# MOL and INA:
# Partnership for the Future

*August 2003*

# Creation of the Central and Eastern European oil and gas market leader

- MOL's partnership with Slovakian Slovnaft set the basis and the track record for the strategic alliance with INA
- Historically the leading oil and gas company of former Yugoslavia, INA is ideally placed to retain this position in a market of more than 20 million people and 15 million tonnes of oil products
- INA is an attractive investment opportunity:
  - Valuable upstream portfolio
  - Best positioned refining assets in the former Yugoslavia with access to sea
  - Strong retail network boasting unique locations to exploit excellent regional growth potential
- The asset base and geographical connections generate significant value creation potential even at this level of ownership
- Major potential in efficiency improvement and skill transfer
- The transaction provides MOL with significant management participation and influence on decision making processes

# Agenda

- **Strategic Fit**
- INA as an investment opportunity
- Transaction overview
- MOL / INA partnership

# MOL's strategy

## Leading

- Group financials among the best of the sector
- Outstanding operational efficiency, competitive asset base

## Regional

- Utilization of geographical strategic advantages and acquired skills
- Commercial radius considering specific businesses
- Combination of organic and inorganic growth

**Established position among European Oil Companies**

**PREMIUM VALUATION**

## Integrated

- Balanced portfolio based on regional growth
- Maximise utilization of synergies within Group
- Increasing upstream and retail coverage

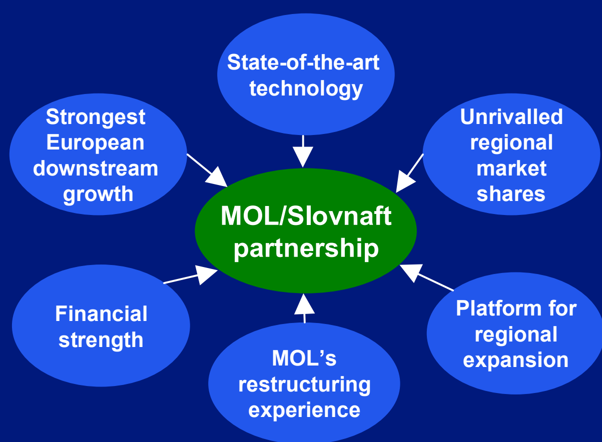
## Oil Company

- Value maximization along the value chain from Exploration to core petrochemicals
- Focus on core businesses, further capital withdrawal from non core assets

# MOL's unique track record with Slovnaft: first step in regional consolidation

## Transaction details

- 36.2% strategic stake acquired for US$262 mm in 2000
- Further 31.6% stake acquired for US$360 mm on 23 Nov. 2002 via cash and share swap
- Slovintegra-Slovbena became 10% shareholders of MOL




## Partnership at work

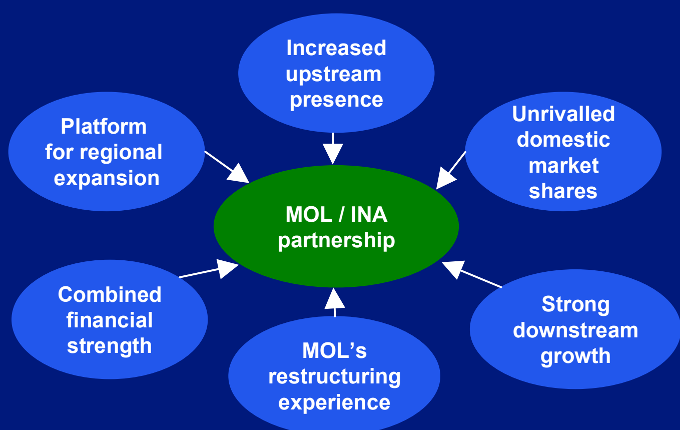
- Achieved operating synergies:
  - US$45 mm synergy and cost improvements by the end of 2002
  - Additional US$50 mm synergies to be realised until 2005
- Common marketing with a fully co-ordinated brand strategy
- Two years of partnership justified the pertinence of decision
- Currently shared management, MOL's shareholding reflected in the Board

