



Implementation plan of new cost reduction program in the PKN ORLEN Capital Group

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Implementation of new cost reduction program OPTIMA will allow PKN ORLEN to gain a leading regional position in terms of efficiency and internal management

PKN ORLEN S.A. mission statement

“In the pursuit of regional leadership we strive to deliver long-term growth in shareholder value” (...)

Cost reduction program

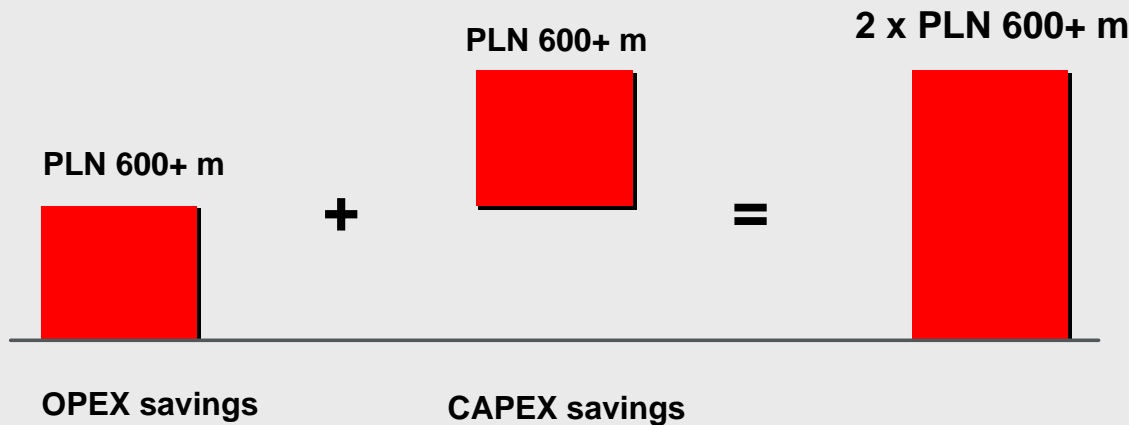
“Improvement of the company’s cost and investment efficiency is the key element of PKN ORLEN strategy. Our ambition is to achieve best-in-class efficiency and performance.”

Program OPTIMA is a long-term plan aimed at unlocking further OPEX and CAPEX savings at PKN ORLEN Capital Group

New compound Program OPTIMA

„2 x PLN 600+ m of savings”¹

in PLN m



1) To be achieved by year 2009 r. within PKN ORLEN Capital Group



ORLEN

Further OPEX and CAPEX savings will be accomplished through extension of the efficiency improvements to the Capital Group as well as improvements to cost control and procurement processes

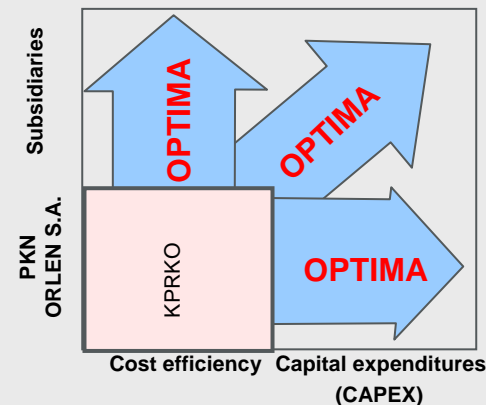
New program OPTIMA is an element of PKN ORLEN S.A. strategy

Continuation of cost cutting efforts along the entire value chain

- **Management's commitment to deliver by the end of 2005 a sustainable reduction in operating cost by PLN 800 m resulting from the current cost cutting program**
- **Preparation of the launch of the new cost cutting program, which is to address:**
 - Centralization of procurement
 - Efficiency improvement of production assets
 - Cost reduction in the retail network
 - Establishing shared services centres for companies of the PKN ORLEN Group.

