3Q 2020 Earnings Release

HYUNDAI OILBANK

Hyundai Oilbank

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Hyundai Oilbank

I. 2020 3Q Earnings

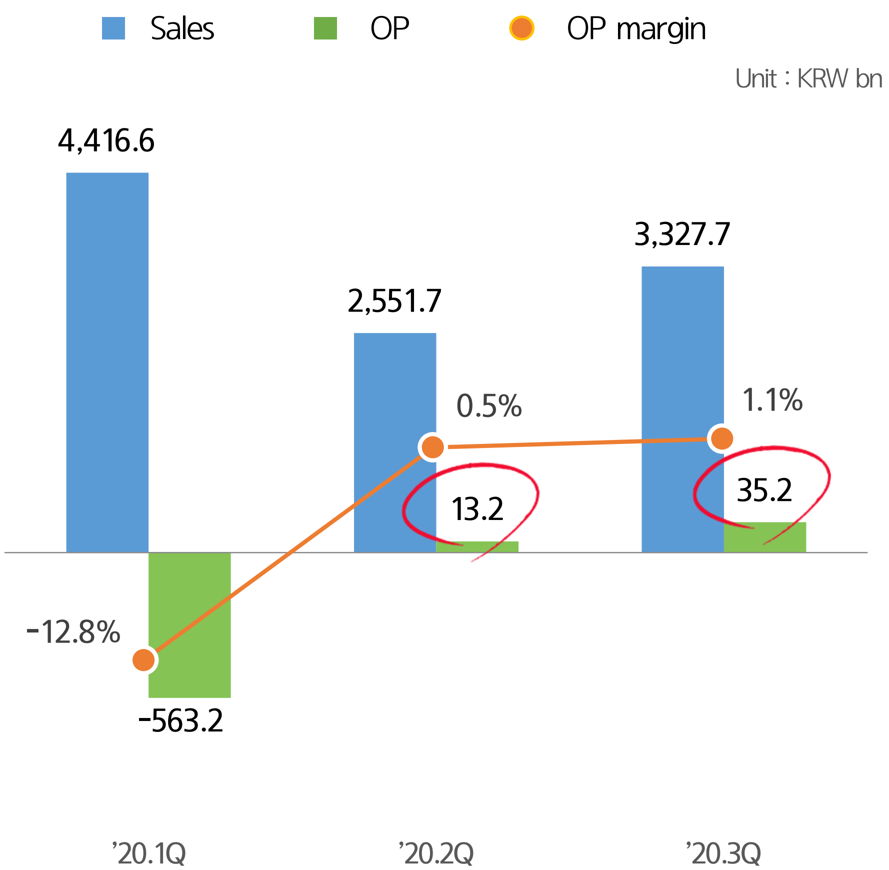
1. Consolidated Earnings
2. Earnings by Business Segment
3. 3Q Market & Earnings Analysis

Hyundai Oilbank

1. Consolidated Earnings

Hyundai Oilbank recorded KRW 35.2 bn operating profit in 3Q, attaining a profit in two consecutive quarters despite a sluggish recovery of product cracks and product demand with resurgence of COVID-19 and floods in China and India.

’20. 3Q Consolidated Earnings



- **3Q Sales KRW 3,327.7 bn**
  - Sales increased by 776.0 bn QoQ
  - Oil price rose QoQ (2Q 30.5 → 3Q 42.9 $/bbl)
  - 2Q output decreased due to #2 CDU T/A (April - May)

- **3Q Earnings KRW 35.2 bn**
  - Operating profit increased by KRW 22.0 bn QoQ
  - Despite unfavorable market conditions, we increased operating profit in two consecutive quarters with cost reduction through ultra-heavy crude input.

