



## **Disposal of SPOLANA, a.s.**

*Francois Vleugels – CEO, UNIPETROL, a.s.*

*Dariusz Marzec – CIO, UNIPETROL, a.s.*

October 2006



**Unipetrol**

# Agenda

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- **UNIPETROL portfolio strategy** – Francois Vleugels
- Asset portfolio restructuring – Francois Vleugels
- Disposal of SPOLANA, a.s. – Dariusz Marzec



## Asset portfolio strategy

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**UNIPETROL strategy focuses on core businesses to maximize the value of its assets in the interest of the shareholders**

- **The processing of crude oil - primary segment to be kept and successively expanded**
- **Restructuring of retail assets with potential acquisitions of other networks - a way to achieve higher profitability and scale in fuel marketing**
- **Keeping control over its petrochemical business**
- **Heavy distillates processing business is being restructured aiming at financial recovery and increase in profitability**
- **Adding value in PVC, caprolactam and styrene businesses as well as elastomers and monomers segments via commercial and capital cooperation or strategic investor engagement**
- **Specialty chemicals, plastics and agricultural products are for potential disposal to a strategic partner**



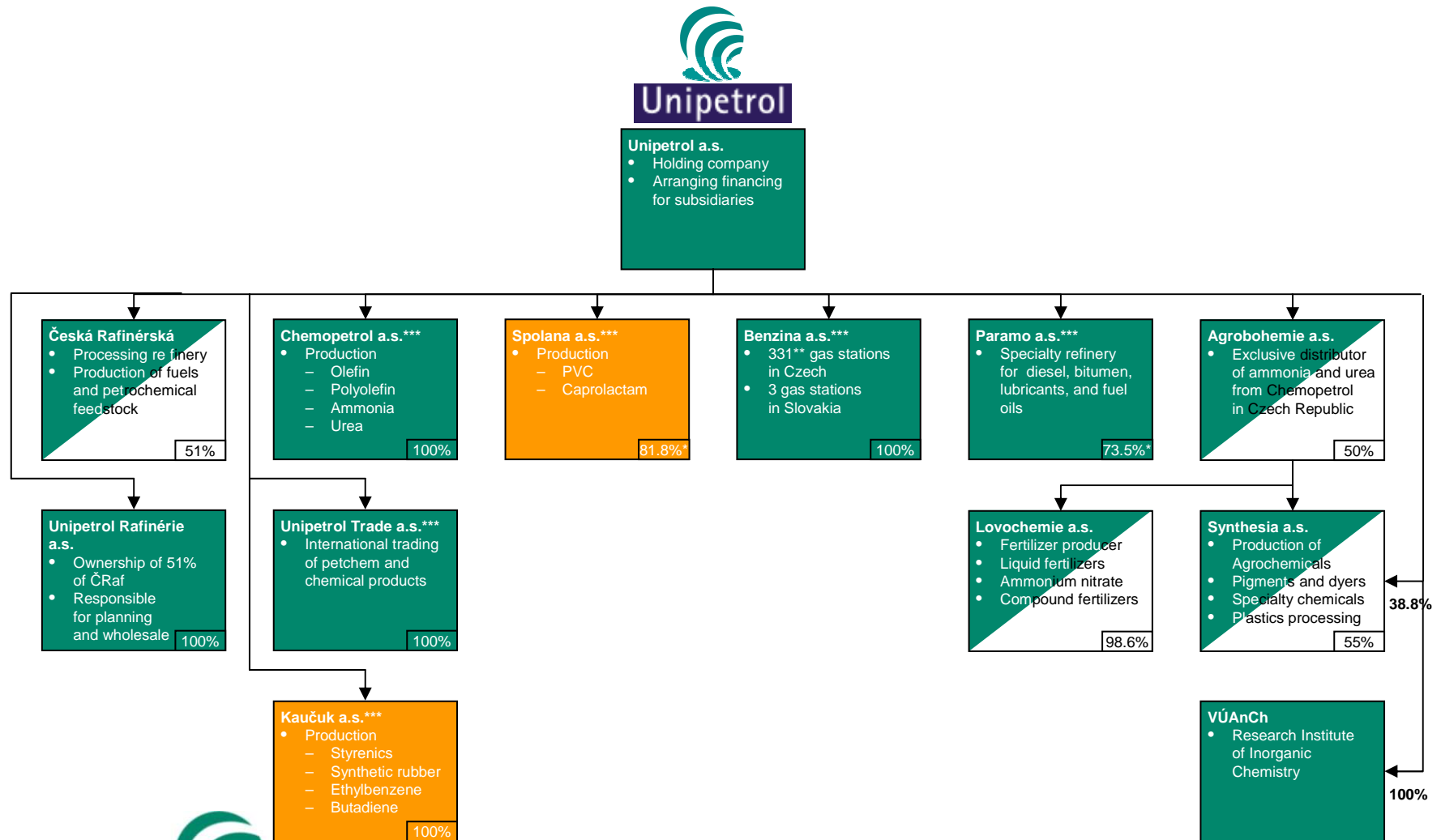
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- Update of UNIPETROL portfolio strategy – Francois Vleugels
- **Asset portfolio restructuring** – Francois Vleugels
- Disposal of SPOLANA, a.s. – Dariusz Marzec



