



## Creating The Regional Champion

# Agenda

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- **Transaction rationale**

- Terms of the transaction
- Strategic fit
- Financial implications
- Appendix

# MOL/Slovnaft partnership: delivery on the strategic vision

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## MOL's vision

- Value-creating growth
- Financial and operational excellence
- Focus on CEE energy markets
- Leverage existing capabilities

## Slovnaft transaction

- Leading position in Europe's fastest growing downstream markets
- Financially sound investment: value creating, earnings accretive and MOL's leverage remains below stated 40% target
- Clear path to control
- Creating a superior regional refining and marketing group

**MOL/Slovnaft partnership is the first major step in the regional consolidation, confirming MOL as the driving force in the region**

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# Key transaction terms

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## **Stage 1: transparent partnership structure**

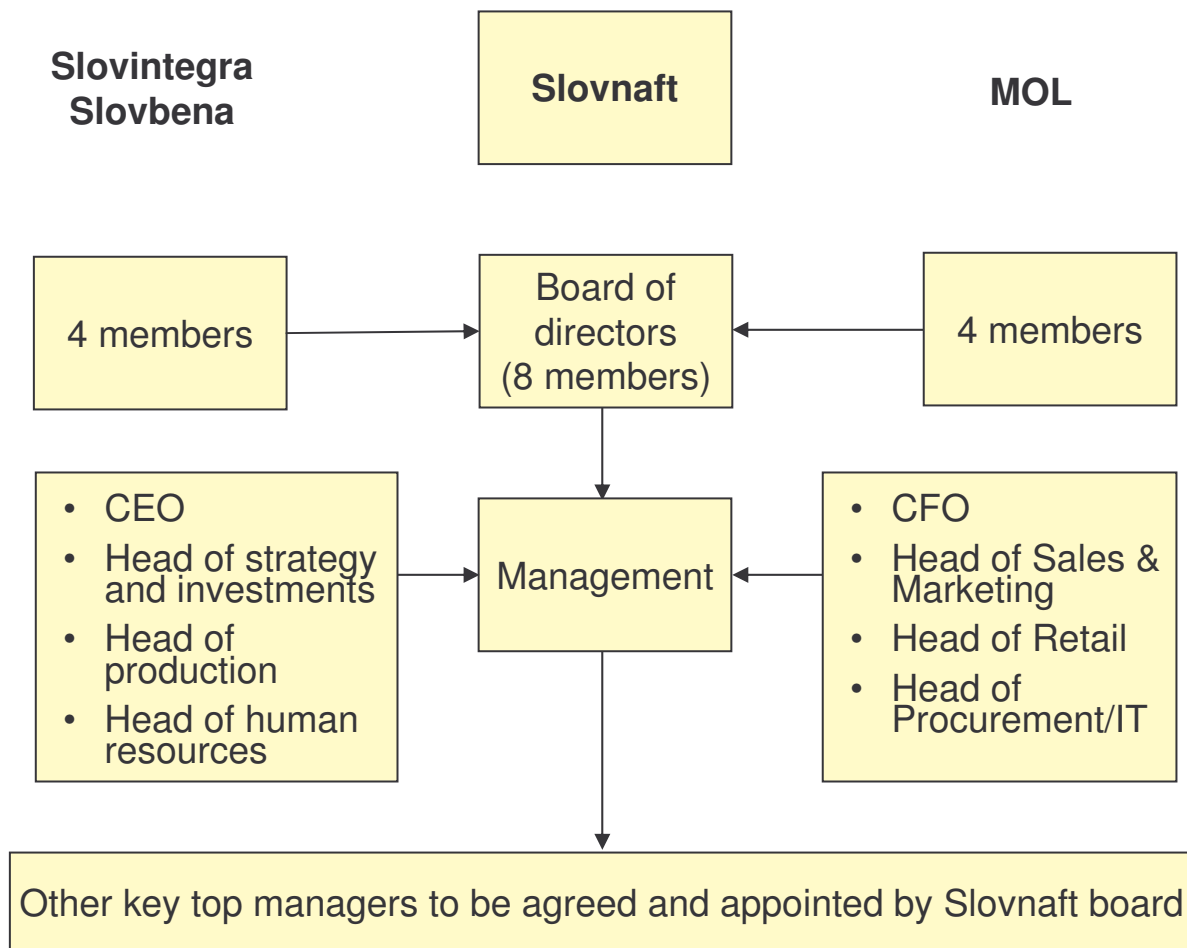
- MOL is acquiring up to 36.2% of Slovnaft through a combination of US\$150 mm capital increase and up to US\$112 mm purchase of existing shares
- Transparent corporate structure
- J.P. Morgan will arrange financing for the whole amount of the transaction
  - US\$300 mm 364 day bridge facility to be replaced by a term loan facility in due course

