



PKN ORLEN Retail Sales Development Plan for Poland 2005-2009

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2 March 2005



Strategic vision of the retail sales department

From PKN ORLEN...

***„Aiming to become the regional leader we ensure long-term value creation for our shareholders by offering our customers products and services of the highest quality.”
(...)***

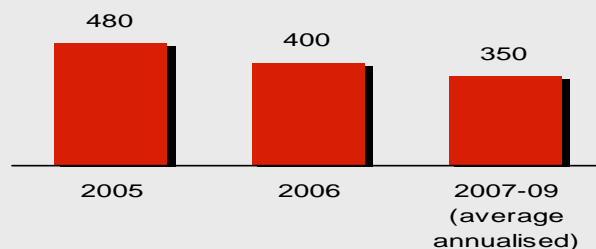
Strategic vision of the Retail Network

„Our ultimate goal is to be the regional leader in the retail segment and to achieve financial efficiency ensuring long-term growth of the company's value”

Restructuring and optimisation of the network by 2009 as well as potential acquisitions with a view to strengthening the Company's market position are important elements of PKN ORLEN's strategy

Key assumptions in PKN ORLEN's strategy with respect to the improvement of the investment effectiveness

Capital expenditure programme designed to develop an efficient retail network



- Need to increase capital expenditure on network optimisation and restructuring, including:
 - Network maintenance
 - Construction of new service stations, rebranding and upgrade
 - Implementation of new product strategies.

Restructuring and optimisation of the retail network by 2009

- Reversal of the current negative trend and achieving market share of at least 30%
- Further growth of the market share through mergers and acquisitions
- Increase of the non-fuel margin's share in total retail margin by 10 p.p.* through management of product categories, centralisation of purchases, and pricing control
- Reorganisation of the Retail Division
- Increase in the average annual throughput per station by 5% CAGR

*For the company-owned services stations [CODO]

Strengthening
market
position

Enhancing
operational
efficiency

Creating
efficient
organization

Strategic objectives and targets

Strategic objectives	Operating and financial objectives (2009 r.)	Area	Key initiatives
Strengthening market position	FLOTA programme's share in the sales volume of at least 20%	Offering for business customers	<ul style="list-style-type: none"> Intensification of sales to fleet customers Adjusting the offerings to match the needs of individual business segments
	Non-fuel margin's share in the total retail margin in the Premium segment ~30%	Offering for retail customers	<ul style="list-style-type: none"> Implementation of strategies for the Premium and Economy offerings Development of the non-fuel offering in the Premium standard Intensification of marketing of fuel and non-fuel products Expanding the range of fuels offered in the Premium standard
	Average throughput at company-owned stations >2.5m litres per year		
Enhancing operating efficiency	Sales volume ~4.9 bn litres	Management of distribution channels	<ul style="list-style-type: none"> Construction and modernisation of service stations in accordance with the segmentation applicable for the Premium and Economy offerings Gradual change in the structure of the network – increase in the number of franchised stations (DOFO) with the number of company-owned stations (CODO) maintained
	ROACE >17.5%	Financial efficiency	<ul style="list-style-type: none"> Improving the profitability of the company Review and development of rules governing cooperation with franchised stations (DOFO)
Creating efficient organisation	Efficient organization	Reorganization and restructuring of the retail network	<ul style="list-style-type: none"> Centralization of management areas and selected management Establishing an organizational unit responsible for managing all of the distribution channels (CODO, DOFO and DODO stations) and non-fuel product categories



ORLEN

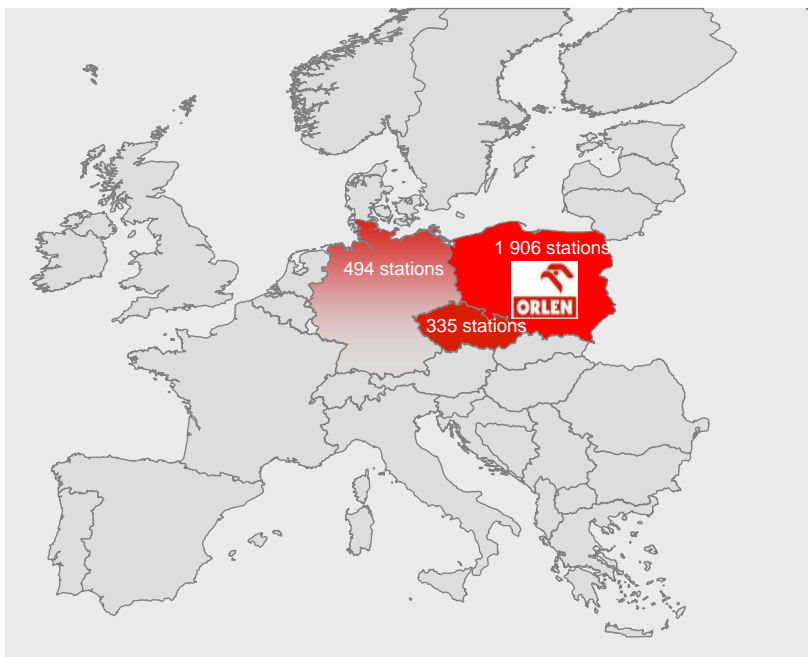
Current Status Review

- **Strengthening Market Position**
- **Enhancing Operating Efficiency**
- **Creating an Efficient Organization**
- **Summary**



