MOL Group Full Year 2015 Results

Interview with József Simola, CFO, Ferenc Horváth, EVP Downstream, and Berislav Gašo – COO, E&P

Results

József Simola, CFO

Q: How did the business perform in the year?

A: 2105 was a tough year for us and was a tough year for the industry, but overall I believe we delivered a strong performance. We reached $2.5billion EBITDA, 15% higher than forecasted, and I think given the fact that oil prices were at $50 in 2015 instead of $100 in 2014 that's a very strong performance.

The drivers for this are our integrated upstream/downstream business model which actually provides a built-in hedge for the business, high-quality, low breakeven cost assets in downstream and upstream, and of course the cumulative effects of the efficiency improvement programmes of the New Downstream and Next Downstream.

Q: And what about the CapEx performance?

A: We kept a strict control on the CapEx spending, our spending was at $1.3bn. Given the strong EBITDA generation and the low CapEx spending we had very good cash flow generation from the business which allowed us to cover smaller acquisitions, interest payments, taxes from the current operations and actually have a stronger balance sheet at yearend than at the beginning of the year. We have now a balance sheet with around 20% gearing, net debt to EBITDA is around 0.7, which I think is a very important asset in the current turbulent times. So all-in-all I think 2015 was a tough year but a year which made us stronger.

Q: You had a strong operational performance over the course of the year for MOL Group, but you've taken some impairment charges.

A: Yes, as I said, 2015 was a tough year for us and for the industry and ourselves, as others, we also booked sizeable impairments. There are two sources of those, of this $1.7billion, around $1billion is the effect of the lower oil prices, we had to adjust the book value of our assets to a much lower future oil price assumptions and that results in this charge. This actually mostly affected our assets in the UK.

The other part comes from the exploration business. Exploration is part of our core business and unsuccessful exploration projects are a reality of that. Now this year we had one project, the Akri-Bijeel programme in Kurdistan, that we announced earlier which was not successful and that was the major driver for the higher than usual amount this year.

And, of course, impairments are never good news but one should not forget that this does not affect the cash position and the balance sheet of the company.

Q: How are you flexing your strategy in this low oil price environment? What are you focusing on?

A: If 2015 was a tough year, 2016 is not going to be easy either with oil prices in the $30/$35 range at the beginning of the year. We had to react to this. We already have a programme in place to reach breakeven in the upstream business in a $35 environment and, of course, we will continue our Next Downstream Programme.

Downstream Performance

Ferenc Horváth, EVP Downstream

Q: Can you run through the downstream performance?

A: For MOL Group downstream it had the historically highest and strongest financial performance, almost in every quarter and for the whole year. But our downstream story has started not in 2015, it started in 2011 when we worked out and we launched our New Downstream Programme targeting all together $500m EBITDA improvement, starting from 2012 to 2014.

In 2015 we have started a new programme called Next Downstream Programme when we, again, targeted half a billion USD EBITDA improvement, and in 2015 we could capture the opportunities given by the external conditions, and I can say that 50% of our EBITDA, which has reached in 2015 $1.6billion, was coming from our internal efficiency improvement programmes.

Q: And has downstream margins peaked in your view?

A: And in 2016, probably the margins will not be as high as they were in 2015, but the downstream general environment will be still supportive for our industry. And one more positive thing, I assume that the consumption increase that has started in 2015, it was roughly 5% in our region, will continue to exist in 2016 as well.

Q: You talked a little bit about the EBITDA improvement, how much more improvement is there to go for from the downstream business and how will that be achieved?

A: For 2015 I can already announce that we are on a good track, we have delivered more than $200million EBITDA improvement from our internal sources, so for the next two years we have still $300million to be delivered.

The delivery will be made by the different business units; Refining, Wholesale, Retail. The action plan is there, so I can say that we are on track and we are very confident that the programme will be delivered.

Q: What were INA's contributions to these 2015 results?

A: Since INA was and is part of the New and the Next Downstream Programme, INA delivered a lot of efficiency improvement actions, both in the Refining & Marketing and in Retail area. The fact that INA Refining & Marketing EBITDA was negative and also the cash flow was negative, even in 2015 when the external environment was very supportive for the refinery area, shows that without solving these structural questions of the INA Refining, the EBITDA contribution will not be positive in INA's case.

Q: Have you seen the results of the downstream expansion coming through?

A: Definitely. Our downstream expansion was based on increasing our Refinery output, Petrochemicals output and mainly to increase also our Retail presence in the region. What we saw in 2015, is that we were able to increase our refinery production by almost 10% overall, we were able to increase our petrochemical production more than 15% in 2015.