OPTIMA goes beyond the scope of the previous program (KPRKO¹):

- **Objective “2 x PLN 600+ m by 2009” is a driver for reaching the target ROACE² >17.5%.**
- **Broad range of activities in entirely new areas³:**
 - Cost savings in subsidiaries of PKN ORLEN
 - Optimisation of capital expenditures

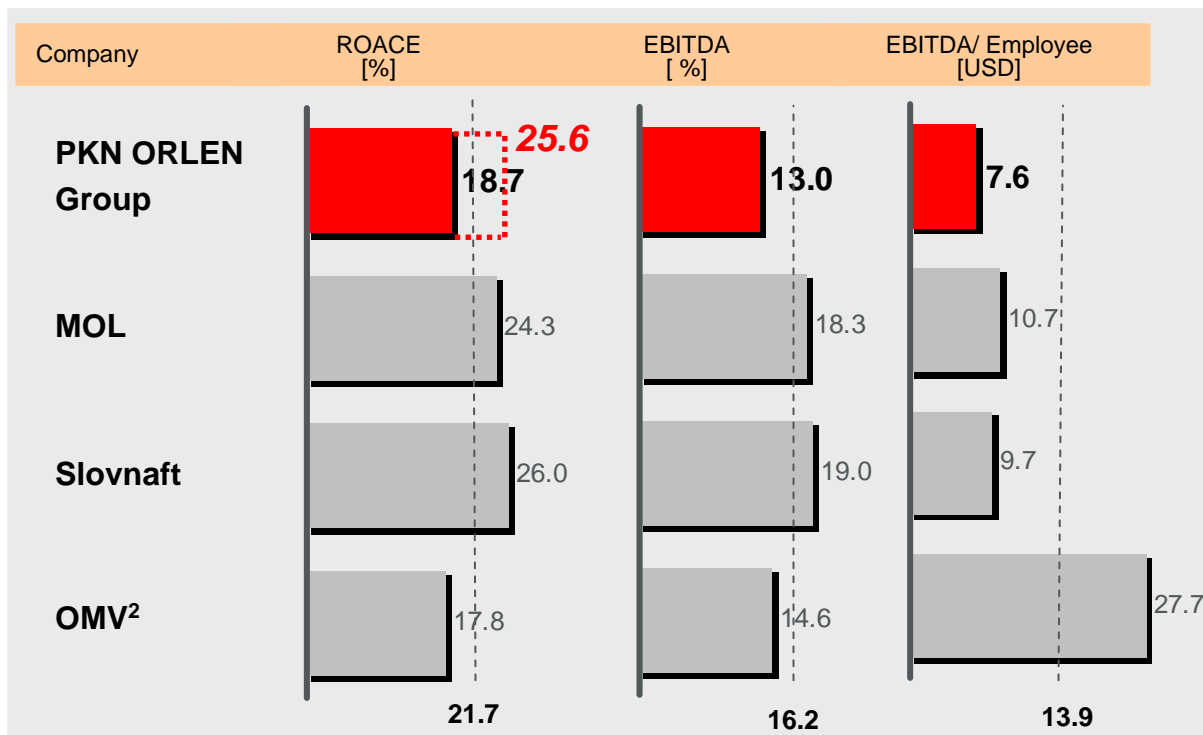


- 1) KPRKO Program – launched in 2003, full year effect of the program is 800 m PLN of sustainable cost savings from 2005 on.
- 2) ROACE = NOPAT / average (equity + net debt)
- 3) Unipetrol shall be encompassed by OPTIMA Program, although is not included in calculation of the target „2 x 600+ m PLN”.
OPTIMA Program does not cover the Margins Optimisation project.



Implementation of new cost savings program OPTIMA will ensure PKN Orlen's leadership in efficiency.

By 2004 PKN ORLEN reached lower levels of efficiency versus its oil&gas Central European peers



Conclusions

- New cost reduction Program by PLN 600+ m will substantially enhance PKN ORLEN's efficiency, as compared to its peers¹

1) Assuming the 2004 level of capital employed and unchanged performance of the „best-in-class” companies