Position of PKN ORLEN – retail fuel market in Poland

PKN ORLEN's position in the region¹

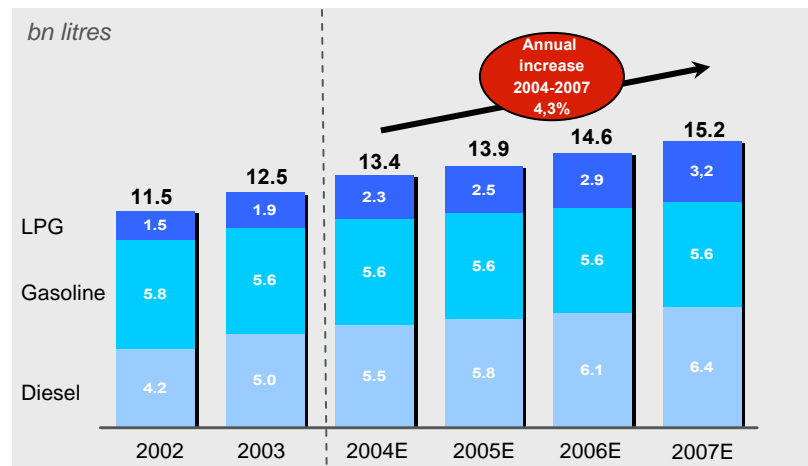


¹ 1906 retail stations in Poland, additional 494 stations purchased in Germany in year 2003 – operated by Orlen Deutschland – and further 335 stations of Unipetrol (acquisition pending, subject to European Commission approval)

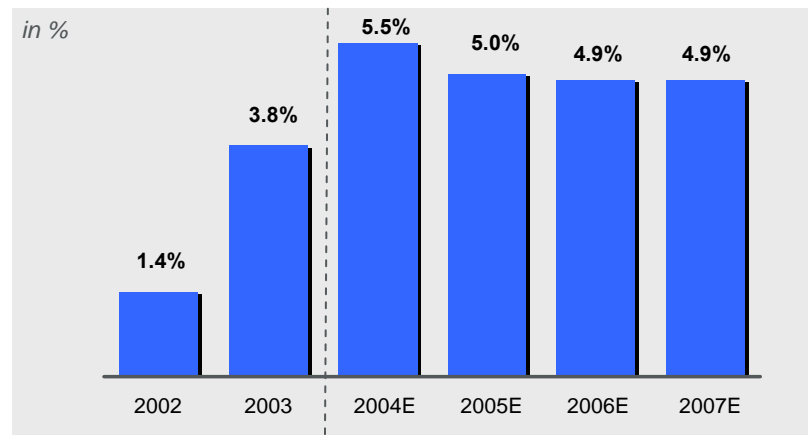
² Assumed that retail market accounts for 75% of diesel oil consumption and 100% of gasoline and LPG consumption

³ Source: Company estimates; PFC Energy; Nafta Polska; Citibank Handlowy

Retail market in Poland – current status and forecasts^{2,3}



Poland's GDP growth forecast³

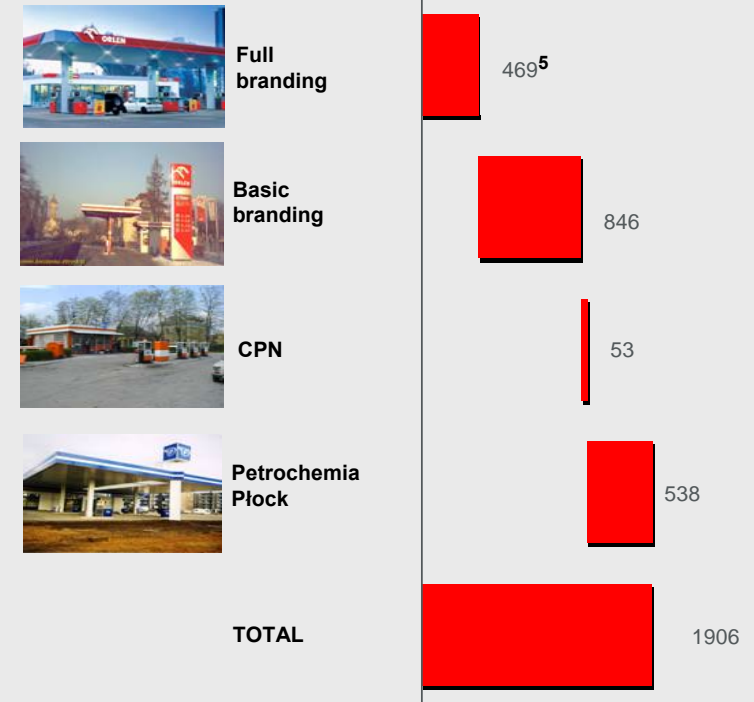


Current Status Review: Current market position of PKN ORLEN's service station network