2. Earnings by Business Segment

3Q 2020 Earnings

Unit : KRW bn

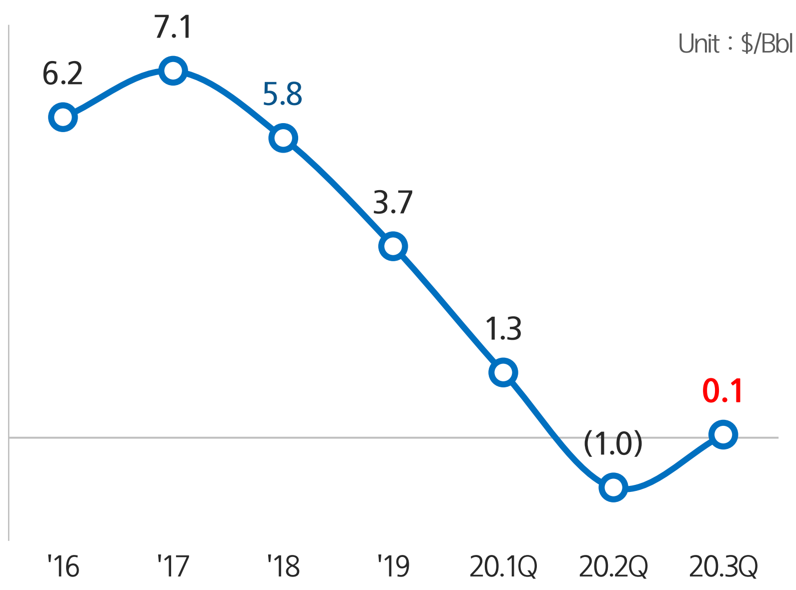
Business	'20.3Q			'20.2Q			'19.3Q		
	Sales	Operating Profit	OP Margin	Sales	Operating Profit	OP Margin	Sales	Operating Profit	OP Margin
Refining	3,178.4	-19.4	-0.6%	2,108.6	-18.6	-0.9%	4,665.7	88.2	1.9%
Petrochemical (Consolidated)	651.4	36.1	5.5%	634.4	32.3	5.1%	1,036.2	48.2	4.7%
Carbon Black	41.5	6.2	15.0%	28.3	6.5	22.9%	44.4	9.3	21.0%
Others/Adjustments	-543.6	12.3		-219.6	-7.0		-442.3	12.1	
Consolidated Earnings	3,327.7	35.2	1.1%	2,551.7	13.2	0.5%	5,304.0	157.8	3.0%

※ Please see *Appendix* section for non-consolidated subsidiaries.

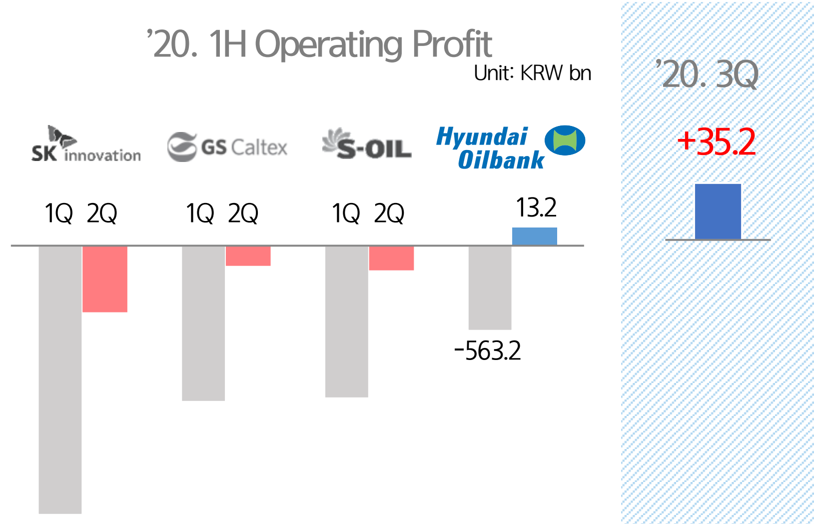
3. 3Q Analysis - Market

Singapore refining margin has rebounded after the low in 2Q. However, its upward momentum weakened due to resurgence of COVID-19. Amid a bearish refining margin, Hyundai Oilbank attained KRW 35.2 bn earnings in 3Q, a consecutive profit from the previous quarter.

Singapore Refining Margin (2016 ~ 2020 3Q)



HDO Consolidated Operating Profit



- While other domestic refiners recorded KRW 1 trillion of massive losses in the 1H, Hyundai Oilbank minimized an operating loss compared to the peers and solely turned a profit in 2Q.
- Despite a low refining margin due to a slow recovery of demand, we made a profit in two consecutive quarters and increased the profit.

3. 3Q Analysis - Earnings

While slow demand persists in 3Q, Hyundai Oilbank is improving cost competitiveness with ultra-heavy crude, spot crude, SRFO and a flexible production adjustment aligned with market variation.

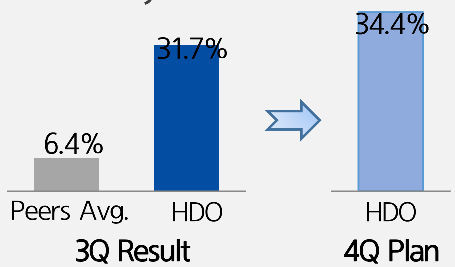
1 Ultra-heavy Crude

- Our unique SDA/DCU units are specialized for ultra-heavy crude.
- We use Maya crude to the max which are cheaper than Arab crudes

3Q Maya Discount: $4.0/B

(compared to Arab Heavy crude)

- Ultra-heavy crude use



※ Maya crude use was limited in 3Q due to hurricanes in the US, but it is scheduled to recover to the maximum as planned in 4Q.

2 Spot Crude & SRFO

- We reduced costs by purchasing economical middle east spot crudes.

(3Q: 1.18m bbl)

- In response to worsening cracks, we replaced crude feedstock with SRFO which has better economics.

	Amount	Economics
SRFO	1.4m bbl	3.5 ($/B)

3 Flexible Production

- We promptly reflected market variation to our production and sales.

