



## Partnership for Central Europe

**Igor Chalupec, CEO PKN ORLEN S.A.**

**Prague, 8 June, 2005**

# Conference agenda

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## **Governance model for UNIPETROL within PKN ORLEN Group**

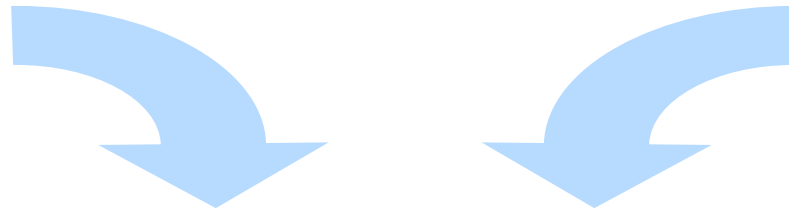
**Aspirations and value creation plan**

**“Partnership” Program as the value creation mechanism**

**Action plan for the first 100 days of integration**



# UNIPETROL and PKN ORLEN – partnership for Central Europe



## PKN ORLEN acquired :

- 62.99% shares in UNIPETROL at CZK 11 303.9 million
- 9.76% shares in SPOLANA at CZK 1.0 million
- Debt of UNIPETROL Group entities\*, at the nominal value\*\* of CZK 3 564.3 million for CZK 1 745.1 million

**24 May, 2005**

**Acquisition of 62.99% shares in UNIPETROL by PKN ORLEN**



**8-9 June 2005**

**Takeover of corporate control**

- Meetings of statutory bodies of key companies of UNIPETROL Group
- Changes in composition of the authorities of UNIPETROL Group companies

\* ALIACHEM, BENZINA, PARAMO, SPOLANA

\*\* As of 1 April, 2004

# Principles of the new governance model of UNIPETROL Group – single company cooperating with PKN ORLEN

## “Single company”

- Single management team with common objectives and shared P&L responsibility, constituting the Management Board of UNIPETROL holding

## Elements of segment management

- Companies with similar business profile – refining, chemicals, petrochemicals, retail, grouped into business segments
- Board members of UNIPETROL responsible for specific business segments will sit on the Boards of the key companies in those business segments
- Ultimately, UNIPETROL to be included in the segment management system of PKN ORLEN

## Czech-Polish teams

- Dedicated teams comprising employees of UNIPETROL and PKN ORLEN, responsible for meeting the financial target of the integration
- Cooperation between PKN ORLEN and UNIPETROL
  - Exchange of information and best practices
  - Access to best specialists irrespective of the location of employment



# New governance model of UNIPETROL Group

SIMPLIFIED

## Board of Directors of UNIPETROL

**CEO**

**Refining**

**Petrochem.**

**Chemicals**

**Retail**

**CIO  
(Investment)**

**CFO  
(Finance)**

**CMO  
(Merger)**

**HR  
(Human  
Resources)**

### Refining companies

- UNIPE-TROL  
RAFINE-  
RIE
- ČESKA  
RAFINER-  
SKA
- PARAMO

### Petro-chemical companies

- CHEMO-  
PETROL
- UNIPE-  
TROL  
DOPRAVA
- KAUČUK
- UNIPE-  
TROL  
TRADE

### Chemical companies

- SPOLANA
- AGROBO-  
HEMIE
- ALIACHEM

### Retail companies

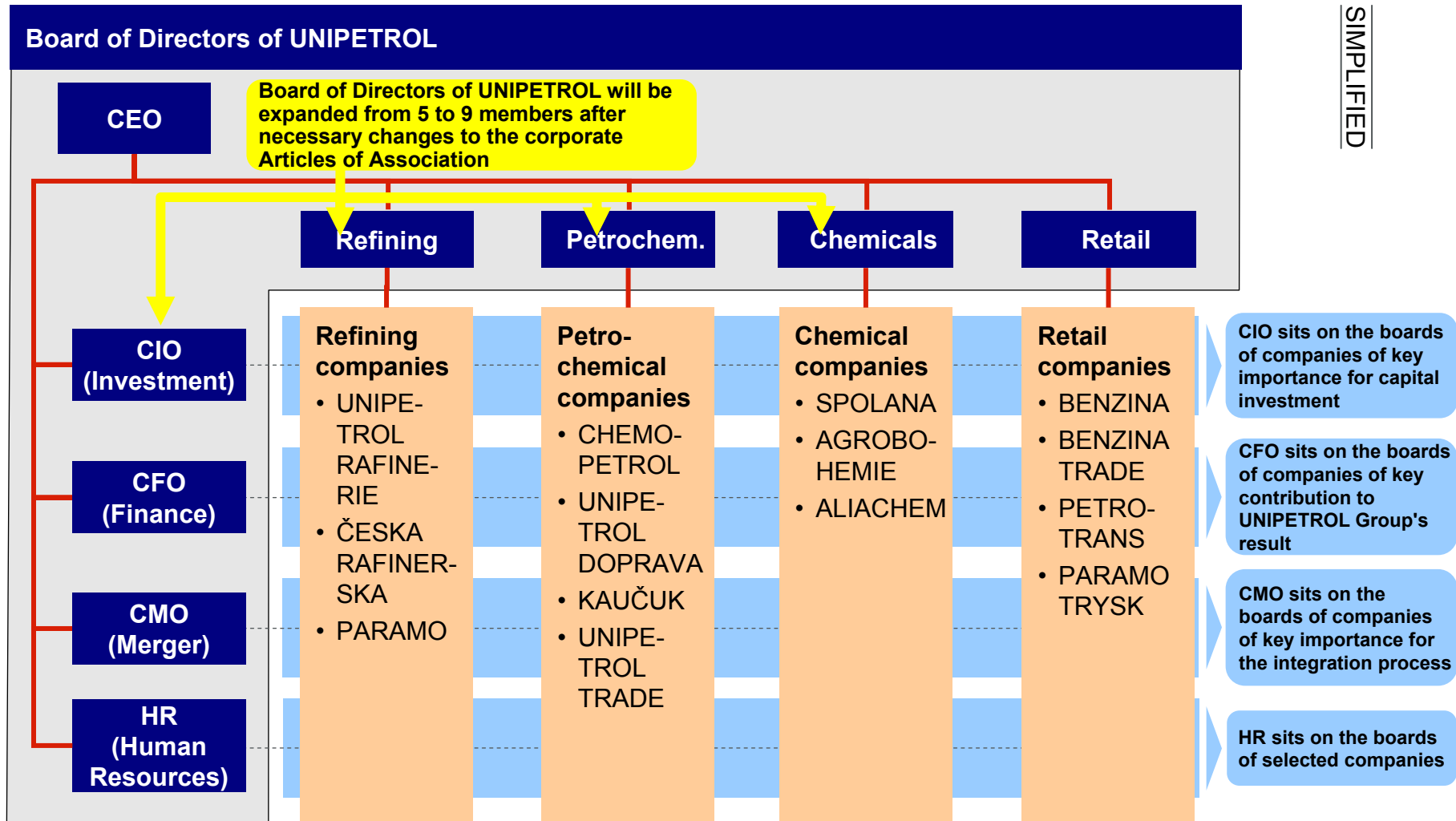
- BENZINA
- BENZINA  
TRADE
- PETRO-  
TRANS
- PARAMO  
TRYSK