2) Excluding Petrom



PKN ORLEN today – current cost savings program

New cost savings program OPTIMA

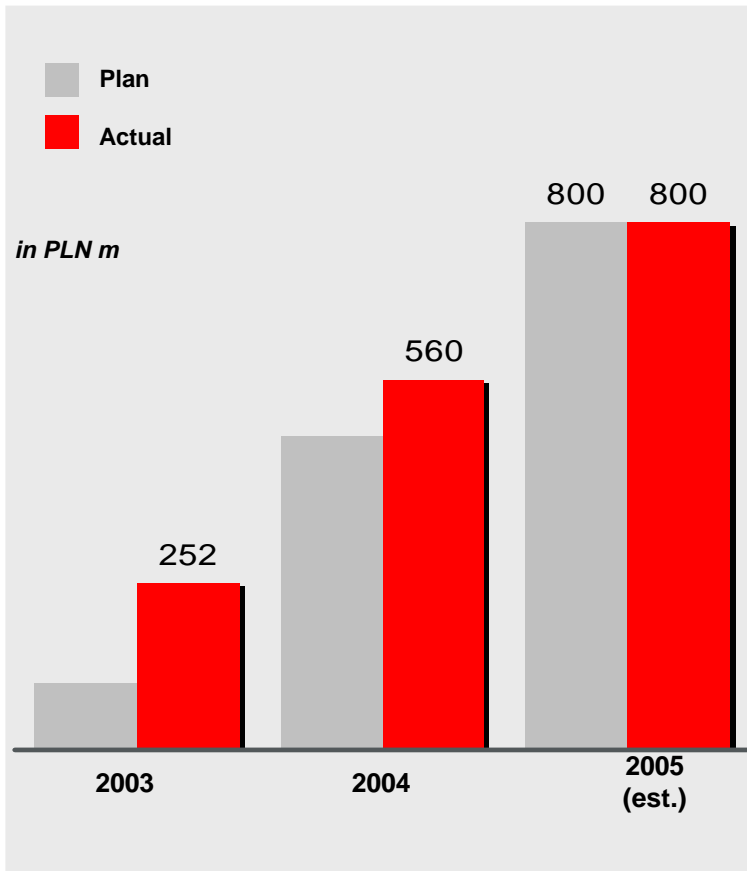
- **Further improvements of cost efficiency**
- **CAPEX savings**

Summary



The on-going cost-cutting program (KPRKO) yields tangible and sustainable results

Cost reduction effects of the KPRKO program (net)



Key facts about the current cost-cutting program

- Cost savings objectives defined in a top-down manner
 - Spontaneous generation of 340 initiatives to deliver required cost savings effects
 - Planned net effect of PLN 800 m shall be delivered despite increase in other costs (not included in the Program) by PLN 130 m (incl. PLN 100 m in employment costs)
 - 2004: last year of implementation of cost cutting initiatives
 - 2005: full year effects of initiatives shall yield the planned cost reduction by PLN 800 m
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- 2005: cost saving initiatives implemented shall be part of new Program OPTIMA
 - 2006-2009: expected reduction effects of the new Program



Agenda

PKN ORLEN today – current cost savings program

New cost savings program OPTIMA

- **Further improvements in cost efficiency**
- **CAPEX savings**

Summary



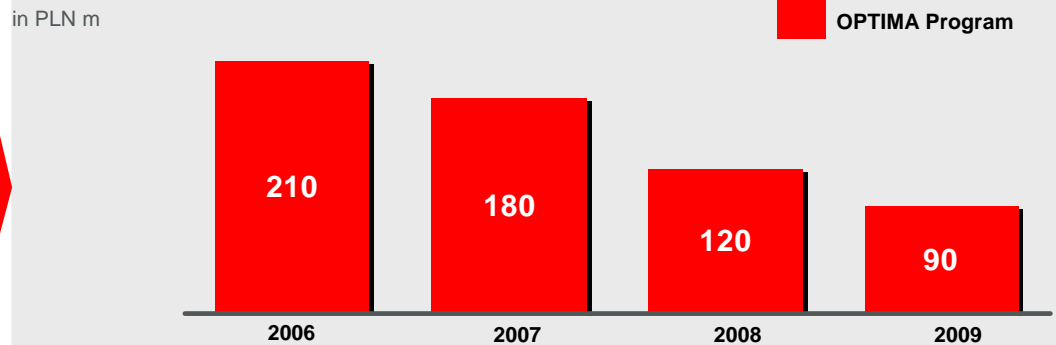
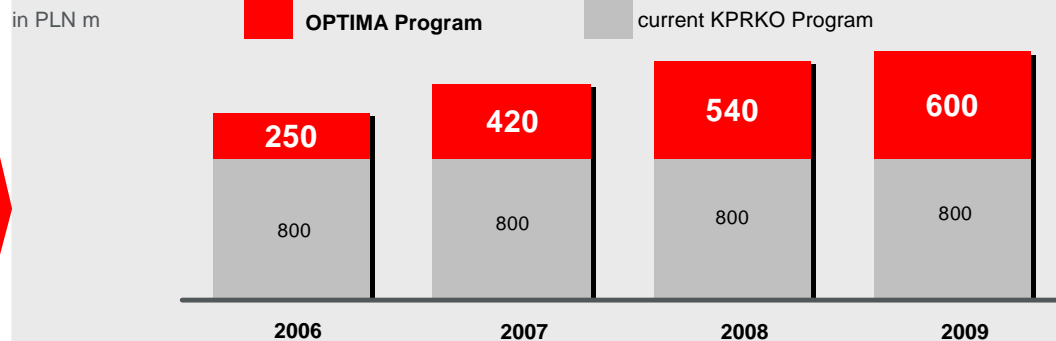
OPTIMA Program is a long-term initiative with a direct positive impact on investment as well as operating cash flows, in addition to the effects of the current cost savings program