Unit : $/Bbl

	Cracks		
	'19	20.2Q	20.3Q
Gasoline	5.9	0.5	2.9
Jet	13.7	-0.1	-0.7
Gasoil	14.7	7.5	5.0

	Yields		
	'19	20.2Q	20.3Q
Gasoline	17%	15%	19%
Jet	15%	11%	7%
Gasoil	42%	47%	51%

※ We maximized gas-oil production whose crack stayed firm compared to other products.

II. 2021 Investment Highlights

1. Market Outlook by Business Segment
2. HPC Project
3. Cost Competitiveness
4. Smart Factory Plan

Hyundai Oilbank

1. Market Outlook by Business Segment

Hyundai Oilbank

	2020. 4Q Outlook	2021 Outlook
Refining	- Dubai oil price : Will gradually rise with faster recovery of demand than increase of supply. - Gasoline crack : Will slightly fall with a weak demand in off-season. - Gas-oil crack : Will show an upturn with seasonal and industrial demand.	- Oil demand outlook (IEA, Oct 2020) : Demand recovery 20.3Q 93m → 21.4Q 99m BD - Refining margin will gradually improve as demand recovers. - Unfavorable market conditions will deter refinery expansions and accelerate scrapping of outdated refineries.
Petro-chemical (BTX)	- PX-Naph spread 1) Remained low in 3Q due to PX plant expansions and a high level of PTA inventory. 2) Will rise from 4Q with PTA expansions.	- PTA market will recover in line with rebounding demand of apparels and synthetic textiles. - Large scale PTA expansions in China will improve PX spread. (PTA expansions : '21 8.2 mil. ton, '22 7.2mil. ton)
Lube Base --- Carbon Black	- Lube base oil : Margin will stay firm with a low utilization rate of refineries. - Carbon black : will improve as the increase in feedstock price will be reflected to product price.	- Lube base oil : Environment regulations will boost the demand of premium base oil (Group Ⅱ / Ⅲ) - Carbon black : Margin will improve with a tire demand restoring from COVID-19 impact.

2. HPC Project

Heavy-feed Petrochemical Complex (HPC) is in progress with 61% of completion rate as of Sep 2020 and commercial operation is scheduled in Nov 2021. HPC uses T-DAO and residue gases cheaper than naphtha, which enables HPC to secure solid cost-competitiveness compared to other NCCs.

HPC Project
(Heavy feed Petrochemical Complex)

- Overview : Unlike NCC whose main feedstock is naphtha, HPC uses multi-feed (T-DAO, Naphtha, LPG) to maximize ethylene production economics.

※ T-DAO: Treated De-Asphaltene Oil

- Product : Polyethylene 850KT/A, Polypropylene 500KT/A
- Schedule : Completion & Test run (Aug 2021)
  Commercial Operation (Nov 2021)
- Feedstock : T-DAO and residue gases from refineries which are cheaper than naphtha.

“ Estimated Return: KRW 500.0 bn ”

※ Estimated return is based on market prices in 2019.

- **Completion rate : 61.4%** (as of Sep 2020)

- **Feedstock comparison** (compared to NCC)

Feedstock	NCC	HPC
LPG / Refined gases	0 ~ 10%	**26%**
T-DAO	-	**34%**
Light Naphtha	90 ~ 100%	**40%**

※ Feedstock composition can be adjusted in response to market variations.

3. Cost Competitiveness

We plan to build a new plant to produce MTBE, a gasoline component, to replace a current purchase from outside company and reduce a gasoline production cost. In addition, we will install a new wharf to improve cost efficiency in production process and inventory management.

MTBE Factory Expansion

- MTBE manufacturing unit for gasoline cost reduction
  - MTBE is made with C4 raffinate and used as a gasoline component to enhance octane value.
  - Current purchase of MTBE from an adjacent company by a long-term contract will be replaced to self sufficiency using C4 raffinate feed-stock from HPC to cut gasoline production cost.

Investment	KRW 88.0 bn
Capacity	200 KT/A
Estimated Return	KRW 35.7bn/annum
Commercial Operation	2021. 4Q

#9 Wharf Construction

- Wharf construction for efficient shipping operation
  - #9 Wharf will be newly built to improve efficiency in operation and overseas shipments.

Investment	KRW 90.0 bn
Estimated Return	KRW15.4bn/annum
Completion	2021. 2Q

4. Smart Factory

We plan to improve productivity with a data-based smart factory, and we will optimize a value chain in our key work process from crude import to production and sales.

