BLISKA Economy brand implementation
Upside potential in the retail market

Anna Walczowska , Marketing Director
William Kozik , Retail Operating Director
June 28th 2006

ORLEN

Agenda

Retail market perspective in Poland and PKN ORLEN targets

Retail market segmentation in the Polish market

Brand approach in the Czech retail market

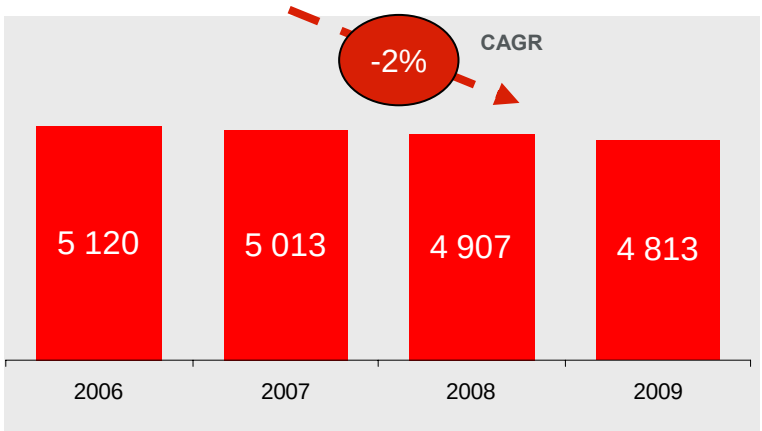
BLISKA brand implementation

Financial perspective of the economy brand implementation in Poland

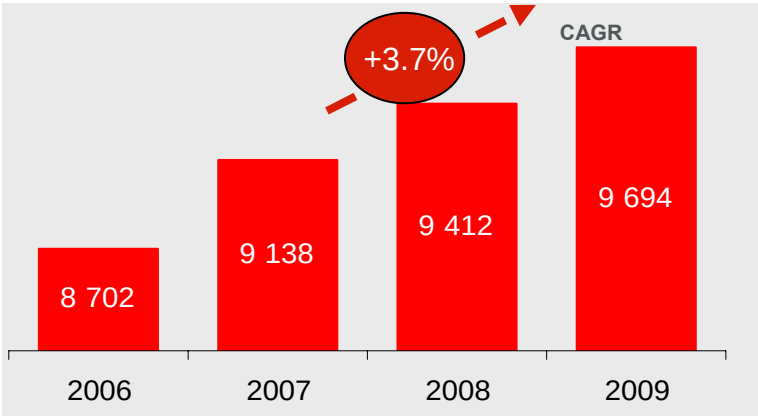
Supporting slides

Total fuel consumption forecast
in Poland 2006-2009

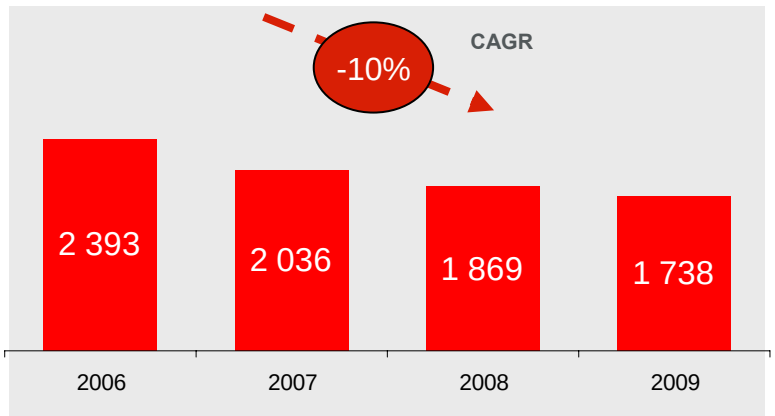
Gasoline [th. l]