## **Stage 2: clear path to control**

- MOL to purchase further shares to gain a majority shareholding after eight financial quarters from subscription
- MOL has right to exercise call option to buy majority stake at this date
- Slovintegra/Slovbena to remain significant minority shareholder with appropriate rights

# Clear and balanced management structure

## Stage 1



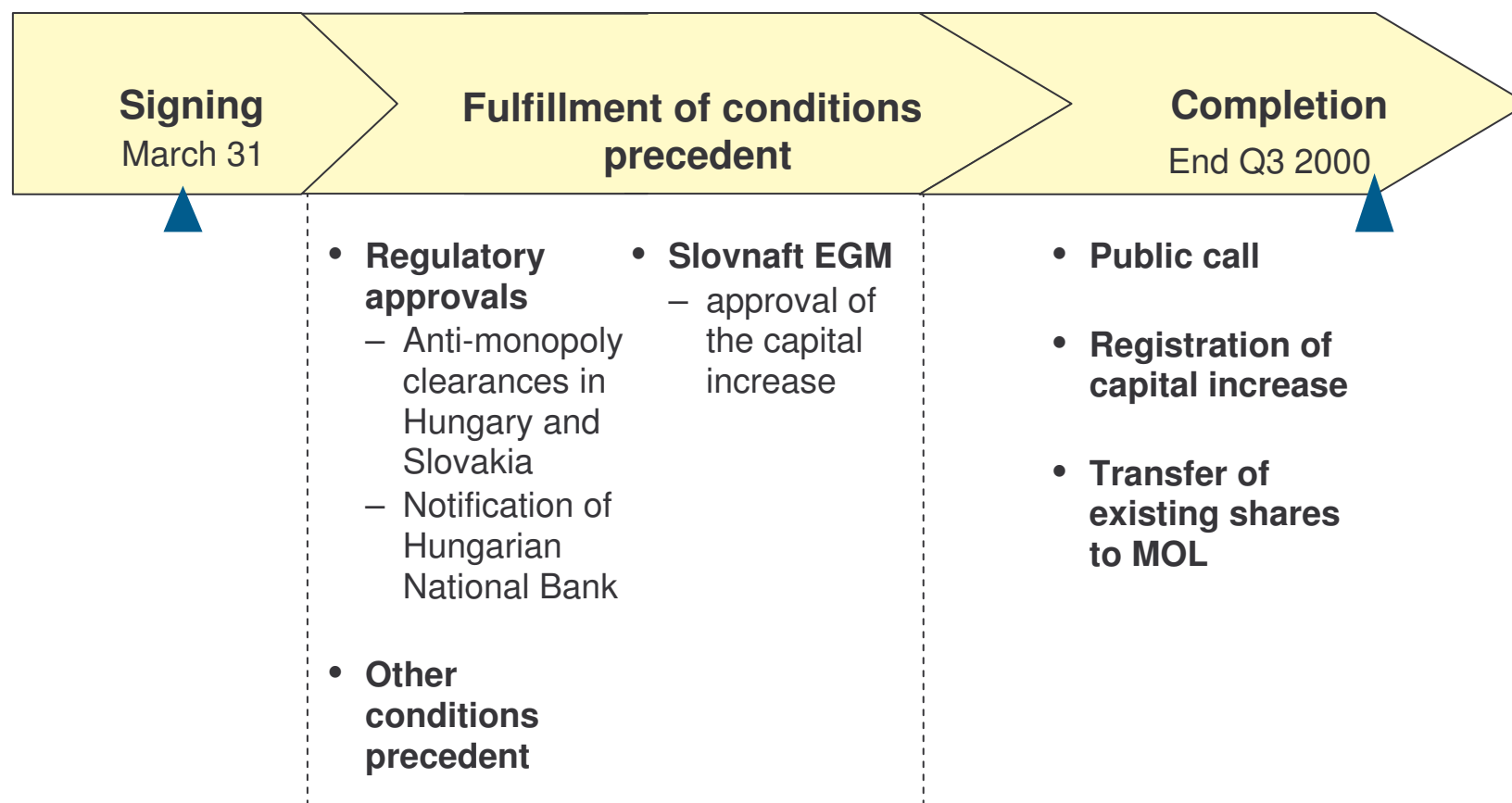
## Stage 2 (after 8 full quarters)

- MOL has a call option to gain control (minimum 5 of 8 board members)
- Slovintegra/Slovvena retain significant minority position with appropriate rights

# The transaction is expected to be closed by the end of the 3rd quarter of this year

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## Key milestones and regulatory approvals



