

# CORRAL PETROLEUM HOLDINGS

Q4 2018

March 19 2018



# Presenters



Petter Holland  
*CEO*



Peder Zetterberg  
*CFO (acting)*

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The conference call will also be available for replay for a limited time beginning on March 20, 2019 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/in-english/investors/corral/results-and-reporting2/>.

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## MARKET AND MARKET OUTLOOK

# Crude

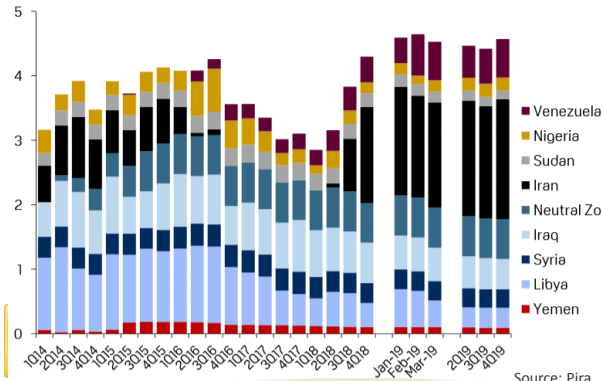


Crude prices have been very volatile over the last year, but they keep returning to a midline near 65 USD/Bbl as fundamentals point to reasonable balances -- not tank tops nor shortages.

US production growth, OPEC+ cuts, and demand growth supporting runs growth are balancing out each other fairly well.

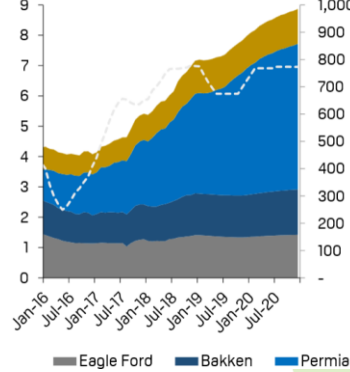
## Geopolitical Supply Disruptions Set Multi-Decade High in February

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

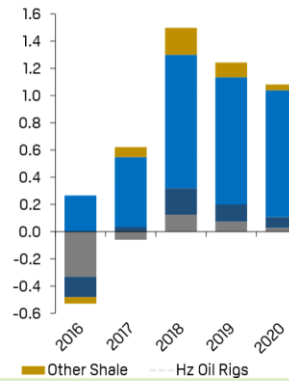


## Impressive Production Growth Expected Despite Rig Losses

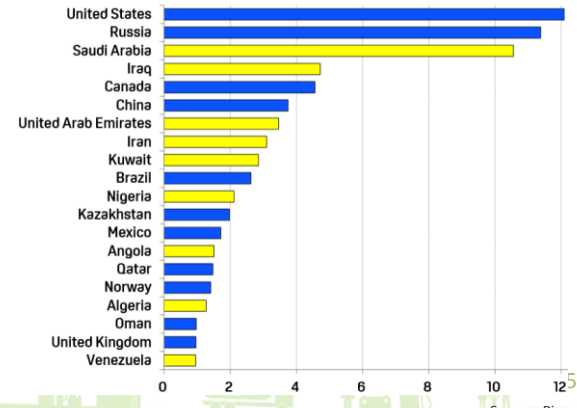
Crude and Condensate Production (MMB/D)



Y/Y Growth (MMB/D)

