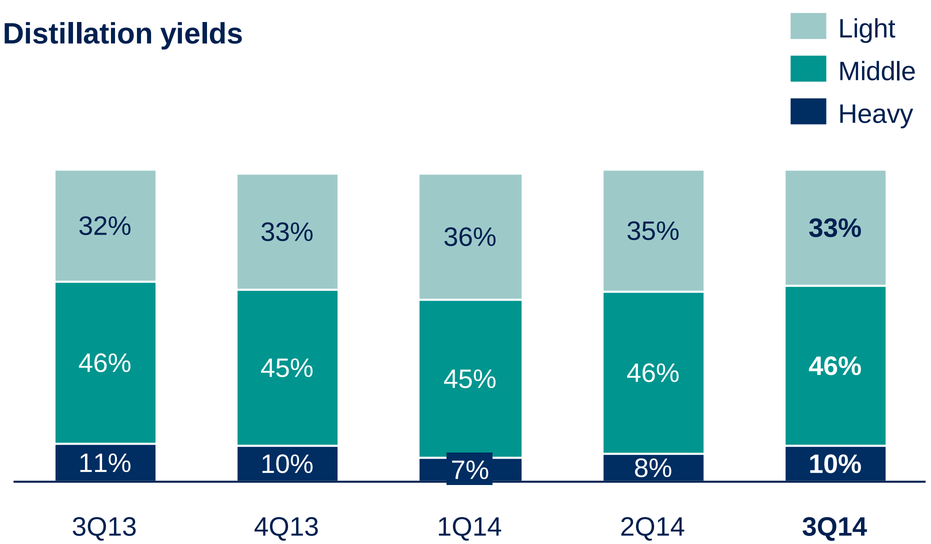
### Sales volumes of refining products, incl. retail (Benzina network)




### Crude oil throughput (kt) and refining utilization ratio




### Distillation yields

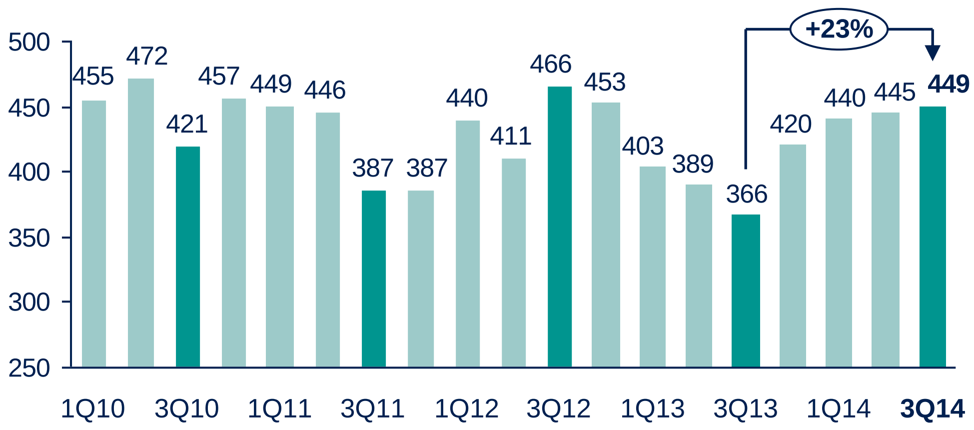



- Increase of crude oil throughput by 52% y/y to 1,372 kt from 902 kt in 3Q13, driven by operation of higher refining capacity (5.9 mt/y vs 4.5 mt/y in 2013)
- Increase of refining utilization ratio to 93%, driven by 15% like-for-like increase of crude oil throughput to 1,040 kt
- Decrease of heavy distillation yield y/y to 10% and increase of light distillation yield y/y to 33%
- One-week unplanned shutdown of FCC unit at Kralupy refinery at the end of September
- Significantly higher sales volumes by 41% y/y of 1,174 kt driven by both diesel and gasoline, thanks to operation of higher refining capacity
- Like-for-like increase of sales volumes by 6% y/y to 890 kt as a result of grey zone reduction and favorable GDP dynamics