# UNIPETROL simplified holding structure



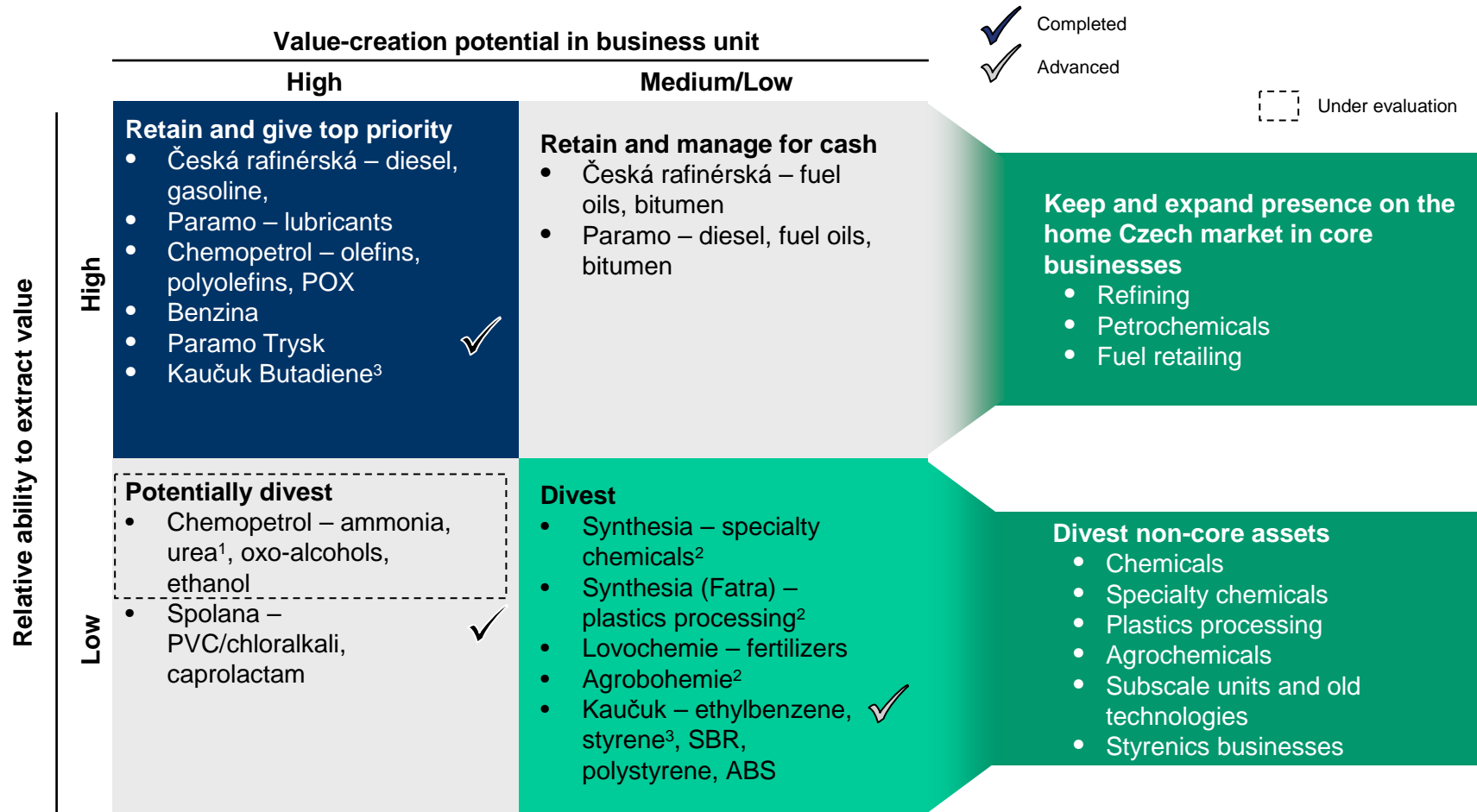
\* Additional 13.4% share in Spolana and 3.7% of Paramo is owned by PKN ORLEN