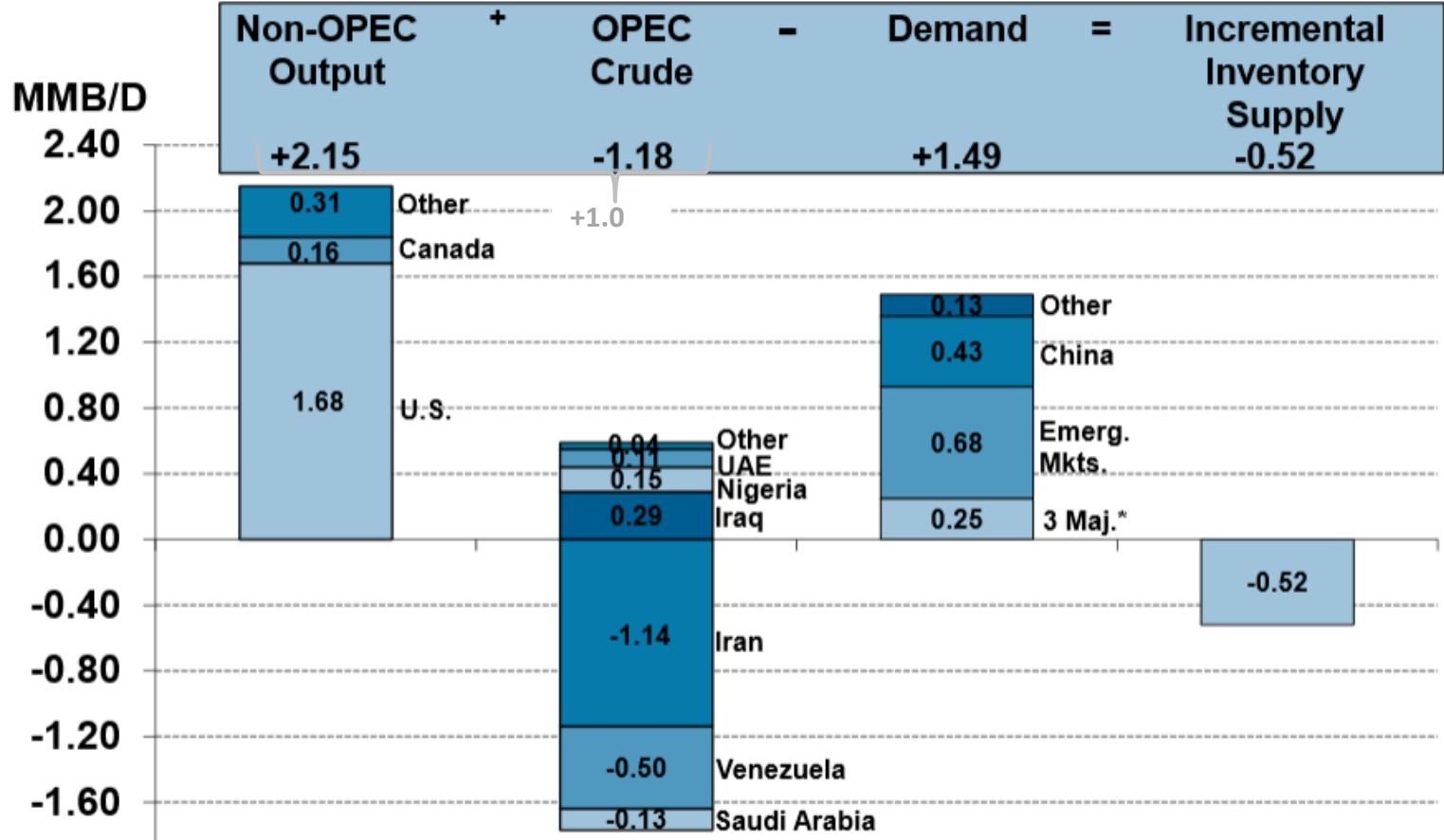


## Top 20 Crude Producers February (MMB/D)

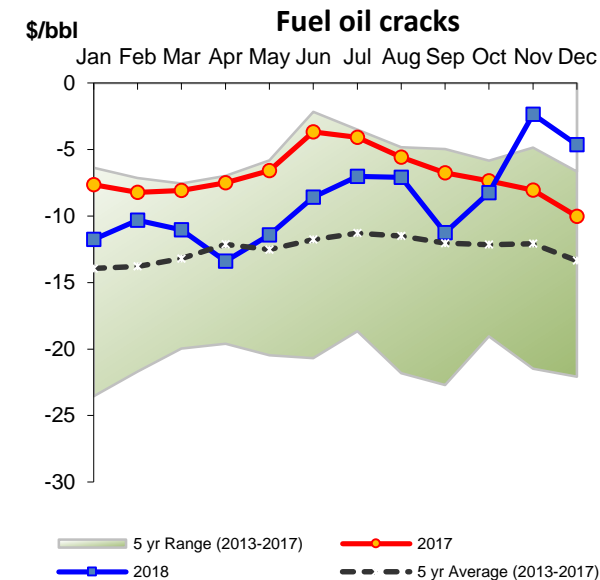
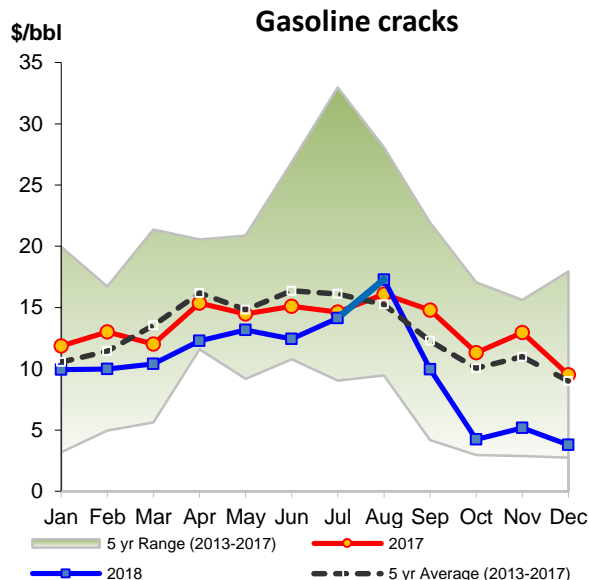
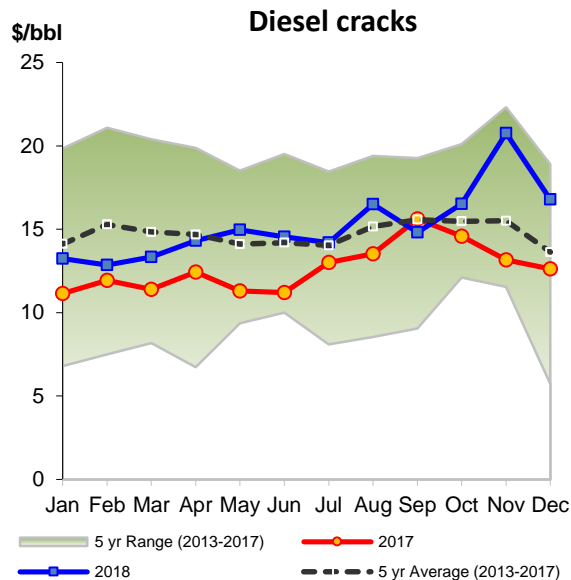




# World Oil Supply and Demand 2019 Versus 2018



# Products



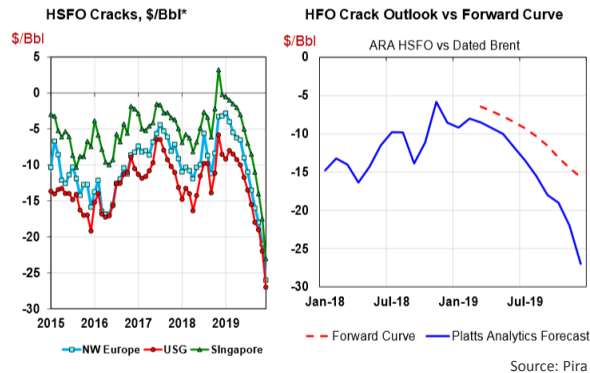
Fundamentals have supported the diesel crack during the first half of 2018 with a strong regional demand in Europe that have been able to consume a fairly large Russian export. At the same time there has been very limited exports from USA to Europe due to strong demand in South and Latin America. A cold start of the winter in US, Europe and Russia increased the demand and the average diesel crack in November was close to 21 USD/bbl.