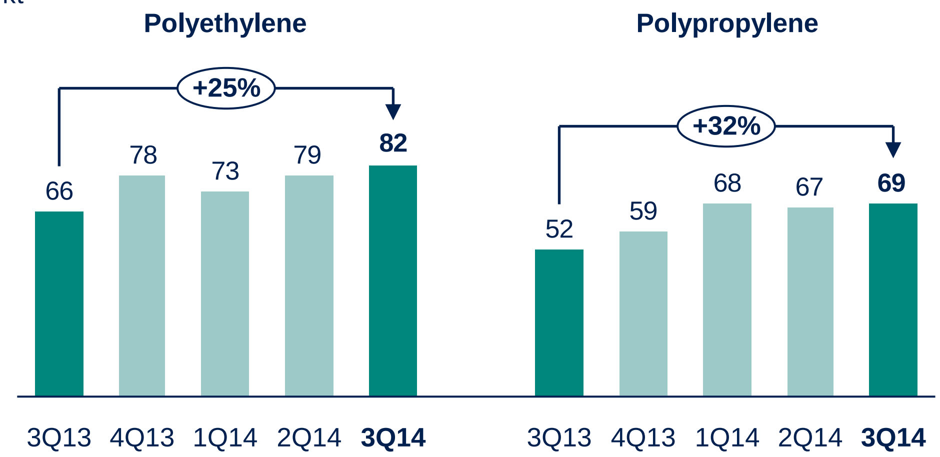
# DOWNSTREAM (PETROCHEMICALS) – OPERATIONAL DATA

## Significant increase of sales volumes by 23% y/y to 449 kt

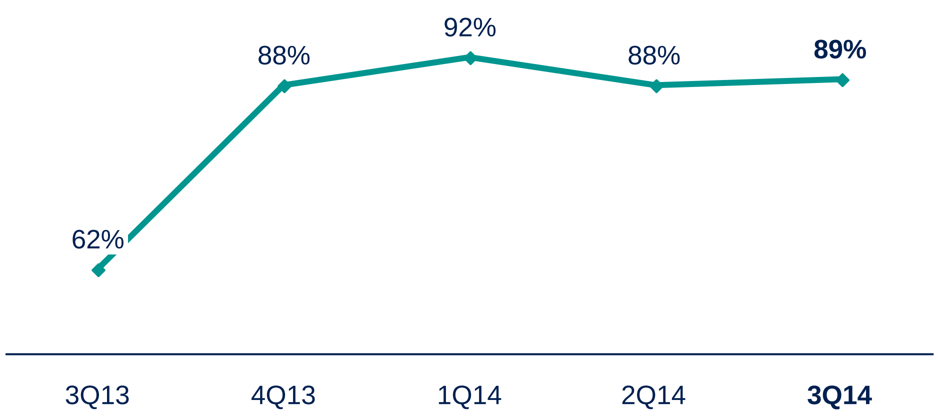
### Sales volumes of petrochemical products




### Sales volumes of polyethylene and polypropylene




### Steam-cracker utilization ratio



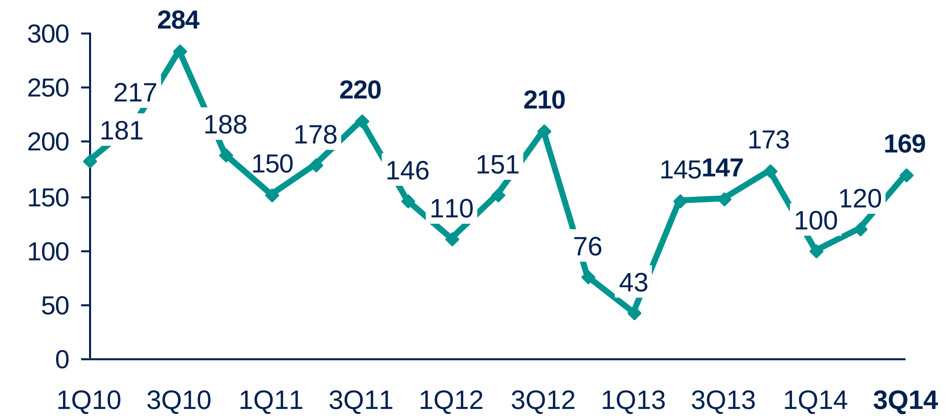

- Normalization of steam-cracker utilization y/y to 89% in 3Q14 from 62% in 3Q13 (two steam cracker shutdowns in 3Q13 and floods in June 2013 impacting 3Q13 utlization)
- Corresponding significant increase of sales volumes by 23% y/y to 449 kt, increases across the whole product portfolio also thanks to very good market demand in 3Q14, of which:
  - Polyethylene by 25% to 82 kt
  - Polypropylene by 32% to 69 kt
- Planned and executed turnarounds of POX and ammonia installations in August and September