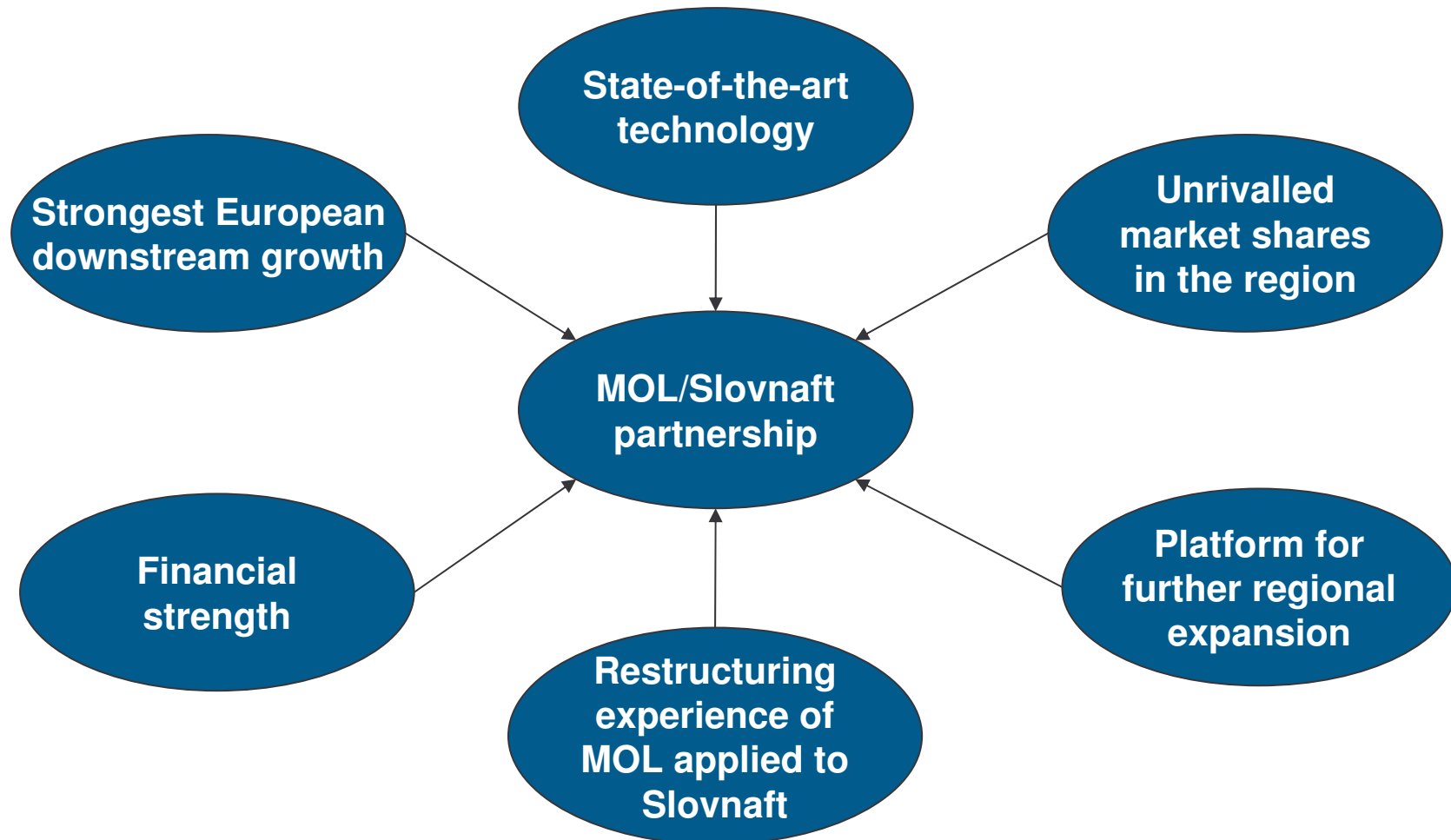
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# The winning combination

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# Overview of Slovnaft's operations

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## Refining

- Bratislava refinery, strategically located
- 110,000 bpd capacity
- One of the most modern and complex refineries in Europe
  - 9.9 Nelson complexity index

## Marketing

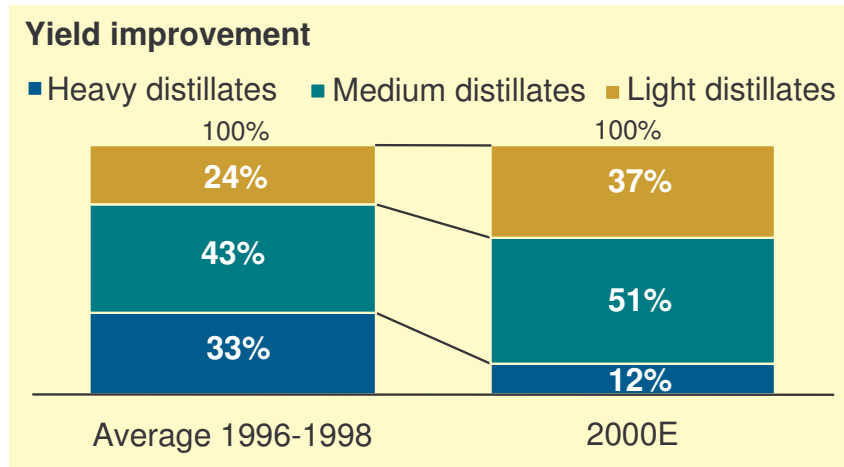
- 360 retail stations in four countries
  - Slovakia - 315
  - Czech Republic - 41
  - Poland - 2
  - Ukraine - 2
- Strong wholesale market position in Czech Republic
  - Approx. 25% market share in diesel
  - Approx. 15% market share in gasoline

