

# THIRD QUARTER 2017

4 December, 2017



# Presenters



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The conference call will also be available for replay for a limited time beginning on December 5, 2017 with access information to be posted via the "Press and Notices" heading of the Corral investors section of Preem's website at <https://www.preem.se/en/english/investors/corral/results-and-reporting/>.

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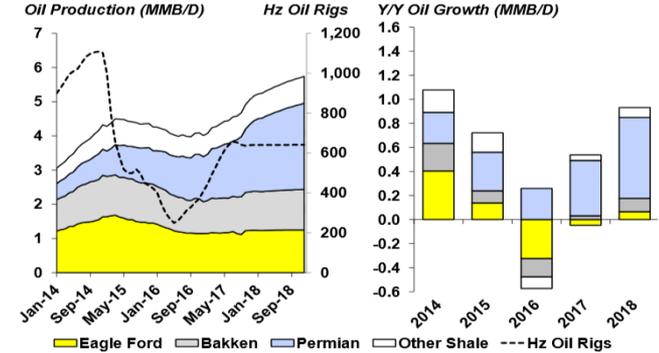
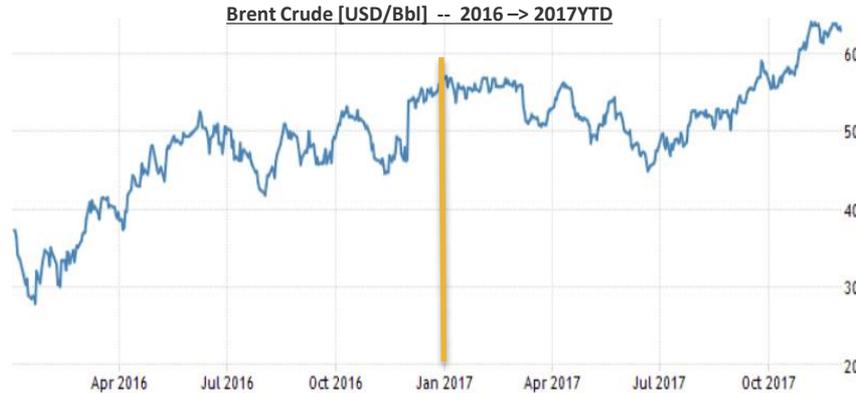
# MARKET AND MARKET OUTLOOK



# Crude

Strong Growth in US Shale Production Despite Flat Rig Count

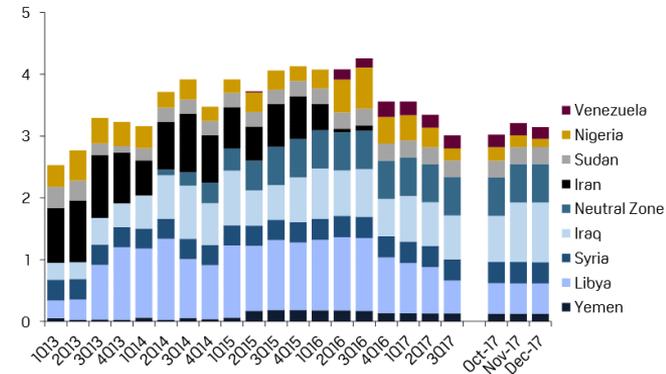
0.9 MMB/D Oil Growth in 2018 With Horizontal Oil Rigs Flat at ~ 640



Source: Pira

## Supply Disruptions Rose In November

MENA, Nigeria, and Venezuela Supply Disruptions (MMB/D)