Strategic objective

OPEX savings
(over the current KPRKO Program)¹

CAPEX savings²

Effects in years 2006-2009 – „2 x PLN 600+ m”



1) Completion of the initiatives to be implemented according to schedule

2) Recurring CAPEX savings: 20-25% in 2006-2009. Non-recurring CAPEX savings: 10% in 2006, 15-20% in 2007-2009



OPTIMA shall contribute to significant improvement in performance vs. 2004 and enhance the financial standing as compared to the regional competition

Summary of OPTIMA objectives

- Significant improvement of operating performance in PKN ORLEN Group owing to:
 - Optimisation of cost efficiency of key processes
 - CAPEX savings owing to improvements to investment processes

+

Areas of improvement

- Operating costs in PKN ORLEN
- Operating costs in the subsidiaries of PKN ORLEN
- Improvement of supporting activity
- Major overhaul of procurement processes
- Capital expenditures in PKN ORLEN and subsidiaries

Tangible effects

- Delivery of strategic target of ROACE over 17.5% in 2009¹
- Improvement in operational performance:
 - PLN 600+ m cost savings (2006-2009) on top of the current program (KPRKO)
 - PLN 600+ m CAPEX savings, assuming performance of all the investment projects planned in PKN ORLEN strategy

1) ROACE = NOPAT / average (equity + net debt)



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PKN ORLEN today – current cost savings program

New cost savings program OPTIMA

- **Further improvements in cost efficiency**

- **CAPEX savings**

Summary



The is substantial room for further improvement of efficiency at PKN ORLEN

4 key areas of further improvement were identified

Operating costs in PKN ORLEN

Operating costs in Subsidiaries of PKN ORLEN

Employment efficiency

Procurement processes

Cost saving potential was estimated for each area by an in-depth analysis.

Refining & Petchems

- Improvement of energy utilization in production processes
- Increased utilization of key production facilities and optimisation of the processes

Logistics

- Optimisation of logistics processes and inventories
- Optimisation of the network structure

Retail network

- Reduction of unit costs as the result of restructuring of the retail network

- Launch of cost-saving programs in key subsidiaries
- Establishment of centralized shared services functions for key subsidiaries