## Plastic & petrochemicals

- LDPE: 170,000 tpa
- PP: 70,000 tpa
- Approx. 80% market share in Slovakia

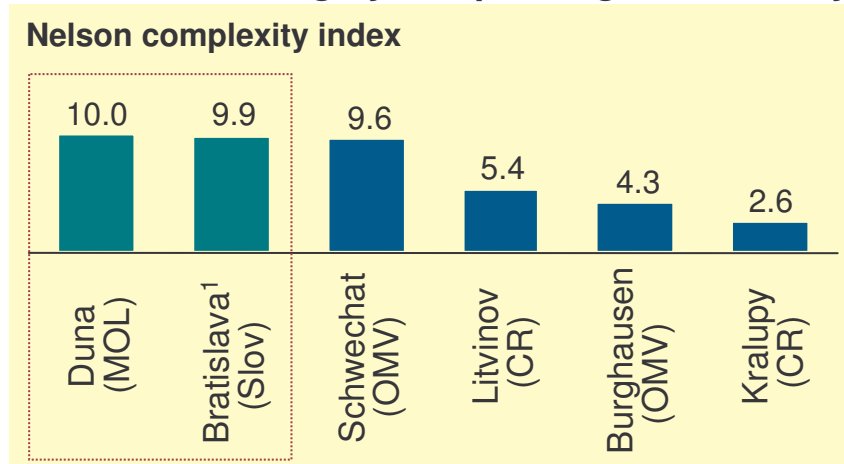
# Duna and Bratislava are the two most complex refining assets in the region ...

## Bratislava yield improvement ...



Source: Slovnaft

## ... will create a highly complex regional refinery



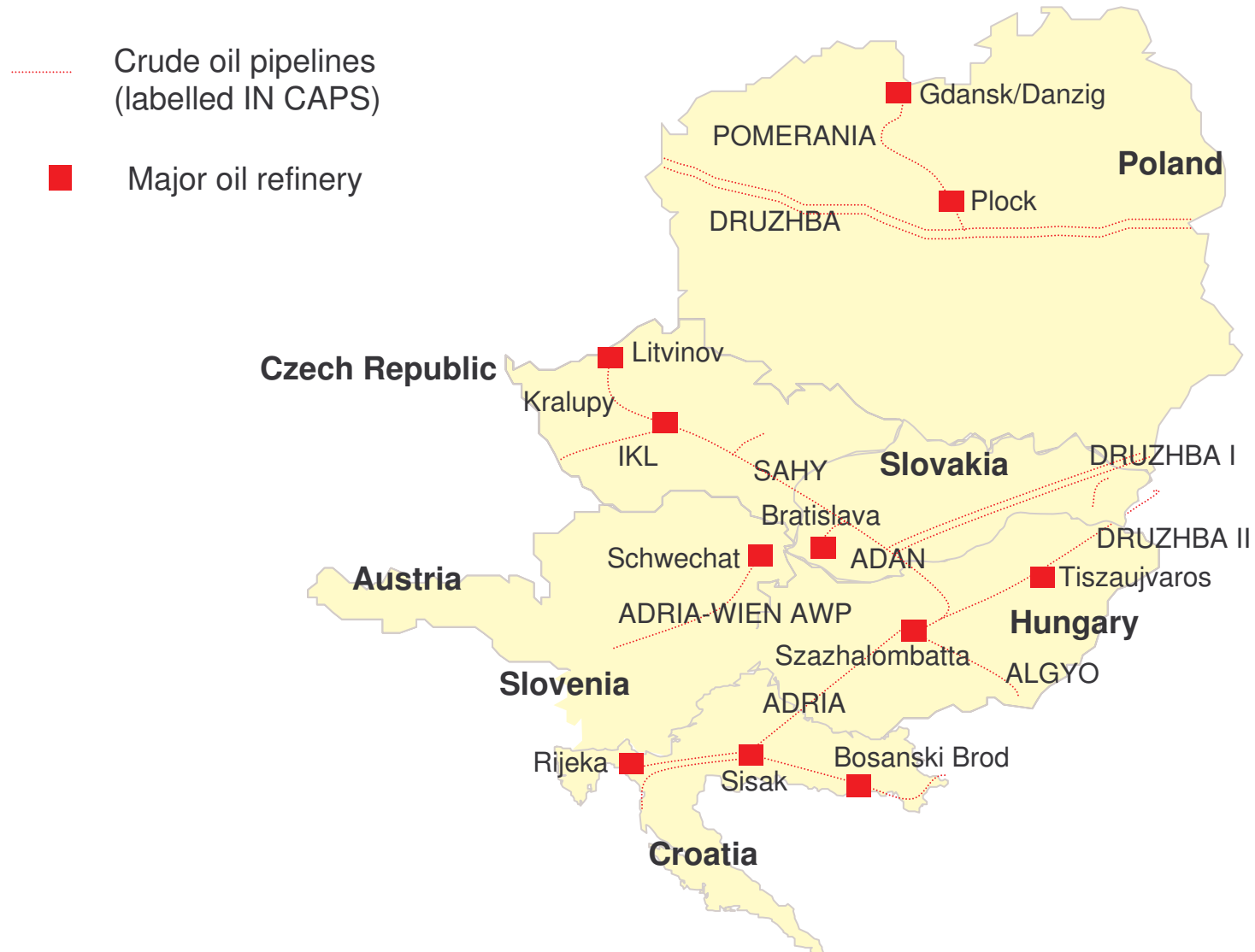
- Bratislava refinery – capacity 110,000 bpd, Nelson complexity index 9.9<sup>1</sup>
- Three year large scale \$530 mm upgrade completed
- Favourable location of refinery
  - Direct access to Russian crude through Druzhba and Adria pipelines
- Strategically located storage unit in Eastern Slovakia