Source: company data

# Alliance with INA: the second step to deliver MOL's strategic vision

## INA transaction

- Valuable asset base needs to be modernised
- Significant market share in the dynamic neighbouring markets
- Strong platform for further expansion in the high growth South-east European region




## Leadership through critical mass and regional expansion

- CEE industry market leader:
  - Hydrocarbon production of 160,000 boe/ day
  - Annual refining capacity of over 20 mm tons
  - More than 1,200 retail sites in nine countries
- Good geographical connections
- Efficient access to the Mediterranean Sea through the Rijeka facility
- Other large privatisations in the former Yugoslavia less suited as a platform for expansion

# Strategic objectives of each business segments supported by MOL-INA partnership

| | MOL's strategic objectives | Contribution of MOL-INA partnership |
|---|---|---|
| **Upstream** | ■ Focused growth in reserves and production<br>■ Aiming for higher US/DS integrity | ■ Increasing E&P contribution to capital employed and profitability<br>■ INA's international experience |
| **Downstream** | ■ Close integration with Slovnaft<br>■ Maintained quality advantage in the region<br>■ Increase captive markets regionally | ■ Modernisation and restructuring at INA's refineries, access to the sea<br>■ Increasing potential captive market<br>■ Develop and harmonise sales channels |
| **Retail** | ■ Focused organic growth<br>■ Maintain domestic position<br>■ Network development in the region (RO, CZ, PL and SEE) | ■ Capturing the Southern region through INA: leading position in Croatia, foothold in Slovenia and BiH |
| **Gas** | ■ Risk sharing | ■ Synergy potential, no impact on MOL's strategic position in natural gas<br>■ Gas interconnection to secure gas supply and possible access to new markets |
| **Chemicals** | ■ Integration<br>■ Growth | ■ INA as a stable provider of naphtha for Group petrochemical business |

# Agenda

- Strategic Fit
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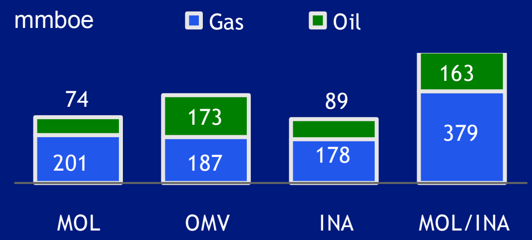
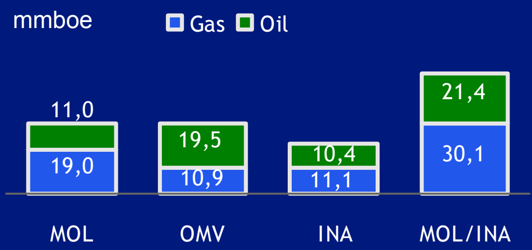
# Currently, INA has an attractive position in Croatia and in the region

