



# **PKN ORLEN Retail Sales Development Plan for Poland 2005-2009**

*Wojciech Heydel, Chief Marketing Officer*

*2 March 2005*



## Strategic vision of the retail sales department

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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.”  
(...)***

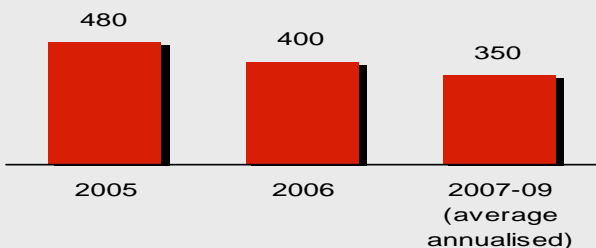
Strategic vision of the Retail Network

***„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"> <li>Intensification of sales to fleet customers</li> <li>Adjusting the offerings to match the needs of individual business segments</li> </ul>
	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"> <li>Implementation of strategies for the Premium and Economy offerings</li> <li>Development of the non-fuel offering in the Premium standard</li> <li>Intensification of marketing of fuel and non-fuel products</li> <li>Expanding the range of fuels offered in the Premium standard</li> </ul>
	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"> <li>Construction and modernisation of service stations in accordance with the segmentation applicable for the Premium and Economy offerings</li> <li>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</li> </ul>
	ROACE >17.5%	Financial efficiency	<ul style="list-style-type: none"> <li>Improving the profitability of the company</li> <li>Review and development of rules governing cooperation with franchised stations (DOFO)</li> </ul>
Creating efficient organisation	Efficient organization	Reorganization and restructuring of the retail network	<ul style="list-style-type: none"> <li>Centralization of management areas and selected management</li> <li>Establishing an organizational unit responsible for managing all of the distribution channels (CODO, DOFO and DODO stations) and non-fuel product categories</li> </ul>