Source: Pira

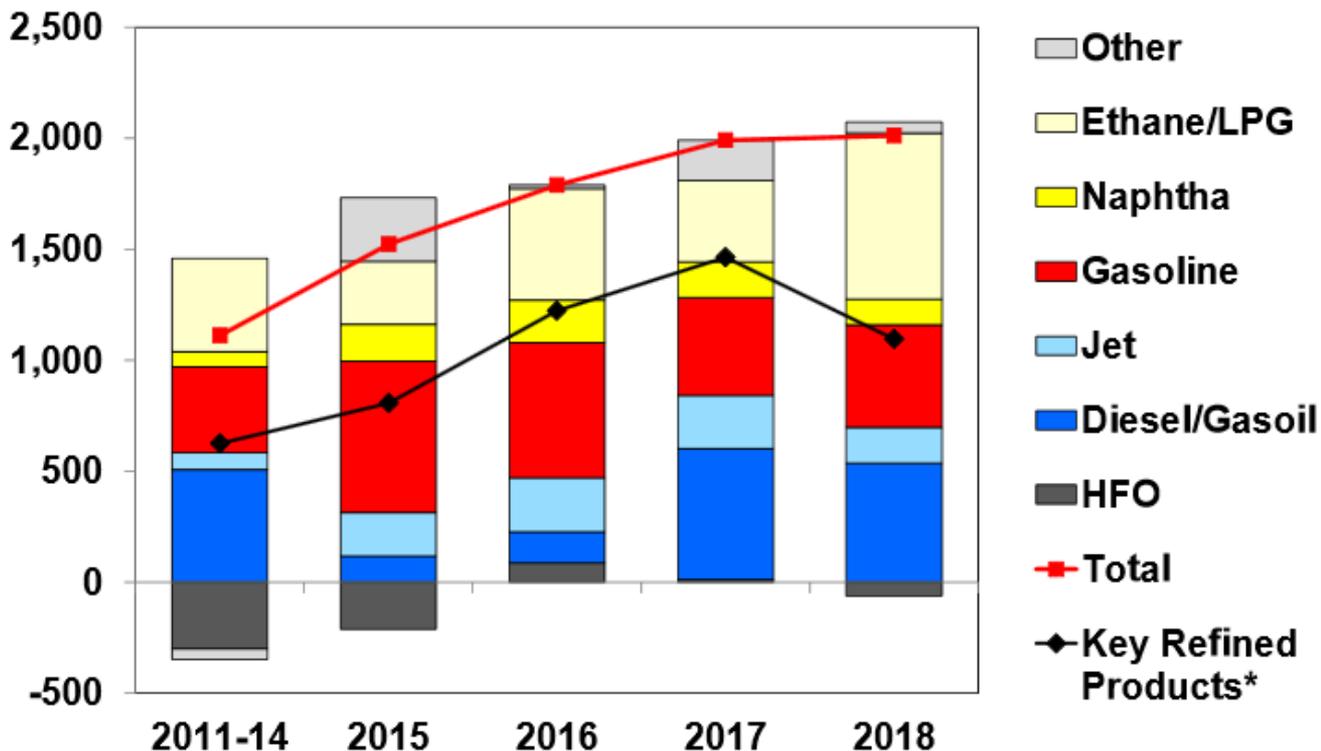
- **Saudi Arabia's objectives: low inventories, backwardation price structure, and 60+ USD/Bbl Brent price.**
- **Now: prices are 60+ USD/bbl, market in backwardation -- but stock target not yet achieved**
- **OPEC and Non-OPEC participating countries agreed on Nov 30th to extend the production curb deal through 2018.**
  - No exit-strategy agreed by OPEC and Russia -- "not needed until the inventory target (OECD inventories at 5-year average) is reached".
  - With the agreed production cuts, 2018 global oil supply/demand will be reasonably balanced.
  - The main uncertainty is regarding US production -- can surprise to the upside. This needs to be balanced against other downside risks such as developments in Venezuela, Nigeria, Libya, Iran, Iraq.



# Strong Global Oil Demand Growth in 2015-18

## Call on Refining also Healthy Despite NGL Growth

Annual Growth, MB/D per Year



Source: Pira

# Strong demand growth for refined products outstripping available refinery capacity growth

## Sharp reduction in refinery runs in key regions/countries:

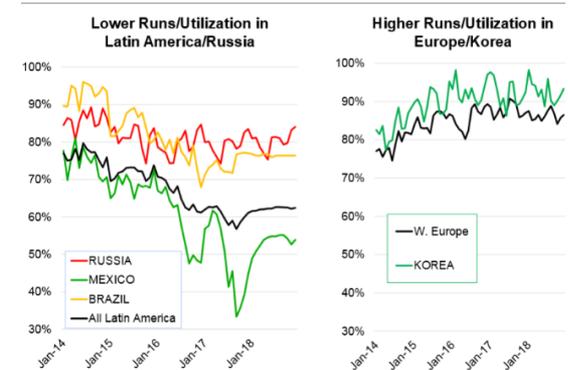
- Latin America:
  - Venezuelan refinery runs limited by power outages, minimal refinery maintenance, and financial difficulties.
  - Mexican refinery runs cut back due to budget limits affecting maintenance and a string of operational incidents.
  - Brazilian refinery cut due to a weak local economy and a pricing policy allowing product imports to take market share from local refining.
- Russia: changes in tax policy -- especially affecting fuel oil export pricing and simpler refining capacity.
- United States: Hurricane Harvey resulting in roughly 65 million barrels of lost runs.

These reductions have opened up for European refineries that have increased runs by ~750 kBD from 2014 to 2017 -- despite lower overall European capacity.

European utilization rates have thus moved from below 80% up to 85-90%.

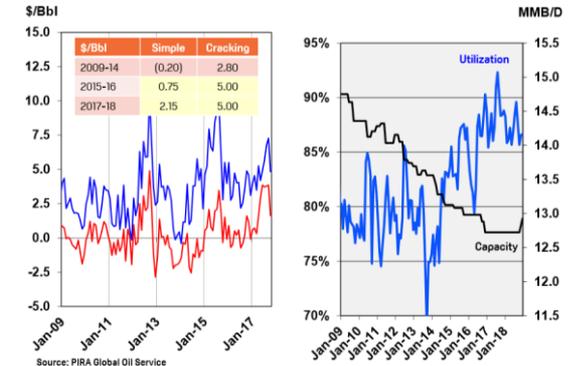
- near full capacity after accounting for normal maintenance and low performing/stranded capacity.