Smart Factory Plan

Smart Factory Preparation
2020

- ✔ Data collection and evaluation
- ✔ Analysis and operation plan

Key Work Process Smartification
~2021

- ✔ Big data analysis and verification
- ✔ Core work smartification

Smart Factory
~2023

- ✔ Smart factory application
- ✔ Data-driven operation

Smart Company
~2024

- ✔ Firm-wide optimization system
- ✔ A.I application to core work

Crude Import

- Crude valuation system
- Simulation to main units
- Production optimization program

→ Optimal feed selection and production plan

Operation

- Integrated operation optimization guide
- Cost reduction solutions
- Safety monitoring and management

→ Efficient data-driven operation

Sales

- Profitability analysis by client
- Factory and oil tank inventory management
- Sales and inventory optimization

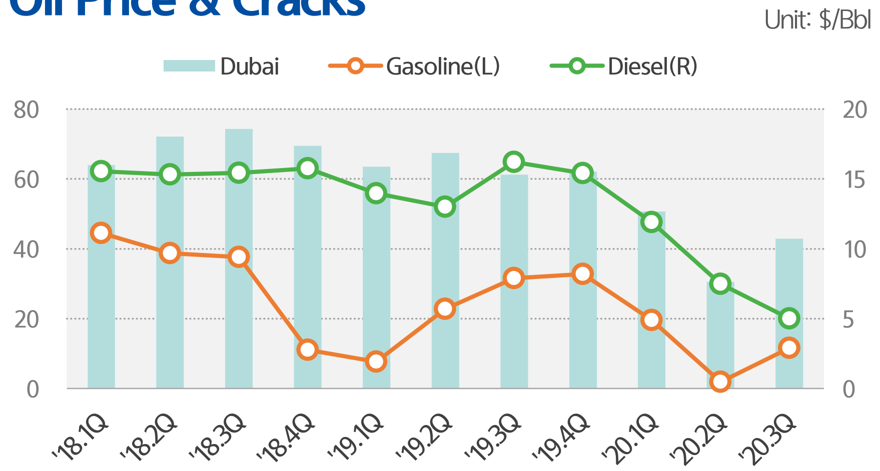
→ Data-driven sales decision

III. APPENDIX

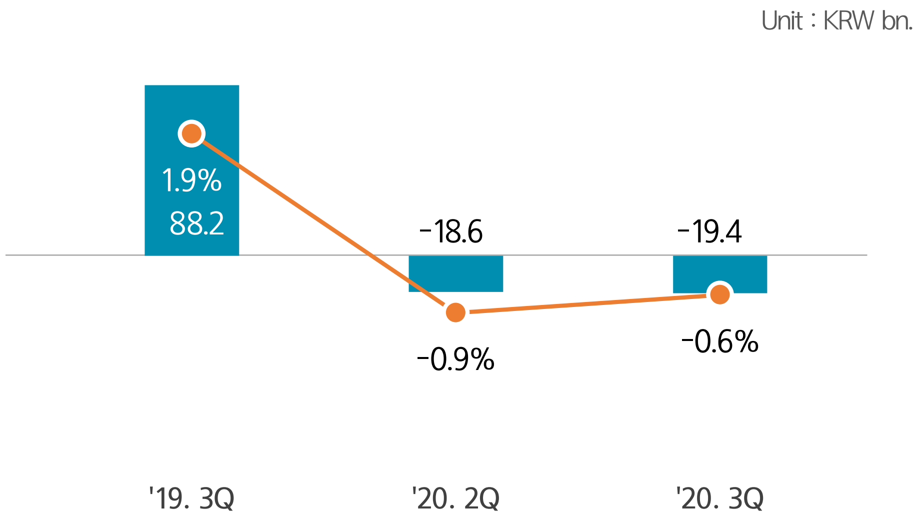
1. Hyundai Oilbank Key Indicators & Results
2. Hyundai Chemical Key Indicators & Results
3. Hyundai OCI Key Indicators & Results
4. Equity Method Companies (Hyundai Cosmo, Hyundai Shell Base Oil)
5. Financial Ratios
6. Financial Statements Summary

1. Hyundai Oilbank Key Indicators & Results

Oil Price & Cracks



Hyundai Oilbank Operating Income (Separate)



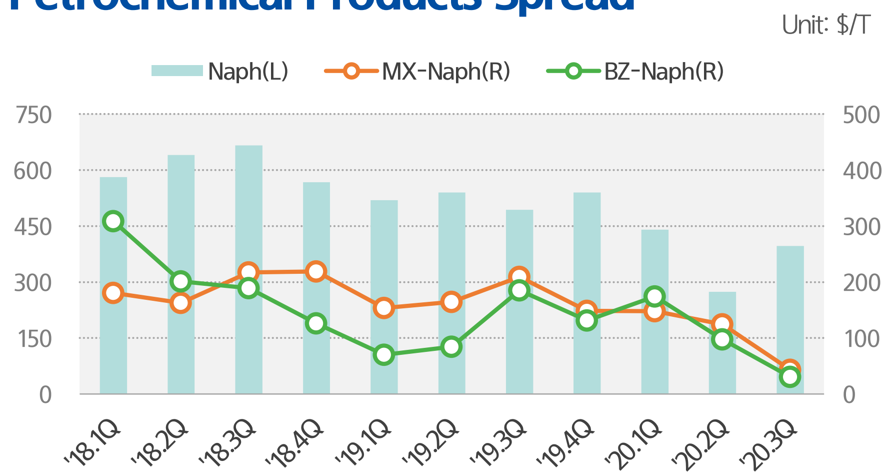
- **3Q Analysis**
  - Oil price remained around 40$/bbl level with excess demand as OPEC+ and US cut production.
  - Gasoline crack was relatively firm due to US driving season demand, limited supply from hurricane impact and a low utilization rate due to weak gas-oil demand.
  - Gas-oil inventory increased as refiners replaced jet production with gas-oil and the export from China and India grew as their domestic demand was hit by floods.