**Board members of UNIPETROL responsible for the respective business segment sit on the boards of key companies of that segment**

CIO – Chief Investment Officer  
CFO – Chief Finance Officer  
CMO – Chief Merger Officer  
HR – Human Resources

# New governance model of UNIPETROL Group

SIMPLIFIED



CIO – Chief Investment Officer  
 CFO – Chief Finance Officer  
 CMO – Chief Merger Officer  
 HR – Human Resources

# Members of the Supervisory Board of UNIPETROL



**Chairman of SB:**  
**Igor Chalupec, CEO,**  
**PKN ORLEN**



**Vice-Chairman of SB:**  
**Miroslav Grégr**



**Joanna Chmielewska,**  
**Head of Legal Office,**  
**PKN ORLEN**



**Zdeněk Černý.**  
**Chairman of ECHO Trade**  
**Union Czech Republic**



**Dariusz Formela,**  
**Head of Organization**  
**and Development Office,**  
**PKN ORLEN**



**Piotr Kearney,**  
**Head of Strategy Office,**  
**PKN ORLEN**



**Milan Kuncíř,**  
**Technical Director**  
**Uniraf**



**Wojciech Lorenc,**  
**Head of Human Resources**  
**Office, PKN ORLEN**



**Vlastimil Růžička, Rector**  
**of Institute of Chemical**  
**Technology Prague**



**Cezary Smorszczewski,**  
**CIO, PKN ORLEN**



**Miloslav Suchánek**  
**Professor of Institute of**  
**Chemical Technology**  
**Prague**



**Paweł Szymański,**  
**CFO, PKN ORLEN**



**ORLEN**



# Management selection process in line with best practices

## Sources of candidates

## Recruitment and assessment process

**UNIPETROL**

- Assessment of management competencies carried out by reputable human resources advisors
- Performance to-date and HR assessment results taken into account

**PKN ORLEN**

- Identification of PKN ORLEN candidates for selected business and functional areas
- Assessment of candidate competencies carried out by reputable human resources advisors

**External candidates**

- Recruitment by professional human resources advisors in Czech Republic and Poland

**New management team of UNIPETROL has high qualifications and extensive professional experience**



**ORLEN**



# Pavel Švarc – President and CEO

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**Age:** 49

## **Professional experience:**

- 1999 – Present – Unipetrol a.s.; CEO and Chairman
- 1997 – 1999 – Lovochemie a.s.; Managing Director
- 1993 – 1997 – Čížkovická cementárna a.s.; HR Director
- 1993 – 3CA s.r.o.; Managing Director
- 1985 – 1992 – Pražská cukerní společnost a.s.; Managing Director and other management positions
- 1981-1985 – Pražské cukrovary, s.p.; Sugar Plant Managing Director and Production Manager

## **Education:**

- 1983-1988 – Master of Science (CSc.)
- 1976-1981 – Chemical Technology University Praha

## **Key responsibilities:**

- Manages UNIPETROL Group operations
- Co-responsible for UNIPETROL Group Strategy
- Represents UNIPETROL Group in relations with shareholders and government institutions
- Responsible for external communication in UNIPETROL Group

# Marek Mroczkowski – Vice Chairman, Chief Financial Officer

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**Age:** 49

**Professional experience:**

- 2003 – 2004 – ELANA S.A.; President, CEO
- 2001 – 2002 – POLKOMTEL; President, CEO
- 1994 – 2001 – PKN ORLEN; Vice President, CFO
- 1986 – 1994 – EDA; Board Member, CFO
- 1981 – 1986 – POLMO-ELMOT; Finance Manager

**Education:**

- 2002 – INSEAD, Advanced management program
- 2000 – 2001 – Warsaw School of Economics and University of Wroclaw; Post-graduate studies
- 1974 – 1979 – Warsaw School of Economics, Master Degree in Economics

**Key responsibilities:**

- Budgeting and controlling
- Financing and risk management
- Accounting and reporting



# Vít Šubert – Vice Chairman Responsible for HR



**Age:** 56

## **Professional experience:**

- 1999-Present – UNIPETROL, a.s., Vice-Chairman of the Board of Directors
- 1997-1999 – Danone, a.s., HR Director
- 1995-1997 – Čokoládovny, a.s. (joint venture of Danone and Nestlé), HR Director
- 1992-1994 – Ministry of Labour and Social Affairs, Managing Director – Czech Public Employment Service
- 1990-1992 – Labour Office of Prague, Director
- 1987-1990 – Škoda VE Praha, Head Engineer in computing centre
- 1981-1987 – PU VHMP, Engineer in computing centre

## **Education**

- Technical University, Prague

## **Key responsibilities :**

- HR management
- Incentive system management
- Career path planning of key managers

# Frederik J. Emich – Board Member Responsible for Retail

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**Age:** 45

**Professional experience:**

- 2004-2005 – MOL; Advisor to the group CEO responsible for Retail
- 1996-2003 – OMV Česká Republika; General Manager
- 1989-1996 – OMV AG Vienna; Retail Sales Manager
- 1987-1989 – MPSI Systems; responsible for sales and client relations in Germany, Austria, and Switzerland
- 1984-1987 – Esso Benelux; Analyst

**Education:**

- 1984 – Erasmus University Rotterdam; Doctorate in Business Administration (MBA equivalent)
- 1980 – Erasmus University Rotterdam, Undergraduate Studies