## E&P

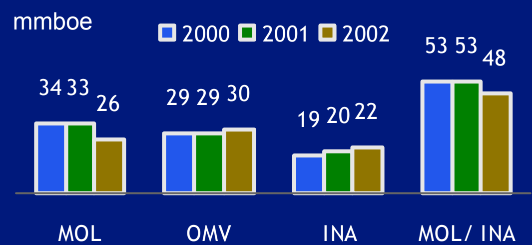
### Total reserves 2002




### Total production 2002

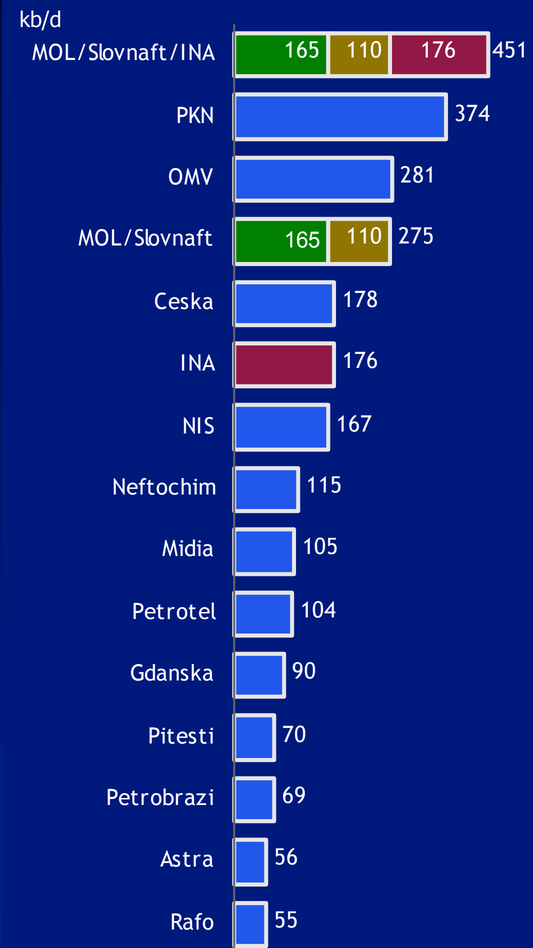



### Production trend



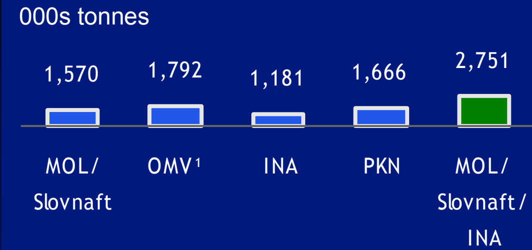

## Refining

### Sizeable refining capacity in CEE—2001

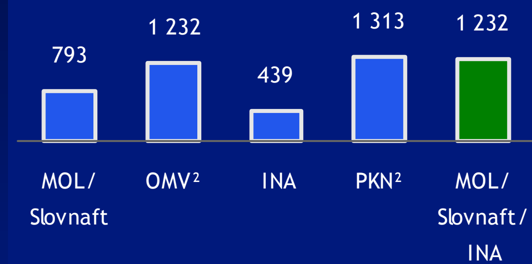



## Retail

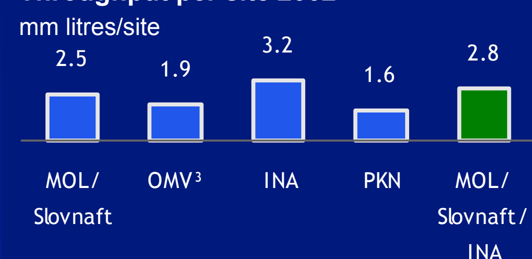
### Throughput 2002




### Number of sites 2002




### Throughput per site 2002




Source: OGJ, Company data
Note: liters are converted to tonnes at 1,275 liters per tonne.
[1] Assuming average throughput of 1.9mm l/site
[2] Include 146 sites in Italy and Germany and 517 in Austria for OMV and 494 sites in Germany for PKN
[3] Austrian throughput

# Vertically-integrated company structure

**INA has completed an internal corporate and balance sheet restructuring**

Main activities of INA mother company, supported by functional units (1,836 employees)

### Oil and Gas exploration&production, gas trading

- Domestic and international (Angola, Albania, Egypt, Syria) activities
- Gas storage facility (500 mcm)
- 1P+2P reserves of 267 mboe as of Dec 2002; production as 2002YE: 60 kboe/d
- Projected Capex for 2003-2007 amounts to US$ 1.0bn
- 2,426 employees

### Refining&Marketing

- Refineries in Rijeka (4.5 mtpa) and Sisak (4.0 mtpa) and lubricant plants in Rijeka (Mlaka) and Zagreb
- Refinery production 4.8 mt in 2002
- 439 retail outlets in the region (CRO-397, BiH-36, SLO-6)
- Retail & wholesale (excluding 6 largest customers) sales 2.2 mt in 2002
- Projected Capex for 2003-2007 amounts to US$ 500 mm
- 6,638 employees

INA INDUSTRIJA NAFTE d.d.