Current status

- The largest network of service stations in Poland, including a total of 1906 PKN ORLEN stations in Poland (accounting for ca. 25% of all the service stations in Poland) ^{1, 2, 3, 4}
- 2004 fuel market share – 28.6%
- Unaided brand awareness for ORLEN brand - 83%⁶
- FLOTA POLSKA and DKV/ORLEN Fleet cards for businesses – ca. 3,900 customers
- VITAY loyalty programme for retail customers – ca. 5m participants
- One-fourth of the stations in the ORLEN network are fully branded stations
- Average throughput per company-owned station (CODO) – 2.1m litres per year

Structure of the network



¹ Additionally, 335 Unipetrol stations are currently being acquired (transaction underway, subject to the European Commission's approval)

² Additionally, 494 stations acquired in 2003 in Germany, which are owned by Orlen Deutschland

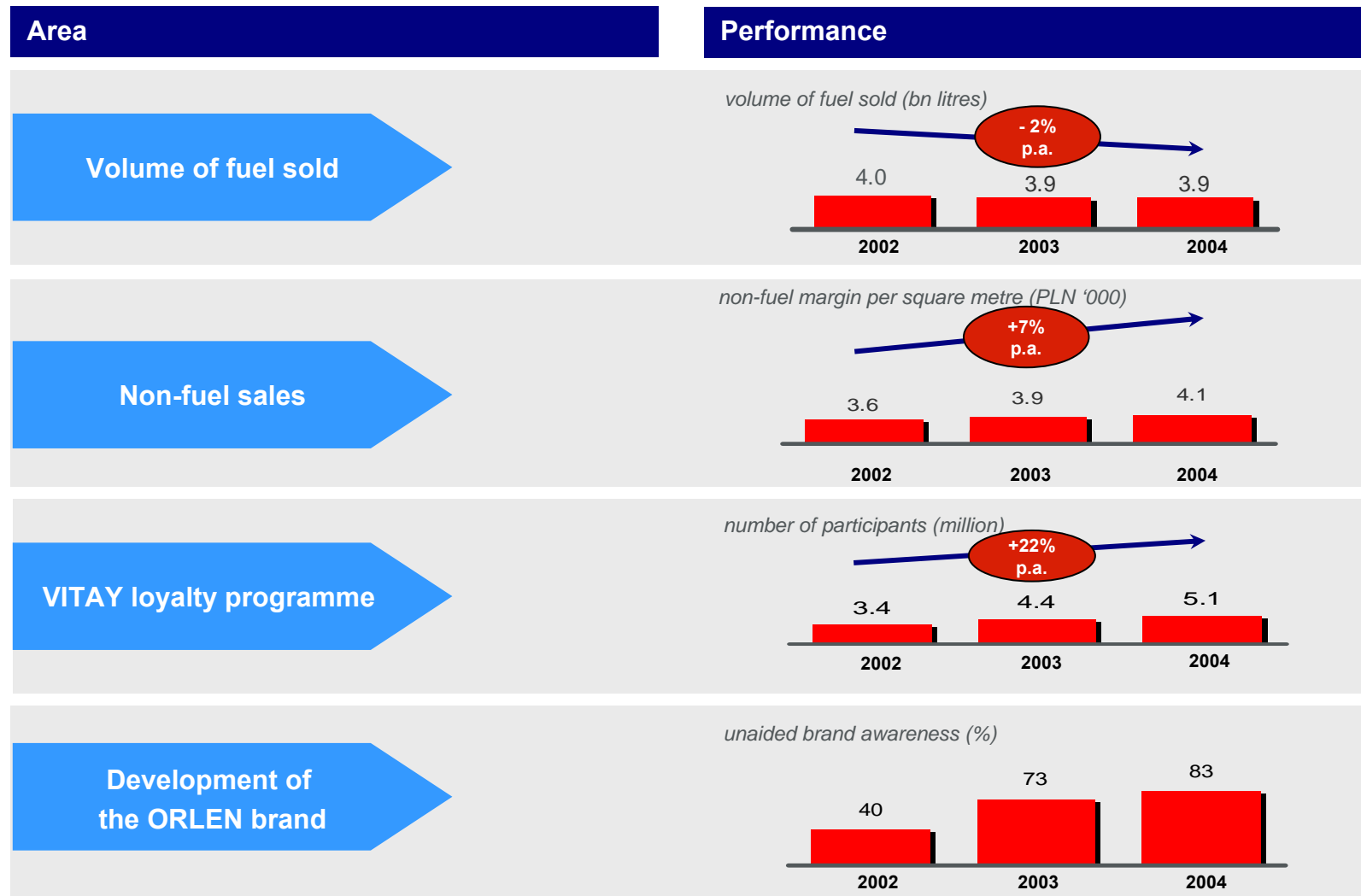
³ Total number of stations in Poland as at December 31st 2004 – 7,490