### Refinery Utilization Rates Plunge in Some Regions Driving Available Swing Refiners Higher



Source: Pira

### European Refinery Margins & Utilization Rates Much Higher Since 2015 Even in Simple Capacity

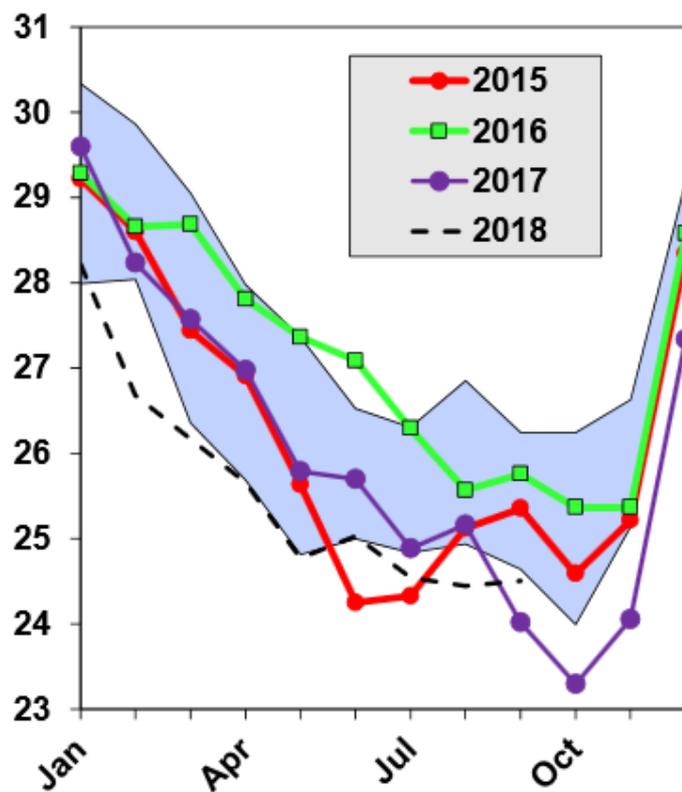


Source: PIRA Global Oil Service

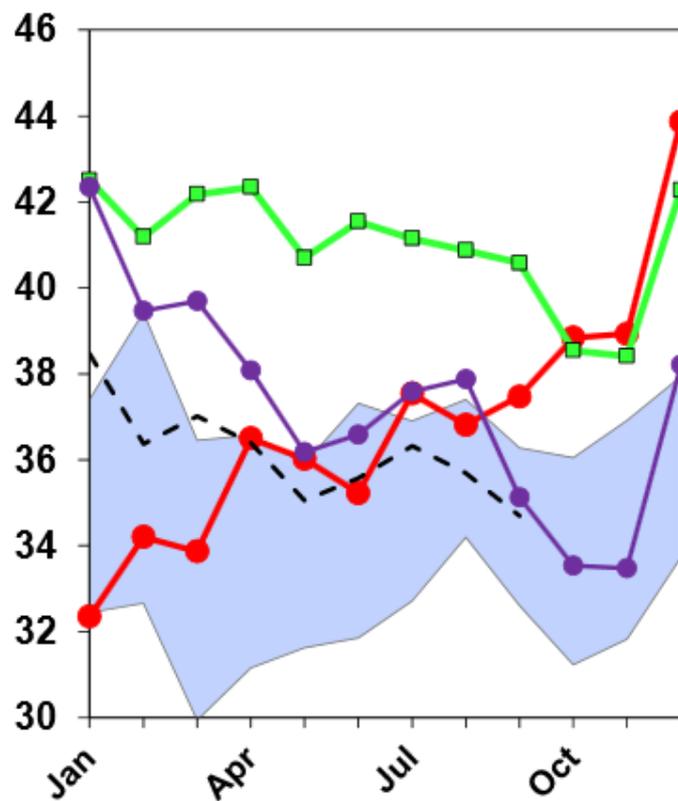
# Atlantic Basin Product Stock Coverage Tightening