Main subsidiaries of INA, Total 4,796 employees of INA subsidiaries

| Crosco (100%) | Proplin (100%) | STSI (100%) | InterINA (100%) | JANAF (16.7%) |
|---|---|---|---|---|
| International integrated oil services company | Wholesale and retail LPG businesses of INA | Internal maintenance services company | Two main overseas trading companies: InterINA London and InterINA Guernsey | Croatia's national pipeline company |

# Sizeable E&P portfolio: robust, but focused upstream growth

**Currently concentrated on Croatia, but significant potential abroad**

- Robust base in the onshore Croatian fields
- Adriatic gas fields to be developed in a JV with Agip or Edison Gas
- Currently international upstream presence in Syria, Egypt, Angola and Albania


**Croatia**
Production
21,5 mboe (44 % oil&cond, 56 % gas)
Reserve 1P+2P 258 mboe (39% oil&cond, 61% gas)
Adria offshore fields in a JV with Agip

**Albania**
Exploration only

**Syria**
Promising prospects confirmed, still under appraisal but 3D seismic completed

**Egypt**

| | |
|---|---|
| Production (oil) | 0.5 mboe |
| Reserves 1P+2P | 4.5 mboe |

**Angola**

| | |
|---|---|
| Production | 1.2 mboe |
| Reserves 1P+2P | 4.5 mboe |

Upstream e&p (2002)
Upstream exploration

Note: Reserves as 2002; based on 2002 Altinex report excluding White Nights

# Gas supply and trading: moving forward towards a liberalised market

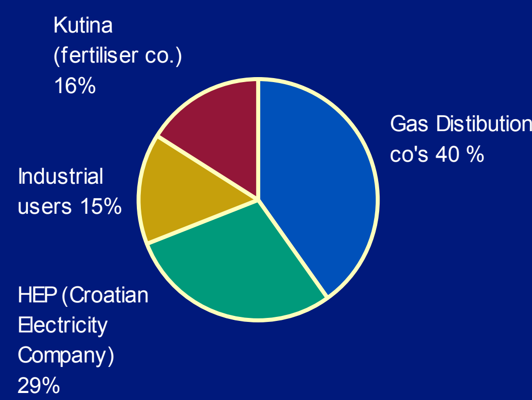
## Recent situation

- INA has a sole supplier license in the Croatian gas market
- Gas prices are regulated however there is a trend which clearly indicates the liberalisation of the energy market
- Strong growth of historical and future Croatian gas demand with INA's gas sale expected to rise 3.5 bcm gas in 2006 from 2.7 bcm in 2002
- Currently 60% of Croatian gas demand covered by INA's domestic onshore and offshore production and the remaining imported from Russia (Gazprom)

## The gas pricing system

- The new average gas sale price for gas distribution companies and for small direct industrial consumers increased by 11.1% up to 1 Kn/m3
- Companies that consume more than 100 mm $m^3$ are free to negotiate the price of gas
- The new transport price, which is payable to the Croatian transmission company-Plinacro, has a fixed part and a variable components