\*\* Includes 18 stations taken over from Paramo Trysk

\*\*\* Companies that have own subsidiaries. Part of those is in the process of restructuring

Note: Diagram refers to current ownership structure of Unipetrol, which may be subject to changes as a result of potential divestments

# UNIPETROL strategy focuses on core businesses and economic cooperation with PKN ORLEN to maximize the value for shareholders



<sup>1</sup> Divestment might be possible only as a long-term option, after commercial obligations expire

<sup>2</sup> These assets are subject of legal proceedings as a result of "Future share purchase agreements" between UNIPETROL and DEZA from October 2000 and August 2001 and until their legal status is defined, cannot be disposed

<sup>3</sup> Butadiene extraction is strategic for petrochemical and refinery business and thus is to be carefully secured after the company disposal

Note: This strategy has been presented on the UNIPETROL shareholders meeting

## Asset portfolio restructuring – principles

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- **Compliance with UNIPETROL's strategy and best interest**
- **Transparency of divestment projects by compliance with the best standards and practices**
- **Securing interest of shareholders by strict supervision by Supervisory Board and its respective Committees**
- **Value maximization for the company and its shareholders**
- **Optimization and security of further commercial relationships of disposed assets with the rest of the companies of the UNIPETROL Group**
- **Further development of the disposed companies (reliable and strong investors)**



## Asset portfolio restructuring – approach (1/2)

### PROCEDURES

- Broad spectrum of investors approached about interest in the disposal process (via public announcement or direct contact)
- Measures assuring for maximum objectivity of the bidder selecting procedure – evaluation criteria established in cooperation with external advisors
- Securing and optimization of further relationship with the rest of UNIPETROL Group
- Extraordinary focus on value aspects – application of three-stage evaluation process
- For each of divestment processes transactional procedures reviewed and evaluated by independent reputable firm

### EXECUTION

- Projects closely managed by UNIPETROL's Board of Directors
- Experienced team of corporate finance, M&A experts from UNIPETROL's investment department dedicated to managing and executing the process
- Assistance of reputable external advisors in case of key largest divestment projects:
  - Leading financial advisor
  - Legal advisor
- Involvement of independent external experts to reconfirm fairness of the transaction