⁴ Total CODO, DOFO and DODO stations

⁵ Including 59 DOFO stations

⁶ Source: Company estimates; System Nuvit

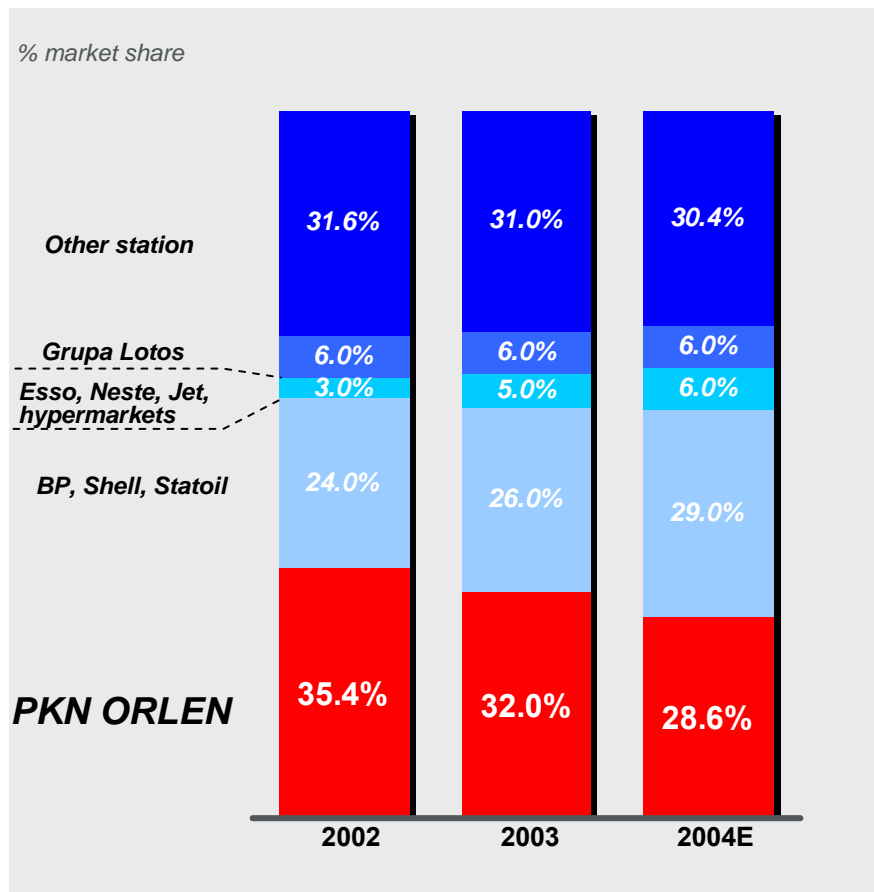
Current Status Review: PKN ORLEN's retail sales in 2002–2004



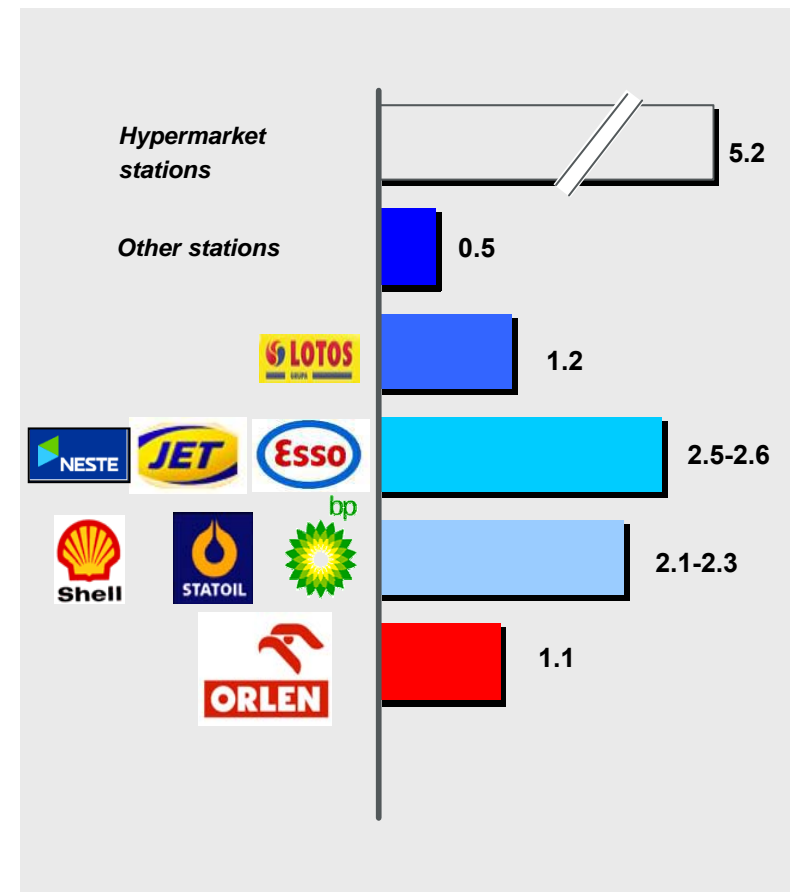
Source: Company estimates; System Nuvit

Current Status Review: PKN ORLEN vs. competitors on the Polish retail fuel market 2002–2004