**ORLEN**

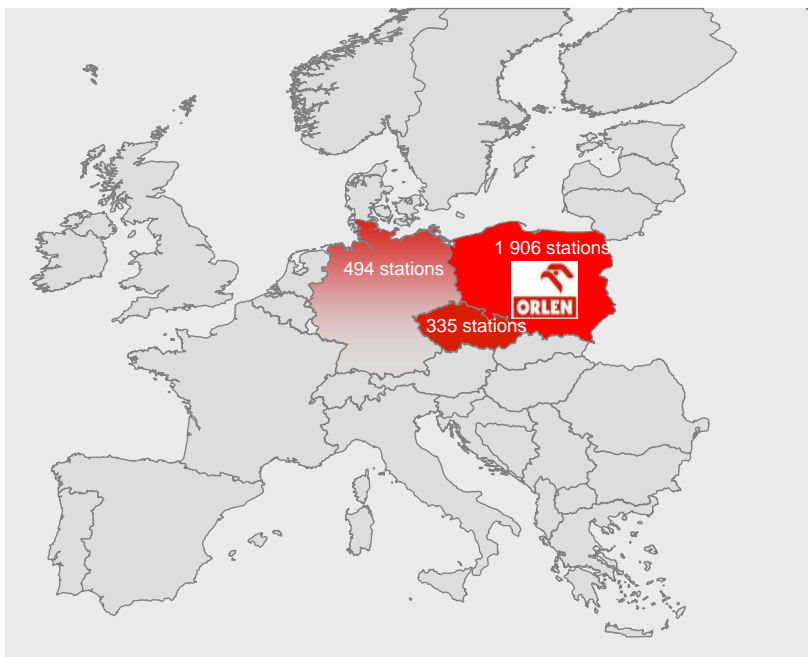
## Current Status Review

- **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 region<sup>1</sup>

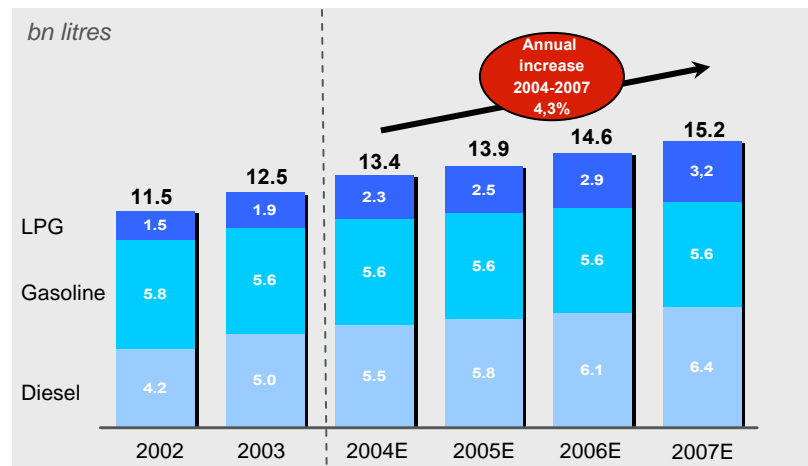


<sup>1</sup> 1906 retail stations in Poland, additional 494 stations purchased in Germany in year 2003 – operated by Orlen Deutschland – and further 335 stations of Unipetrol (acquisition pending, subject to European Commission approval)

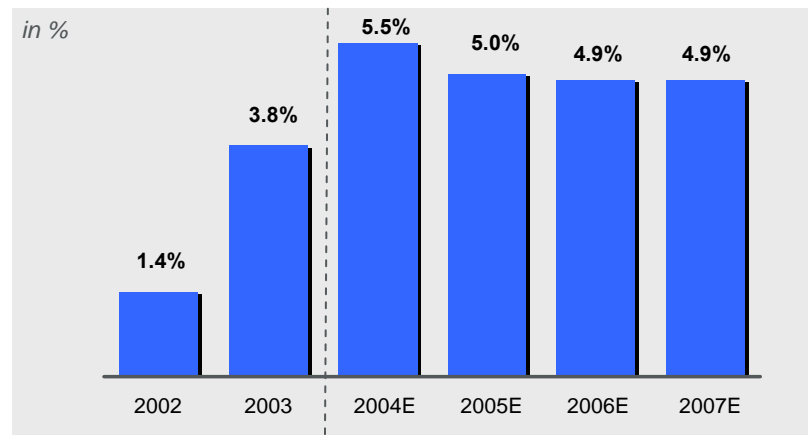
<sup>2</sup> Assumed that retail market accounts for 75% of diesel oil consumption and 100% of gasoline and LPG consumption

<sup>3</sup> Source: Company estimates; PFC Energy; Nafta Polska; Citibank Handlowy

## Retail market in Poland – current status and forecasts<sup>2,3</sup>



## Poland's GDP growth forecast<sup>3</sup>

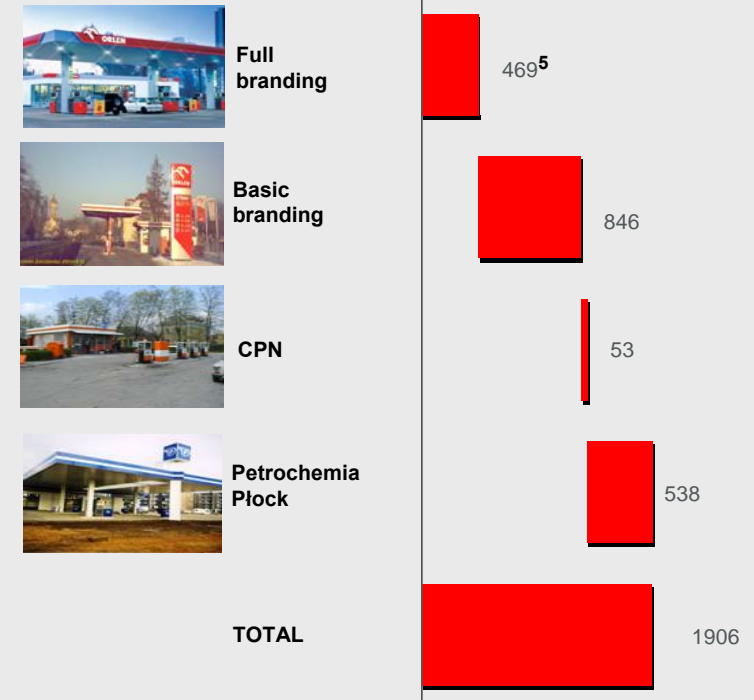


# Current Status Review: Current market position of PKN ORLEN's service station network

## 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) <sup>1, 2, 3, 4</sup>
- 2004 fuel market share – 28.6%
- Unaided brand awareness for ORLEN brand - 83%<sup>6</sup>
- 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