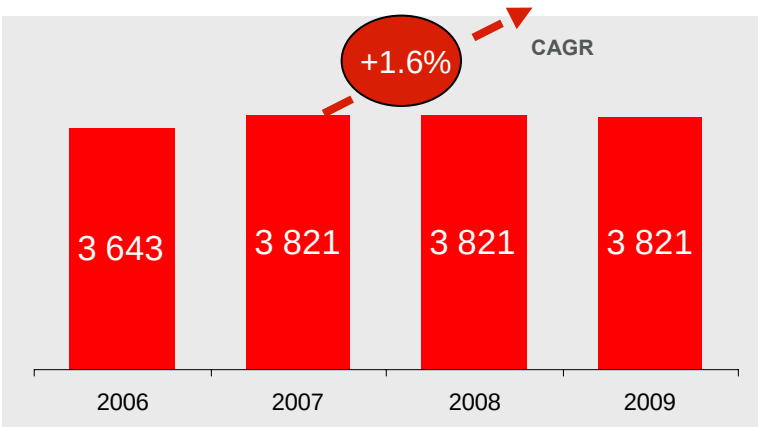
Diesel [th. l]



Light heating oil [th. l]



LPG [th. l]

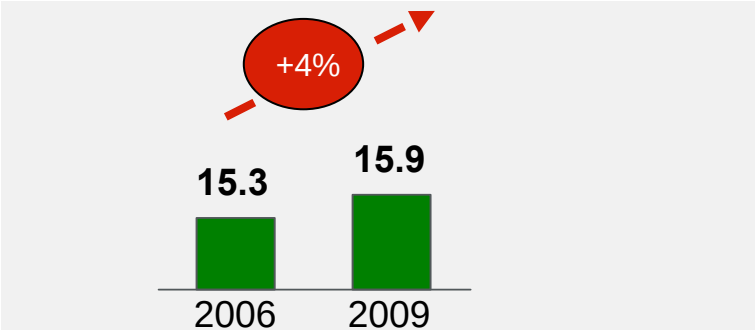


Source: Agencja Rynku Energii S.A.
CAGR: Compound Annual Growth Rate

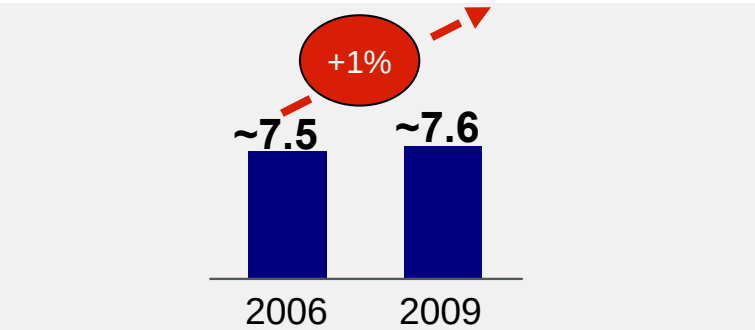
Position of PKN ORLEN

Retail fuel market in Poland

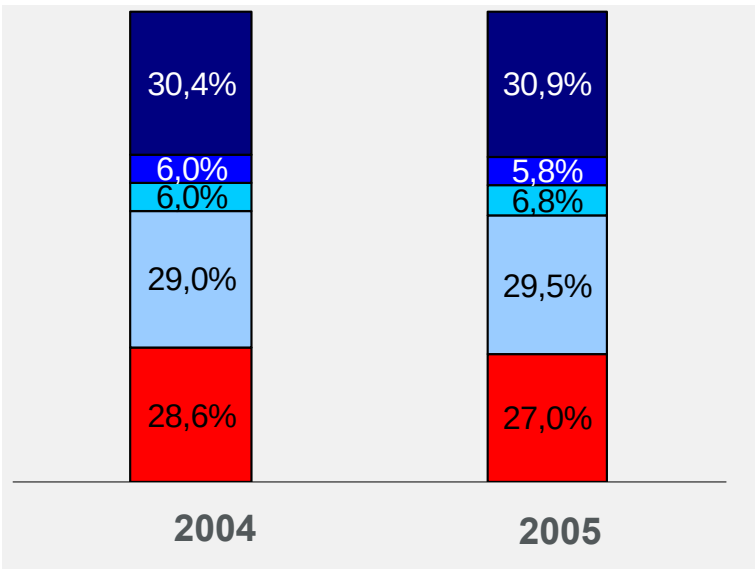
Retail fuel market (bn l)