**Gas sales by consumer**



# Refining: best positioned assets in the former Yugoslavian market

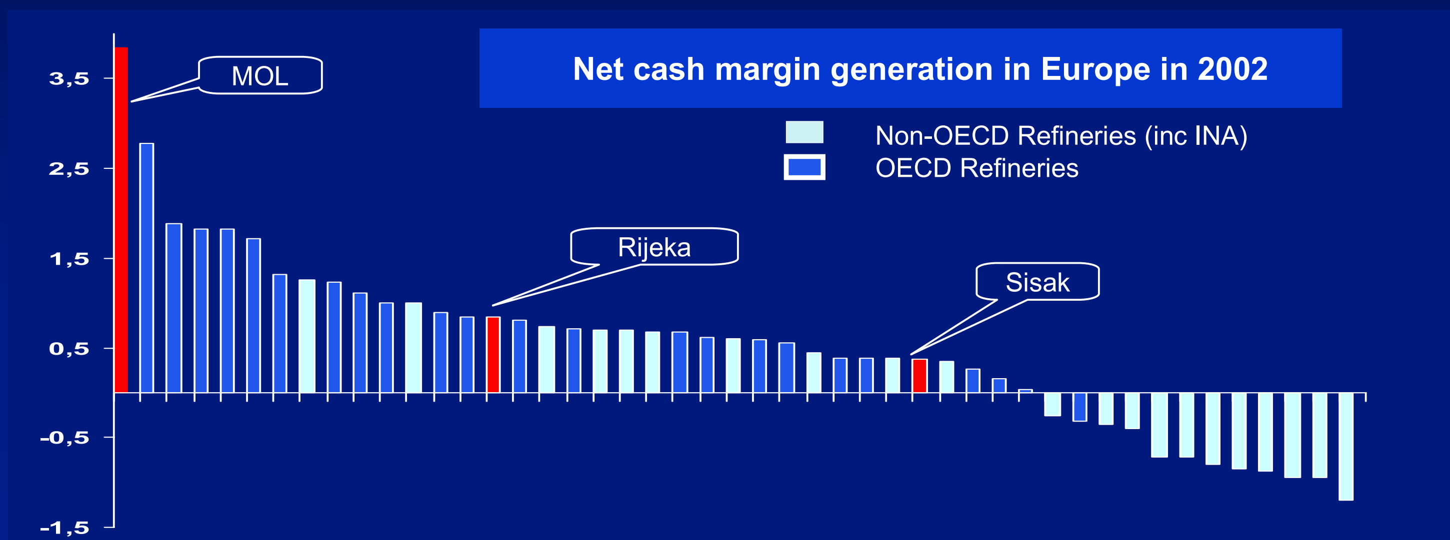
## Competitive position among Mediterranean refineries

**Rijeka**:

- Coastal refinery
- Well positioned in the Mediterranean
- Modernisation investment has already started, to be completed by 2006

**Sisak:**

- Niche refinery, but compares well to its southern peers.
- Various development scenarios exist, according to INA's plans modernisation project will start in 2008



# Sales & marketing: strong position and basis for further growth in the SEE markets

## Strong marketing position in the former YU markets

- **Commercial sales**: harmonised sales channels, wider product slate through product swaps
- **Retail:** unique real estate portfolio and leading/significant market positions

## Network's characteristics

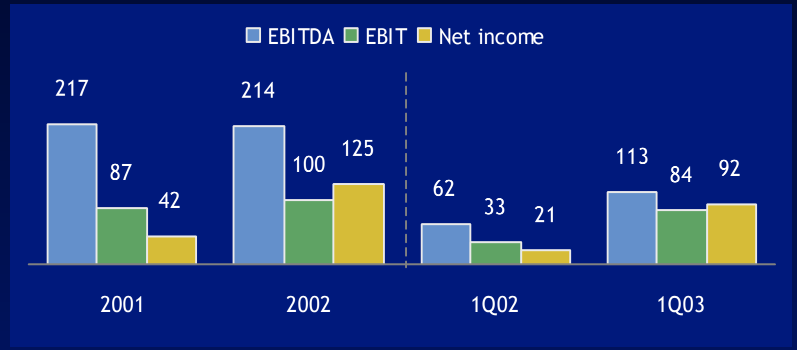
- Average throughput per station – 3,3 mm l
- Average of the top 100 station – 6,6 mm l
- Huge potential in non-fuel sales
- Reconstruction program has already started, but should be accelerated in the near future

# Continuously improving profitability resulted in strong financial performance in 2002 and 1Q03

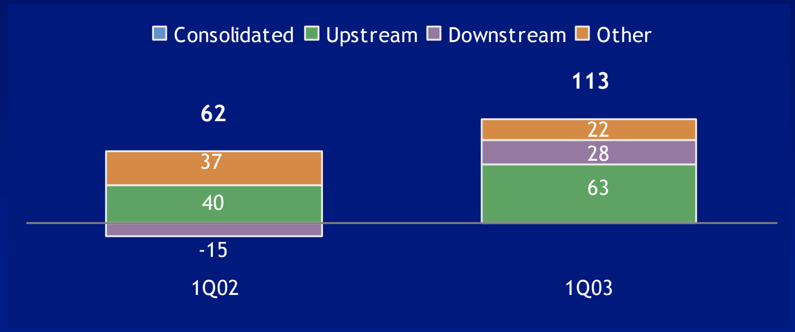
## INA's recovery since 1999 due to internal efforts and external factors