Gasoline started 2018 around the 5 year average but fell somewhat behind due to good availability and high production levels on both sides of the Atlantic. As we got into July we started to see the effects of the summer driving season and increases in the gasoline crack. Later in August the crack decreased rapidly due to rising inventory levels and the seasonal weakening of demand. In Q4 the uptick of simple refinery runs, boosted by a strong fuel oil crack, further increased the inventory build of gasoline, and pulled down the crack to a level around 5 USD/bbl. The increased supply of lighter US shale crude has added to the gasoline production, putting further pressure on the crack in 4Q 2018 and Q1 2019.

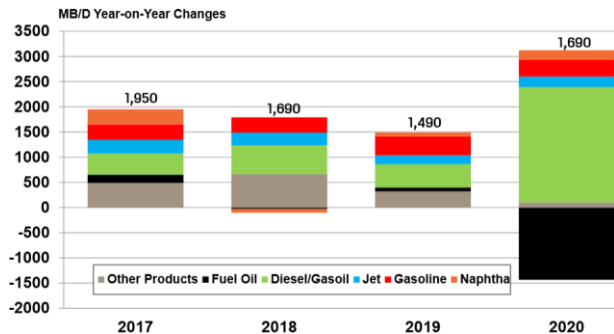
The fuel oil crack has been at a somewhat lower level in 2018 compared to 2017, but is still strong in a historical perspective. Increased demand for fuel oil in the Middle East for power generation, combined with decreasing supply from Russia/Venezuela keep supporting the crack.

# IMO 2020 considerations -- product prices

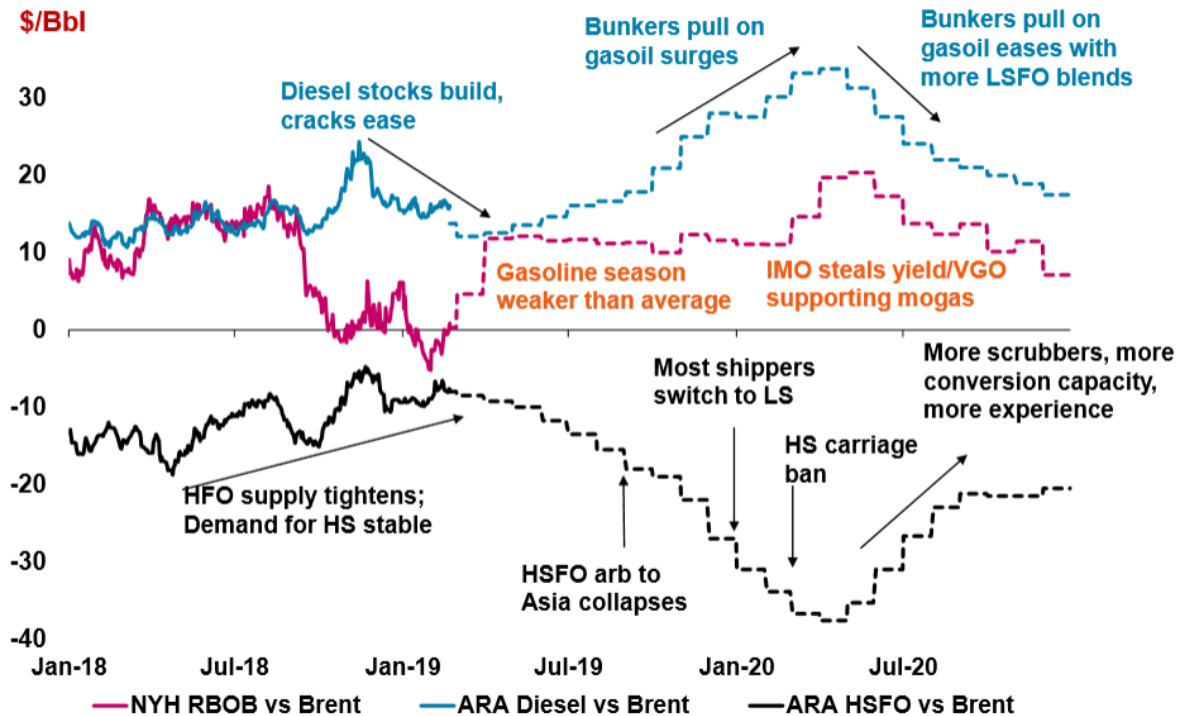
HSFO cracks firm in 2018 and early 2019 but then much weaker in 2H19; Forward curve no longer as severe