PKN ORLEN's share of retail fuel market ^{1,2,3}



MER ratio in 2004 ^{1,2,3}



¹ Assumed that the retail market accounts for 75% of diesel oil consumption and 100% of gasoline and LPG consumption

² Market efficiency ratio: share in retail fuel market to share in sales network

³ Source: Company estimates; Nafta Polska; PFC Energy

Agenda

- **Current Status Review**

Strengthening Market Position

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Strengthening Market Position: Offering for business customers

Offering for business customers, tailored to individual needs

Business customers

Target
groups

- Poland's largest companies and international corporations
- Existing participants of loyalty programmes (large and medium-sized enterprises)
- Small and medium-sized enterprises segment

Offering

- Adjusting the fuel card offering to business segments and corporations' individual needs
- Introduction of a dedicated offering for SMEs and sole traders
- Professional sales system under the fleet scheme

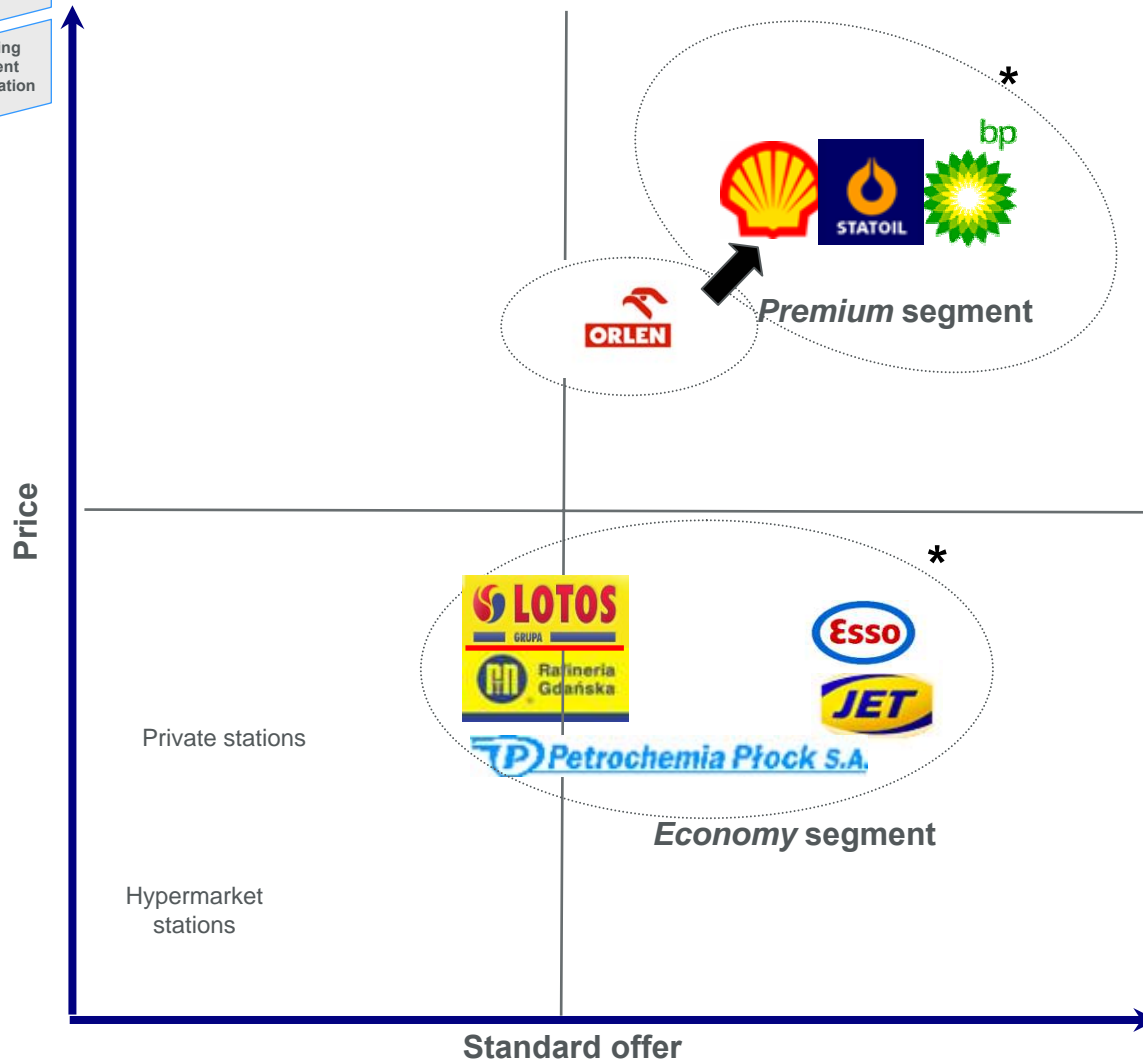


Strengthening
market
position

Enhancing
operational
efficiency

Creating
efficient
organization

Market offering for retail customers is becoming strongly polarised, requiring a new segment approach from PKN ORLEN