Notes: light distillates (LPG, gasoline, jet/kerosene), medium distillates (diesel), heavy distillates (heavy heating oils, fuel oil, bitumen, sulphur and other)

<sup>1</sup> After the HPRU project

# ... with unrivalled access to competitive crude supply and located near high growth markets

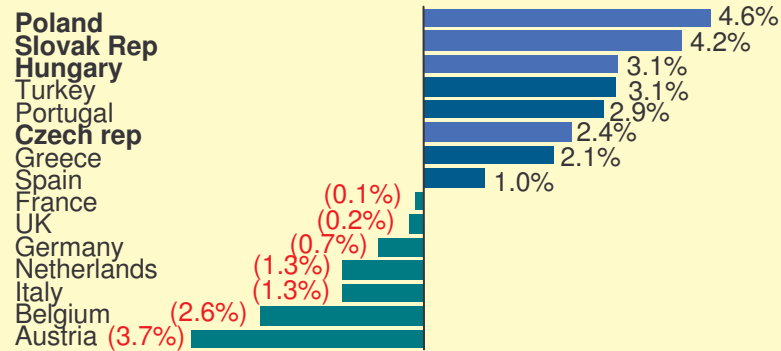
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# The combination of MOL and Slovnaft will have a leading position in Europe's fastest growing markets

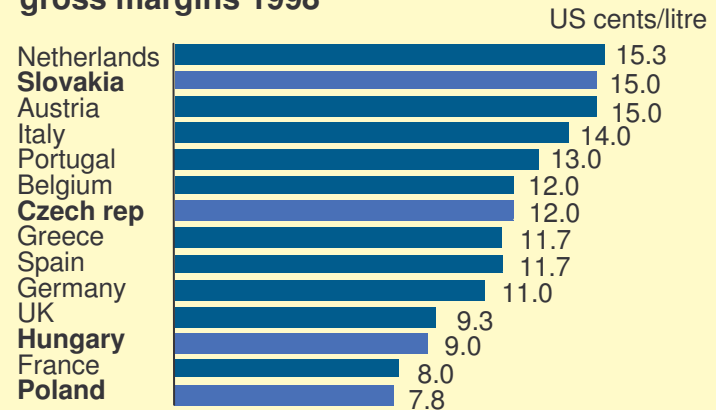
MOL and Slovnaft will be leading brands in the regional retail markets in Europe's high growth markets

**Gasoline demand growth**  
%CAGR 2000-2005

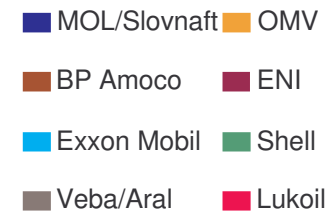
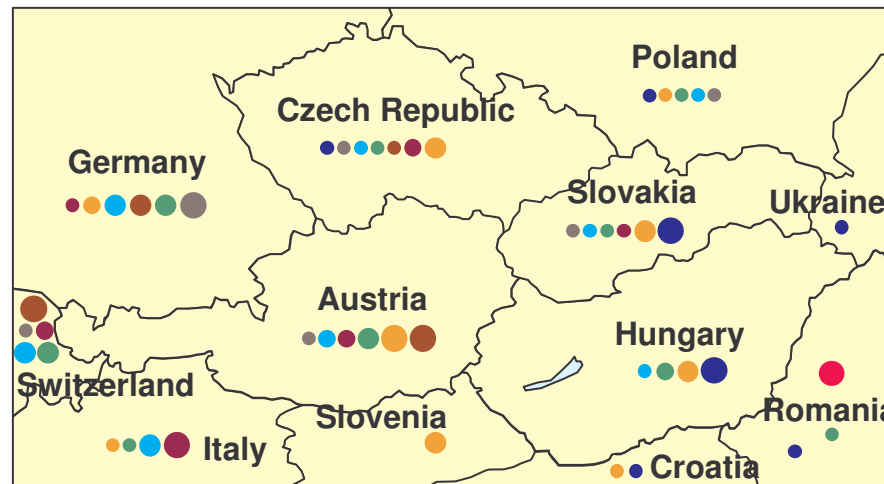