## World Oil Demand Growth: Gasoil/Diesel Strongest

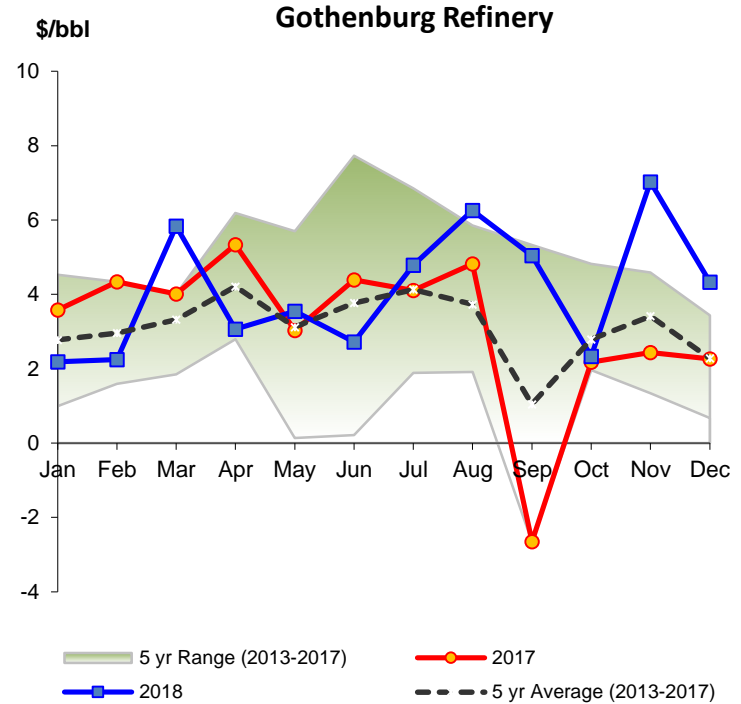
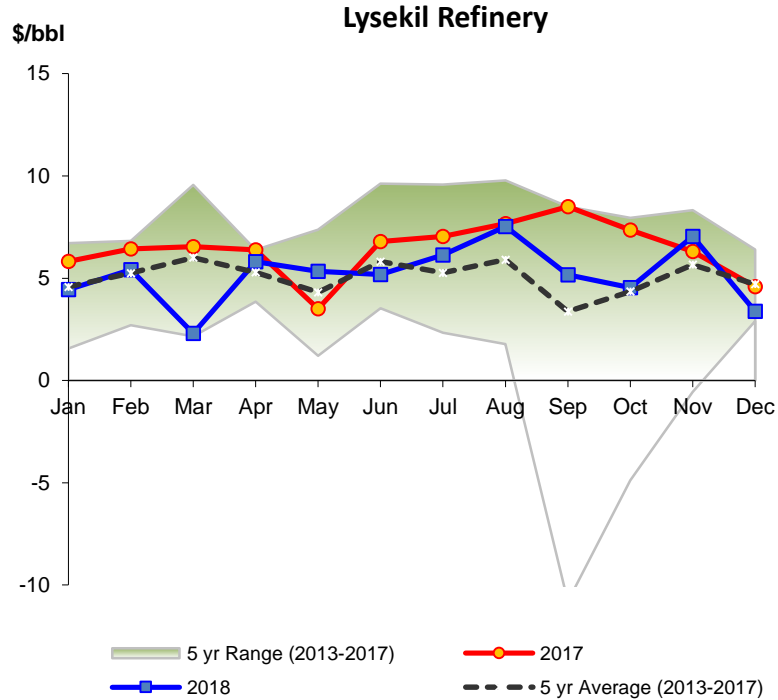


## Global product crack spread trends will abruptly reverse



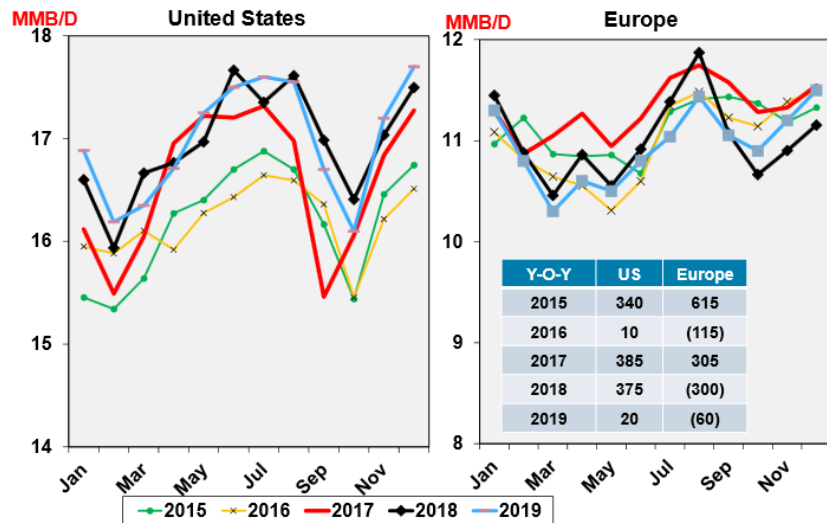


# Preem Refining Margins



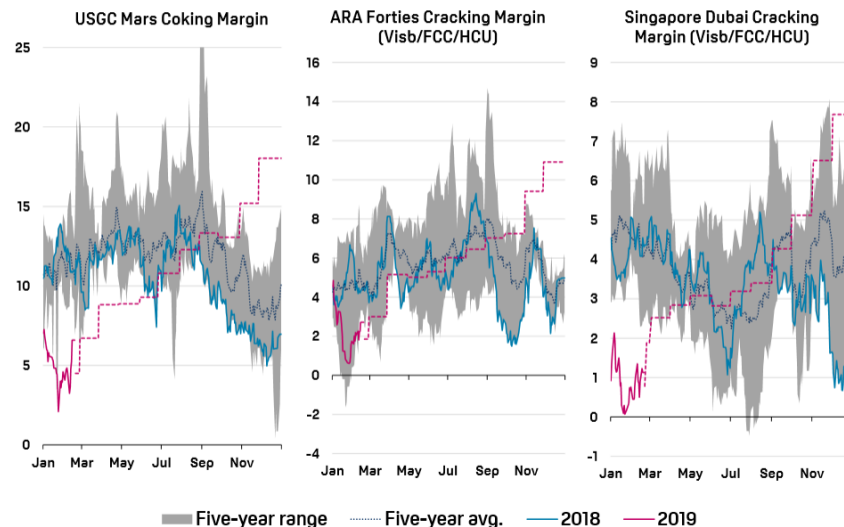
# IMO 2020 considerations -- refining margins

Refinery crude runs decline in Europe, downshift in U.S.



