



## **The rationale for an acquisition of Tupras**

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## Monitoring and assessing regional expansion opportunities in attractive markets is one of the three pillars of PKN ORLEN's strategy

### Strategic objectives

Consistent with PKN ORLEN core strategy

Significant value creation opportunity

### Transaction rationale

- Consistent with PKN ORLEN's paramount objective of shareholder value maximisation
  - Pure play refining business with a leading domestic position
  - Large and rapidly developing market, converging to EU levels
  - Benefits from sweet/sour differential
  - Represents a key step in positioning PKN ORLEN as a regional champion
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- Tupras represents an attractive asset with significant upside potential
  - Opportunity to leverage core PKN ORLEN expertise in improving Tupras performance
    - Best practice refinery management
    - Investment programme to increase complexity similar to PKN ORLEN mid-1990s experience
    - PKN ORLEN experience in managing transition from public to privately controlled company
  - The Zorlu Group brings significant knowledge of the local market and operating expertise in managing industrial assets in Turkey
  - Partnership approach reduces financial requirement, particularly with intention to utilise significant financing at the JV level (off-balance sheet for PKN ORLEN)
  - Platform for exploring other value creation opportunities in the region



## **PKN ORLEN has taken a rigorous approach in its participation in the Tupras privatisation process**

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- **PKN ORLEN has analysed the opportunity in significant detail, having performed a full due diligence programme regarding Tupras**
  - **Meetings with Tupras management**
  - **Detailed analysis of operating, financial, legal and environmental data**
  - **Visits to selected facilities**
- **Engaged a full team of advisors – leaders in each of their fields**
  - **JPMorgan - Financial advisor**
  - **McKinsey – Strategic consultants**
  - **Purvin & Gertz – Technical consultants**
  - **Environmental Resource Management – Environmental consultants**
  - **Allen & Overy and Paksoy – Legal (international and Turkish focus respectively)**
  - **Grant Thornton – Accounting and IT**
- **Management resources have been identified in Poland and the Czech Republic to support implementation of the business plan**
- **The Zorlu Group selected as the best partner after meeting with a broad range of local parties**



## Tupras and Turkey clearly meet the key criteria set for evaluating regional expansion opportunities in the announced strategy

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### Key criteria

- Focus on markets with high growth potential
- Focus on opportunities with potential to create shareholder value
- Target opportunities consistent with core PKN ORLEN focus

### Tupras / Turkey fit

- ✓ Turkey is amongst fastest growing markets in emerging Europe
- ✓ Convergence story with potential EU accession
- ✓ Significant upside in Tupras through improving performance
- ✓ Additional development opportunities available for Tupras
- ✓ Downstream oil company, with leverage to sweet-sour differential
- ✓ Position as the leading player in the domestic market

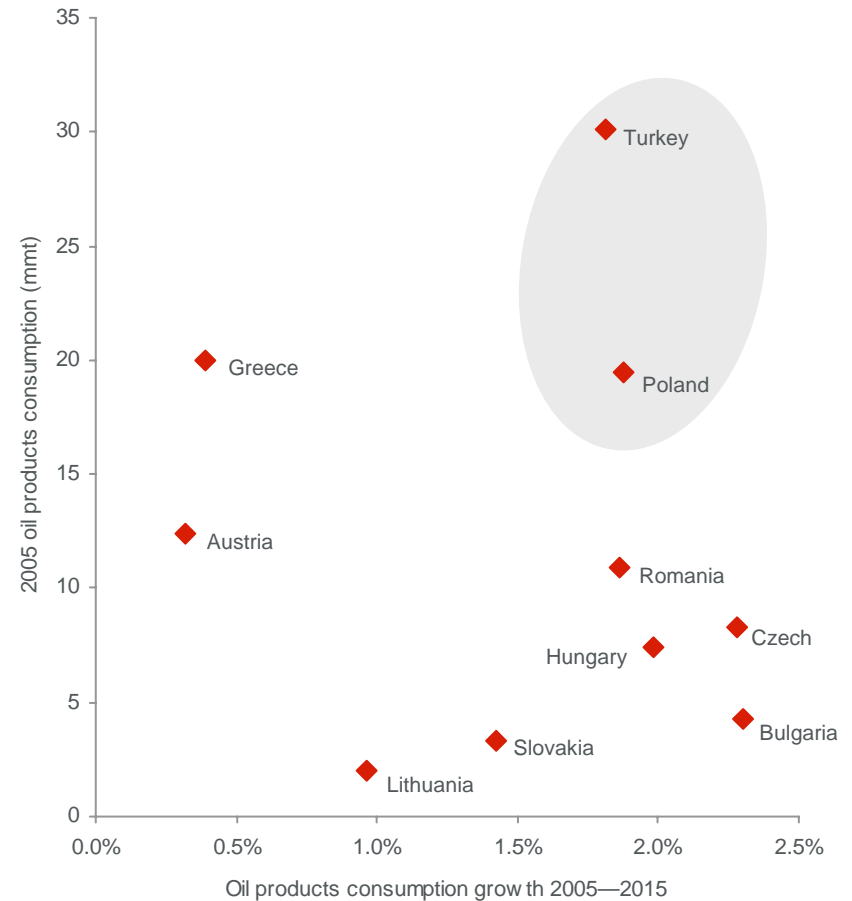


# The Turkish fuel market is highly attractive

## Market overview

- **Car ownership and refined product consumption per capita remain low, compared to the EU country average**
  - 70 cars per 1,000 people in Turkey
  - 360 cars per 1,000 people in EU (average)
- **Refined product consumption is expected to continue to grow rapidly**
  - Sustained economic growth
  - Continued expansion of the motorways
  - Demand shift from gasoline to diesel
- **Convergence with EU standards for fuel quality is a positive for Tupras**
  - Investment underway to produce lower-sulphur fuels
  - Ongoing effort by the government to reduce black market product sales