Source: Wood MacKenzie

**Comparative unleaded gasoline gross margins 1998**



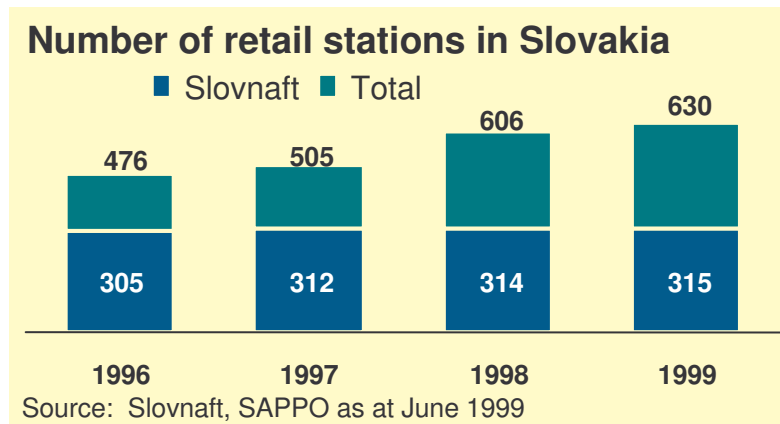
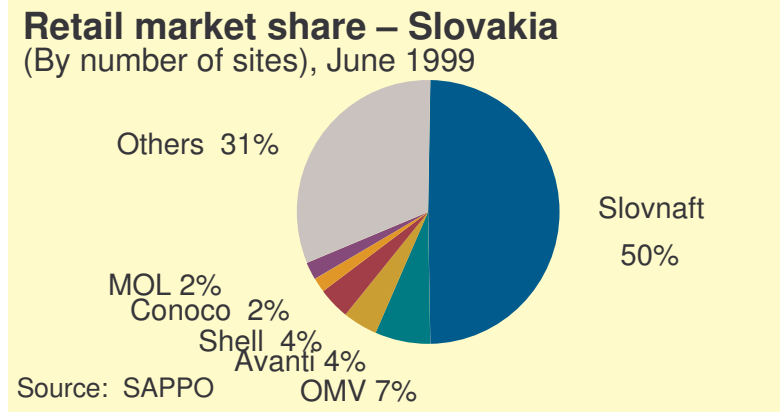
Source: Wood MacKenzie, June 1999



● <5% market share ● 5-10% market share ● 10-20% market share ● >20% market share

# Slovnaft has unrivalled market share in Slovakian retailing

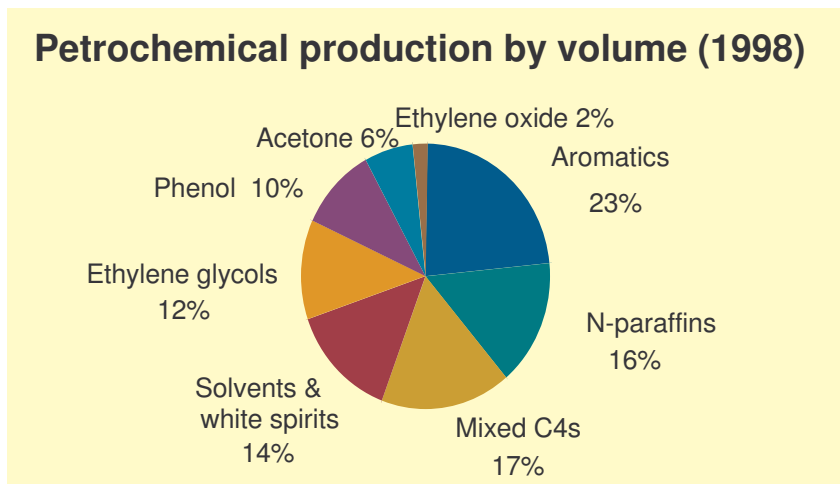
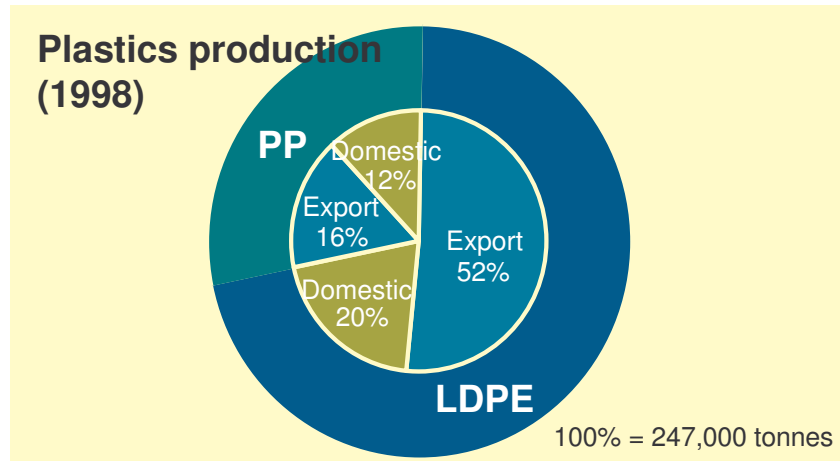
- Slovnaft currently supplies 72% of the gasoline and 92% of gas oil consumed in Slovakia ...
- ... the leader in the domestic market with 315 retail stations ...
- ... and is expanding retail network in the region
- Strong potential for non-fuel sales growth