- **4Q Forecast**
  - Oil price is expected to gradually rise as demand is projected to restore faster than supply with decreasing inventory.
  - Gasoline demand will slightly weakened in off-season.
  - Gas-oil crack will rise with heating-oil demand in winter season and the increase in the industrial demand.

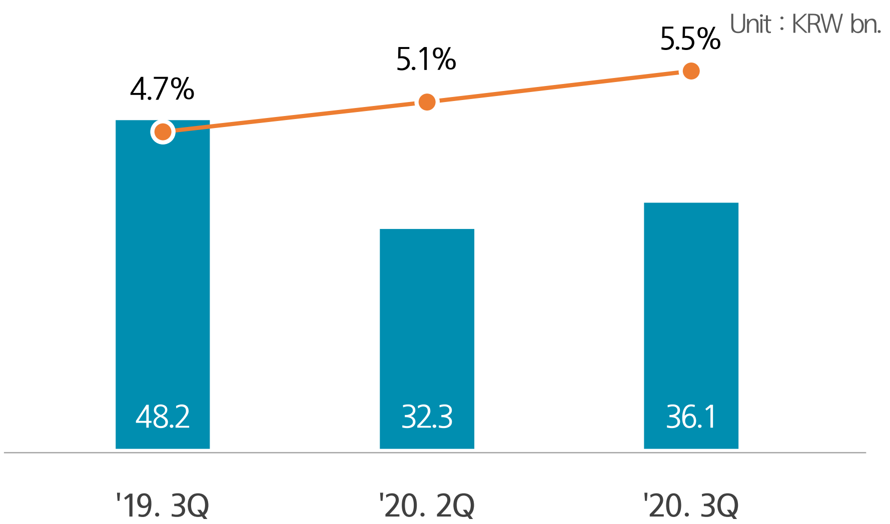
- **QoQ Analysis**
  - Cracks fell with the resurgence of COVID-19 and increasing supply of jet and gas-oil.

2. Hyundai Chemical Key Indicators & Results

Petrochemical Products Spread



Hyundai Chemical Operating Income (Separate)



- **3Q Analysis**
  - MX spread fell with PX run-cuts due to the increase in PTA inventory and the decrease in the gasoline blending demand in China
  - Despite a firm BZ demand from downstream in China, BZ oversupply in the region persisted with a slow demand in US.
- **4Q Forecast**
  - MX spread is expected to rise with increasing demand as PX plants in China will resume operation with improving PX market after large-scale PTA expansions.
  - BZ and SM inventory started to show a decrease from October and is expected to ease oversupply.

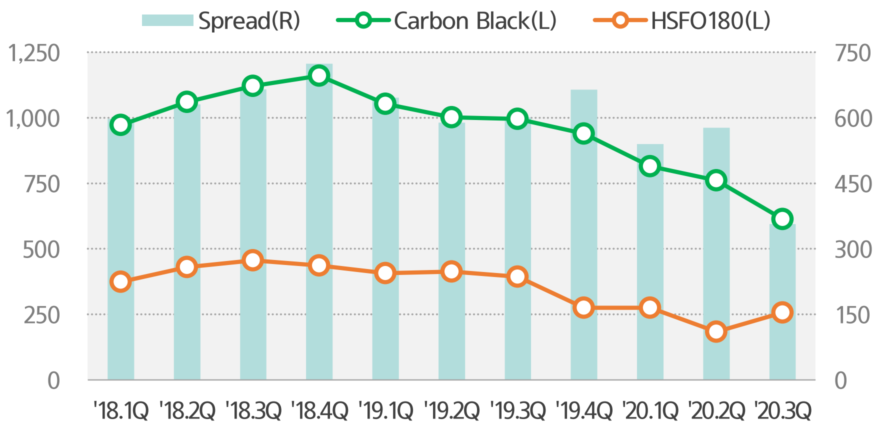
- **QoQ Analysis**
  - Condensate purchase price discount improved while BTX margin narrowed down.