Source: Pira

Refinery margins soft for conversion in 1H19 then shift dramatically stronger late in the year



Source: Pira

# Projects and Activities

## Milestones

- **Gothenburg Hydrogen Production Unit (HPU):** Started up February 28<sup>th</sup>, on time and on budget. Capex 635 MSEK, pay-back < 2 years.
- **Vacuum Distillation Unit (VDU) in Lysekil:** Mechanical project complete, and is now handed over to the Lysekil Operations dept. Will be starting up by end of March. Project on time and on budget. Will reduce Preem HFO/bunker-production and increase the diesel production. Capex 1600 MSEK, pay-back in 3-4 years.
- **Upgrade of ERP system:** Starts-up April 1<sup>st</sup>. This is a strategic project to standardize and streamline Preem accounting, planning and administration systems to increase efficiency and transparency. Capex 800 MSEK.

## Refinancing

- **The Indenture governing the 2021 Notes** contains certain provisions relating to optional redemption. In very brief summary, such provisions include that Corral Petroleum Holdings, on or after 15 May 2019, may redeem, at its option, all or a portion of each series of the 2021 Notes at specified redemption prices (plus accrued and unpaid interest and additional amounts, if any, to the redemption date). In light of these provisions, Corral Petroleum Holdings and Preem are now progressing on the refinancing of the Group, in which redemption of the 2021 Notes according to the aforesaid may be one possible component.
- The objective and structure of the refinancing will also include the longer-term prospect that the Preem Shareholder may consider an **initial public offering (IPO)** of Preem shares at a future date, although no such decision has been taken.

## Other

- **Lysekil Iso-Cracker** had to be shut down in January due to a power failure that caused damage to one of its reactors. The repair work is completed and we are currently in the process of refilling catalyst. Start-up will follow immediately thereafter. Products to tank is expected by April 1<sup>st</sup>. Total financial impact for the almost 3 months lost Iso-Cracker production is estimated to be in the range of -36 MUSD / -1,4 USD/bbl.
- **Mohammed Al-Amoudi** was released from detention in Saudi Arabia on January 27<sup>th</sup>. He is now in Jeddah with his family and he is in good health. His businesses remain independently managed and continue to follow the vision and strategy previously laid out by himself and his management.

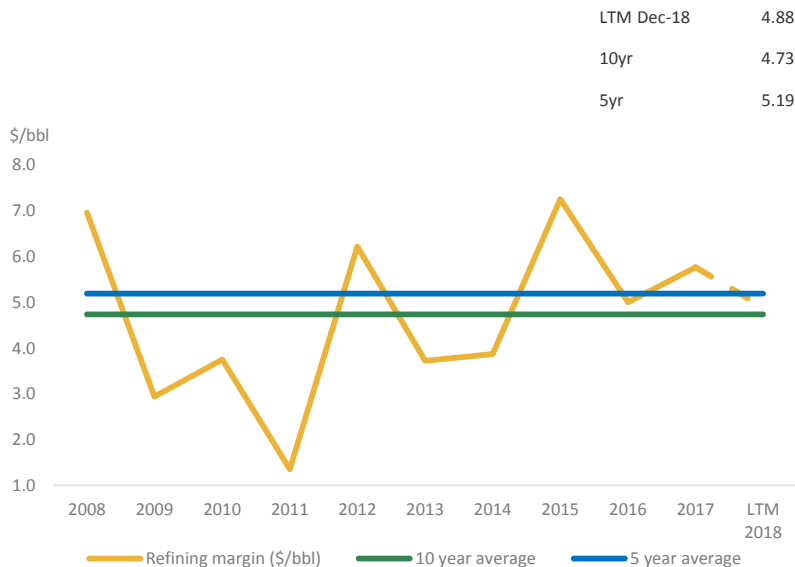


# FINANCIAL SUMMARY FOURTH QUARTER 2018

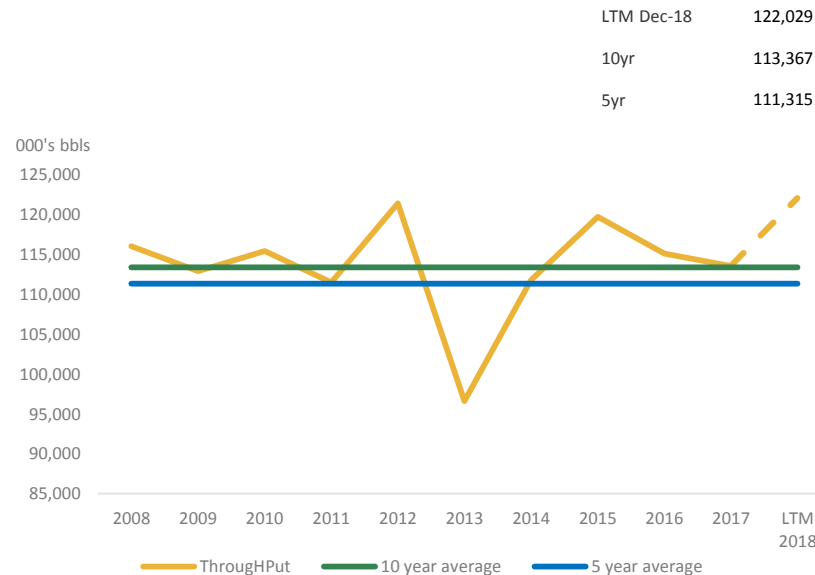


# Refining Margin and Throughput 2008-2018

Refining margin (\$/bbl)