**Key responsibilities:**

- Management of retail network



# Adam Życzkowski – Board Member - Chief Merger Officer

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**Age:** 45

**Professional experience:**

- 2005-Present – PKN ORLEN; Director, UNIPETROL Integration Department,
- 2002-2005 – Spectra sp. z o.o.; Director, Investment and Strategy Department
- 1999-2001 – McKinsey & Company (Poland, USA); Engagement Manager
- 1990-1998 – Procter and Gamble (USA, Czech Republic, Russia, Belgium, Poland); Finance Manager

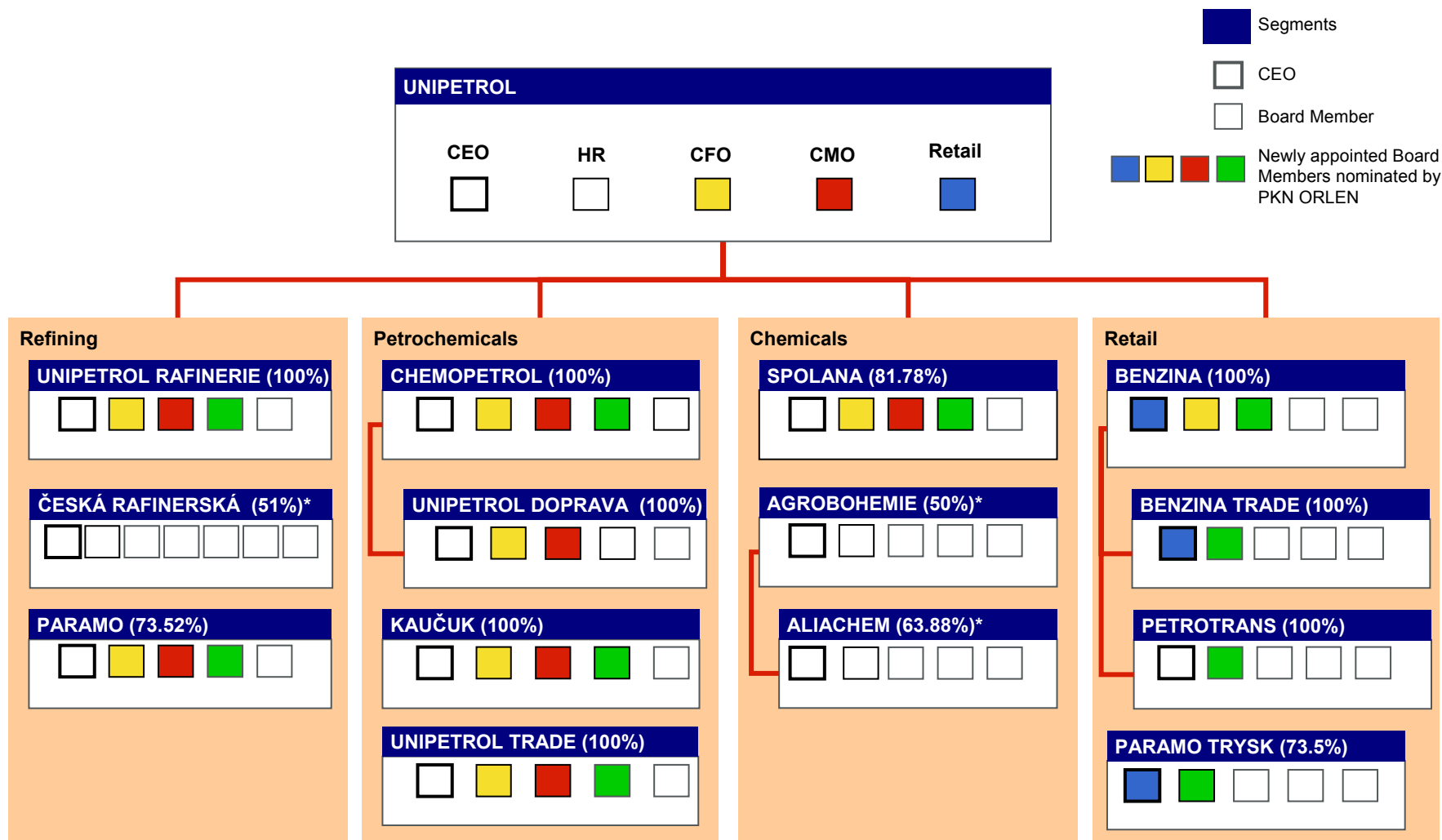
**Education:**

- 1990 – University of Notre Dame, IN, USA, MBA
- 1987 – Rutgers University, New Brunswick, NJ, USA, Msc

**Key responsibilities :**

- Management of UNIPETROL and PKN ORLEN integration process
- Management of effective communication between UNIPETROL and PKN ORLEN
- Partnership Program Management
- Coordination of integration process of all companies within UNIPETROL Group

# To reflect the new shareholder structure, changes also take place in the boards of subsidiaries



\* The changes in the statutory bodies require alignment with other shareholders

# Conference agenda

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**Action plan for the first 100 days of integration**

