

The background of the slide is a photograph of a grand, classical-style building with ornate architectural details, including a balcony with a white balustrade and a prominent golden decorative element on a brick corner. The image is split vertically, with the left side being a faded, blue-tinted version of the same scene, serving as a backdrop for the text.

# PKN Orlen / Unipetrol Domination

Damage Suffered by Unipetrol  
Shareholders Due to PKN Orlen  
Domination

August 2018

# Overview of damage suffered by Unipetrol

## Current situation

## Damage

### 1. Access to cash-flow

- PKN has been using the cash generated at Unipetrol at its full discretion and for its own purposes via the cash pool

- CZ/PL interbank differential of 120bps on average in 2017
- Loss of risk premium of at least 120bps
- Implied annual loss of CZK 150m

### 2. Inefficient capital structure

- Unipetrol's massive cash balance of CZK 8.1 billion per 31 December 17 and of CZK 8.7 billion on average in 2017
- No financing via working capital

- Excess capital of at least CZK 12.5bn (CZK 70 per share) can be returned to shareholders (CZK 6-7bn from cash balance and CZK 6bn from crude oil backed financing)
- Additional CZK 10-30bn (CZK 60-165 per share) can be obtained if financial debt of 1-2x EBITDA to the balance sheet

### 3. Artificially low historical capital distribution

- Irregular and low distribution compared to peers

- Excess capital should be returned to shareholders
- All shareholders should be treated fairly

### 4. No 2018 dividend

- Shocking decision to omit dividend from the record 2017 profit which is in sharp conflict with previous management's announcements and with the practice of other industry players including PKN Orlen (!)

- At very minimum a dividend of CZK 10 per share would have to be paid

# 1. PKN Group uses Unipetrol's cash to finance own projects below market rates

- In 2017, Unipetrol had on average CZK 5.75bn invested in the PKN group's cash pool system
- Unipetrol received only interbank interest rates estimated 50 bps for this de facto long-term loan to PKN Orlen
- With this cheap capital PKN Orlen can substitute for significantly more expensive third-party lending saving at least 240bps or c. CZK 140 million per year
  - The four year bond for instance pays 120bps margin over the 6M inter-bank rates
  - The effective duration of the cash pool lending activity of Unipetrol is even longer dated and should command a higher premium
  - On average, 2017 6M interbank rates in Poland were 123bps higher than rates in the Czech Republic

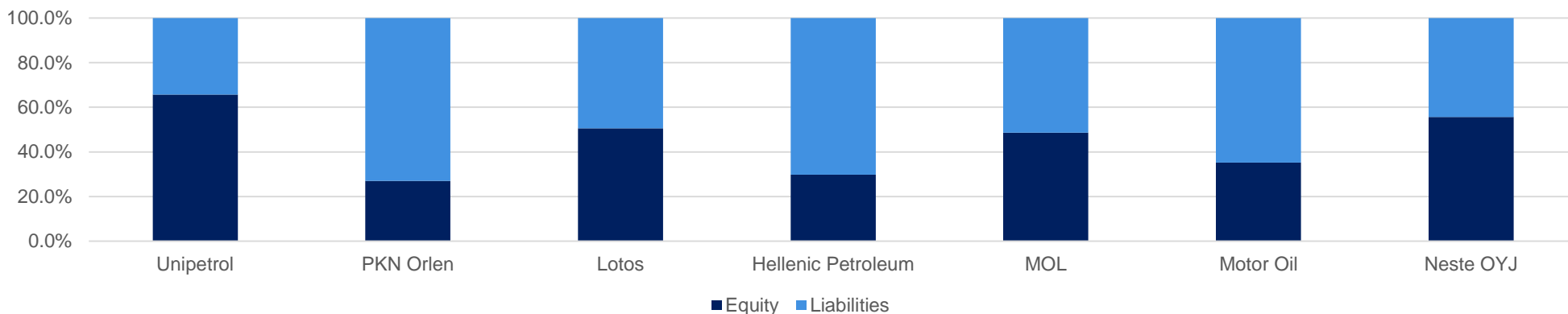
	Average local 6M interbank rate in 2017	Risk premium	Total
Unipetrol	0.48%	0.00%	0.48%
PKN Orlen	1.71%	1.20%	2.91%
<b>Difference</b>	<b>-1.23%</b>	<b>-1.20%</b>	<b>-2.43%</b>

PKN Orlen has been stealing some CZK 140 million or more per year from Unipetrol such damaging the value of the company

# To finance PKN Orlen Group, Unipetrol is forced to retain earnings and keep inflated capital & cash reserves

2.

The In-efficiency of Unipetrol's capital structure compared to peers is due to PKN Orlen forcing the company to subsidize PKN's weak balance sheet.....



...the decision to not pay a dividend in 2017 due to difficult industry outlook is simply based on lies and completely out of synchrony with peers

3.

Nr of years with dividend payment between 2009-2018

2017 dividend payment

4.

2016/2017 dividend trend

	Nr of years with dividend payment between 2009-2018	2017 dividend payment	2016/2017 dividend trend
Unipetrol	2	No	cut to zero
PKN Orlen	6	Yes	stable
Lotos	2	Yes	stable
Hellenic Petroleum	8	Yes	increase
MOL	7	Yes	increase
Motor Oil	10	Yes	increase
Neste OYJ	10	Yes	increase

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