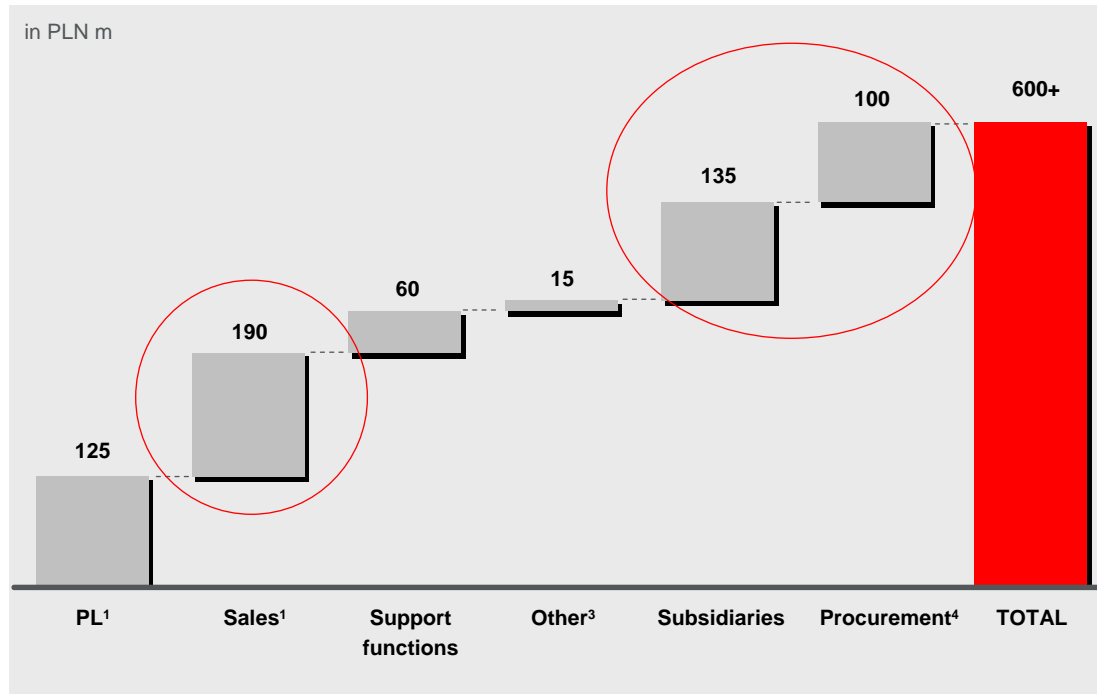
- Organizational improvement and employment optimisation in:
 - Production
 - Logistics support functions
 - Support functions of PKN ORLEN
 - Selected support functions in subsidiaries

- Optimisation of the procurement processes in Capital Group
 - Economies of scales in the improvement of the purchasing position



Estimated potential for cost reduction exceeds PLN 600 m by 2009 and covers the entire Capital Group

OPTIMA addresses new areas of improvement in the business units, subsidiaries, as well as within the framework of the procurement improvement program.



- Cost saving potential of each area are to be further revised
- New Cost Management Department will have a defining role in the realization of the new initiatives. It will also support operational activity of other departments.

1) PL – Production & Logistics

2) Planned restructuring of the retail network to reduce fixed cost per station and variable unit costs per 1l

3) E.g. marketing, PR, administration etc.

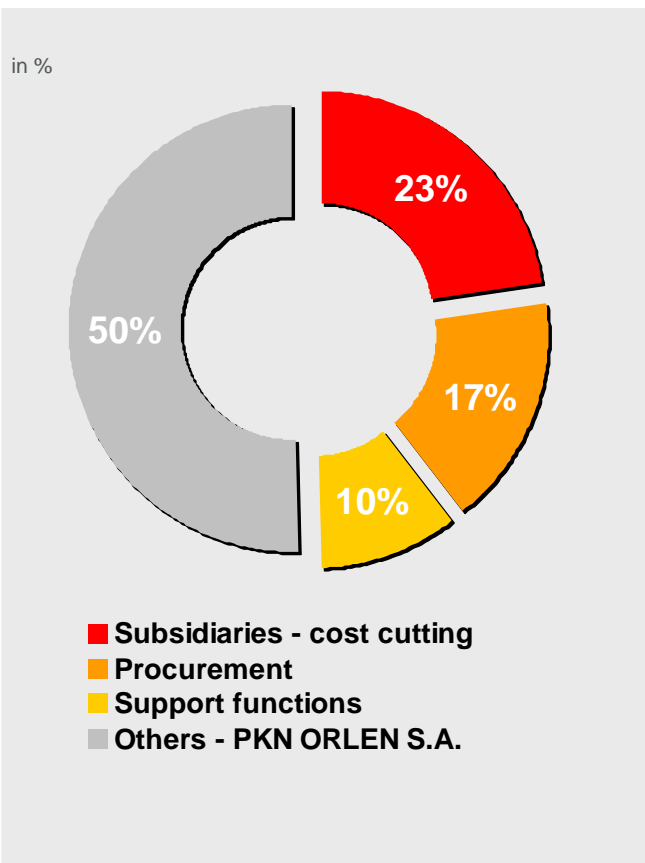
4) Estimated cost savings due to the procurement improvement program „BONUS”