# RETAIL SEGMENT

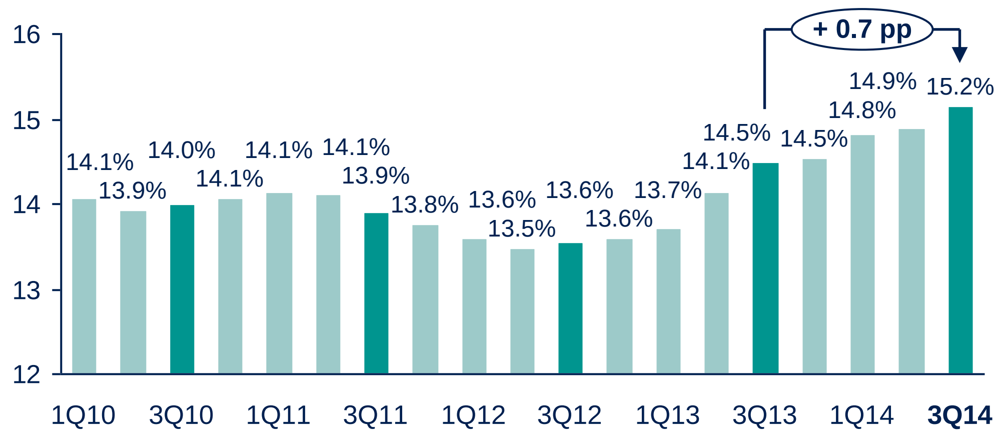
EBITDA LIFO increased by 15% y/y to CZK 169 m

## EBITDA LIFO quarterly

CZK m

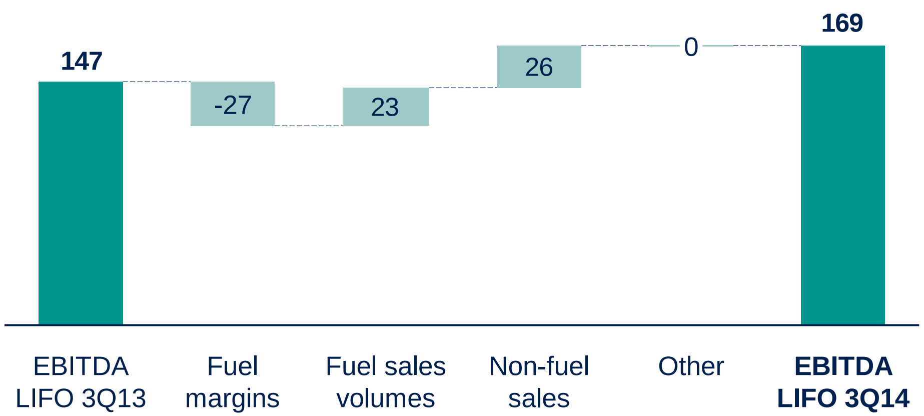



## Benzina market share




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

CZK m




+

- Positive impact of higher fuel sales volumes of CZK 23 m y/y thanks to marketing activities & promos, Customer View program (refurbishment of filling stations) and favorable GDP dynamics
- Increase of market share by 0.7 percentage point y/y to 15.2%
- Positive impact of non-fuel segment by CZK 26 m y/y thanks to better results of shop, gastro and car washes

–

- Negative impact of lower fuel margins of CZK (-) 27 m y/y due to stronger competition on the Czech market, driven by gasoline