## CEE fuel markets comparison



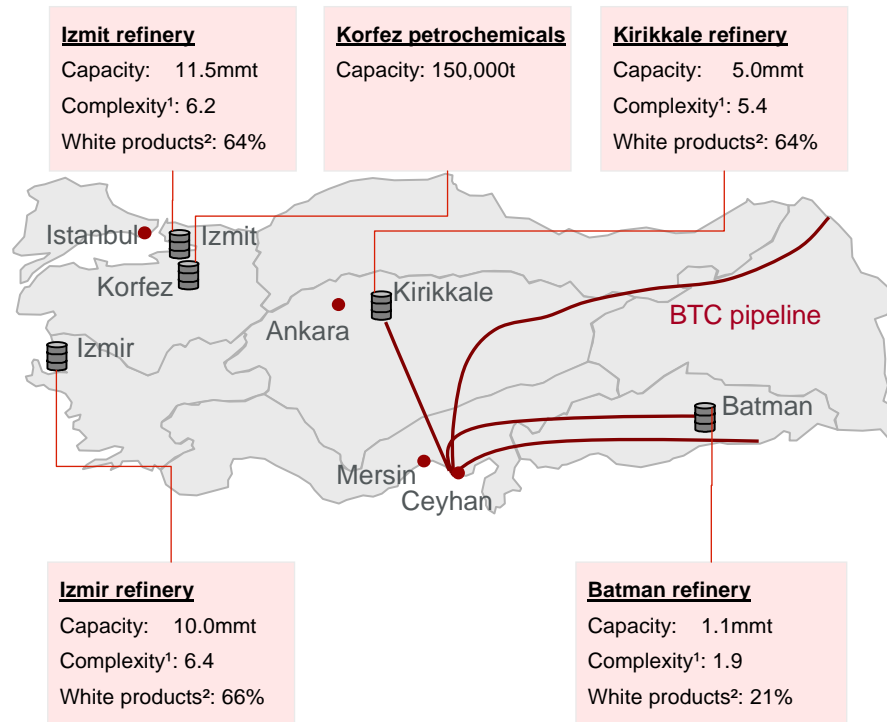
Source: Purvin & Gurtz



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# Tupras is the leading downstream oil company in Turkey

## Regional footprint



### Key 2004 financials

Revenues	\$8,038 mm
EBITDA	710 mm
EBIT	539 mm

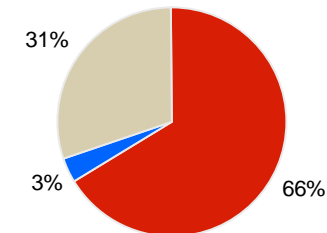
Source: Tupras

<sup>1</sup> Nelson complexity

<sup>2</sup> White products as percentage of crude processed; white products as percentage of total products are 67% for Izmit, 71% for Izmir, 70% for Kirikkale and 23% for Batman

## Turkish wholesale market (2004)

■ Tupras domestic production ■ Tupras imports ■ Other imports



Total = 29.6mmt

## SWOT analysis

### Strengths

- Leading domestic position
- Large / high growth market
- Sweet / sour differential

### Weaknesses

- Current inefficiency
- No retail activities

### Opportunities

- Complexity upgrade programme
- Significant efficiency improvements
- Retail expansion
- Crude supplies via BTC pipeline

### Threats

- Increased competition following import liberalisation



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# Tupras privatisation update

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- **In conjunction with its consortium partner the Zorlu Group, PKN ORLEN today submitted a bid for the Turkish State's remaining 51% interest in Tupras**
  - **PKN ORLEN and the Zorlu Group each have 50% share in the consortium**
  - **The Zorlu Group is one of the largest industrial, financial and technology groups in Turkey**
- **Other key process considerations**
  - **No ability to comment on bid price at this time**
  - **Process timing is dependant on the Turkish Privatisation Administration, but is expected to move rapidly forward in the coming weeks**
  - **Partners intend to utilise significant financing available at the JV level to reduce on-balance sheet financial requirements of the partners**
  - **Acquisition of the government's 51% stake in Tupras will not require a mandatory tender for the remaining public shares – official notification by the Capital Markets Board has been provided**
  - **Financial impact to be discussed at a later stage**



# Partnership with the Zorlu Group significantly strengthens PKN ORLEN's investment case

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## Partnership overview

- JV company would be formed to acquire and manage a 51% controlling stake in Tupras
  - Reduces the financial commitment for PKN ORLEN in the transaction
  - Adds a partner with significant expertise in Turkey with ability to share in management responsibility / requirements
- Each partner will have responsibility for issues within their core areas of expertise
- The Zorlu Group
  - Significant experience in management of Turkish industrial assets
  - Local expertise and know-how for the development of Tupras in the future
  - Winner of the previously cancelled privatisation process

## Zorlu Group highlights

- Amongst the largest and most industrially sophisticated Turkish family enterprises
  - Controls more than 40 companies with 16,000 employees
- Broad range of activities including finance, textiles, electronics, consumer durables, chemicals, energy and financial services
- Vestel Electronics
  - Leading electronics manufacturer in Europe
  - Market cap ~\$600mm
- Deniz Bank
  - Leading bank in Turkey
  - Market cap ~\$1,400mm
- The Zorlu Group is controlled by the Zorlu family





## Additional information on the Zorlu Group



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