Target: *Premium* offering

- Competitive product offer
- Higher standard of services
- High revenue on non-fuel sales

Current status

- PKN ORLEN currently operates in both *Premium* and *Economy* segments without clear positioning

Target: *Economy* offering

- Competitive pricing
- Minimum operating expenses of the service stations, allowing them to optimise margins

*Selected competitors of PKN ORLEN
Source: Company estimates



ORLEN

Strengthening Market Position: Offering for retail customers

Segmentation of PKN ORLEN's offer for retail customers

		Premium offering: strengthening segment position	Economy offering: new market platform
Retail customers	Target groups	<ul style="list-style-type: none"> Value and quality-oriented customers <ul style="list-style-type: none"> Largest cities and thoroughfares Competition with Western companies' branded service stations 	<ul style="list-style-type: none"> Price-oriented customers <ul style="list-style-type: none"> Towns, rural areas and locations with high traffic for self-service stations Competition with private and low-price stations
	Offering	<ul style="list-style-type: none"> Premium fuels Broad and uniform offering of non-fuel products Broad range of basic services Prices competitive to those offered by Western companies More intensive marketing of fuels and non-fuel products 	<ul style="list-style-type: none"> Standard fuel offering Basic offering of non-fuel products Prices competitive to those offered by non-branded stations with similar service standard
	Sales channels	<ul style="list-style-type: none"> Most attractive locations of own (CODO) and franchised (DOFO) stations Standard shop formats High and uniform service quality 	<ul style="list-style-type: none"> Operations in less attractive locations of own (CODO), franchised (DOFO) and dealer-owned (DODO) stations Lower marketing expenditure Loyalty programme adjusted to local markets New self-service programme

Superior quality of services and fuels offered, irrespective of the segment

Creation of two standardised offerings: *Premium* and *Economy*

Structure of the service stations network



**Full
branding**

469*



**Basic
branding**

846



CPN

53



**Petrochemia
Plock**

538

TOTAL

1906

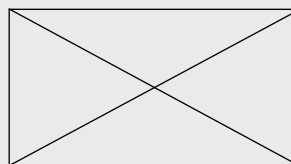
*Including 59 franchised stations

2009 target structure of the service stations network¹



**Premium
offering**

ca. 1000



**Economic
offering**

ca. 900

TOTAL

ca. 1900

¹ Ca. 200 service stations are to be closed due to unprofitability of adjusting individual locations to the EU standards



Agenda

- **Current Status Review**
- **Strengthening Market Position**

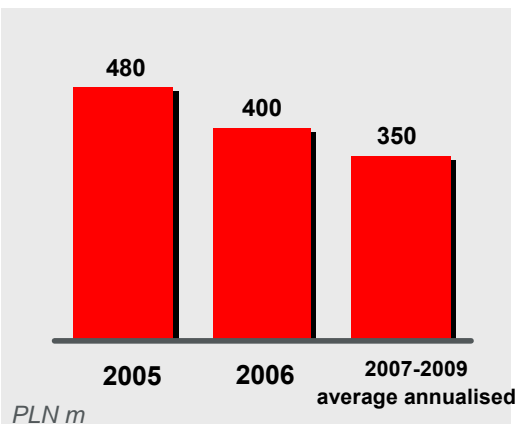
Enhancing Operating Efficiency

- **Developing Efficient Organization**
- **Summary**



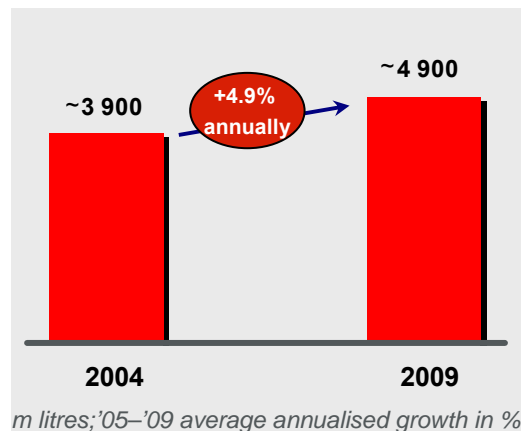
Capital expenditure to reverse the current trend and to achieve a minimum 30% market share

Capital expenditures



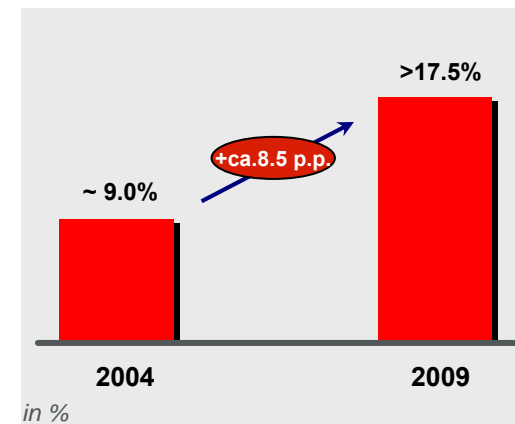
- Programme of capital expenditure for network optimisation and restructuring:
 - Network maintenance
 - Construction of new stations, rebranding and upgrade
 - Introduction of new products in the *Premium* offering