Unipetrol

ORLEN GROUP

# AGENDA

Key highlights of 3Q14

Macro environment

Financial results

Segment results

**Cash flow & financial gearing**

Key mid-term business & corporate focus areas

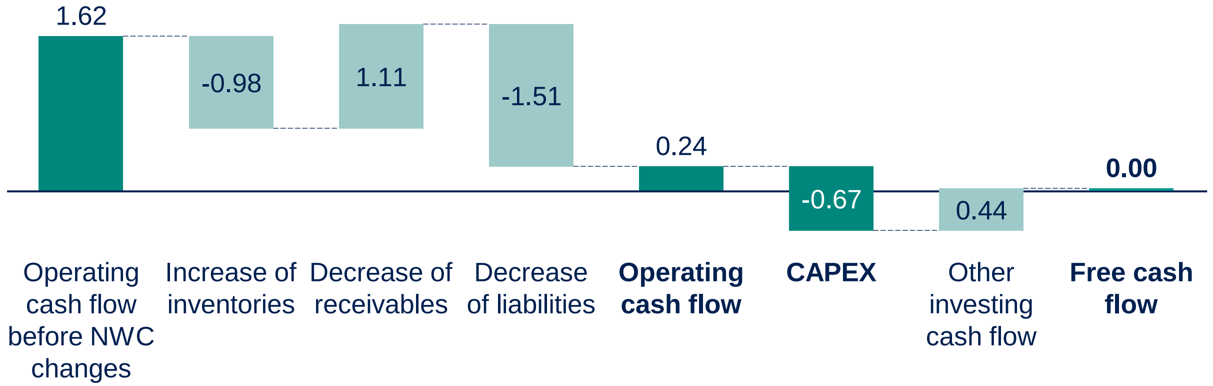
Back-up

# CASH FLOW & FINANCIAL GEARING

## Stable financial gearing of 21.0%

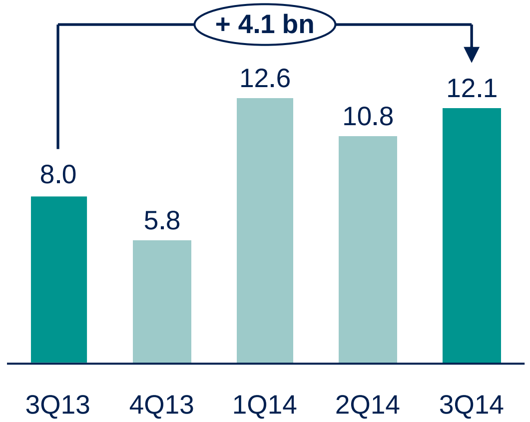
### Free cash flow in 3Q14

CZK bn



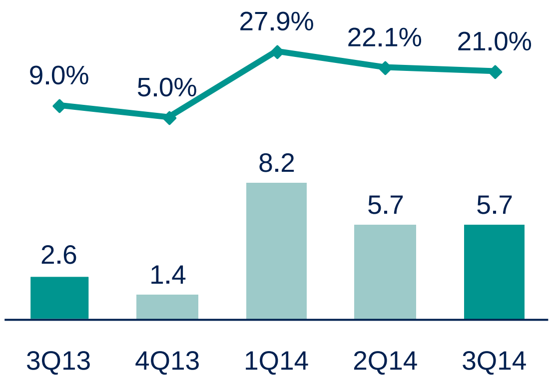

### Net working capital

CZK bn




### Net debt & financial gearing*

CZK bn, %




- Positive operating cash flow of CZK 236 m
- CAPEX of CZK 669 m
- Increase of net working capital by CZK 4.1 bn y/y to CZK 12.1 bn driven by operation of higher refining capacity with corresponding higher sales/receivables and inventories of crude oil and refining products
- Stable net debt of CZK 5.7 bn
- Stable financial gearing of 21.0%
- Net debt/EBITDA** 1.5

* Net debt includes cash pool liabilities.