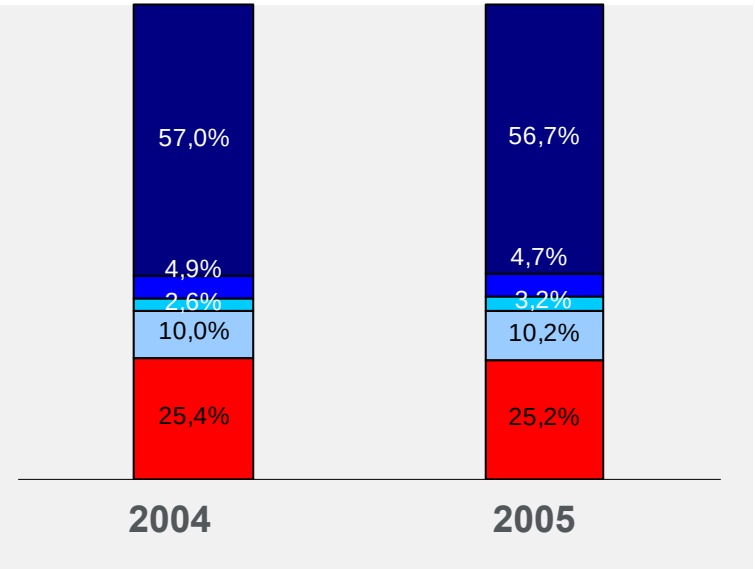
Number of retail sites (th)



Market share (volume) [1, 2]



Market share (number of stations) [3]



PKN ORLEN | BP, Shell, Statoil | Neste, Jet, Hypermarkets | Lotos | Others

1 Total retail volume assumes 75% diesel consumption and 100% of gasoline and LPG consumption
2 Source: PKN Orlen; Nafta Polska; PFC Energy
3 Includes CODO, DOFO, DODO and ROR stations. Source: PKN Orlen.

PKN Orlen Retail Strategy Plan for 2006-2009

aiming at minimum 30% market share and improving efficiency

Strategic objectives	Operating and financial objectives 2009	Area	Key initiatives
Strengthening market position	FLOTA programme's share in sales volume of at least 20%	Offering for business customers	• Intensification of sales to fleet customers • Adjusting the offering to match the needs of individual business segments
	Non-fuel margin share in the total retail margin in the Premium segment ~30% Average throughput at company-owned stations >2.5m litres per year	Offering for retail customers	• Implementation of strategies for the Premium and Economy offerings • Development of the non-fuel offering • Intensification of marketing of fuel and non-fuel products • Expanding the range of fuels offered in the Premium standard
Enhancing operating efficiency	Sales volume ~4.9 bn litres	Management of distribution channels	• Construction and modernization 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	• Improving the profitability of the company • Review and development of rules governing cooperation with franchised stations (DOFO)
Creating an efficient organization	Efficient organization	Reorganization and restructuring of the retail network	• Centralization of regional units and and selected management areas • Establishing an organizational unit responsible for managing all of the distribution channels (CODO, DOFO and DODO stations) and non-fuel product categories