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

<sup>2</sup> Additionally, 494 stations acquired in 2003 in Germany, which are owned by Orlen Deutschland

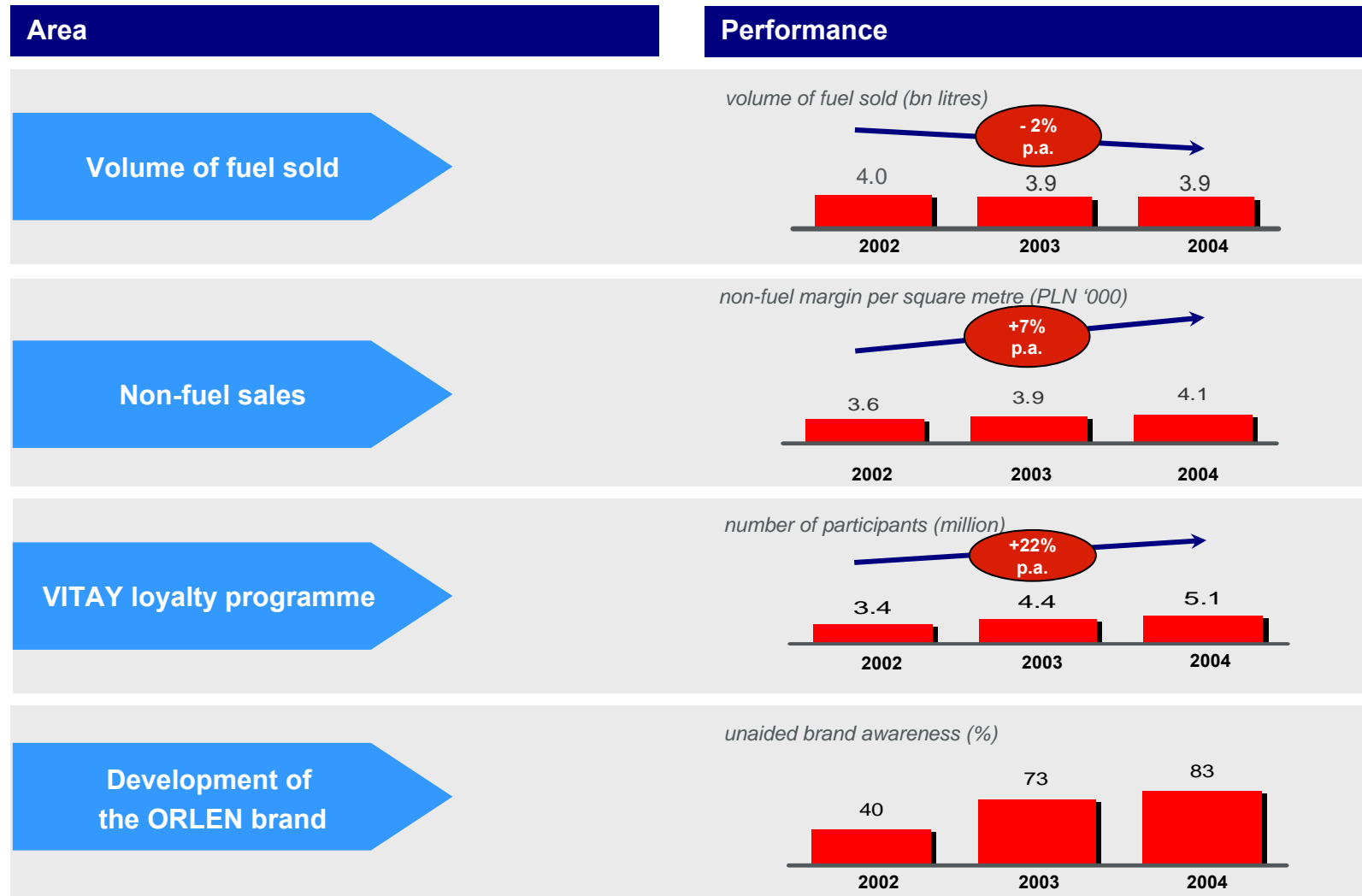
<sup>3</sup> Total number of stations in Poland as at December 31st 2004 – 7,490