Days of Supply Forward Coverage\*

## Gasoline

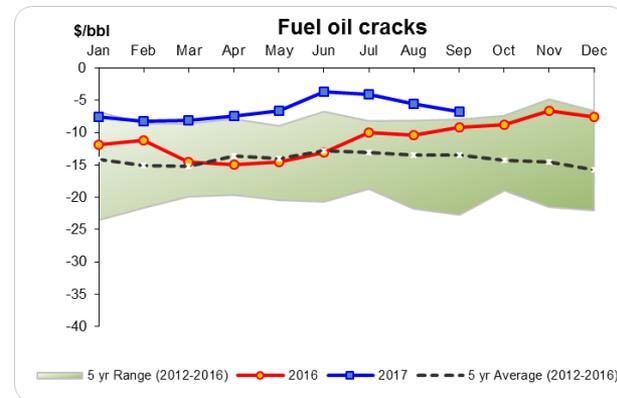
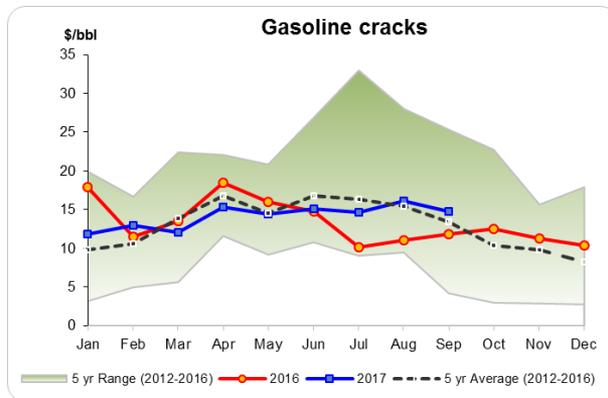
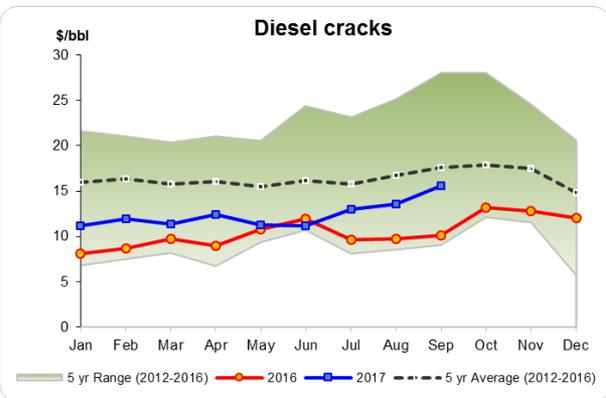


## Diesel/Gasoil



Source: Pira

# Products prices [USD/Bbl vs Brent dated]



# Third Quarter Highlights

## Market and Operation

- European refining margins improved during the third quarter of 2017. The support for the margins was due to increasing demand globally for products. The harsh hurricane season in the Mexican Gulf negatively affected production in the refining industry in the US, reducing supply and specially strengthening the gasoline margin.

## Financial

- Adjusted EBITDA for the third quarter 2017 was 1 428 MSEK, compared to 589 MSEK in the third quarter 2016 and operating profit was 1 297 MSEK compared to 295 MSEK in the third quarter 2016.
- On September 29, 2017 Preem satisfied one of the required tests under the Credit Facilities to upstream excess cash to Corral Petroleum Holdings in December for the January 1, 2018 scheduled interest payment on the 2021 Notes.



# Projects and Activities

- Investment in a Vacuum Distillation Unit in Lysekil with a total capital expenditure plan of 1 600 MSEK during the period 2016 to 2018. The project is progressing according to plan. All major mechanical items and works have been contracted. Site groundwork are in its final stages and piping work is progressing well. The new vacuum tower has been lifted into place in late November.
- Investment in a Hydrogen Production Unit in Gothenburg with a total capital expenditure of 635 MSEK is progressing with mechanical completion expected at year-end 2018.
- Strategic upgrade of IT systems with a total capital expenditure budget of 500 MSEK with stepwise implementation in 2017 and 2018.
- All units at the Gothenburg refinery are now back in operation after the planned major (6-year interval) turnaround that took place in September and parts of October. All work was executed according to plan, within budget and without unnecessary delays.
- The announced acquisition of YX bulk business in Norway was completed in September, 2017. Implementation of plan are ongoing in good cooperation with Uno-X Group, including supply and depot agreements.
- Effective on January 1st 2018 Preem will establish a new COO-position (Chief Operating Officer). The COO main responsibilities will include the Refineries, Supply & Trading, Marketing division, SHE-organization and Business Development. COO-manager will be Stein-Ivar Bye, who has 25 years of broad refining, trading and strategic planning experience from ExxonMobil.
- We are aware that the ultimate sole shareholder of Corral Petroleum Holdings, Sheikh Mohammed Al-Amoudi, was one of a group of Saudi leading figures detained on November 5, 2017, at the Ritz-Carlton hotel in Riyadh. We are unable to provide further comments other than to say that Corral Petroleum Holdings and its subsidiaries are operating on a normal basis and remain unaffected by this development.



*The 37 meter vacuum distillation tower is the heart of the new vacuum distillation plant to be completed in 2018.*