## Asset portfolio restructuring – approach (2/2)

### SUPERVISION

- Regular monitoring of divestment processes by Supervisory Board and its dedicated “Development and Strategy Committee”
- The purchase price challenged and confirmed by a fairness opinion of a reputable independent firm
- Company’s value reconfirmed by an independent court expert
- The transactional proceedings and procedures applied within a disposal process evaluated by independent reputable firm in a fairness opinion confirming that the transaction was conducted and performed up to the market standards and practices

### COMMUNICATION

- Main strategic objectives and key targets within long-term activity plan in UNIPETROL presented at the Shareholders General Meeting of UNIPETROL in April 2006
- UNIPETROL’s strategy and asset portfolio structuring communicated to investors and the market on regular basis (e.g. Equity Story in October 2005, PKN ORLEN and UNIPETROL – Partnership for Central Europe – Investors Day in June 2006)
- Compliance with Securities Law in respect of announcing of sensitive information
- Presentation of the key divestment processes to investors and equity analysts
- Press conference on a transaction (together with the selected investor)



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## Disposal of SPOLANA, a.s. – business of the company

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### Spolana business:

- Spolana is a chemical company, based in Neratovice, Czech Republic, owned by UNIPETROL (81.78%), PKN ORLEN (13.4%) and minority owners (4.82%)
- Spolana consists of two major business units – PVC and caprolactam
- Spolana PVC production levels at ca. 135kt/y out of which 80% is exported
- With caprolactam capacity of around 40kt/y Spolana is considered to be a small producer compared to competitors
- Spolana incurred some financial losses in previous years and financed its operations through debt capital to a significant extent
- The production technology of Spolana suffers from underinvestment in last years and large capital expenditures will be required in the near future to reproduce the technology and comply with environmental regulations



## Disposal of SPOLANA, a.s. – business of the company

### Spolana financials:

- Profit & Loss highlights:

CZK 000'	1 H 2006 IFRS	1 H 2005 IFRS
sales	2,983,881	2,995,526
operating profit	185,427	219,839
net income	138,082	162,425

- Balance sheet highlights:

CZK 000'	1 H 2006 IFRS	Y 2005 IFRS
total assets	3,960,301	3,870,302
shareholders capital	885,229	885,229
long-term liabilities	181,398	181,398
short-term portion of long-term liabilities	1,042,628	1,042,628
short-term borrowing	746,626	777,882