OPTIMA shall address new areas of improvement such as: subsidiaries, procurement processes and support functions in the PKN ORLEN Group

These new areas of improvement within the PKN ORLEN Capital Group shall constitute over 50% of cost savings in Capital Group identified within the OPTIMA framework

Savings by area



Cost savings in key PKN ORLEN subsidiaries

PLN 135 mln
cost savings

- Cost improvements in key subsidiaries
- OPEX savings in production and distribution subsidiaries (e.g. Anwil, southern refineries, ORLEN Oil, and Asphalt, IKS SOLINO)
- Scope of activities to broaden gradually e.g. by encompassing Unipetrol

Centralization and optimisation of procurement processes

PLN 100 mln
cost savings

- A major overhaul of the existing procurement process in PKN ORLEN Capital Group
- Enhancement of cooperation with business partners
- Improvements in demand management and renegotiation of the business agreements

Efficiencies in the support functions

PLN 60 mln
cost savings

- Introduction and centralization of the support functions for the companies of the group (Accounting, Admin, HR, IT etc.)

Agenda

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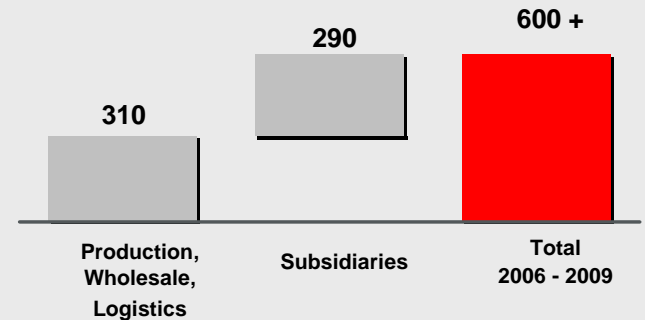
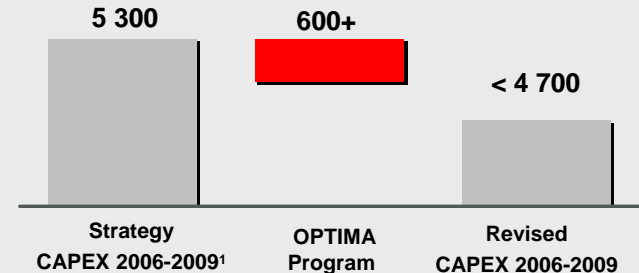
Optimisation potential in CAPEX to amount PLN 600+ m is in line with full investment program for PKN ORLEN Capital Group

Introduction of an improved CAPEX control process

- CAPEX optimisation in production and logistics facilities
- Centralized procurement of investment goods and services
- Improvements in investment processes (planning, execution, monitoring)
 - Differentiation of requirements for various types of investment projects.
 - Intensification usage of the sensitivity analyses and scenarios to optimize the investment assumptions.
 - Stricter approval criteria for investment projects
 - Introduction of various techniques for market-risk assessment.
 - Monitoring of quality of market forecasts and of performance of realised investment projects.

Expected effect of OPTIMA – CAPEX savings vs. planned investment program 2006-2009.

in PLN m



- Savings assume implementation of all investment projects assumed in the PKN ORLEN Strategy.

1) The investment plan for years 2006-2009 is in line with the PKN Group strategy
Planned CAPEX methodology for years 2006-2009: PLN 8 700 m (2005-2009 strategy) – PLN 2 400 m (CAPEX in 2005) – PLN 1 000 m (Unipetrol)