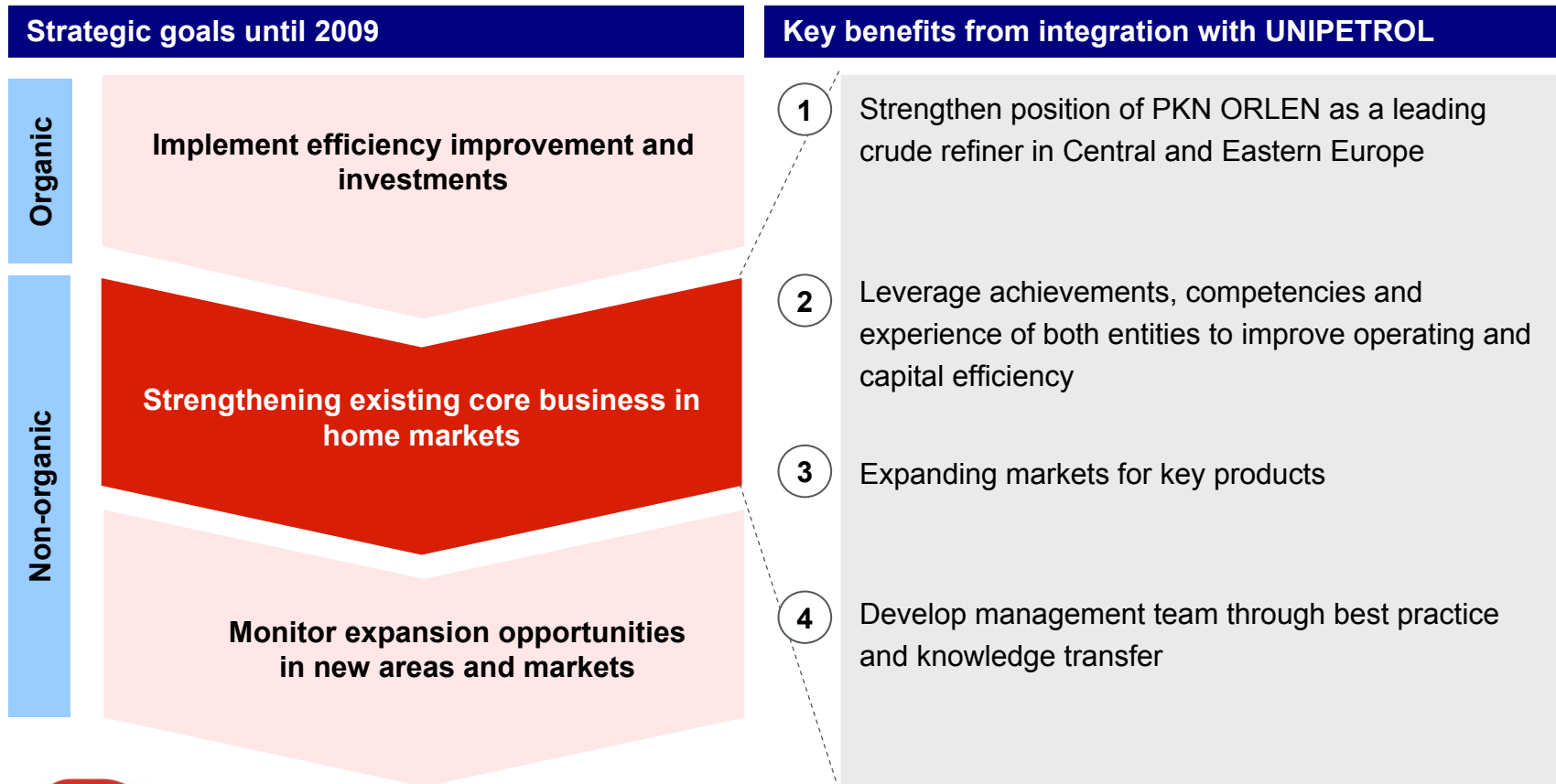




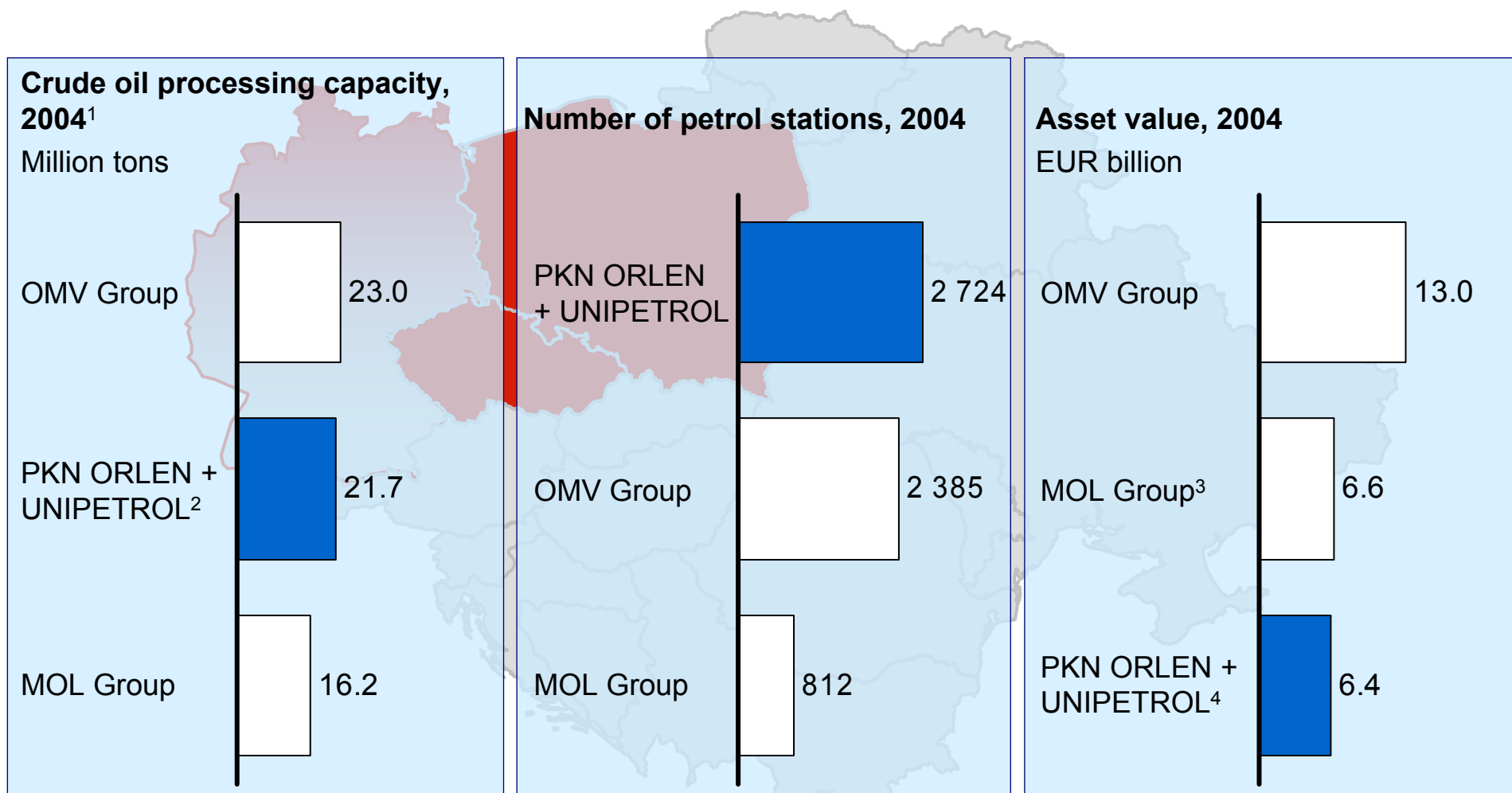
# Acquisition of UNIPETROL fits into strategy of PKN ORLEN