<sup>4</sup> Total CODO, DOFO and DODO stations

<sup>5</sup> Including 59 DOFO stations

<sup>6</sup> Source: Company estimates; System Nuvit

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

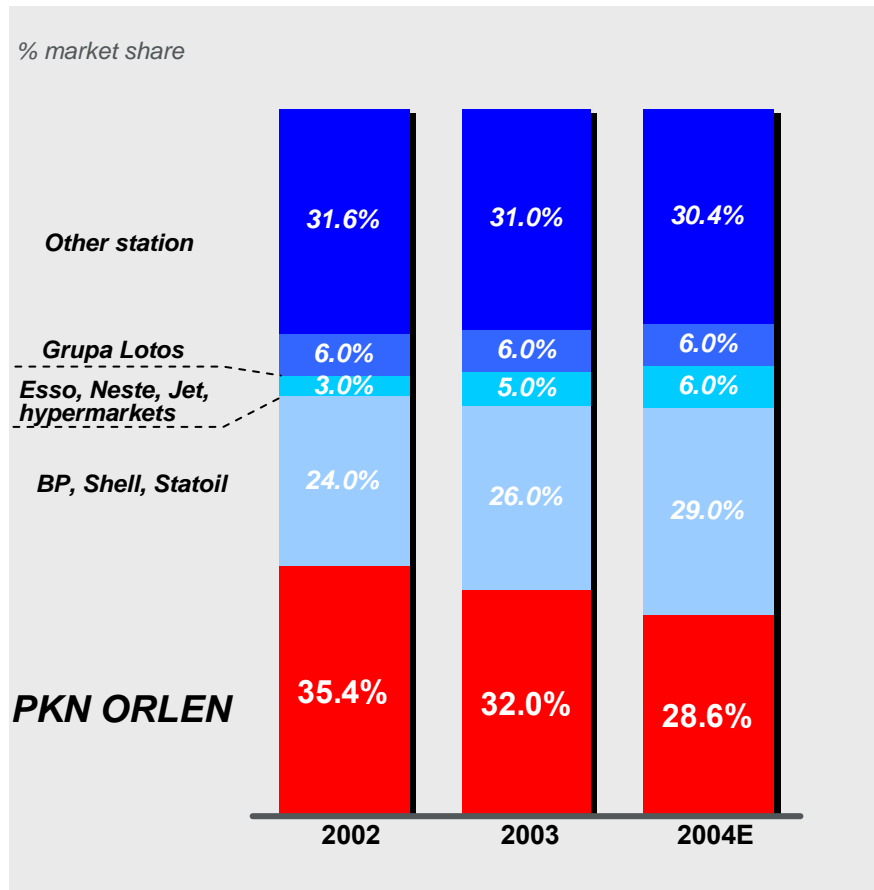


Source: Company estimates; System Nuvit

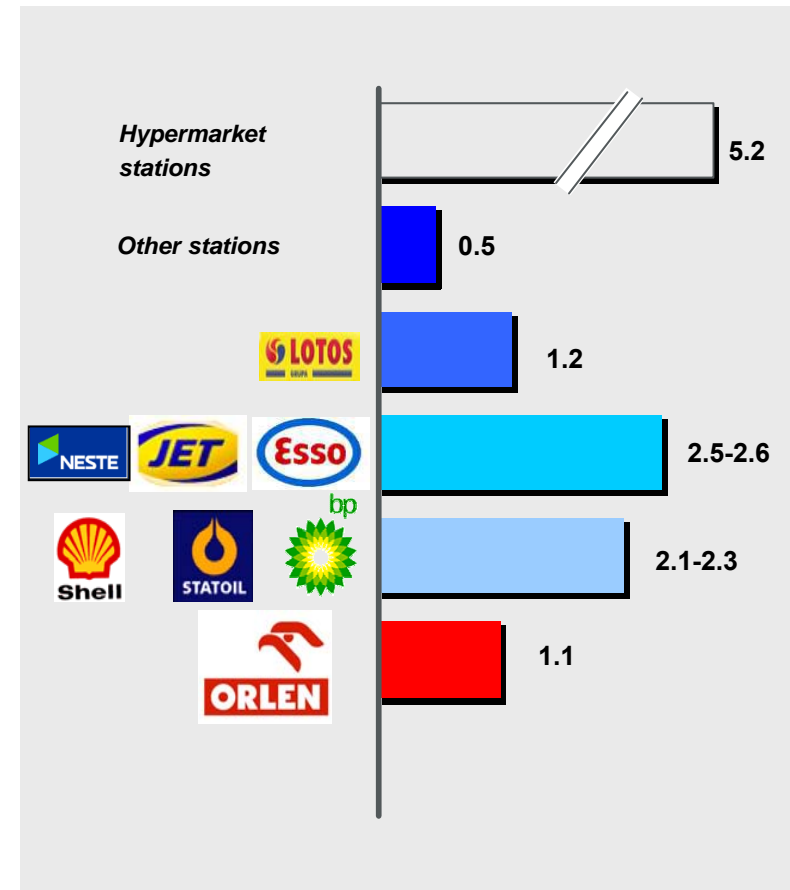


# Current Status Review: PKN ORLEN vs. competitors on the Polish retail fuel market 2002–2004

## PKN ORLEN's share of retail fuel market <sup>1,2,3</sup>



## MER ratio in 2004 <sup>1,2,3</sup>



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

<sup>2</sup> Market efficiency ratio: share in retail fuel market to share in sales network

<sup>3</sup> Source: Company estimates; Nafta Polska; PFC Energy

# Agenda

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- **Current Status Review**

## **Strengthening Market Position**

- **Enhancing Operating Efficiency**
- **Developing Efficient Organization**
- **Summary**