- Balance sheet and company's restructuring in 1999-2000
- Numerous positive movements toward a market-oriented regulatory environment provided the basis for profitable operation (e.g. first steps in gas market liberalisation)
- Increasing exposure to intensifying competition in the domestic downstream market
- Stable profitable performance of the upstream operation
- Improving  macro economic and industrial conditions: strong oil price, FX movements, volatile refining margins
- Stable liquidity position: sound balance sheet and net debt position

## Strong financial performance in 1Q (US$mm)




## Improving profitability of downstream segment




Note: 2001 results include Plinacro and White Nights contribution
Exchange rates HRK (avg):USD 7.86 (2002),  8.51 (1Q02) and 7.08 (1Q03)
Exchange rates (spot) HRK:USD8.50 (1Q02), 7.40 (2Q02), 7.31 (3Q02), 7.17 (2002YE), 7.12 (1Q03)

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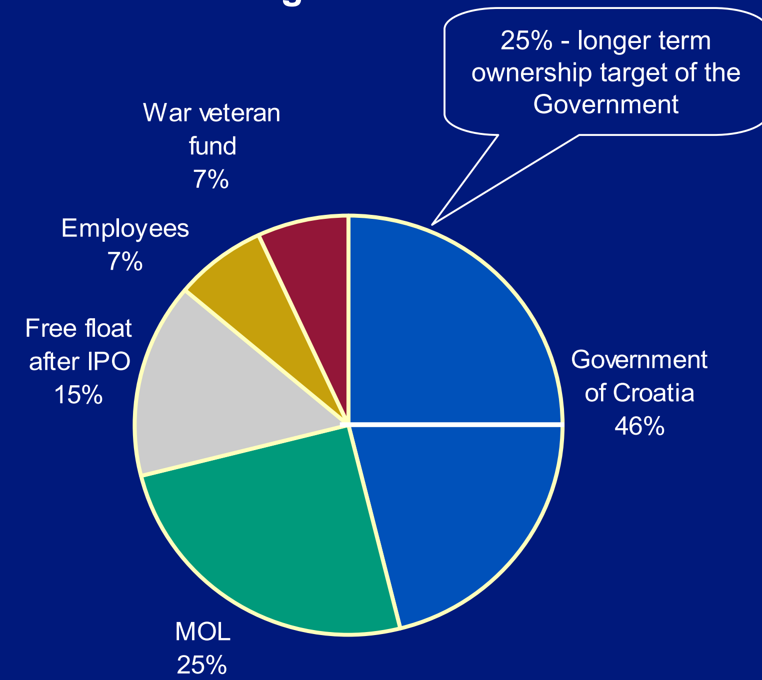
# Minority stake acquisition: ability to create a strong strategic partnership

## Transaction details

- MOL is acquiring 25 %+1 share strategic stake in INA for USD 505 mm
- MOL is open to evaluate a potential cross ownership structure with INA
- The Government of Croatia has intention to continue with the privatisation in accordance with the Law
- After regulatory approvals and fulfilment of other conditions precedent the completion is expected before the end of this year