## From the mission of PKN ORLEN:

*"Aiming to become the regional leader we ensure long-term value creation for our shareholders by offering our customers products and services of the highest quality."*



# Integration of UNIPETROL and PKN ORLEN will strengthen the Group's competitive position in the region



1 Atmospheric distillation; processing capacity weighted by subsidiary shares

2 Sum of ~63% UNIPETROL (51% ČESKA RAFINERSKA; 73,5% PARAMO) and 100% PKN ORLEN capacity

3 1 EUR = 246,19 HUF (year end)

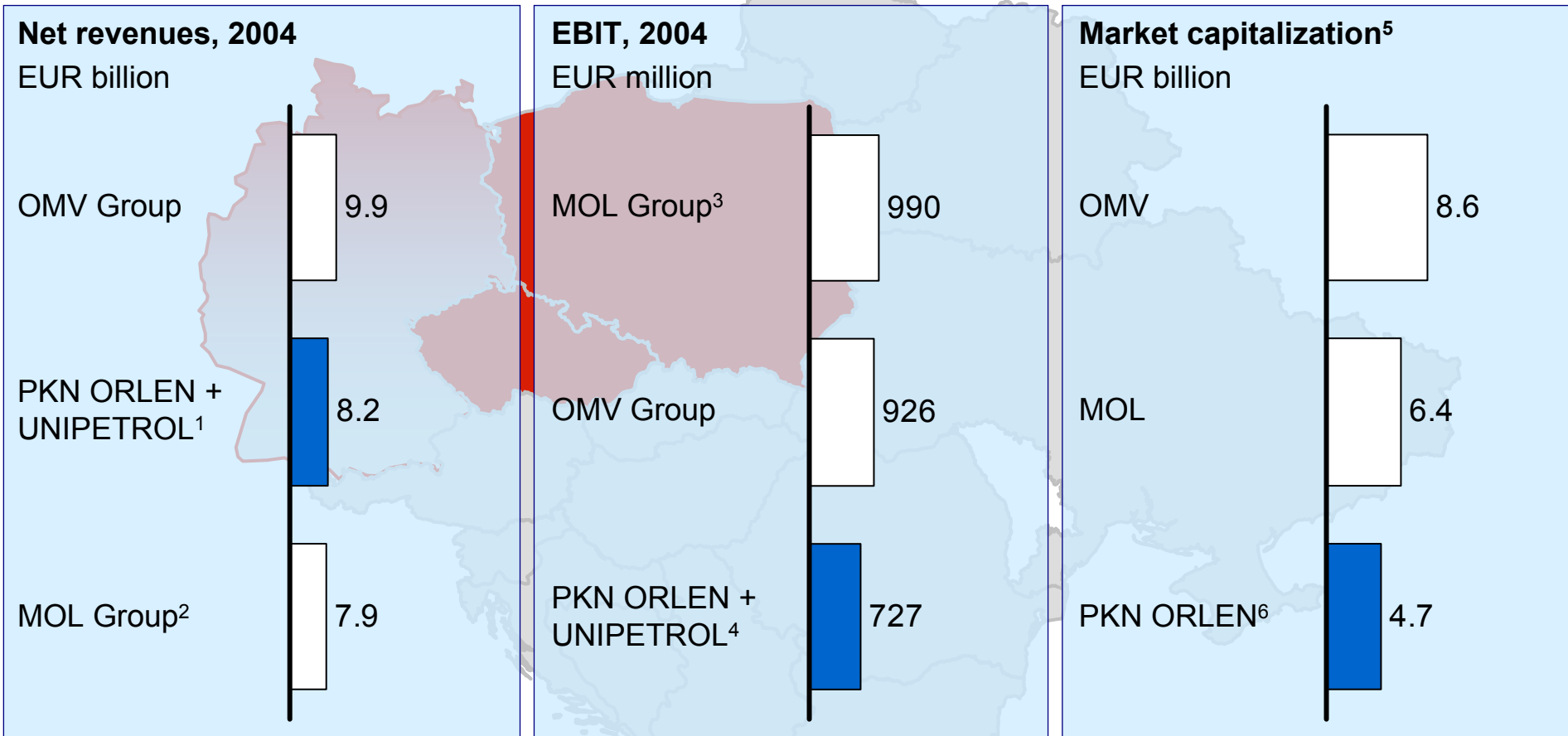
4 Sum of assets (~63% UNIPETROL + 100% PKN ORLEN); 1 EUR = 4,09 PLN; 1 EUR = 31,51 CZK (year end)

Source: Annual reports; Petrofinance; OANDA; web sites



**ORLEN**

# Integrated UNIPETROL and PKN ORLEN Group aspires to match the valuation of its competitors in the region



1 Sum of revenues (~63% UNIPETROL + 100% PKN ORLEN); for UNIPETROL excludes CZK 10,3 million of excise; 1 EUR = 31,95 CZK; 1 EUR = 4,53 PLN (annual average exchange rate)

2 1 EUR = 252,08 HUF (annual average exchange rate)

Source: Annual reports; BOSSA.PL; OANDA; web sites

3 1 EUR = 252,08 HUF (annual average exchange rate)

4 1 EUR = 4,53 PLN; 1 EUR = 31,95 CZK (annual average exchange rate); not consolidated, includes ~63% PKN ORLEN share in UNIPETROL