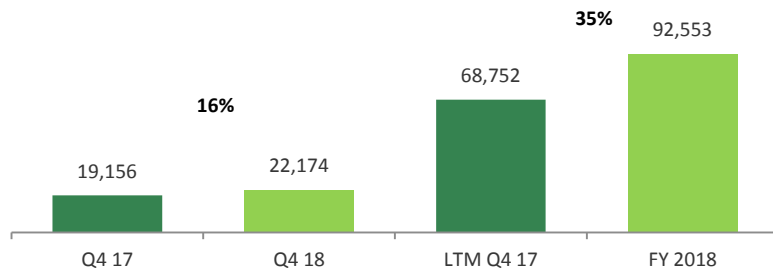


Throughput

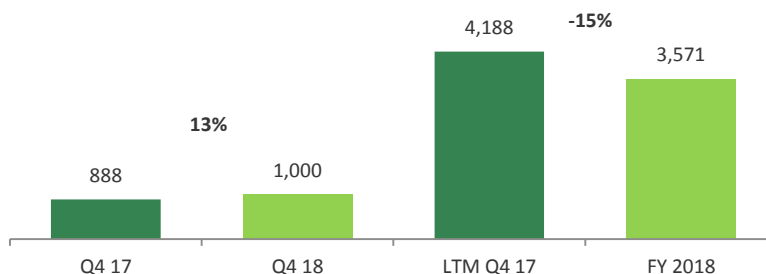


# Group Fourth Quarter 2018 Results

## Revenue (MSEK)



## Adjusted EBITDA



## EBITDA Margin (% of revenue)

Q4 17	Q4 18	LTM Q4 17	FY 2018
4.6 %	4.5 %	6.1%	3.9 %

## Comments

### Revenue

Sales revenue in the fourth quarter of 2018 amounted to 22,174 MSEK compared to 19,156 MSEK in the fourth quarter of 2017, an increase of 3,018 MSEK.

The increase in sales revenue is a result of higher crude and product prices.

### Adjusted EBITDA\*

Adjusted EBITDA for the fourth quarter of 2018 was 1,000 MSEK, compared to 888 MSEK in the fourth quarter of 2017, an increase of 112 MSEK.

Operating loss for the fourth quarter of 2018 amounted to 900 MSEK, a decrease of 2,287 MSEK, compared to an operating profit of 1,387 MSEK for the fourth quarter of 2017.

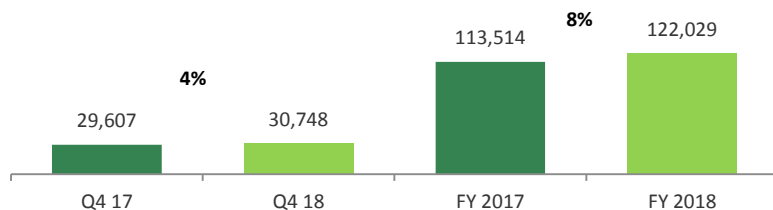
An increased market price for crude oil resulted in a large decrease of inventory value in the fourth quarter of 2018, resulting in losses of 3,095 MSEK compared to profits of 834 MSEK in the fourth quarter of 2017.

\*As defined in the Corral Petroleum Holdings AB (publ) report for the fourth quarter ended 31 Dec, 2018.

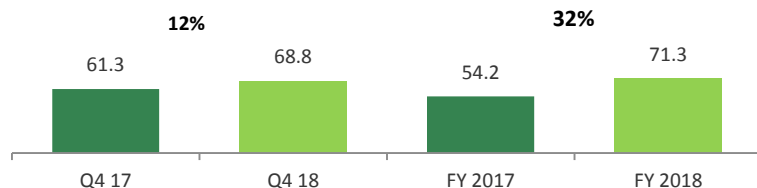


# Supply & Refining Segment

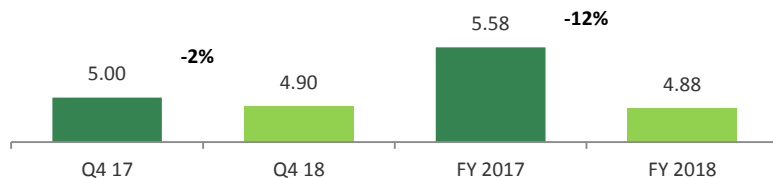
Throughput (000 bbls)



Average Brent Crude Price (\$/bbl)



Weighted Refining Margin(\$/bbl)



## Comments

### Throughput

In the fourth quarter of 2018 throughput was 4.9 million m<sup>3</sup> compared to 4.7 million m<sup>3</sup> in the fourth quarter of 2017. The fourth quarter of 2018 was characterized by high availability and crude runs, whereas the beginning of the corresponding quarter last year was affected by a major turnaround in our Gothenburg refinery.