In the meantime we were also able to finalize our strategic projects, now we are producing butadiene from our MOL petrochemical complex since 2015 December. These days we are expecting the first polymers to come out from our low-density polyethylene plant finalized in Slovnaft this month. Also we have signed and started the implementation of building a new synthetic rubber plant in our MOL Petrochemicals together with our partner, the Japanese Synthetic Rubber Company.

In Retail 2015 we were able to increase our sales by more than 10% as well, and in the meantime have finalized four acquisitions during the whole year, and we have two more acquisitions for 2016 that need to be finalized, in Hungary and Slovenia. Overall within two years we have acquired more than 450 filling stations in the region.

Q: So all-in-all you're confident about the downstream business then going forward?

A: Definitely. As I mentioned last year as well, I'm pretty much confident that we are on a good track and also we can see now a good track record because our target is to continuously improve our internal efficiency. We have good programmes for that so we are very much working on delivering the elements of the business programmes.

But on top of that I also wanted to say that in order to make it sustainable we have decided to deal a lot with our values and to improve our internal working culture, which is based on the new and shared and lived values that will be showing and expecting behavioural leadership, because we believe that that is the milestone of making all continuous efficiency improvement programmes sustainable for the future and to get closer to a highest level of operational excellence.

Upstream performance

Berislav Gašo, COO, E&P

Q: How did the upstream business perform in 2015, because clearly it was a tough oil price environment?

A: Indeed, a tough and challenging oil price environment in 2015, but given the $7 direct production cost that MOL has in its portfolio in upstream, we clearly have seen strong cash generation for a large part of the portfolio.

In terms of other highlights for 2015 I would probably mention that after years of decline we have been able to stabilize and almost reverse the production decline in Hungary, that's among the best results in the past 10 years and I'm personally very proud of what the team has achieved there.

In Croatia we had even a 7% increase in year-over-year production in 2015 which probably is the best result since MOL took over control in that company.

Q: But given that environment, what's the strategy going to be then going forward?

A: I think strategy is probably built around three pillars at the moment, the first one being we want to realize all the upside that is left in the portfolio.

We have started to do that very successfully with recent production intensification and optimization efforts on the legacy assets in Hungary and Croatia. In January 2016 our production has reached a year-to-date average of 114,000 barrels per day already, which clearly shows that these efforts are delivering on the ground.

We are continuing with an intense fracturing campaign in Russia on the Baitugan asset, we are pushing ahead with some of the development projects in Pakistan. So all-in-all we're trying to unlock value wherever we have it in the portfolio.

The second pillar is probably removing residual risks, and here the biggest headache for MOL is in the United Kingdom and the UK assets, but it's not only MOL who is suffering. Technically the entire industry is suffering and pretty much challenged in a $30 environment if you look at the UK North Sea. We are in a position that we need to respond to these challenges together with our partners and we're working actively on that.

Then the third piece is clearly about efficiency. What we have been addressing over the past four weeks is technically a new plan for upstream in 2016, we have been agile and we have fairly quickly adapted to the new environment.

In terms of efficiency measures we plan to have an OpEx cut of $80million to $100million implemented in 2016. We're cutting back on capital expenditures roughly 20%. Discretionary expenditures for exploration will even go down by more than 50% in the year and that's a response actually to the low oil price environment because the ultimate objective that MOL has is to achieve a self-funding portfolio at today's oil prices of $35.

Q: So are there any plans for growth in the upstream business then going forward?

A: Going forward we rather want to focus on value than volumetric growth, it's the dollars that count not only the barrels in our business. In terms of production growth for the future, in 2016 and 2017 we would expect a 105,000 to 110,000 barrel production out of the MOL portfolio, 2018 probably at around 110,000 and 115,000, however all the investments that we make in volumetric growth organically or inorganically have to make sense at today's oil prices. The biggest priority that remains for us in 2016 onwards is to ensure that our portfolio is self-funding at today's oil prices.

Outlook

József Simola, CFO

Q: So what do you expect from 2016?

A: Financially we want to reach similar results as in 2015. First of all, continue with the strong EBITDA generation, in an oil price environment above \$35 we are targeting above \$2billion EBITDA. We also want to continue with the strict CapEx control so we target a \$1.3billion CapEx for the year. And that should lead us similarly to 2015, sizeable cash flow generation from the business covering smaller acquisitions, interest payments and actually keeping our current strong balance sheet during the year.

Q: And what can you say about the sustainability of the dividend?

A: That's, of course, a very important question for our shareholders, especially in these times. Now looking at our results in 2015, looking at our balance sheet and our plans for 2016, I think the financial situation of the company clearly allows us to continue our dividend payment practice of the last years. However, as always, the Board of Directors will meet in March, will make its recommendation to the Annual Meeting in April where the final decision will be made by the shareholders.