Agenda

Retail market perspective in Poland and PKN ORLEN targets

Retail market segmentation in the Polish market

Brand approach in the Czech retail market

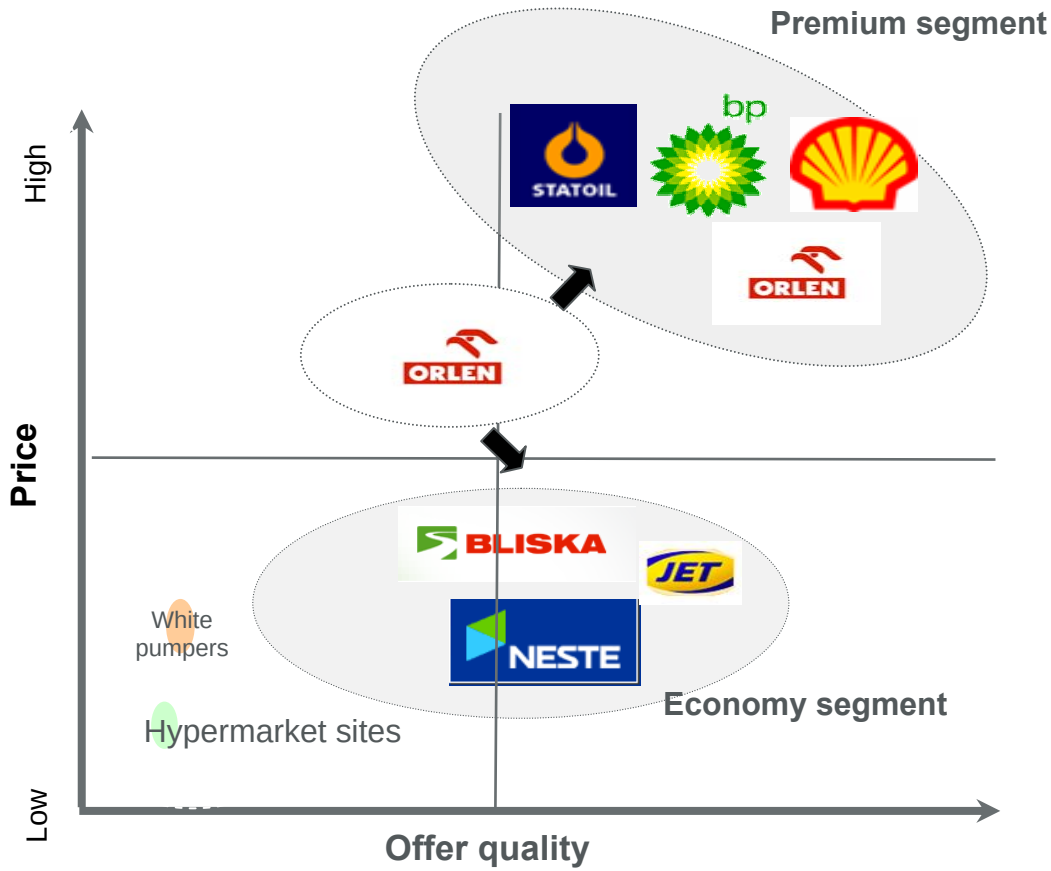
BLISKA brand implementation

Financial perspective of the economy brand implementation in Poland

Supporting slides

Dual brand approach as a reaction
to the polarisation of the market

Brand positioning



BLISKA - New PKN ORLEN economy brand

LOTOS, Petrochemia Płock S.A. - Unclear positioning

Comment

PKN ORLEN dual brand approach to the market

Offer clarification to different customer segments

Offer fuel standards, service and shops

Adapt station offering to local expectations

Effectively compete with local players

Optimisation of its station network (building new sites, sale of non-profitable locations)