preem

preem

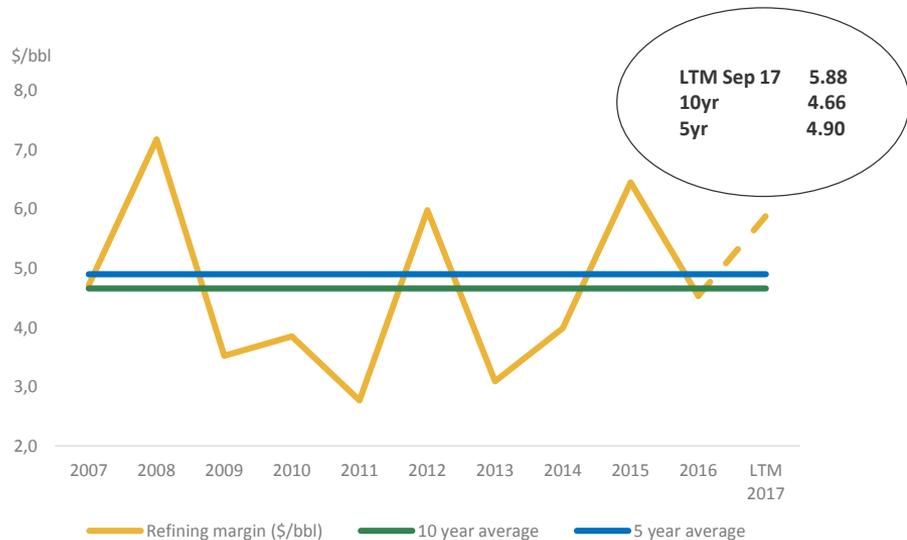
VALIKOMPREN TÄLL PREEM

# THIRD QUARTER FINANCIAL SUMMARY

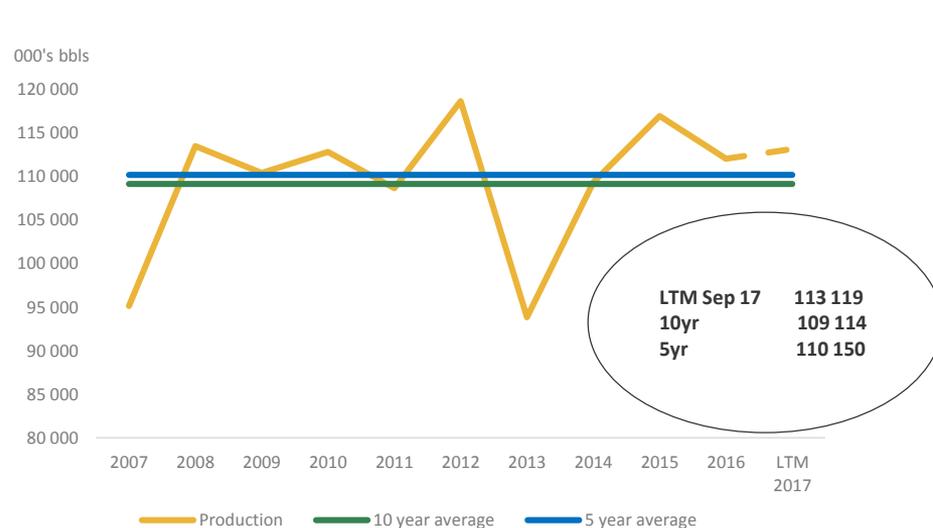


# Refining Margin and Production 2007-2017 Q3

## Refining margin

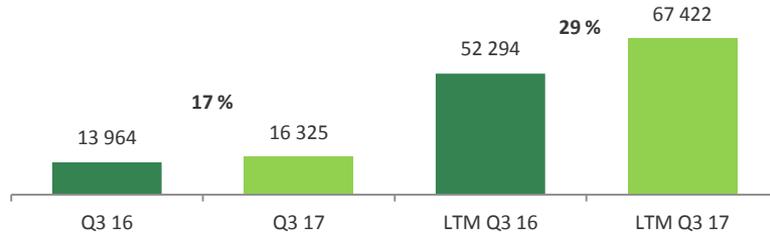


## Production

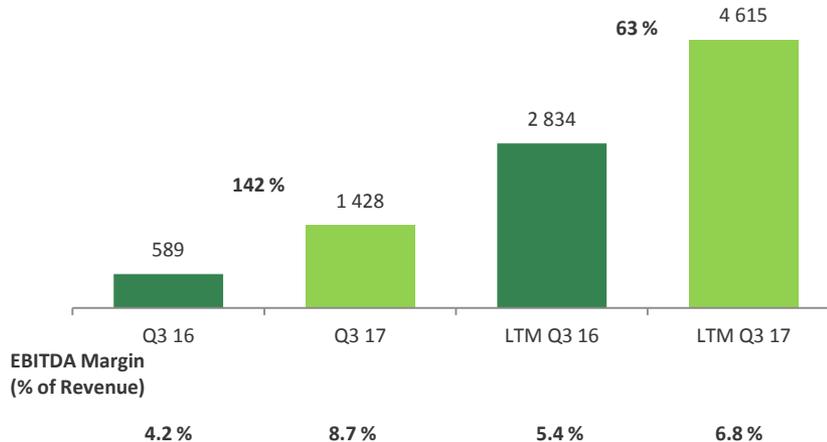


# Group Third Quarter 2017 Results

## Revenue (MSEK)



## Adjusted EBITDA



EBITDA Margin  
(% of Revenue)

4.2%

8.7%

5.4%

6.8%

## Comments

### Revenue

The increase in sales revenue is primarily a result of higher crude and product prices as well as higher sales volumes compared to the same period for 2016.