# Disposal of SPOLANA, a.s. – transaction rationale

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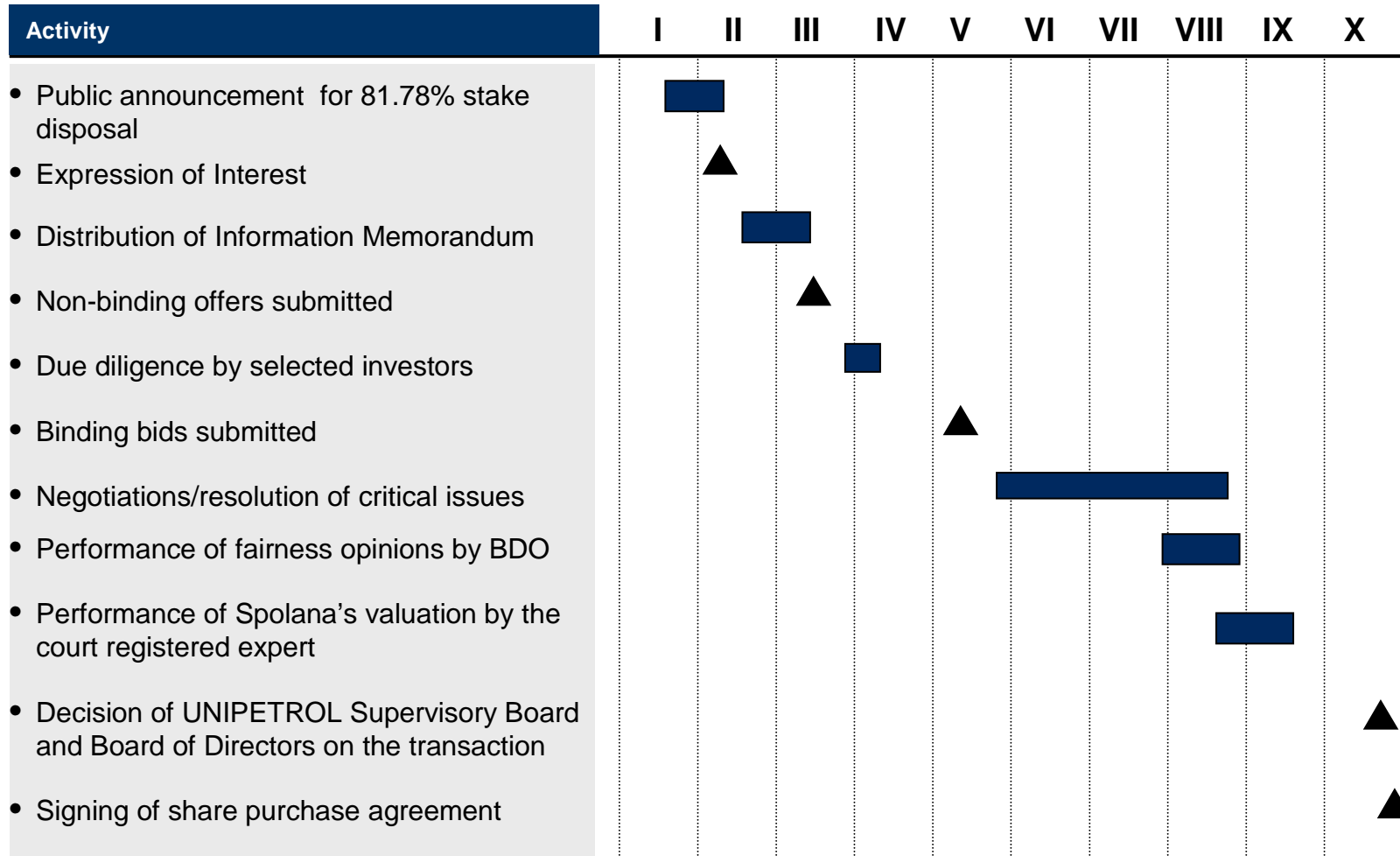
## Rationale for the transaction:

- From UNIPETROL core business point of view Spolana represents a second tier business compared to refining, petrochemicals and fuel retailing
- The operation of Spolana on a stand alone basis at current scale of PVC and caprolactam production does not optimize the value of the company and UNIPETROL's interest consequently
- **Thus, the strategic investor to Spolana should maximize the value of the company's shares and minimize the technical and financial risks of its operations. Anwil is among these investors who are able and willing to add value to Spolana and bring its expertise and professional experience to the company**
- **Anwil turned out to be the investor who was most able to, as compared to other interested bidders, due to geographic, market and capital conditions, to share with UNIPETROL the synergies Anwil is going to harvest jointly with Spolana. The proceeds obtained for Spolana shares shall be invested in core-business development as well as debt restructuring of UNIPETROL Group**



# Disposal of SPOLANA, a.s. - timetable

Spolana



## Disposal of SPOLANA, a.s. – the process

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- On 23 January 2006 the announcement in the Hospodarske noviny was made about UNIPETROL's intention to sell 81.78% shares in Spolana
- Ten investors expressed their interest in participation in the tender\*
- After entering into Non Disclosure Agreement all bidders were provided with Information Memorandum