Excluding price effects, operating profit amounted to 921 MSEK in the fourth quarter of 2018, an increase of 154 MSEK, compared to 767 MSEK in the fourth quarter of 2017. Operating profit excluding price effects increased in the fourth quarter due to increased throughput in our Gothenburg refinery.

### Average Brent Crude Price

The average price of Dated Brent in the fourth quarter of 2018 was 69 \$/bbl, compared to an average price of 75 \$/bbl in the third quarter of 2018. In the fourth quarter of 2017 the average price was 61 \$/bbl.

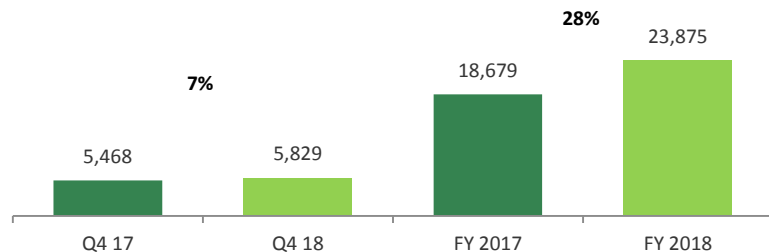
On October 4<sup>th</sup> 2018 the crude oil price peaked at 86 \$/bbl, the highest during 2018 and the year ended at 50 \$/bbl, the lowest price during 2018. This volatility was due to geopolitical tensions, increased crude oil production in US and that OPEC+ and other crude oil producing countries decided to reduce the production 2019 to stabilize the market. The market was not impressed and speculative money moved out of the oil market.

### Weighted Refining Margin

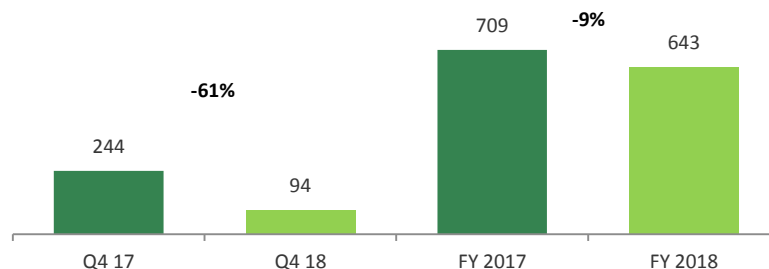
The weighted refining margin decreased to 4.90 \$/bbl for the fourth quarter of 2018 compared to 5.00 \$/bbl for the fourth quarter of 2017.

# Marketing Segment

## Revenue (MSEK)



## EBITDA (MSEK)



## EBITDA Margin (% of Revenue)

Period	EBITDA Margin (%)
Q4 17	3.8%
Q4 18	3.5%
FY 2017	3.7%
FY 2018	3.4%

## Comments

### Revenue

Sales revenue in the fourth quarter of 2018 amounted to 5,829 MSEK compared to 5,468 MSEK in the fourth quarter of 2017, an increase of 361 MSEK

Our Marketing segment reported an operating profit of 57 MSEK for the fourth quarter of 2018 compared to 200 MSEK for the fourth quarter of 2017, a decrease of 143 MSEK.

Last year the increase in operating profit was attributable to the profit made from selling subsidiary Preem Gas, approximately 100 MSEK.

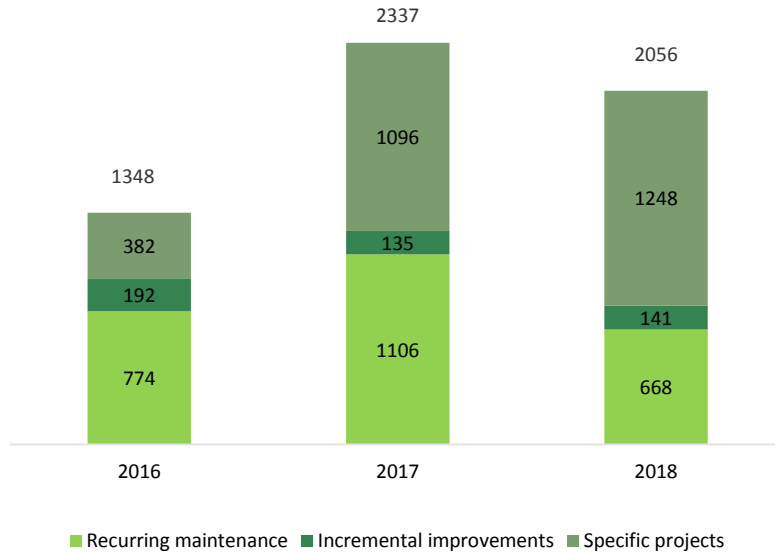
### EBITDA

Our Marketing segment reported an EBITDA of 94 MSEK for the fourth quarter of 2018 compared to 244 MSEK for the fourth quarter 2017, a decrease of 150 MSEK.

Sales volumes were 2% lower in the fourth quarter of 2018 compared to the fourth quarter of the previous year. This was primarily due to two large, one-time, business-to- business sales in December of 2017.

# Capital Expenditures

Capex by Purpose (MSEK)\*



\*Shown on a gross basis.

## Comments

### Specific Projects

The VDU investment in Lysekil, 685 MSEK FY 2018  
Strategic IT project, 263 MSEK FY 2018  
HPU investment, 264 MSEK FY 2018  
GHT investment 36 MSEK FY 2018

### Recurring maintenance

Less capex 2018 vs 2017 due to lower Refining maintenance and Safety/Risk maintenance.