# 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

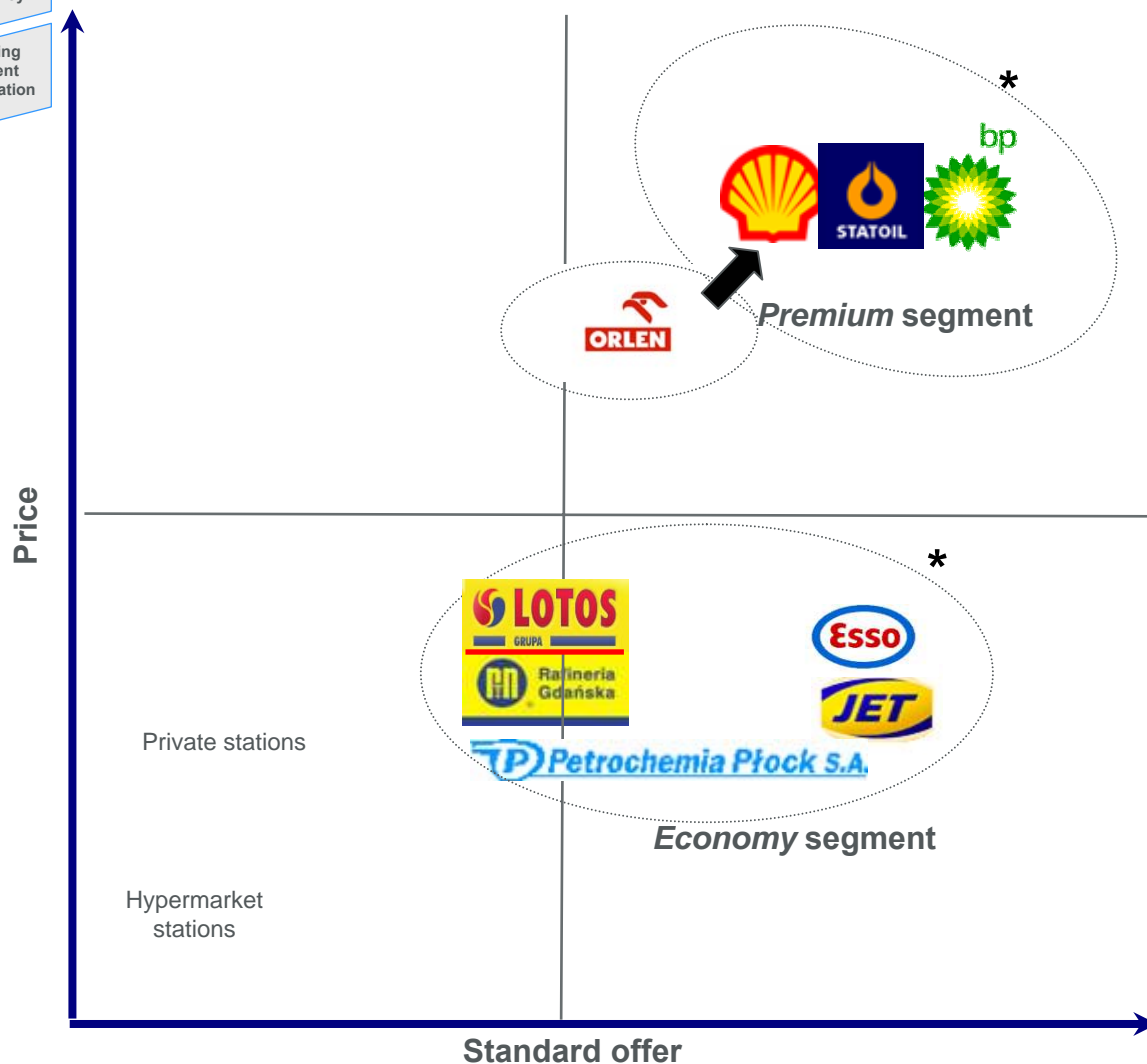


Strengthening  
market  
position