3. Hyundai OCI Key Indicators & Results

Hyundai Oilbank

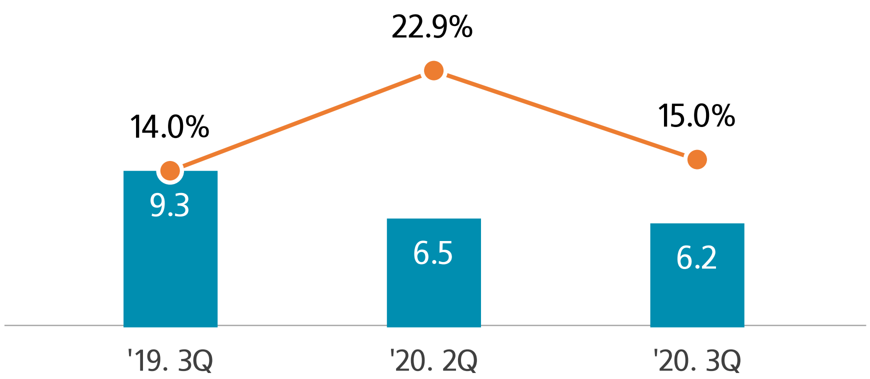
Carbon Black Product Spread

Unit: $/T



Hyundai OCI Operating Income (Separate)

Unit : KRW bn.



- **3Q Analysis**

  - Carbon black price fell by 148$/ton QoQ as oil price fell. Production margin remained weak as feedstock price rose.

- **4Q Forecast**

  - Amid a slow demand, production margin in improving with a rising carbon black price which follows the oil price with a lag. (367$/ton)

- **QoQ Analysis**

  - Despite the increase in the production margin, operating income decreased as the sales volume decreased with regard to COVID-19 impacts.

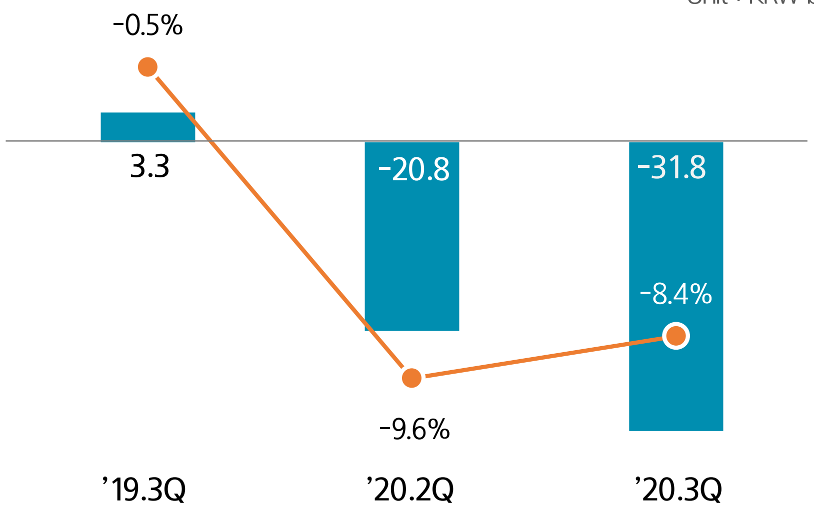
Unit: KT, $/T

Carbon black	20.2Q	20.3Q	Change
Sales volume	20	41	+21
Margin	476	286	-190

4. Equity Method Companies (HCP, HSB)

Hyundai Cosmo Operating Income (Separate)

Unit : KRW bn.

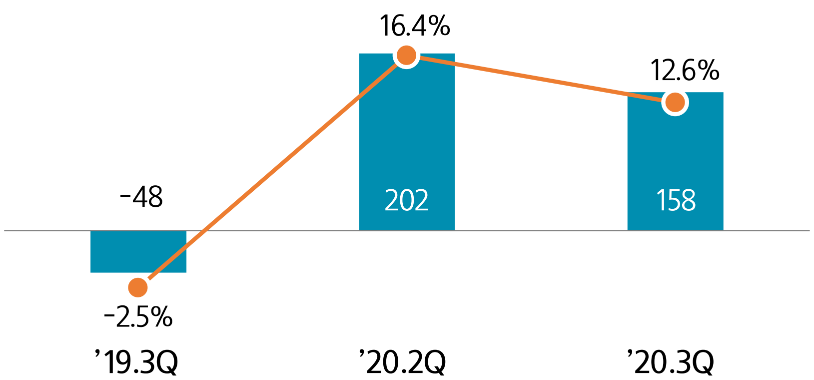


- QoQ Analysis
  - PX supply increased with PX expansions in '19-'20 by manufacturers including Hengli. Meanwhile, PX demand was weakened by the increase in PTA inventory due to the COVID-19 impact.
  - BTX spread

(Unit: $/T)	19.3Q	20.2Q	20.3Q
PX - N	300	204	131
BZ – N	185	97	30

Hyundai Shell Base oil Operating Income (Separate)

Unit : KRW bn.