5 Based on exchange rates as of 01.06.2005

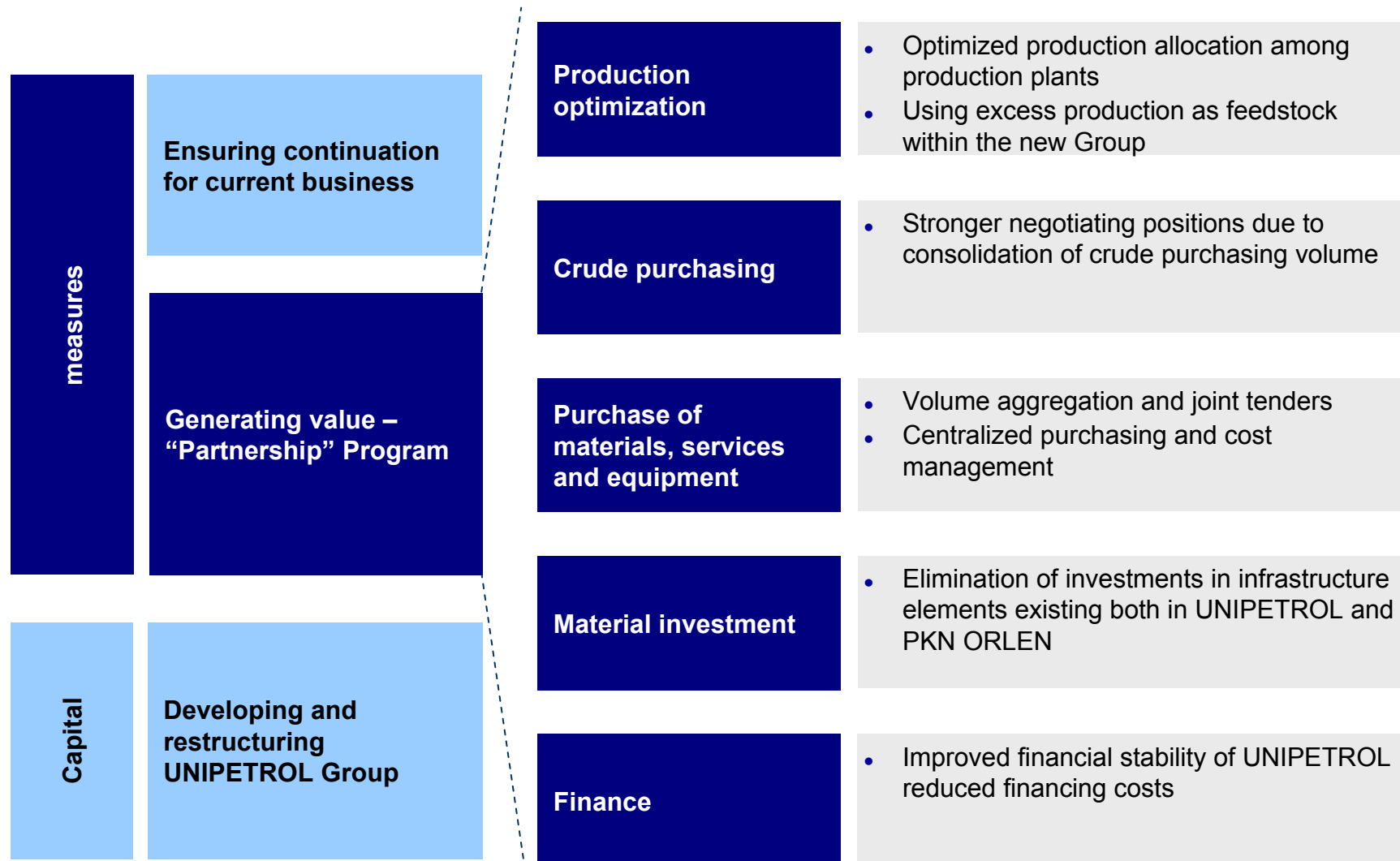
6 PKN ORLEN valuation includes UNIPETROL value

# Approach to value creation is based on three foundations

Organic	Ensuring continuation for current business	<ul style="list-style-type: none"><li>• Continuation of ongoing business operations of UNIPETROL Group</li><li>• Control over key business elements</li></ul>
	Generating value – “Partnership” Program	<ul style="list-style-type: none"><li>• Taking maximum advantage of unique opportunities resulting from the merger of two capital groups operating in different national markets in fuel, petrochemical and chemical industries<ul style="list-style-type: none"><li>➤ Efficiency improvement</li><li>➤ Revenue and cost synergies</li><li>➤ Knowledge and experience transfer</li></ul></li></ul>
Capital	Developing and restructuring UNIPETROL Group	<ul style="list-style-type: none"><li>• Potential further acquisitions of assets in strategic areas</li><li>• Simplification and improved transparency of UNIPETROL Group structure</li><li>• Disinvestment of non-strategic assets – all transactions supported with fairness opinion by renowned independent advisors</li></ul>