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

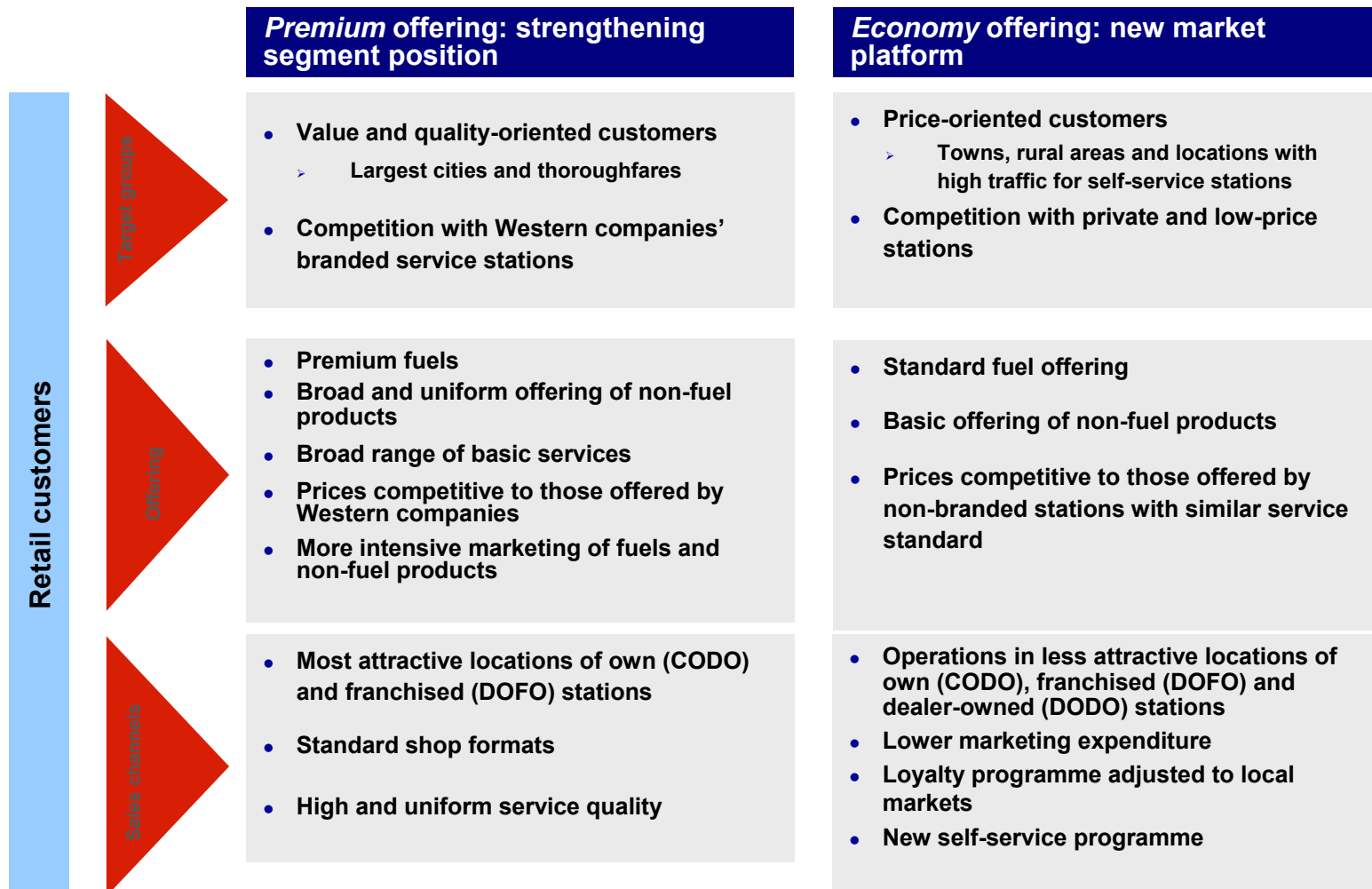
\*Selected competitors of PKN ORLEN  
Source: Company estimates