- QoQ Analysis
  - Margin stays firm with limited supply as refineries are running at a low utilization rate. Yet, the margin slightly decreased in 3Q as oil price increase in 2Q raised feedstock price while product price reflects the oil price with a lag.
  - Lube base oil spread

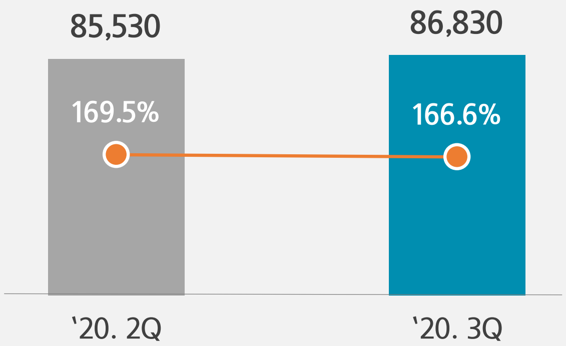
(Unit: $/T)	19.3Q	20.2Q	20.3Q
150N-HW	47	134	85
500N-HW	59	248	219

5. Financial Ratios

Consolidated Financial Ratios

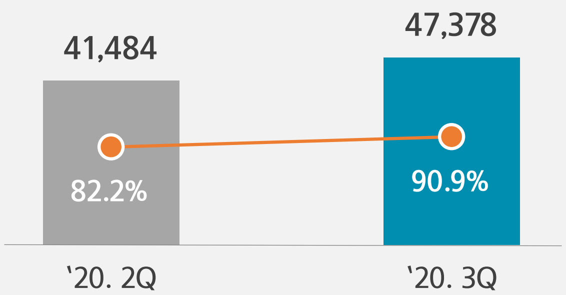
- **Debt to Equity Ratio 166.6%**

Unit : KRW bn.



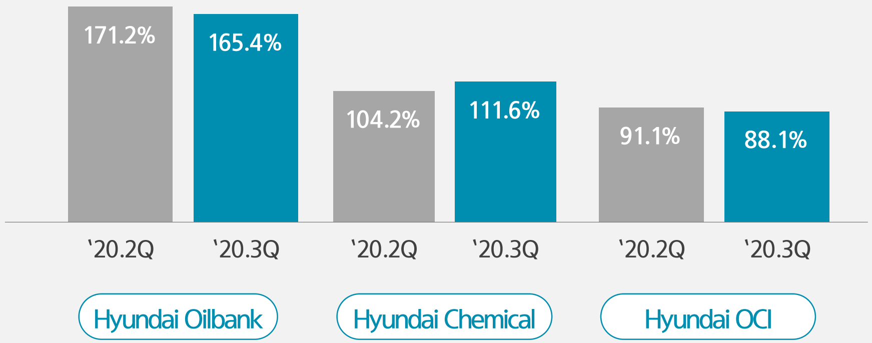
- **Net Debt to Equity Ratio 90.9%**

Unit : KRW bn.

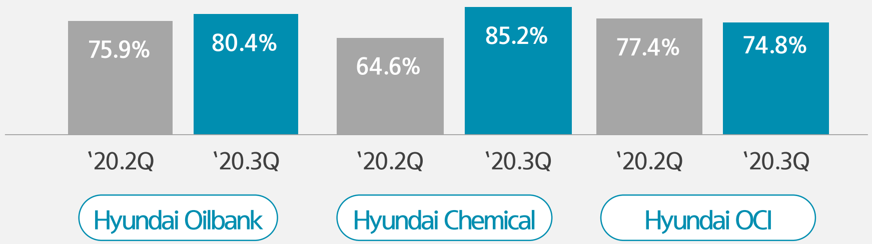


Separate Financial Ratios

- **Debt to Equity Ratio (as of the end of 2020.3Q)**



- **Net Debt to Equity Ratio (as of the end of 2020.3Q)**



※ Net debt increase : HPC equipment loans (KRW 239.0 bn) and deferred payment of transportation tax (KRW 320.0 bn)

6-1. Financial Statements – Hyundai Oilbank (Consolidated)

Consolidated Income Statement

Unit : KRW bn.

	'20.3Q	QoQ	YoY	'20.2Q	'19.3Q
Sales	3,327.7	30.4%	-37.3%	2,551.7	5,304.0
Cost of goods sold	3,164.8	29.9%	-37.2%	2,435.8	5,040.2
Gross profit	162.8	40.5%	-38.3%	115.9	263.7
Operating profit	35.2	166.7%	-77.7%	13.2	157.8
OP margin	1.1%	0.6%p	-1.9%p	0.5%	3.0%
Non operating Income & expenses	27.3			(31.6)	(93.0)
Equity method gains	(4.3)			(0.2)	(5.5)
Profit before tax	58.2	Turned a profit	-1.9%	(18.6)	59.3
Income tax	8.7			(2.3)	18.3
Net income	49.5	Turned a profit	20.7%	(16.3)	41.0

Note: Consolidated in accordance with K-IFRS

Consolidated Balance Sheet

Unit : KRW bn.