### Adjusted EBITDA\*

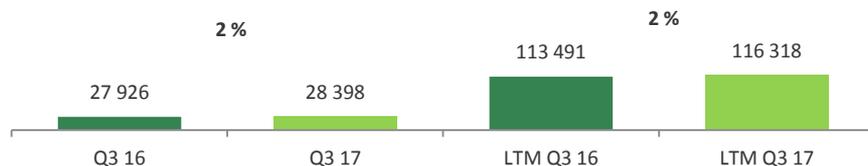
Adjusted EBITDA for the third quarter 2017 was 1 428 MSEK, compared to 589 MSEK in the third quarter 2016. Operating profit for the third quarter of 2017 amounted to 1 297 MSEK, an increase of 1 002 MSEK, compared to 295 MSEK for the third quarter of 2016.

\*As defined in the Corral Petroleum Holdings AB (publ) report for the third quarter ended 30 September, 2017

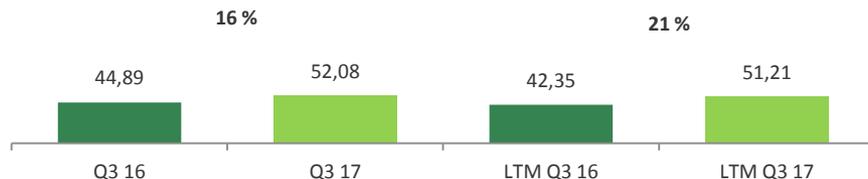


# Supply & Refining Segment

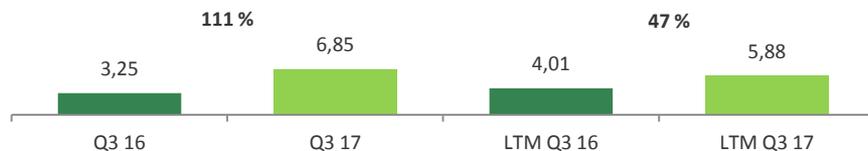
## Production (000 bbls)



## Average Brent Crude Price (\$/bbl)



## Average Refining Margin (\$/bbl)



## Comments

### Production

In the third quarter of 2017 production increased to 28 398 thousands bbls compared to 27 926 thousands bbls in the third quarter of 2016. In September the Gothenburg refinery was shut down for a planned major turnaround.

### Average Brent Crude Price

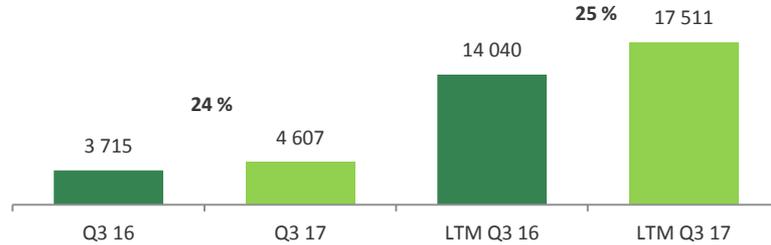
The price of Dated Brent traded in a range of 46-48 \$/bbl in the early part of June but increased to a range of 57-59 \$/bbl in the later part of September. By the end of the third quarter of 2017, the production cut from crude oil producers and increased global demand for products had begun to be reflected in reduced global inventory levels. The market turned into a backwardation market structure, where current prices are higher than future prices which is suggestive of good demand and a belief in a more balanced market to come.

### Refining Margin

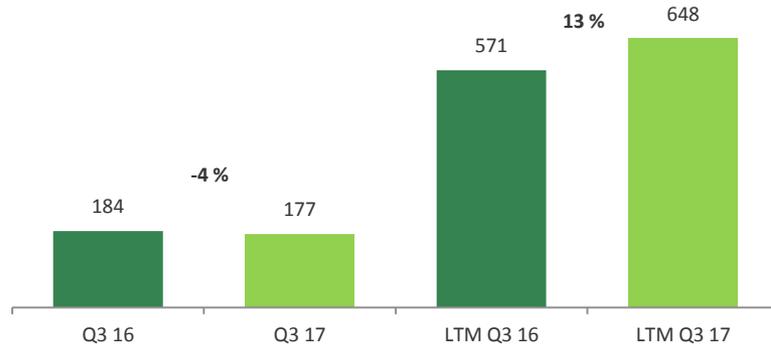
The refining margins in the third quarter of 2017 increased significantly compared to the third quarter of 2016, from 3.25 \$/bbl to 6.85 \$/bbl. European refining margins improved during the third quarter of 2017. The support for the margins was due to increasing demand globally for products. The harsh hurricane season in the Mexican Gulf negatively affected production in the refining industry in the US, reducing supply and specially strengthening the gasoline margin.