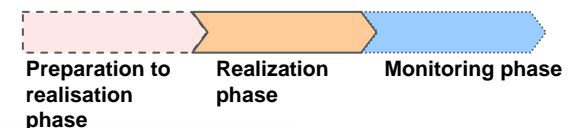
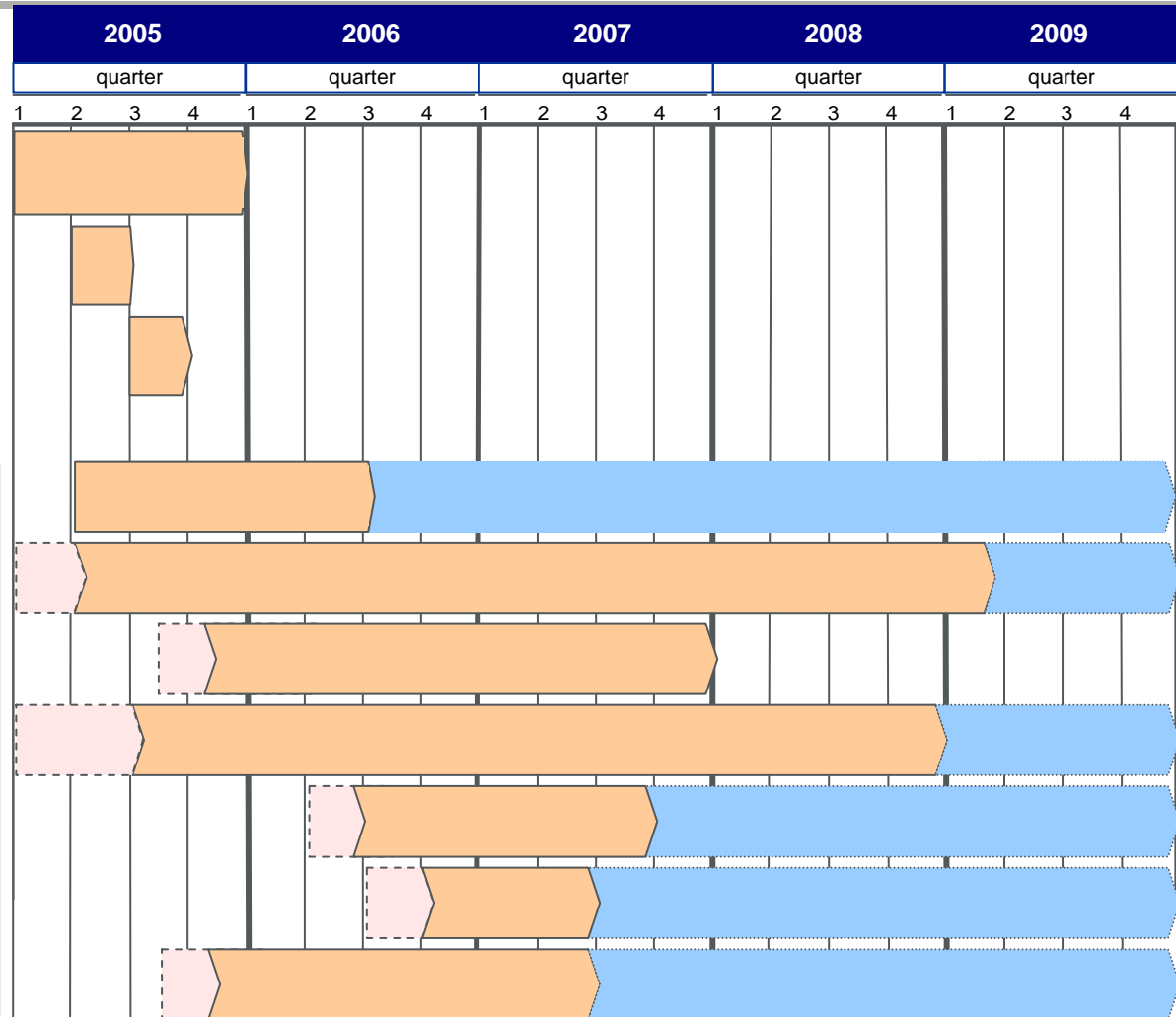
Most of OPTIMA activities to be completed by 2007, whereas full effects to be delivered in 2009 will allow PKN ORLEN to get closer to the best-managed companies in the region

**Conclusion of
KPRKO and
preparation for
OPTIMA**

- KPRKO
- Start of OPTIMA
- Unipetrol – evaluation of potential

OPTIMA Program

- Complex procurement Program
- Improvement of employment efficiency
- Production
- Retail
- Subsidiaries
- Logistics
- CAPEX



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Summary



Objectives of OPTIMA program - 2 x PLN 600 m savings to achieve regional leadership in terms of efficiency and profitability