	'18. 4Q	'19. 4Q	'20. 3Q
Current assets	4,358.3	4,565.4	3,344.2
(Cash & cash equivalents)	162.6	480.4	231.0
Non-current assets	7,386.5	8,290.5	10,552.1
Total assets	11,744.8	12,855.9	13,896.3
Current liabilities	4,578.0	4,086.7	3,294.5
(Short-term borrowings)	1,573.7	1,125.0	754.8
Non-current liabilities	2,042.7	3,327.6	5,388.5
(Long-term borrowings)	1,856.1	2,808.4	4,218.8
Total liabilities	6,620.7	7,414.3	8,683.0
Paid-in capital	1,225.4	1,225.4	1,225.4
Others	454.6	443.6	858.5
Retained earnings	3,109.9	3,110.1	2,468.1
Non-controlling interests	334.2	662.4	661.3
Total equity	5,124.1	5,441.6	5,213.3
Total liabilities & equity	11,744.8	12,855.9	13,896.3

6-2. Financial Statements – Hyundai Oilbank (Separate)

Hyundai Oilbank

Income Statement (Separate)

Unit : KRW bn.

	'20.3Q	QoQ	YoY	'20.2Q	'19.3Q
Sales	**3,178.4**	50.7%	-31.9%	**2,108.6**	**4,665.7**
Cost of good sold	3,071.3	51.7%	-31.3%	2,025.0	4,473.7
Gross profit	107.1	28.2%	-44.2%	83.6	192.1
Operating profit	**(19.4)**	Remained deficit	Turned a deficit	**(18.6)**	**88.2**
OP margin	-0.6%	0.3%p	-2.5%p	-0.9%	1.9%
Non-operating income & expenses	24.3			(15.7)	(81.0)
Profit before tax	**4.9**	Turned a profit	-31.9%	**(34.3)**	**7.2**
Income tax	(1.9)			(9.9)	7.2
Net income	**6.8**	Turned a profit	Turned a profit	**(24.4)**	**0.0**

Balance Sheet (Separate)

Unit : KRW bn.

	'18.4Q	'19.4Q	'20.3Q
Current assets	3,240.5	3,336.1	2,689.0
(Cash & cash equivalents)	26.1	37.5	71.0
Non-current assets	6,360.3	7,233.2	8,580.5
Total assets	**9,600.8**	**10,569.3**	**11,269.5**
Current liabilities	3,888.2	3,690.5	2,654.8
(Short-term borrowings)	1,427.6	985.4	287.5
Non-current liabilities	1,174.9	2,397.4	4,368.7
(Long-term borrowings)	1,017.5	1,875.3	3,200.2
Total liabilities	**5,063.1**	**6,087.9**	**7,023.5**
Paid-in capital	1,225.4	1,225.4	1,225.4
Others	429.3	429.3	836.4
Retained earnings	2,883.0	2,826.7	2,184.2
Total equity	**4,537.7**	**4,481.4**	**4,246.0**
Total liabilities & equity	**9,600.8**	**10,569.3**	**11,269.5**

6-3. Financial Statements – Hyundai Chemical (Separate)

Hyundai Oilbank

Income Statement (Separate)

Unit : KRW bn.

	'20.3Q	QoQ	YoY	'20.2Q	'19.3Q
Sales	**651.4**	2.7%	-37.1%	**634.4**	**1,036.2**
Cost of good sold	610.9	2.1%	-37.9%	598.2	983.5
Gross profit	40.5	11.8%	-23.1%	36.2	52.7
Operating profit	**36.1**	11.8%	-25.1%	**32.3**	**48.2**
OP margin	5.5%	0.4%p	0.8%p	5.1%	4.7%
Non-operating income & expenses	4.8			(15.4)	(10.0)
Profit before tax	**40.9**	142.6%	7.0%	**16.9**	**38.3**
Income tax	10.0			4.1	9.0
Net income	**31.0**	142.1%	5.9%	**12.8**	**29.3**

Balance Sheet (Separate)

Unit : KRW bn.

	'18.4Q	'19.4Q	'20.3Q
Current assets	865.5	1,314.3	663.5
(Cash & cash equivalents)	89.9	391.1	74.0
Non-current assets	1,017.2	1,492.1	2,432.7
Total assets	1,882.7	2,806.4	3,096.2
Current liabilities	479.4	533.4	717.3
(Short-term borrowings)	121.9	118.6	439.7
Non-current liabilities	706.5	784.3	915.6
(Long-term borrowings)	705.6	767.3	881.7
Total liabilities	1,185.9	1,317.7	1,632.9
Paid-in capital	480.0	1,220.0	1,220.0
Others	-1.3	-10.2	(5.4)
Retained earnings	218.1	278.9	248.7
Total equity	696.8	1,488.7	1,463.3
Total liabilities & equity	1,882.7	2,806.4	3,096.2

Hyundai Oilbank