## MOL is the best positioned to support and keen to continue INA privatisation

**Proposed ownership structure of INA according to the Law**



# MOL obtained significantly more rights than granted by the law

- **MOL has veto rights over certain key matters ("Reserved Matters"):**
  - Approval of Business Plan and Budget annually and any amendment thereto
  - Granting of security exceeding HRK80mm
  - Sale/acquisition of real property and other material assets (exceeding HRK80mm)
  - New share issues/listings in subsidiaries (new share issue in INA subject to 75% shareholder resolution by law) with value over HR80mm
  - Loans exceeding HRK80mm
  - Borrowing and obtaining credit over HRK200mm
  - Variation/termination of material contracts (i.e. those exceeding HRK20mm)
  - JVs involving material portion of downstream business
  - Changing of accounting policies, granting of "prokura" power of attorney
  - Cessation of any core business activities or substantial business reorganisation
  - Amending Rules of Procedure of the Management and Supervisory Board
  - Dividend after 3 years period

- **Enhanced protection**:
  - Conserving MOL's position as strategic investor: opportunity to buy additional 10 % from the Government in case a third party gets the Government's consent to acquire a 10%+ stake in INA
  - Tag-along right: Government undertakes that in case of a sale of shares to a third party which would result in accumulating a minimum 25% stake, MOL is granted tag-along rights

# Corporate governance rights in line with undertakings and size & nature of the investment

- **MOL's undertakings**
  – Strengthen INA's business in Croatia and neighbouring countries
  – No material disposals of business including shut-down of either refinery
  – Maintain and develop each of the refineries in accordance with the Business Plan
  – No dividends for three years
  – No forced employee dismissals in three years, voluntary reductions possible
  – Support the INA's IPO
  – No transfer or encumbrances of shares for 5 years

- **Corporate governance**
  – 2 positions in Supervisory Board (out of 7)
  – 2 positions in Management Board (out of 7) incl. CFO position

# The acquisition is in line with MOL's strategic and financial targets

## Value to price considerations

- Partnership with INA would provide access to valuable markets and fit well with MOL's corporate strategy
- Unique opportunity to establish a strong foothold in the SEE region
- MOL has demonstrated superior ability to increase value and efficiencies and integrate operations in case of minority ownership of Slovnaft
- Potential areas of further value:
  - Exploration prospects
  - Efficiency improvement/cost reduction at refineries post-upgrade

## Impact of INA acquisition on MOL key financial targets

- Not jeopardizing MOL's ROACE[1] target of 17 %
- MOL's projected organic CAPEX partly replaced by INA acquisition both in the Upstream and in the Downstream segments
- The INA acquisition will slightly increase MOL's gearing in 2004, but declining thereafter below the target line
- The transaction will have an accretive impact from the date of consolidation

•[1]ROACE = EBIT/ Average Capital Employed

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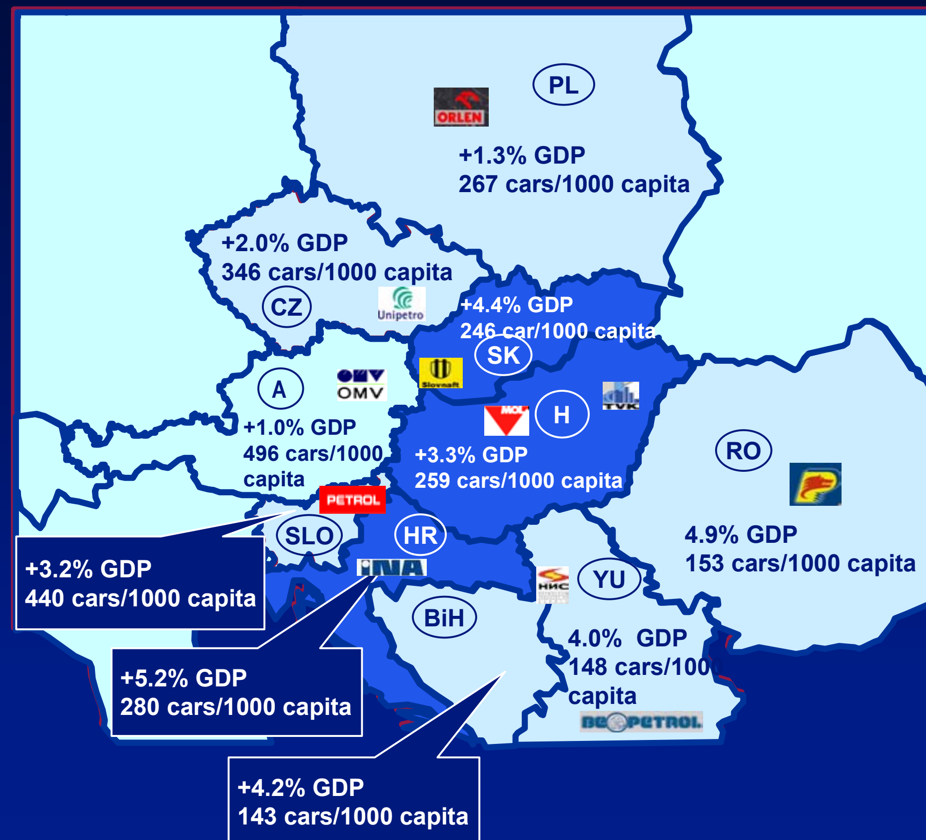
# MOL and INA together – critical mass to maintain regional leadership