** 4-quarter trailing EBITDA without impairment in 2Q14 and gain on acquisition in 1Q14.

# AGENDA

Key highlights of 3Q14

Macro environment

Financial results

Segment results

Cash flow & financial gearing

**Key mid-term business & corporate focus areas**

Back-up

# KEY MID-TERM BUSINESS FOCUS AREAS

| Downstream | | Retail |
|---|---|---|
| **Production** | **Sales** | |
| ▶ Production volume increase | ▶ Further clients portfolio optimisation | ▶ Organic improvement of market share |
| ▶ Savings in energy consumption | ▶ Strengthening position at export markets | ▶ Operating model optimization |
| ▶ Fixed costs optimization | ▶ Pricing optimization improving sales margin | ▶ Pricing optimization |
| ▶ Technical standards improvement | ▶ Bio portfolio optimization | ▶ Costs optimization |
| ▶ High margin products initiatives | ▶ Further logistics approach optimization | ▶ Non-fuel sales effectiveness |

- **Strong concentration on operational and business excellence will be continued regardless of future company setup**
- **Margin improvement due to undertaken initiatives expected in mid term conservatively at a level of approximately 1.5 USD/bbl vs 2013**
- **Total margin improvement by 1.3 USD/bbl after 9M 2014 vs 9M 2013 can be already observed**

## Key cross-group priorities

- Streamlining capital group structure
- Enabling of internal potential of human capital
- Developing support of internal R&D function by cooperation with external institutions
- Improvement of capex management processes
- Unification of Health & Safety procedures and practices within group
- Improving further already good level of environment protection

# Thank you for your attention

**For more information contact Investor Relations Department:**


**Michal Stupavský, CFA**

Head of Investor Relations

Phone: +420 225 001 417
Email: michal.stupavsky@unipetrol.cz

**Kateřina Smolová**

IR Specialist

Phone: +420 225 001 488
Email: katerina.smolova@unipetrol.cz


**www.unipetrol.cz**

# AGENDA

# EBITDA & EBIT

## Detailed breakdown

| | CZK m | 1Q 2013 | 2Q 2013 | 3Q 2013 | 4Q 2013 | 1Q 2014 | 2Q 2014 | 3Q 2014 | 9M 2013 | 9M 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group** | **EBITDA LIFO** | **438** | **663** | **235** | **252** | **1,857** | **-3,677** | **2,304** | **1,336** | **485** |
| | EBITDA | 540 | -1 | 737 | 246 | 1,726 | -3,540 | 1,982 | 1,276 | 169 |
| | **EBIT LIFO** | **-172** | **76** | **-341** | **-389** | **1,231** | **-4,308** | **1,803** | **-437** | **-1,274** |
| | EBIT | -70 | -588 | 160 | -396 | 1,100 | -4,172 | 1,482 | -498 | -1,590 |
| **Downstream** | **EBITDA LIFO** | **384** | **531** | **106** | **122** | **1,748** | **-3,791** | **2,135** | **1,020** | **92** |
| | EBITDA | 480 | -122 | 598 | 114 | 1,623 | -3,660 | 1,814 | 956 | -223 |
| | **EBIT LIFO** | **-125** | **45** | **-371** | **-411** | **1,222** | **-4,321** | **1,736** | **-451** | **-1,363** |
| | EBIT | -29 | -608 | 121 | -419 | 1,097 | -4,190 | 1,415 | -515 | -1,678 |
| *of which* **Refining** | **EBITDA LIFO** | **-344** | **-151** | **-256** | **-391** | **752** | **-4,647** | **798** | **-751** | **-3,097** |
| | EBITDA | -320 | -528 | 17 | -438 | 722 | -4,573 | 637 | -832 | -3,214 |
| | **EBIT LIFO** | **-479** | **-263** | **-347** | **-525** | **610** | **-4,800** | **770** | **-1,089** | **-3,420** |
| | EBIT | -455 | -641 | -74 | -572 | 580 | -4,727 | 609 | -1,170 | -3,538 |
| *of which* **Petrochemicals** | **EBITDA LIFO** | **728** | **682** | **361** | **514** | **997** | **856** | **1,336** | **1,771** | **3,189** |
| | EBITDA | 800 | 407 | 581 | 552 | 902 | 913 | 1,177 | 1,787 | 2,992 |
| | **EBIT LIFO** | **354** | **308** | **-24** | **114** | **612** | **480** | **965** | **638** | **2,058** |
| | EBIT | 427 | 33 | 195 | 153 | 517 | 537 | 806 | 654 | 1,860 |
| **Retail** | **EBITDA LIFO** | **43** | **145** | **147** | **173** | **100** | **120** | **169** | **336** | **389** |
| | EBITDA | 49 | 134 | 157 | 175 | 93 | 126 | 168 | 340 | 388 |
| | **EBIT LIFO** | **-40** | **63** | **67** | **90** | **21** | **39** | **88** | **90** | **148** |
| | EBIT | -34 | 52 | 76 | 91 | 14 | 45 | 87 | 94 | 146 |
| **Corporate functions** | EBITDA | 11 | -13 | -18 | -43 | 9 | -6 | 0 | -20 | 4 |
| | EBIT | -8 | -32 | -37 | -68 | -11 | -26 | -21 | -76 | -59 |