Increase in sales fuels^{1,2}



- The network structure segmentation will allow the current trend of losing fuel market share to be stopped and then reversed, resulting in a measurable increase in fuel sales (by 4.9% average annualised, with 4.3% growth of the fuel market):
 - Increase in fuel sales by franchised stations (DOFO)
 - Stable continuation of performance improvement in sales of fuels at owned stations

Target ROACE³



- Network expansion and cost reduction are the key factors of ROACE growth

¹ Assumed that retail market accounts for 75% of diesel oil consumption and 100% of gasoline and LPG consumption

² Source: Company estimates; Nafta Polska; PFC Energy

³ ROACE = NOPAT/average CE [NOPAT (net operating profit after tax)] / [average CE (capital employed)]



Enhancing Operating Efficiency

Goals

Sales channels management – network expansion plan¹

- Expansion of owned (CODO) and franchised (DOFO) stations
- Achieving a minimum market share of 30%²

Actions

- Construction and modernisation of ca. 50 owned stations in “Premium” standard and ca. 130 stations in “Economy” standard per year
- Acquisition of ca. 40% “Premium” stations and ca. 70 “Economy” stations per year to be added to the franchised network
- LPG sales development: increase in number of modules to 700+ in 2009 on owned stations (CODO)
- Pressure on introducing operating standards required of franchised stations (DOFO)

Enhancing financial efficiency

- Increasing the profitability of owned stations network: ROACE above 17.5% in 2009

- Inclusion of the Retail Division's settlements to the new cost reduction programme
- Centralisation of retail prices management
- Introduction of product category management

¹ Ca. 200 service stations are planned to be closed because of unprofitability of adjusting individual locations to EU standards

² PKN ORLEN market share in the retail market, and assumed the retail market accounts for 75% of diesel oil consumption and 100% of gasoline and LPG consumption



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- **Enhancing Operating Efficiency**

Developing Efficient Organization

- **Summary**



Implementation of the retail network development strategy will be also correlated with developing efficient organisation

Restructuring and reorganisation of the retail network

- Centralisation of management areas and selected management functions (including procurement process and pricing management)
- Establishing a unit responsible for managing all of the distribution channels (CODO, DOFO and DODO stations) and categories of non-fuel products
- Development of employee competences and optimisation of operating processes
- Implementation of target-oriented incentive schemes
- Introduction of higher security standards for customers and employees
- Development of an IT platform for centralised network management



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Summary



Implementation of the key initiatives in the PKN ORLEN retail sales development plan will contribute to an increase in shareholder value

Summary

- Strengthening market position and enhancing operational efficiency
- Curbing and reversing the current negative trend of the shrinking fuel market share:
 - Implementation of strategies for the *Premium* and *Economic* offerings as part of the quality segmentation of the PKN ORLEN offering
 - Increase in sales to fleet customers
- Increased operating efficiency due to the implementation of the distribution channels management system
- Dynamic growth of non-fuel sales
- Restructuring of the retail network by centralising decision-making areas

Key operating and financial objectives (2009 r.)¹

- | | |
|--|-------------------------|
| • Market share^{1,2} | min. 30% |
| ➢ Sales volume | ~4.9 bn l/year |
| • Intensification of the FLOTA programme
(share in sales revenue) | min. 20% |
| • Average fuel sales per station
(company-owned stations [CODO]) | >2.5 m l/year |
| • Non fuel margin's share in total retail margin
(company-owned stations [CODO]) | ~ 30% |
| • ROACE³ | >17.5% |

¹Assumed that the retail market accounts for 75% of diesel oil consumption and 100% of gasoline and LPG consumption.

²Source: Company estimates, Nafta Polska; PFC Energy; Citibank Handlowy

³ROACE = NOPAT/average CE [NOPAT (net operating profit after tax)/ [average CE (capital employed)]]