**ORLEN**

# Strengthening Market Position: Offering for retail customers

## Segmentation of PKN ORLEN's offer for retail customers



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

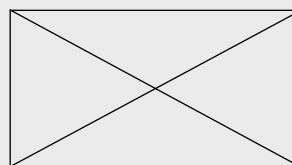
\*Including 59 franchised stations

## 2009 target structure of the service stations network<sup>1</sup>



**Premium  
offering**

ca. 1000



**Economic  
offering**

ca. 900

**TOTAL**

ca. 1900

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



# Agenda

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

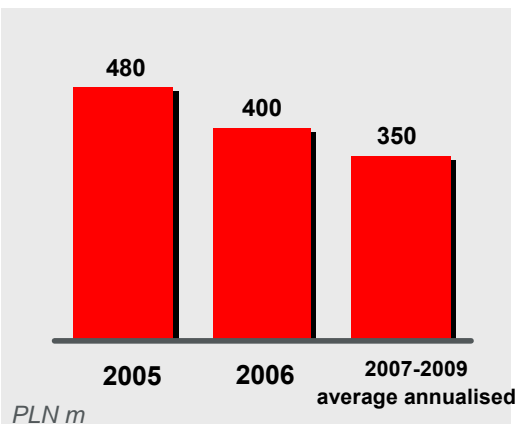
## **Enhancing Operating Efficiency**

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



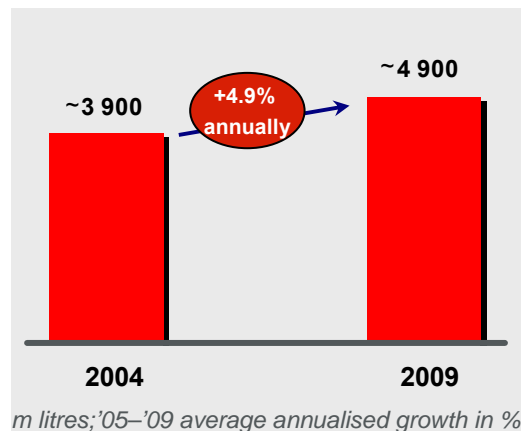
# Capital expenditure to reverse the current trend and to achieve a minimum 30% market share

## Capital expenditures



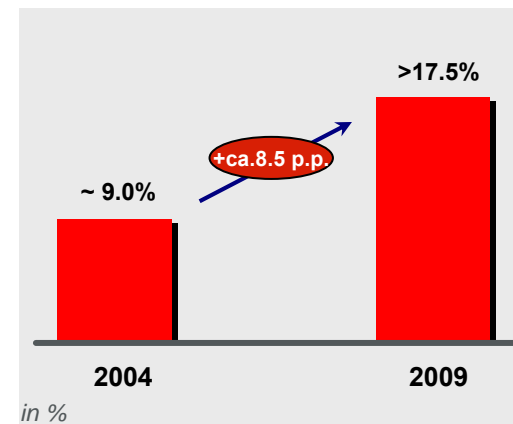
- Programme of capital expenditure for network optimisation and restructuring:
  - Network maintenance
  - Construction of new stations, rebranding and upgrade
  - Introduction of new products in the *Premium* offering

## Increase in sales fuels<sup>1,2</sup>



- 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 ROACE<sup>3</sup>



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

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

<sup>2</sup> Source: Company estimates; Nafta Polska; PFC Energy

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





# Enhancing Operating Efficiency

Goals

## Sales channels management – network expansion plan<sup>1</sup>

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

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

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

<sup>2</sup> 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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- **Current Status Review**
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## **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.)<sup>1</sup>