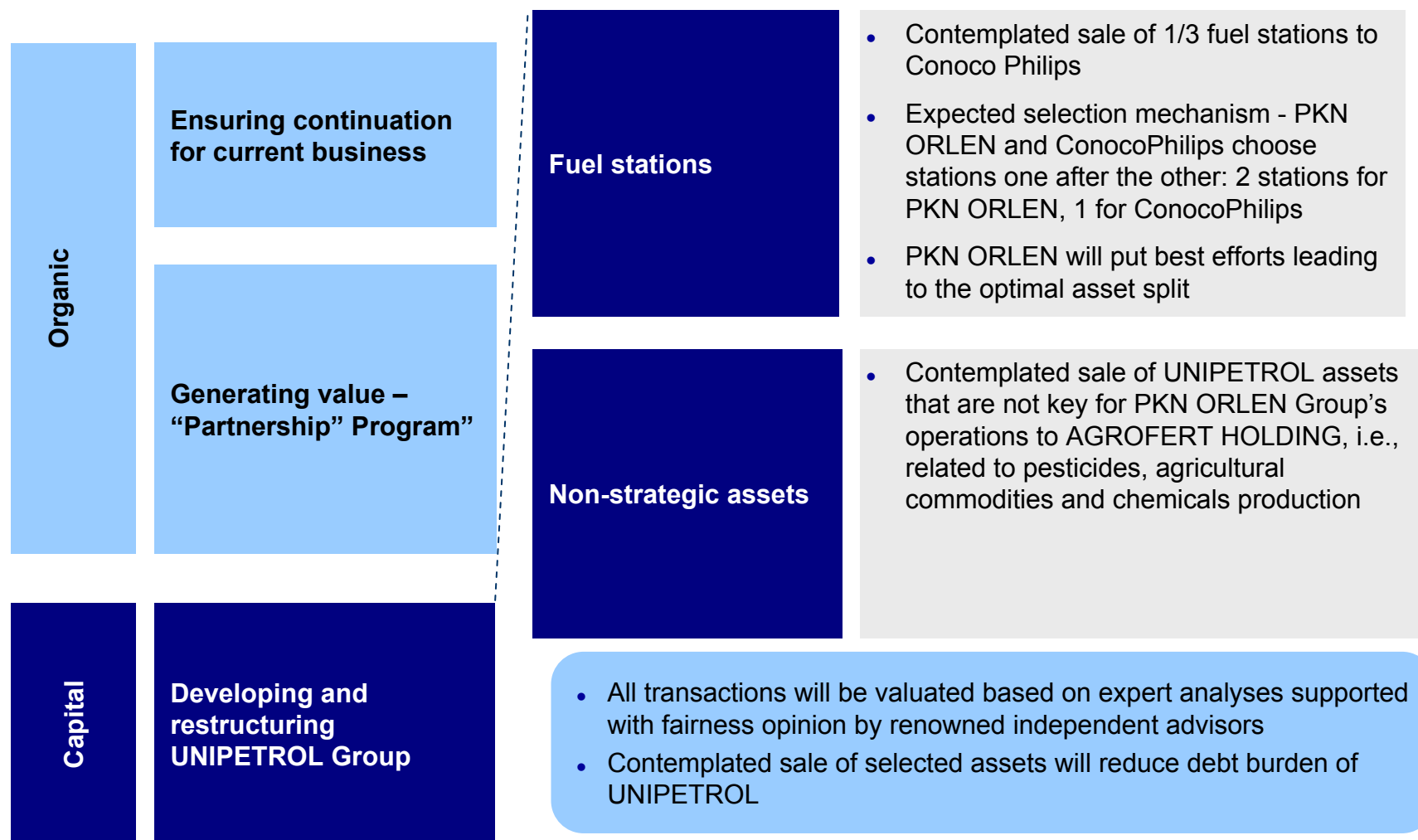
# Integration of UNIPETROL and PKN ORLEN will yield measurable financial synergies

EXAMPLES



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# Possible disinvestment in UNIPETROL Group



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# “Partnership” Program as a mechanism of value creation

## Goal of “Partnership” Program



Identification and preparation of a plan to implement value creation initiatives based on integration of UNIPETROL and PKN ORLEN

## Value Creation Teams

- Dedicated to specific business, functional or support areas
- Composed of experts from UNIPETROL Group and PKN ORLEN Group
- Managed jointly by representatives of UNIPETROL and PKN ORLEN

## Team tasks

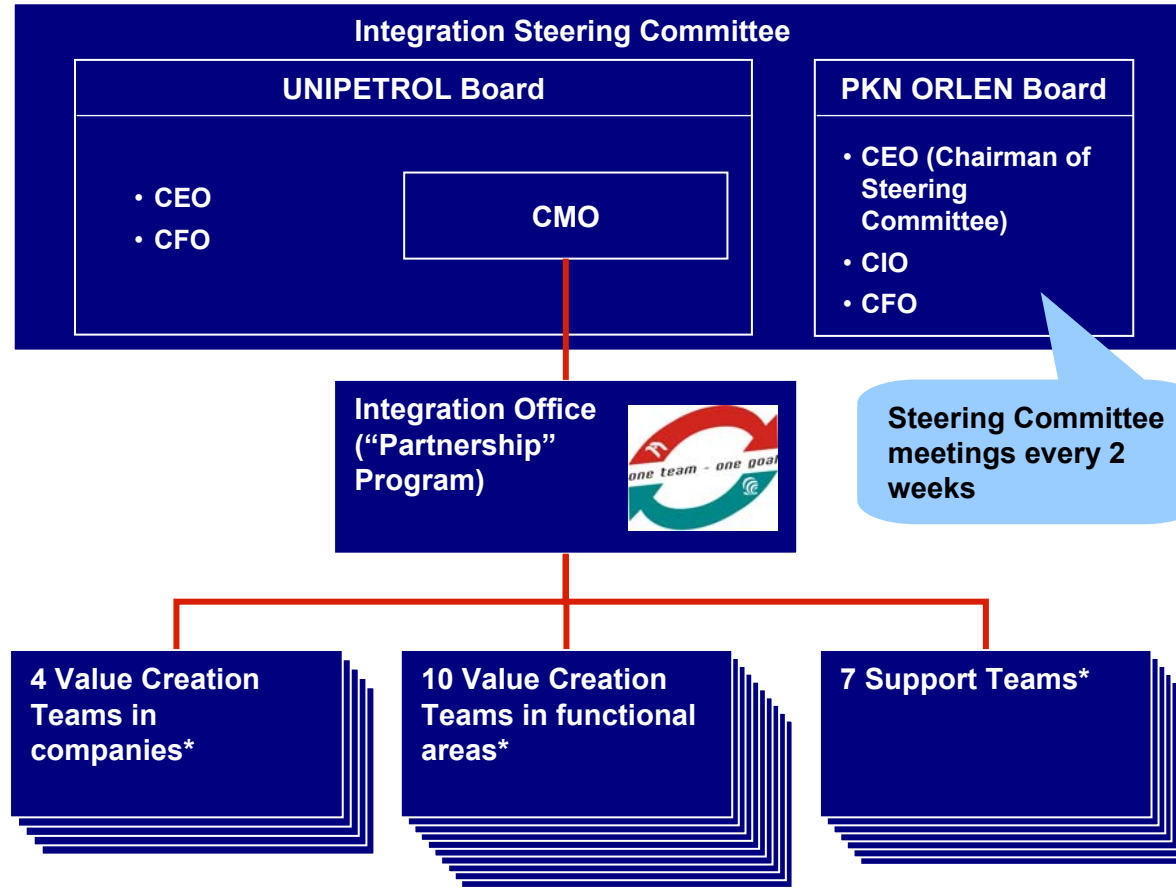
- Identification and valuation of detailed value creation levers
- Detailed description of individual initiatives and preparing their implementation plans
- Achievement of financial targets – including short-term initiatives as soon as in 2005

# Organization of “Partnership” Program

SIMPLIFIED

## Units responsible for integration

## Responsibility



- Set aspirations and objectives for integration process
- Monitor team efforts
- Make decisions
- Resolve key issues

- Coordinate day-to-day efforts and administrative support for teams
- Prepare meetings of Integration Steering Committee