# Slovnaft has significant market position in regional petrochemicals production

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- Only plastics producer in Slovakia
  - Low-density polyethylene (LDPE) – 170,000 tpa capacity
  - Polypropylene (PP) – 70,000 tpa capacity
  - Current production capacity almost fully utilised
  - 68% of production exported to Czech Republic, Austria, Hungary and Poland
- Slovnaft's petrochemical production
  - Feedstock for PE and PP production
  - High share of exports



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## The transaction is value enhancing for MOL

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- **Medium-term benefits already identified**
  - MOL's cost cutting expertise applied to Slovnaft's operations
  - Revenue enhancement from improved strategic position
- **Earnings accretive by 2001 and underscores MOL's ability to meet committed targets**
  - Neutral in 2000/accretive from 2001
  - Gearing target of 40% will be maintained, ROACE target of 19% will be achieved on time in 2002

# Together MOL and Slovnaft will be a regional champion

## Key 1999 data (standalone)

EBITDA	
	US\$ mm
OMV	596
<b>MOL</b>	<b>576</b>
PKN	373
<b>Slovnaft</b>	<b>129</b>

EBIT	
	US\$ mm
<b>MOL</b>	<b>353</b>
OMV	263
PKN	243
Unipetrol	109
<b>Slovnaft</b>	<b>63</b>

Net income	
	US\$ mm
<b>MOL</b>	<b>287</b>
OMV	206
PKN	166
Unipetrol	61
<b>Slovnaft<sup>1</sup></b>	<b>(60)</b>

Note: Slovnaft and MOL are unaudited IAS consolidated accounts

<sup>1</sup> After FX losses of US\$65 mm

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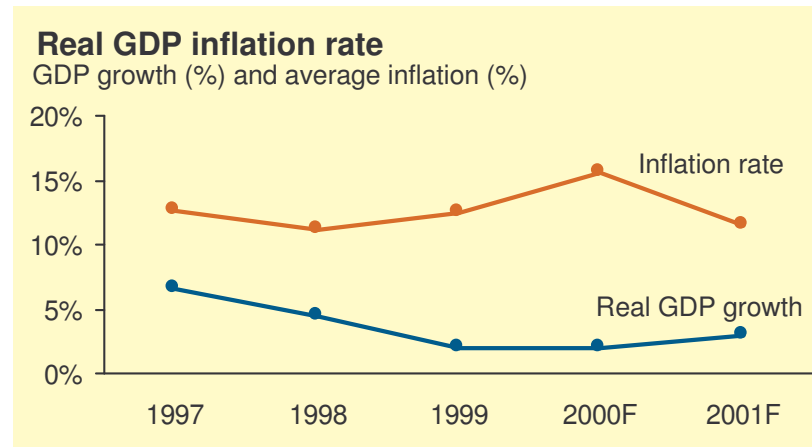
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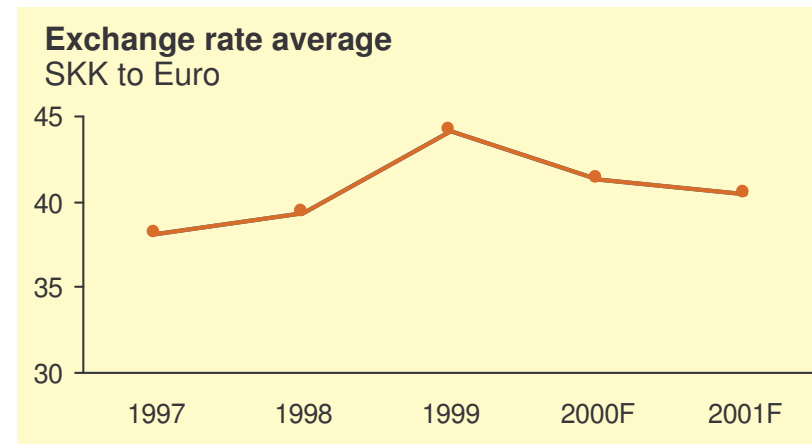
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## Positive trends in the Slovakian economy ...