- |  |                         |
|--|-------------------------|
| • <b>Market share<sup>1,2</sup></b>  | <b>min. 30%</b>         |
| ➢ <b>Sales volume</b>  | <b>~4.9 bn l/year</b>   |
| • <b>Intensification of the FLOTA programme</b><br>(share in sales revenue)                | <b>min. 20%</b>         |
| • <b>Average fuel sales per station</b><br>(company-owned stations [CODO])                 | <b>&gt;2.5 m l/year</b> |
| • <b>Non fuel margin's share in total retail margin</b><br>(company-owned stations [CODO]) | <b>~ 30%</b>            |
| • <b>ROACE<sup>3</sup></b>   | <b>&gt;17.5%</b>        |

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

<sup>2</sup>Source: Company estimates, Nafta Polska; PFC Energy; Citibank Handlowy

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

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# Additional Slides

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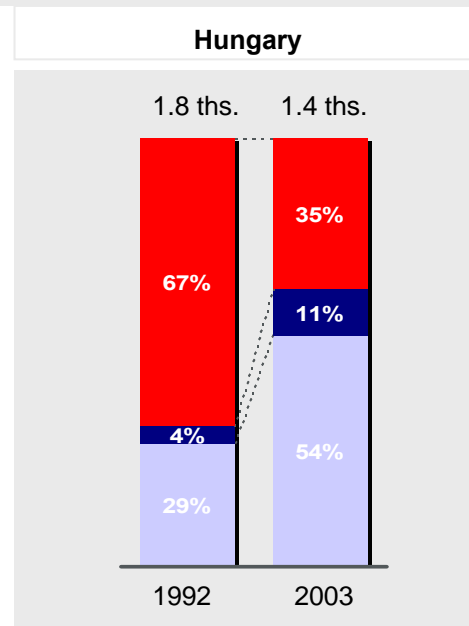
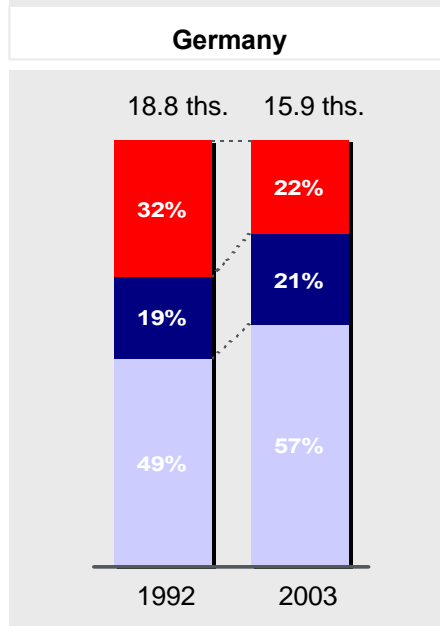
# Examples of successful strategies of alternative brands and offerings validating the PKN ORLEN's new segmentation strategy

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

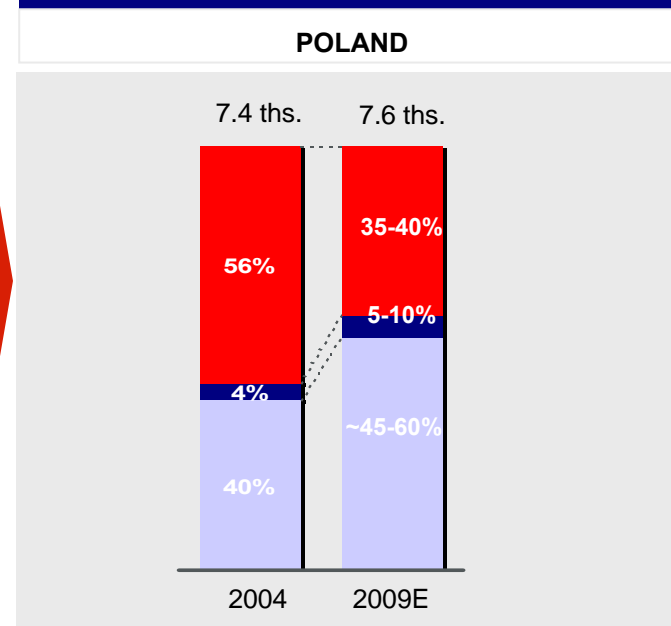
Source: PFC Energy

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