# Sales volumes

## Detailed breakdown

| | 1Q 2013 | 2Q 2013 | 3Q 2013 | 4Q 2013 | 1Q 2014 | 2Q 2014 | 3Q 2014 | 9M 2013 | 9M 2014 |
|---|---|---|---|---|---|---|---|---|---|
| **Refining products, including retail, kt** | **737** | **816** | **836** | **762** | **914** | **1,130** | **1,174** | **2,389** | **3,218** |
| Diesel, including retail (Benzina network) | 397 | 438 | 446 | 420 | 507 | 594 | 626 | 1,281 | 1,727 |
| Gasoline, including retail (Benzina network) | 197 | 200 | 200 | 185 | 225 | 284 | 273 | 597 | 782 |
| JET | 16 | 22 | 19 | 11 | 21 | 41 | 44 | 57 | 107 |
| LPG | 22 | 19 | 25 | 21 | 23 | 32 | 32 | 66 | 87 |
| Fuel oils | 40 | 37 | 31 | 17 | 54 | 31 | 36 | 107 | 120 |
| Naphtha | 5 | 0 | 0 | 0 | 5 | 2 | 0 | 5 | 7 |
| Bitumen | 19 | 62 | 76 | 64 | 35 | 89 | 111 | 158 | 234 |
| Lubricants | 7 | 8 | 10 | 8 | 9 | 10 | 9 | 25 | 28 |
| Rest of refining products | 34 | 30 | 29 | 35 | 35 | 48 | 43 | 93 | 127 |

| | 1Q 2013 | 2Q 2013 | 3Q 2013 | 4Q 2013 | 1Q 2014 | 2Q 2014 | 3Q 2014 | 9M 2013 | 9M 2014 |
|---|---|---|---|---|---|---|---|---|---|
| **Petrochemical products, kt** | **403** | **389** | **366** | **420** | **440** | **445** | **449** | **1,158** | **1,334** |
| Ethylene | 38 | 30 | 30 | 40 | 44 | 38 | 38 | 99 | 121 |
| Benzene | 53 | 43 | 38 | 55 | 55 | 55 | 59 | 134 | 169 |
| Propylene | 10 | 7 | 9 | 6 | 10 | 9 | 14 | 26 | 33 |
| Urea | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 0 |
| Ammonia | 55 | 40 | 38 | 53 | 60 | 55 | 44 | 133 | 160 |
| C4 fraction | 20 | 22 | 16 | 21 | 22 | 21 | 22 | 58 | 65 |
| Butadien | 16 | 11 | 15 | 15 | 16 | 15 | 17 | 42 | 48 |
| Polyethylene | 60 | 76 | 66 | 78 | 73 | 79 | 82 | 201 | 234 |
| Polypropylene | 61 | 60 | 52 | 59 | 68 | 67 | 69 | 173 | 204 |
| Rest of petrochemical products | 86 | 100 | 101 | 93 | 92 | 105 | 104 | 287 | 301 |

# DICTIONARY

## Explanation of key indicators

- **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 – Litivínov 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 – Litivínov 2.813 mt/y). From 1Q2014 conversion capacity is 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 – Litivínov 3.710 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** = sum of operating and investing cash flow
- **Net debt** = non-current loans, borrowings and debt securities + current loans, borrowings and debt securities + cash pool liabilities – cash and cash equivalents
- **Gearing ratio** = net debt / (total equity – hedging reserve)
- **Net working capital** = inventories + trade and other receivables – trade and other liabilities

# DISCLAIMER

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.