Strategic objectives	Financial objectives (2006-2009 r.)	Areas of activity	Key initiatives and projects
OPEX savings	Over PLN 600 m (over the effects of the current program)	<ul style="list-style-type: none"> Operating costs in PKN ORLEN S.A.¹ 	<ul style="list-style-type: none"> Efficiency of production processes Optimisation of logistics
		<ul style="list-style-type: none"> Operating costs in subsidiaries 	<ul style="list-style-type: none"> Centralization of support functions for key subsidiaries Complex reduction of expenses
		<ul style="list-style-type: none"> Supply chain management 	<ul style="list-style-type: none"> Optimisation of organizational structure and best-in-class procurement processes Centralization of procurement in the PKN Group
		<ul style="list-style-type: none"> Employment efficiency 	<ul style="list-style-type: none"> Headcount optimisation in all areas of operations and in support functions in PKN ORLEN S.A.
CAPEX savings	Over PLN 600 m (relative to CAPEX plan 2006-2009)	<ul style="list-style-type: none"> Investment planning and implementation 	<ul style="list-style-type: none"> Implementation of separate investment requirements criteria for regulatory and expansion investments² Centralization of procurement of investment goods and services. Stricter acceptance criteria for new projects through restrictive evaluation of the risks involved

1) Refers to production, logistics, retail and support functions of PKN ORLEN S.A.

2) Regulatory investments refer to legal requirements, such as environmental restrictions, etc.
Expansion investments aimed at maximum value enhancing to shareholders.

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Supporting slides

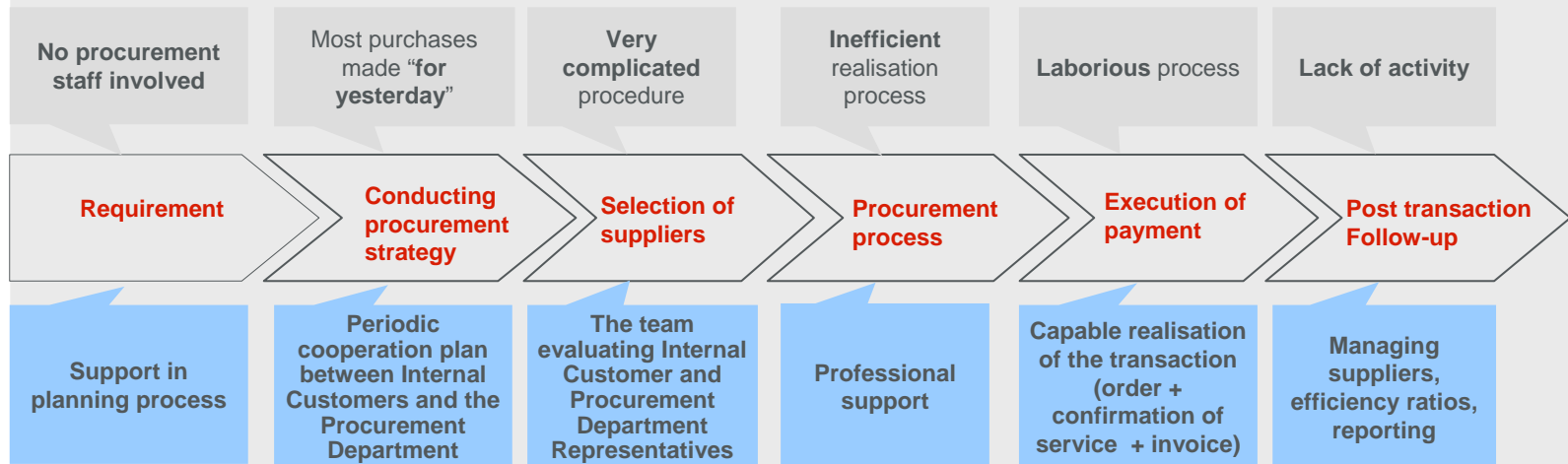


Strategy update: Efficiency Improvement

Efficiency improvement in the Capital Group – new procurement program

- Cost reduction through purchase process centralization
- New procurement structure supports the preparation of the new cost-cutting program
- New Procurement Office in control of Program objectives

Procurement system – current situation



Procurement Department – the intended model