\* Names are reserved by investors

## Disposal of SPOLANA, a.s. – the process

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- **Prior to the submission of the bids the following criteria for non-binding offers evaluation were established in cooperation with advisors in the process, Deloitte and Weil Gotshal & Manges:**
  - financial parameters of the offers
  - proposed development program (including intent towards PVC production, environmental requirements fulfillment, intended CAPEX)
  - proposed approach towards financial restructuring
  - bidders' credibility
  - formal requirements (set in the Process Letter provided to bidders)
- **On 13 March 2006 as the deadline set for provision of non-binding bids three offers were submitted by industrial investors**





## Disposal of SPOLANA, a.s. – the process

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- **The offers submitted at that stage were of indicative kind and as such subject to due diligence findings**
- **Two investors were allowed for the due diligence which took place at Spolana premises on 27-31 March and 6 April**
- **On 6 April one of the investors withdrew from the Tender justifying its decision with risks identified during the due diligence process**
- **On 15 May UNIPETROL received the binding offer from Anwil**
- **On 26 May UNIPETROL decided to commence the negotiations with Anwil. The key points addressed in the negotiation phase were:**
  - pre-closing covenants (incl. financial debt restructuring)
  - post-closing covenants (incl. further business operating of Spolana)
  - environmental issues



## Disposal of SPOLANA, a.s. – the process

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- **For the sake of process transparency the external reputable experts/advisory firms were appointed to:**
  - **BDO** – perform fairness opinion on Spolana transaction terms and conditions
  - **BDO** – perform fairness opinion on all proceedings taken within the disposal process
  - **Mr. Jiří Hlaváč** and **Mr. Ladislav Kollárik**, court experts (**Horwath TPA Notia Consulting**) – reconfirm market value of the company (at request of Unipetrol Supervisory Board)
- **All the proceedings within the Tender have been conducted and coordinated with support of the following external advisors:**
  - **Weil, Gotshal & Manges** – legal advisor
  - **Deloitte** – financial advisor
- **On 26 October UNIPETROL's Supervisory Board and Board of Directors approved the transaction**
- **Signing of the Share Purchase Agreement signing took place on 27 October**