# Cash Flow

(MSEK)	FY 18	FY 17
Profit before taxes	8	2,926
Adjustments for items not included in cash flow	2,469	1,758
Tax paid	-5	-4
Decrease(+)/Increase(-) in inventories	-263	-2,232
Decrease(+)/Increase(-) in operating receivables	60	-885
Decrease(-)/Increase(+) in operating liabilities	-1,877	596
Changes in working capital	-2,080	-2,521
<b>Cash flow from operating activities</b>	<b>392</b>	<b>2,159</b>
<b>Cash flow used in investing activities</b>	<b>-2,084</b>	<b>-2,347</b>
	-1,692	-187
Amortization/Raising of loans	2,025	226
Loan expenditure	0	0
<b>Cash flow used in financing activities</b>	<b>2,025</b>	<b>226</b>
<b>Cash flow for the period</b>	<b>333</b>	<b>38</b>

Cash flow from operating activities includes cash coupon payments on the 2021 Notes, totaling 740 MSEK.

## Comments

Cash flow was negatively impacted by movements in working capital of 2,080 MSEK in 2018 compared to a negative impact of 2,521 MSEK in 2017.

- Cash flow used in **inventories** amounted to 263 MSEK in 2018, primarily due to higher volumes of finished products in the inventory. In 2017, cash flow used in inventories amounted to 2,232 MSEK.
- Cash flow from **operating receivables** amounted to 60 MSEK in 2018, primarily due to lower prices on refined products as well as lower volumes sold at year-end. In 2017 cash flow used in operating receivables amounted to 885 MSEK.
- Cash flow used in **operating liabilities** in 2018 amounted to 1,877 MSEK primarily due to lower crude oil price. For the same period in 2017 cash flow from operating liabilities amounted to 596 MSEK.

Cash flow used in **investing activities** in 2018 amounted to 2,084 MSEK, a decrease of 263 MSEK, compared to 2,347 MSEK for the same period in 2017.

Cash flow from **financing activities** amounted to 2,025 MSEK in 2018 compared to cash flow from financing activities of 226 MSEK in 2017. Cash flow from financing activities is attributable to (net) drawing of loans under Preem's revolving credit facility as a consequence of the negative cash flow from operating activities.

# Simplified capital structure

## Cap Structure at the end of Q4 2018

	MSEK	\$M USD	x Adjusted EBITDA
Cash	-489	-55	-0.1
RCF	7,371	822	2.1
Other interest bearing liabilities and transaction expenses	-171	-19	0.0
<b>Total net debt at Preem</b>	<b>6,711</b>	<b>748</b>	<b>1.9</b>
2021 Corral Notes	6,357	709	1.8
Transaction expenses	-144	-16	0.0
Cash	-1,131	-126	-0.3
<b>Total 3rd party debt</b>	<b>11,793</b>	<b>1,315</b>	<b>3.3</b>
Adj EBITDA	3570	398	
USDSEK exch.rate *		8.97	

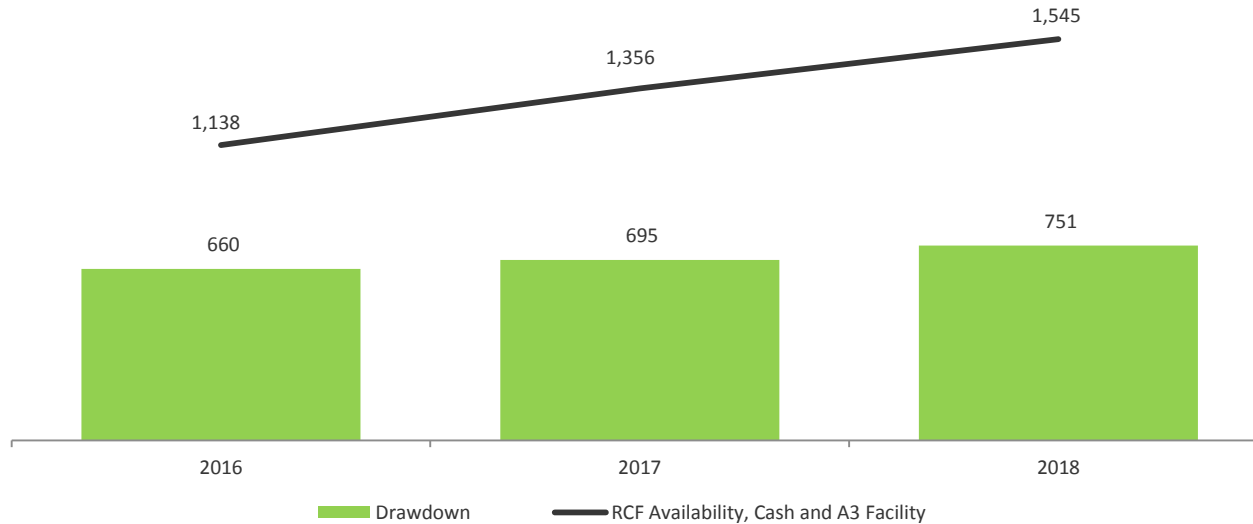
## Comments

Increased inventory volume and accounts receivables resulted in an increased financial debt.

\* Exchange rate end of December 2018

# Liquidity Reserves

\$M USD



Stable liquidity, healthy margins

Availability under the RCF, increasing due to higher prices LTM

*Note: Drawdown and availability figures are not IFRS measures and are based on month end values averaged over LTM-Dec 2018. 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



**For further information, please contact:**

Magdalena Patrón

Investor Relation Manager

Tel: + 46-10-450 10 00

Email: [magdalena.patron@preem.se](mailto:magdalena.patron@preem.se)