# Marketing Segment

## Revenue (MSEK)



## EBITDA (MSEK)



## EBITDA Margin (% of Revenue)

Q3 16	5%	Q3 17	3.8%	LTM Q3 16	4.1%	LTM Q3 17	3.7%
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## Comments

### Revenue

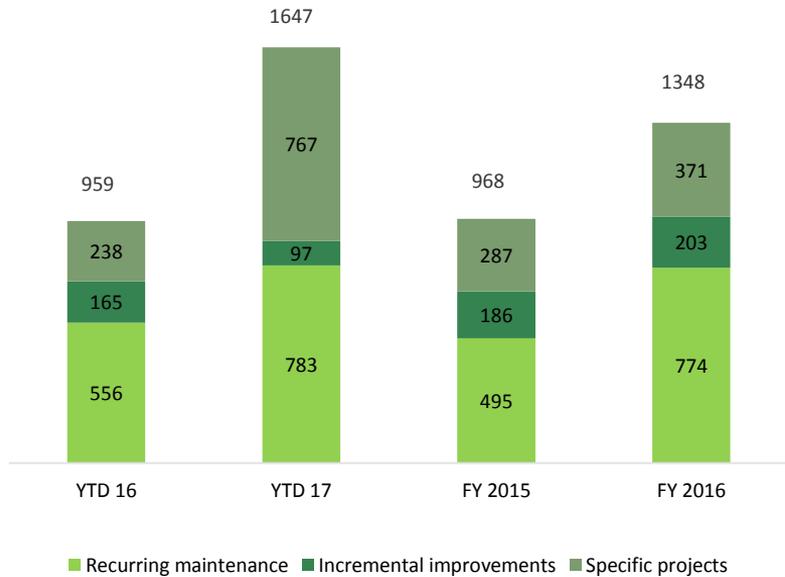
Sales volumes were 11% higher in the third quarter of 2017 compared to the third quarter of the previous year driven by new major contracts within our business-to-business segment as well as our expansion in Norway.

### Marketing EBITDA

The decrease in operating profit is mainly attributable to decreased profitability from HVO (Hydrogenated Vegetable Oil). Last year the profit from HVO was very high and it still remains high so far this year, however it has decreased versus last year's record high figure.

# Capital Expenditures

## Capex by Purpose (MSEK)<sup>(a)</sup>



(a) Shown on a gross basis.

## Comments

### Specific Projects

- The VDU investment in Lysekil, 408 MSEK Q3 2017.
- Strategic IT project. 175 MSEK Q3 2017.
- HPU investment, 180 MSEK Q3 2017.

### Recurring maintenance

- Increased capex in Q3 2017 vs Q3 2016 driven by scheduled maintenance (174 MSEK) and planned maintenance (6 MSEK).
- Regulatory/Environmental maintenance increased by 20 MSEK
- Safety/Risk maintenance increased by 27 MSEK

### Future investments

- In November 2016 the Preem Board approved a 635 MSEK investment in a Hydrogen Production Unit at the Gothenburg refinery. This attractive profitability investment, which we expect will be mechanically complete by the end of 2018, is designed to further increase the refinery's desulphurization capacity. The investment has an estimated pay-back time of less than two years.
- Total capex in 2016 was 1 348 MSEK compared to plan 1 514 MSEK. Total capex in 2017 is estimated at 2 565 MSEK.

# Cash Flow

(MSEK)	Q3 17	Q3 16	LTM Q3 17	LTM Q3 16
Profit before taxes	1 253	-357	1 533	-817
Adjustments for items not included in cash flow	235	748	3 189	3 383
Tax paid	0	0	-2	1
<i>Decrease(+)/Increase(-) in inventories</i>	926	-1 070	408	-457
<i>Decrease(+)/Increase(-) in operating receivables</i>	-261	369	-1 022	221
<i>Decrease(-)/Increase(+) in operating liabilities</i>	-1 672	1 057	-921	357
Changes in working capital	-1 007	356	-1 535	121
<b>Cash flow from operating activities</b>	<b>482</b>	<b>747</b>	<b>3 186</b>	<b>2 687</b>
<b>Cash flow used in investing activities</b>	<b>-803</b>	<b>-326</b>	<b>-2 065</b>	<b>-1 216</b>
	-321	421	1 120	1 471
Amortization/Raising of loans	235	-491	-832	-685
Loan expenditure	0	-2	0	-679
<b>Cash flow used in financing activities</b>	<b>235</b>	<b>-493</b>	<b>-832</b>	<b>-1 365</b>
<b>Cash flow for the period</b>	<b>-86</b>	<b>-72</b>	<b>288</b>	<b>107</b>

## Comments

Cash flow was negatively impacted by movements in working capital of 1 462 MSEK for the first nine months of 2017 compared to a positive impact of 576 MSEK for the first nine months of 2016.

Cash flow from inventories amounted to 1 597 MSEK for the first nine months of 2017, primarily due to lower inventory volume.

Cash flow used in operating receivables amounted to 250 MSEK for the first nine months of 2017, primarily due to higher prices on refined products.

Cash flow used in operating liabilities for the first nine months of 2017 amounted to 2 808 MSEK primarily due to there being fewer outstanding crude payables.

Cash flow used in financing activities is attributable to (net) repayment of loans under Preem's revolving credit facility as a consequence of the positive cash flow from operating activities.

**Anticipated interest payment Jan-18 -360**

# Simplified Capital Structure

## Cap Structure at the end of Q3 2017

	MSEK	\$M USD	x Adjusted EBITDA
Cash	-405	-16	(0.1)x
RCF	4 878	519	1.5x
Other interest bearing liabilities and transaction expenses	-298	-22	(0.1)x
<b>Total net debt at Preem</b>	<b>4 175</b>	<b>482</b>	<b>1.3x</b>
2021 Corral Notes	5 953	710	1.8x
Transaction expenses	-220	-28	(0.1)x
Cash	-452	-96	(0.1)x
<b>Total 3rd party debt</b>	<b>9 456</b>	<b>1 068</b>	<b>2.9x</b>
Adj EBITDA	3 301	407	
USDSEK exch.rate		8	

## Comments

Continued deleveraging through reduced utilization of Preem's RCF.