- Define initiatives
- Plan and implement initiatives
- Report initiative progress to Integration Project Office and Steering Committee

\* Value Creation Teams in companies – responsible for initiatives within business segments; Value Creation Teams in functional areas supply expertise and share best practices between business segments ; Support Teams coordinate the integration process

# Integration - a strategic priority with significant dedicated resources

## Resources of PKN ORLEN

- Members of PKN ORLEN board in the Supervisory Board of UNIPETROL and the Integration Steering Committee
- Approx. 150 PKN ORLEN employees involved in the integration process, including approx. 50 delegated to Value Creation Teams for a limited time period

## External resources

- Assistance of experienced and reputable companies (over 100 people):
  - Integration process management: McKinsey & Company
  - HR advisors and personnel selection : Kienbaum and Russell Reynolds
  - Financial audit: KPMG
  - Asset valuation: PricewaterhouseCoopers
  - Legal advisors: Dewey Ballantine
  - Preparation of Tender Offer: Patria
  - Public relations: EMC
  - Tax advice: Deloitte



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# Closing UNIPETROL share purchase transaction

## Price adjustment

- Final transaction value will be defined based on the adjusted net asset value of UNIPETROL determined by an independent auditor (maximum price increase from the purchase price allowed is 15%; maximum price reduction is 25%)\*
- In line with the privatization agreement, the price adjustment will be defined the latest by the second half of October 2005
- PKN ORLEN is prepared to pay a price that reflects the real value of UNIPETROL

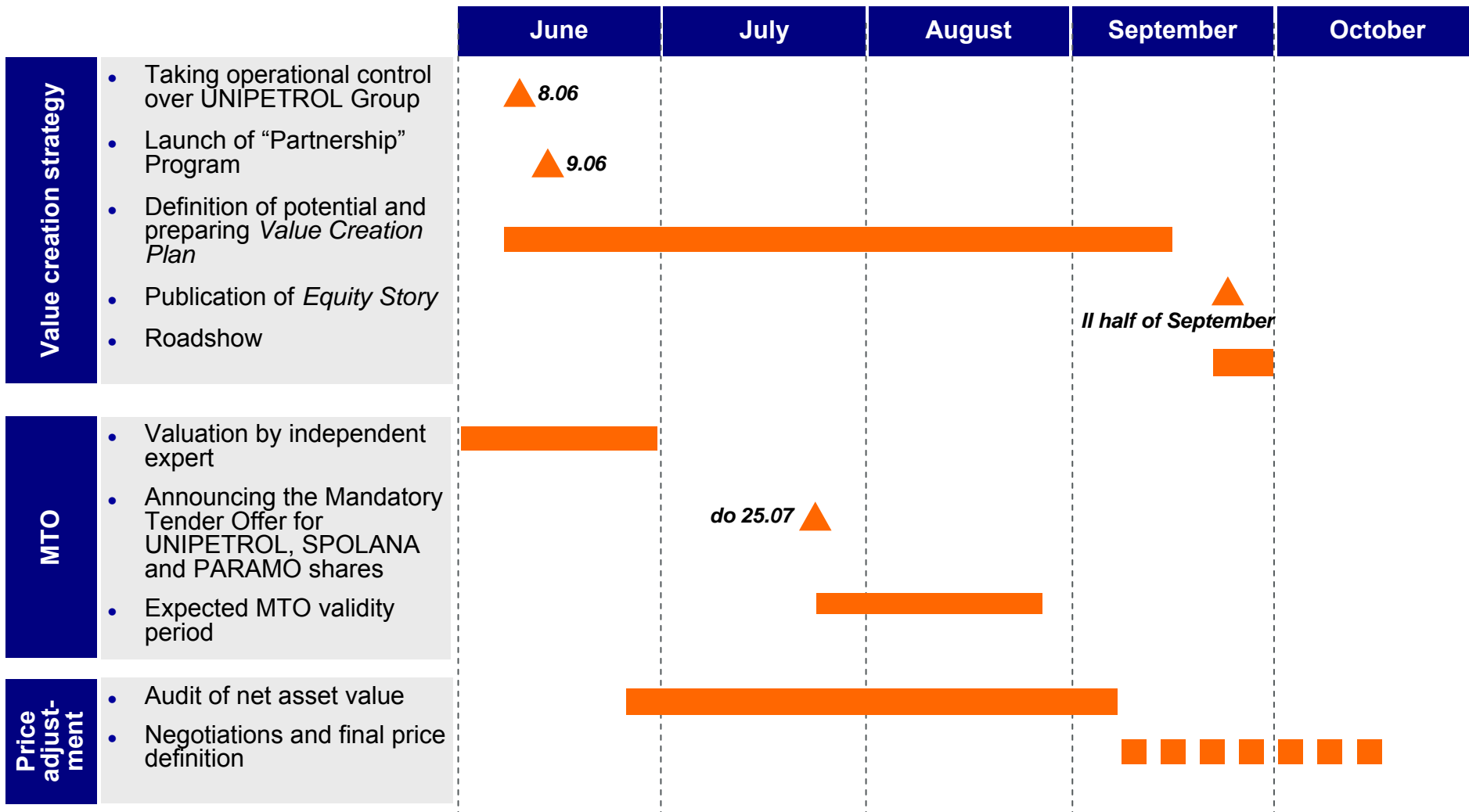
## Mandatory Tender Offer (MTO)

- Within 60 days of the transaction closing a Mandatory Tender Offer for minority shareholders for purchase of the remaining UNIPETROL, PARAMO and SPOLANA shares will be announced
  - Price in the tender offer will be defined based on the valuation of an independent expert and the average UNIPETROL share price\*\* for the period of 6 months before the transaction closure (purchase of UNIPETROL shares by PKN ORLEN)
  - PKN ORLEN will try to take into account the potential effect of the price adjustment mechanism in the price of MTO buyout
  - PKN ORLEN will make a motion to the SEC for a four weeks duration of MTO
- At the moment PKN ORLEN is not planning to withdraw UNIPETROL shares from public trading

\* The price adjustment will take place only when the difference between Net Asset Value at the end of 2003 and 2nd of May 2005 is bigger than 5%

\*\*Average weighted by turnover; includes price to be paid by PKN ORLEN

# Key milestones – the first 100 days of integration



# Contact

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