## Disposal of SPOLANA, a.s. – transaction structure

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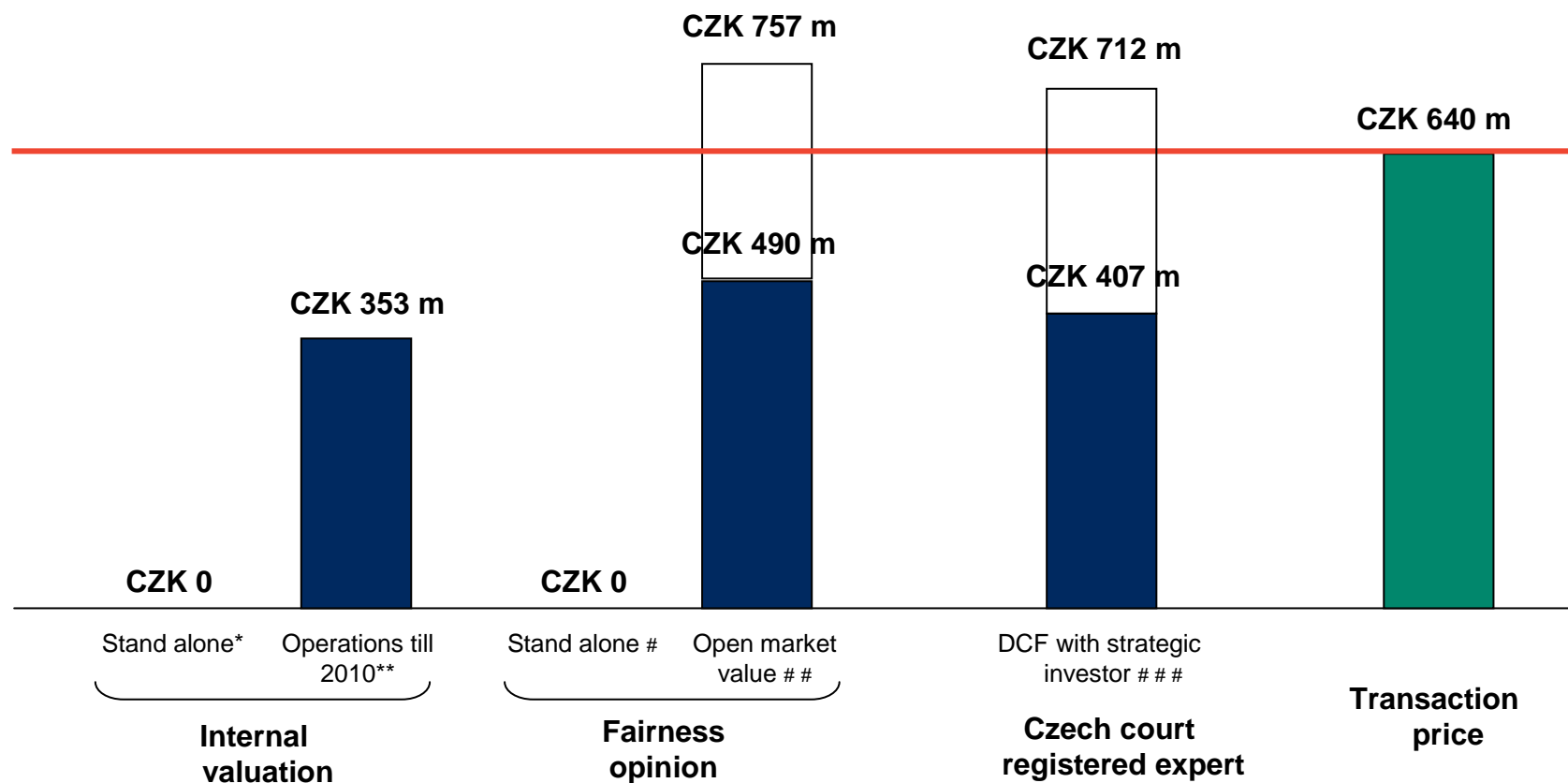
### The Transaction structure is as follows:

- The price for 81,78% shares disposed by UNIPETROL amounting to **CZK 640,382,956**
- Repayment of debt of **ca. CZK 660 m** to UNIPETROL, a.s. within three months from transaction Closing
- Continuation of long-term commercial relationships related to off-take of raw materials from Chemopetrol and Unipetrol Rafinerie
- Further business operating of Spolana as post-transactional obligation of the investor
- Division of risk related to (i) environmental guarantee by National Property Fund of the Czech Republic for Old Amalgam Electrolysis project (up to 40% of the purchase price provided that current environmental guarantee for Old Amalgam Electrolysis project is not sufficient for remediation of contamination and the whole procedural path in order to gather additional funds for the project by the investor and the company is unsuccessfully exploited), and (ii) other potential obstacles in Spolana's future operation (up to 1-3% of the purchase price)
- On non-consolidated basis the disposal of Spolana shares will result in net profit of ca. CZK 70 m for UNIPETROL. Taking into account the overall effect in consolidated financial statements the loss in the range of CZK 350 m will arise as a result of the transaction\*

\*P&L impact estimation based on 1H 2006 IFRS assuming that there are no material changes in Spolana equity till the change of control



# Disposal of SPOLANA, a.s. – value aspects (as for 81.78% equity)



\* Scenario under stand-alone going concern premise

\*\* Scenario assumes operations only till 2010 and then closing of PVC production (the liquidation costs of PVC could not be estimated due to lack of reliable data)

# Value on a stand-alone basis, with all Anwil synergies removed

## Price that in the opinion of BDO may be achieved in an on open-market sale, and which includes certain synergies with potential trade buyers

### According to Horwath TPA Notia Consulting strategic investor should reflect some synergies in price



## Disposal of SPOLANA, a.s.

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# THANK YOU FOR YOUR ATTENTION

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