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Additional Slides



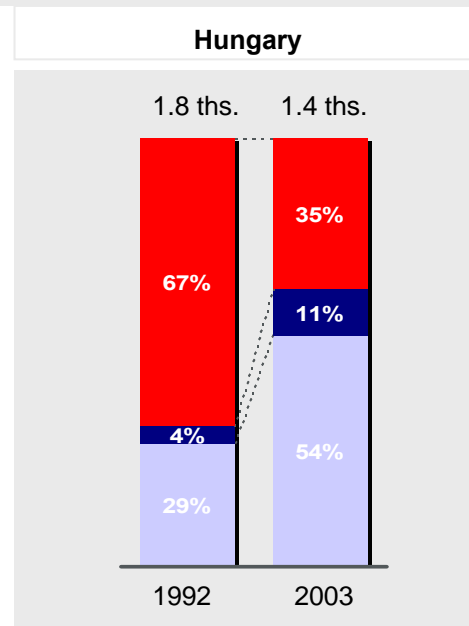
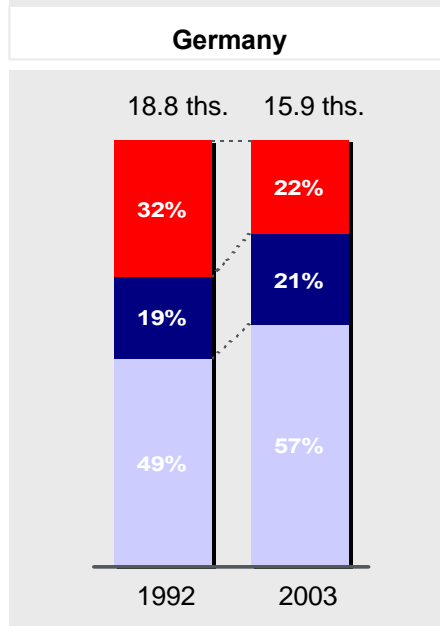
Examples of successful strategies of alternative brands and offerings validating the PKN ORLEN's new segmentation strategy

Brand	Markets	Key programme features	Location
 	<p>Norway, Denmark, Baltic States</p> 	<ul style="list-style-type: none"> 1-2-3 is Statoil's brand for self-service stations, launched in response to Jet Conoco's expansion Located close to hyper/supermarkets, with minimum capital expenditure equivalent to PLN 0,5–1m In Norway, 55 stations operate in former Statoil locations or adjacent to Rimini supermarkets (Rimini being Statoil's retail partner) 	
 	<p>Denmark</p> 	<ul style="list-style-type: none"> A network of 74 stations managed by Shell's subsidiary "Metax Oil" Metax brand had a strong image of cheap service station, which was used by Shell to position itself in low price segment To reduce costs, a self-service fuel sales model was introduced 	
 	<p>Netherlands</p> 	<ul style="list-style-type: none"> New brand introduced as a response to the aggressive entry of Tango with a self-service station format Tinq operates as a self-service station and offers prices lower by EUR 0.05–0.10 per litre than the traditional Shell stations By the end of 2003, 46 Tinq stations were launched in existing Shell locations which had generated unsatisfactory results 	

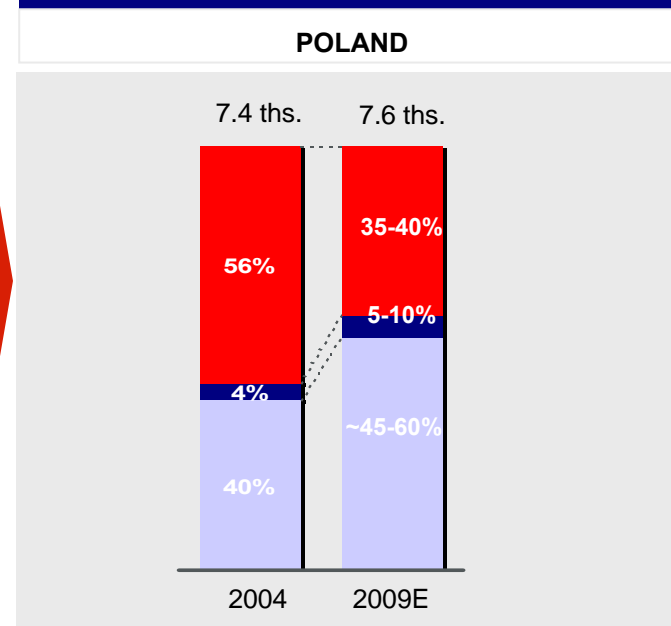
Source: PFC Energy

Large potential of ca. 1.3–2.6 bn litres of fuel sales to be taken over from non-branded service stations

On developed markets, individual operators are being forced out by branded stations [number of service stations and % share]



A similar trend is expected in Poland [number of service stations and % share]*







- **Individual operators**
- **Other fuel companies**
- **TOP 5**

- Individual operators' share expected to decrease by ca. 10–20% in the medium term
- PKN ORLEN-branded stations' sales growth potential is ca. 260–600m litres
- PKN ORLEN's response to the forecast trends is the **ECONOMY** offer to be positioned to compete with non-branded service stations

*Source: Company estimates; PFC Energy

Key challenges related to the implementation of the retail network development strategy

Challenges		Actions
<ul style="list-style-type: none">• Building new skills/resources for an effective strategy implementation		<ul style="list-style-type: none">• Initiating comprehensive programmes aiming at expansion and optimisation of employees' competences
<ul style="list-style-type: none">• Full accomplishment of economic assumptions		<ul style="list-style-type: none">• More profound analysis of strategy implementation costs• Preparing forms of cost reporting documents by separate organisational units ("design to cost")
<ul style="list-style-type: none">• Implementation, performance and maintenance of all the effects assumed in the strategy		<ul style="list-style-type: none">• Introducing and monitoring of performance management system
<ul style="list-style-type: none">• Optimising cooperation with the dealer-owned stations network (brands, new product offering)		<ul style="list-style-type: none">• Proactive communication of the strategy for the dealer-owned stations network.