- A new coalition government aims at integrating Slovakia into Western political and economic institutions as soon as possible
- Twin fiscal and current account deficits have been brought under control
- Public debt remains at modest 25% of GDP
- Accelerating privatisation will address the acute need for restructuring
- Recognising the government's early success, the rating outlooks were raised from negative to stable (BB+/Ba1)



Source: J.P. Morgan

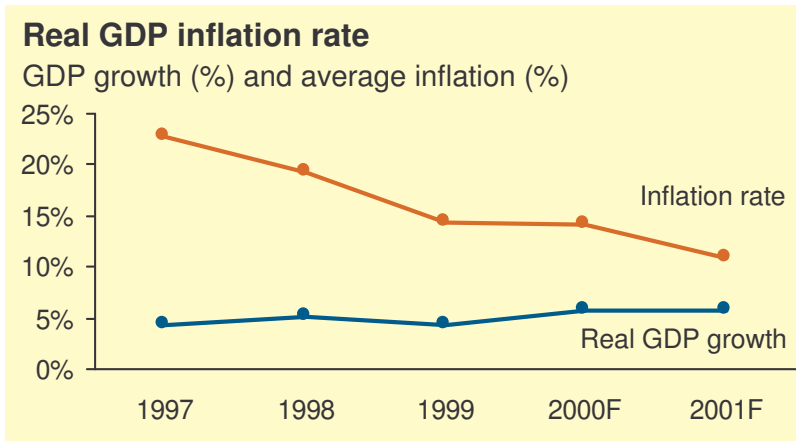


Source: J.P. Morgan

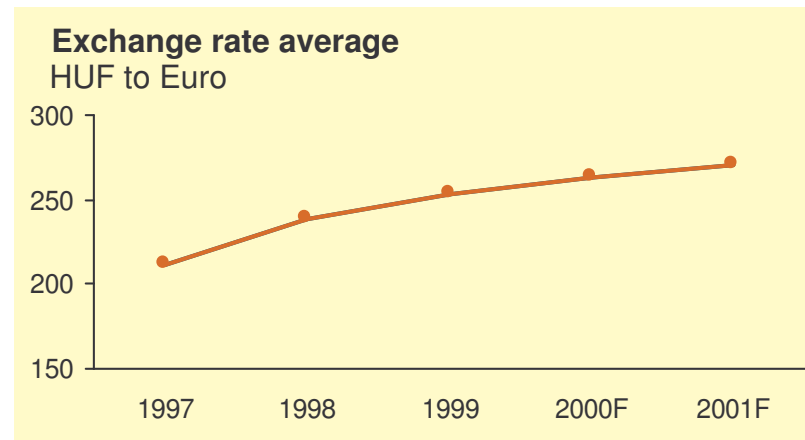
## ... as well as in Hungary

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- Highest economic growth in the region will continue due to boost from EU demand and drop in interest rates
- Currency under upward pressure (likely broadening of the exchange rate band)
- According to EU report, Hungary is the leading transformation economy
- Current ratings are BBB+/Baa1 with a positive outlook



Source: J.P. Morgan



Source: J.P. Morgan

## MOL and Slovnaft – key financials

US\$ mm

<b>MOL</b>			<b>Slovnaft</b>		
	<b>1998</b>	<b>1999</b>		<b>1998</b>	<b>1999</b>
Sales	2,958	3,158	Sales	1,031	1,043
EBITDA	528	576	EBITDA	163	129
D&A	(190)	(223)	D&A	(49)	(66)
EBIT	338	353	EBIT	114	63
Net financial expense	(39)	(104)	Net financial expense	(87)	(128)
Net income <sup>1</sup>	235	287	Net income	2	(60)
Total assets	2,835	2,949	Total assets	1,496	1,389
Net debt	661	654	Net debt	566	564
Number of employees	20,460	18,938	Number of employees	7,742	7,540

Note: International Accounting Standards for the group. 1999 audited results for Slovnaft. Exchange rates: 216.04 HUF/US\$ and 36.9 SKK/US\$ year-end 1998, 214.4 HUF/US\$ and 35.2 SKK/US\$ average 1998, 252.71 HUF/US\$ AND 41.6 SKK/US\$ year-end 1999, 237.3 HUF/US\$ and 41.4 SKK/US\$ average 1999

<sup>1</sup> Before special items