## MOL and INA together

- CEE industry market leader:
  - Total combined hydrocarbon production of 160,000 boe/ day
  - Combined annual refining capacity of over 20 mm tons
  - More than 1,200 retail sites in nine countries
- Good geographical connections
  - Rijeka-Budapest road and rail corridor
  - Explore alternative infrastructure projects
- Efficient access to the Mediterranean Sea through Rijeka facility

## Creation of the Baltic-Adriatic Corridor



# Upstream - strong base for efficient joint pursuit of new projects

**Complementary upstream operation of INA and MOL**

- Opportunity to jointly pursue domestic and Transdanubian E&P projects
- Leverage off MOL's strong relations in Russia
- Pooling of INA's traditionally good positions in the developing countries
- Creating critical mass in regional E&P expansion effort

**Leveraging of MOL's 50 year experience in the gas business**

- Review possible gas storage and transit co-operation
- Share experience in the successful development of Hungarian gas retail network (80% gas penetration)
- Jointly address challenges in the opening of the gas markets

# Refining & Marketing: benefits of large and modernised combined refining network

## Benefits of combined refining network of MOL-Slovnaft-INA

- Increasing purchasing power, joint product trading platform
- Platform for refining and marketing expansion in Mediterranean markets
- Transferring know-how in supply chain management
- Harmonised investment program
- Combination of sales channels to third markets

## Joint retail network development

- Stabilisation of the wholesale market position
- Modernisation and further development of INA's domestic retail network combined with MOL's experience in modernisation and rationalisation
- Harmonisation of MOL's and INA's marketing efforts in the regional retail markets
- Implementation of new efficient retail operation methods
- Utilise MOL's experience to increase non-fuel sales

# MOL and INA – key financials

**US$ mm**

**MOL**

| | 2002 | 2001 |
|---|---|---|
| Sales | 4,495 | 4,101 |
| EBITDA | 499 | 252 |
| D&A | (278) | (263) |
| EBIT | 222 | (11) |
| Net fin. profit/ (loss) | 7 | (17) |
| Net income | 253 | 4 |
| Shareholders' equity | 1,800 | 1,316 |
| Net debt | 929 | 1,013 |
| Number of employees | 12,864 | 16,438 |

**INA**

| | 2002 | 2001 |
|---|---|---|
| Sales | 1,796 | 1,919 |
| EBITDA | 214 | 217 |
| D&A | (114) | (130) |
| EBIT | 100 | 87 |
| Net fin. profit/ (loss) | 27 | (44) |
| Net income | 125 | 43 |
| Shareholders' equity | 1,122 | 868 |
| Net debt | 195 | 318 |
| Number of employees | 15,699 | 17,323 |

Note: International Financial Reporting Standards for the group. Exchange rates: 279.0 HUF/US$ and 8.25 HRK/US$ year-end 2001, 286.5 HUF/US$ and 8.48 HRK/US$ average 2001, 225.2 HUF/US$ and 7.17 HRK/US$ year-end 2002, 258.0 HUF/US$ and 7.86 HRK/US$ average 2002