Continued strong focus on paying cash coupons on the 2021 Notes.

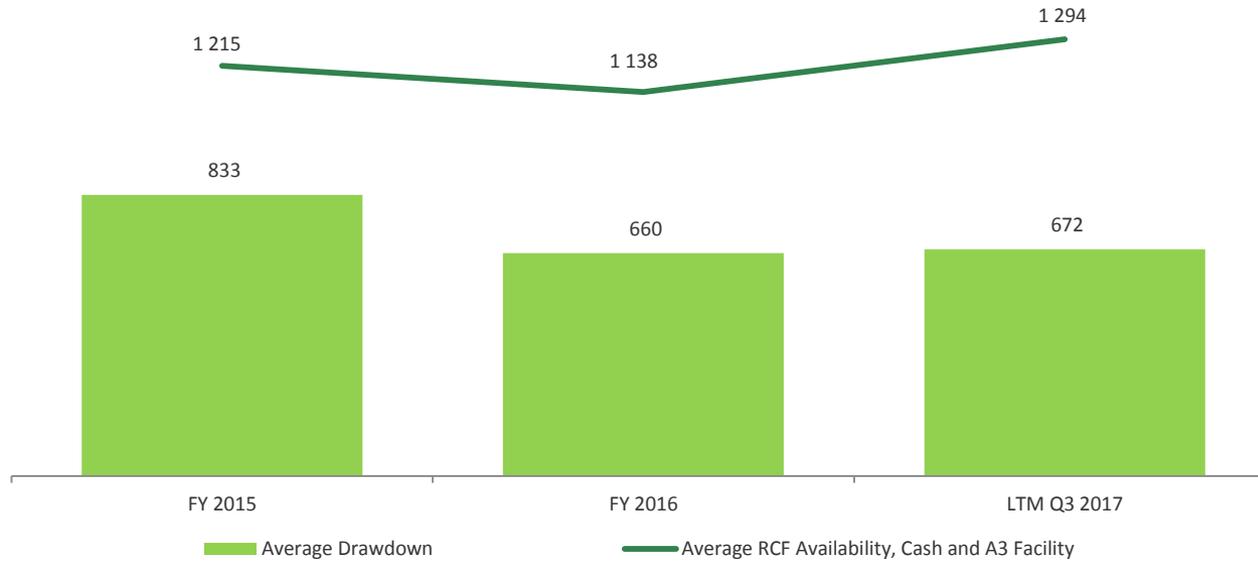
\*Cash and debt figures exclude deeply subordinated debt held by our ultimate shareholder.

\*\*Exchange rate (USD/SEK) – as of September 30, 2017



# Liquidity Reserves

\$M USD



Stable liquidity position.

*Note: Drawdown and availability figures are not IFRS measures and are based on month end values averaged over the course of the year. In part, these values are internal calculations based on variables that are subjectively determined and which may not be comparable in approach to similar calculations of other companies*



## Definitions

**Adjusted EBITDA** means EBITDA adjusted to exclude inventory gains/losses and foreign currency gains/losses

**Dated Brent Crude** is a cargo of North Sea Brent blend crude oil that has been assigned a date when it will be loaded onto a tanker. In this Annual Report, references to the price of Dated Brent Crude are derived from data provided by Platts, a division of McGraw Hill Financial Inc.

**Gross refining Margin** means the difference between the sales revenue received from the sale of refined products produced by a refinery and the cost of crude oil and (where relevant) other immediate feedstocks processed by it.

**HVO Diesel** is a tall oil based hydrotreated vegetable oil diesel.

**Hydrogen production unit (HPU)** is a refinery unit that produces hydrogen for use refinery processes.

**Marketing EBITDA** is not an IFRS measure and consists of the EBITDA of our Marketing & Sales segment which includes the operating profit and the depreciation of our Marketing & Sales segment, as described in Note 4 to our Consolidated Financial Statements

**Refining margin** is Gross refining margin less variable refining costs, which consist of volume related costs, such as the cost of energy. See “Management's Discussion and Analysis of Financial Condition and Results of Operations” for further discussion.

**Vacuum distillation unit (VDU)** is a secondary processing unit consisting of vacuum distillation columns. Vacuum distillation helps to produce products out of the heavier oils left over from atmospheric distillation.

**2021 Notes** refers to the (i) €570,000,000 aggregate principal amount of euro-denominated 11.750% / 13.250% senior PIK toggle notes due 15 May 2021, issued by CPH on May 9, 2016, and (ii) SEK 500,000,000 aggregate principal amount of Swedish krona-denominated 12.250% / 13.750% senior PIK toggle notes due 15 May 2021, issued by CPH on May 9, 2016



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