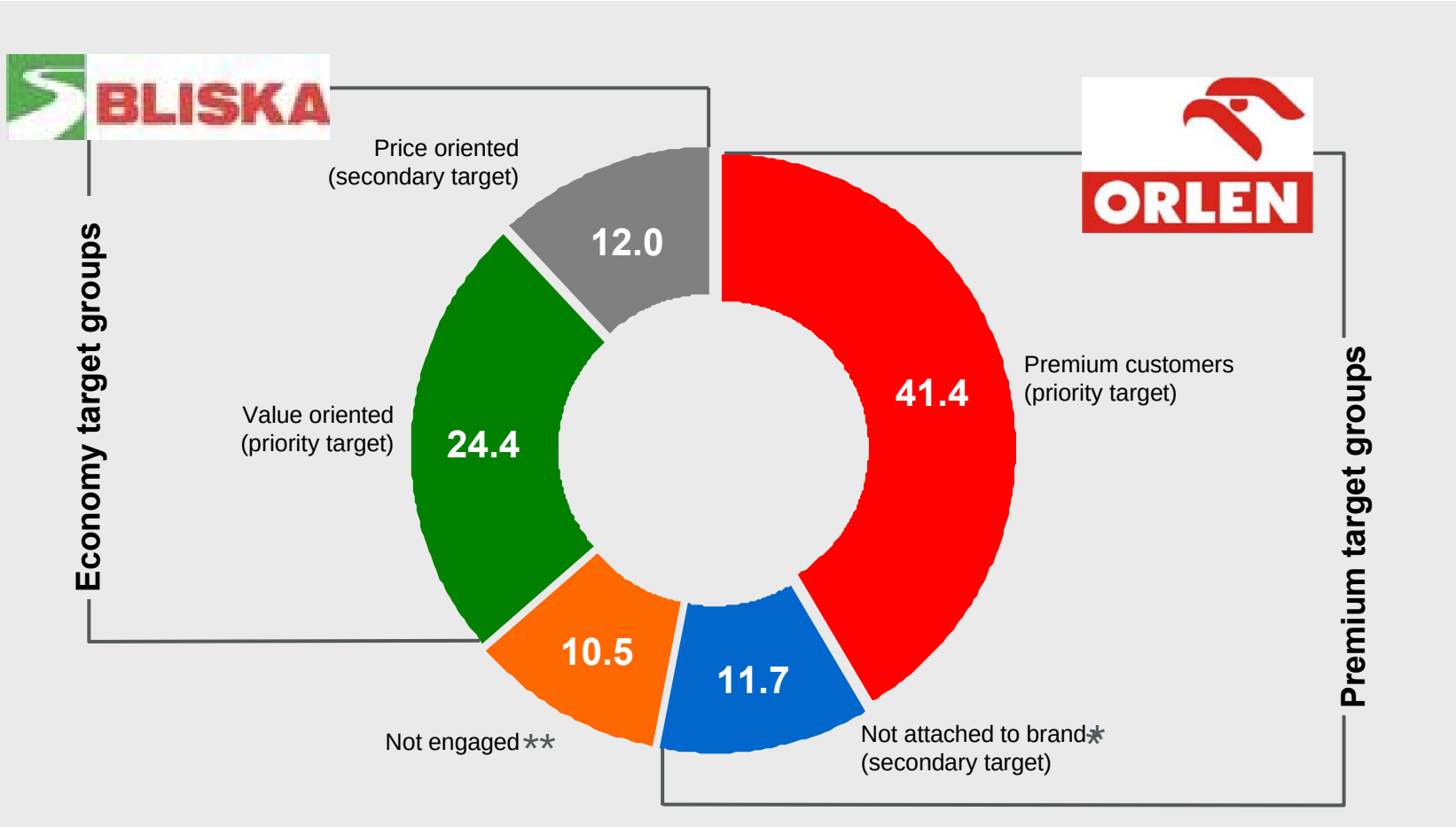
As a result, sales and market share will increase

Source: PKN Orlen

Via the Premium & Economy offerings,

PKN Orlen targets about 90% of the market's value

Premium & Economy target groups [value share, %]



*) Drivers concerned with fuel quality but are not loyal
**) Drivers with lowest frequency of fuel purchases and not concerned about fuel quality

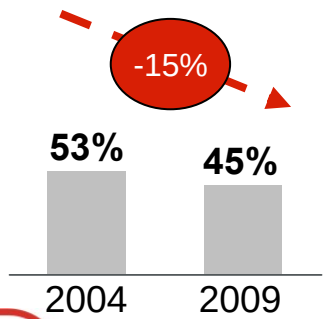
Source: Roland Berger, PKN Orlen Nuvit, Pentor

Value-oriented customers

is a segment with the highest growth potential

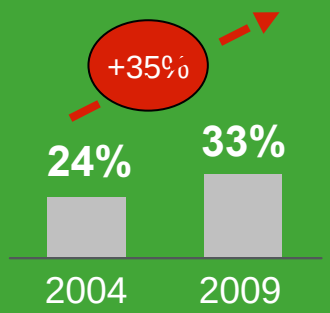
Quality seekers

- Highest quality for the highest price
- Attractive segment



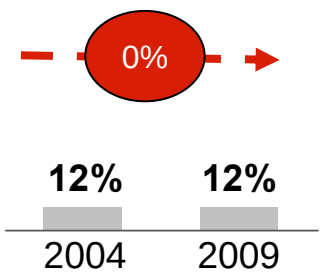
Value oriented

- **High quality at a reasonable price**
- **Loyalty**



Price seekers

- Lowest price
- Not interested in shop/services
- No loyalty



Source: PKN Orlen, Roland Berger

Value-oriented segment

offers high potential due to relatively weak competition

Quality seekers

- Strong competition from the big players (Shell, BP, Statoil) planning further development on the Polish market
- Potential for development for PKN Orlen thanks to considerable investments in high quality Premium stations (Orlen)

Value oriented

- **Weak competition (Jet, Neste, 123)**
- **Value oriented customers have no choice and have to use Premium or low quality stations**

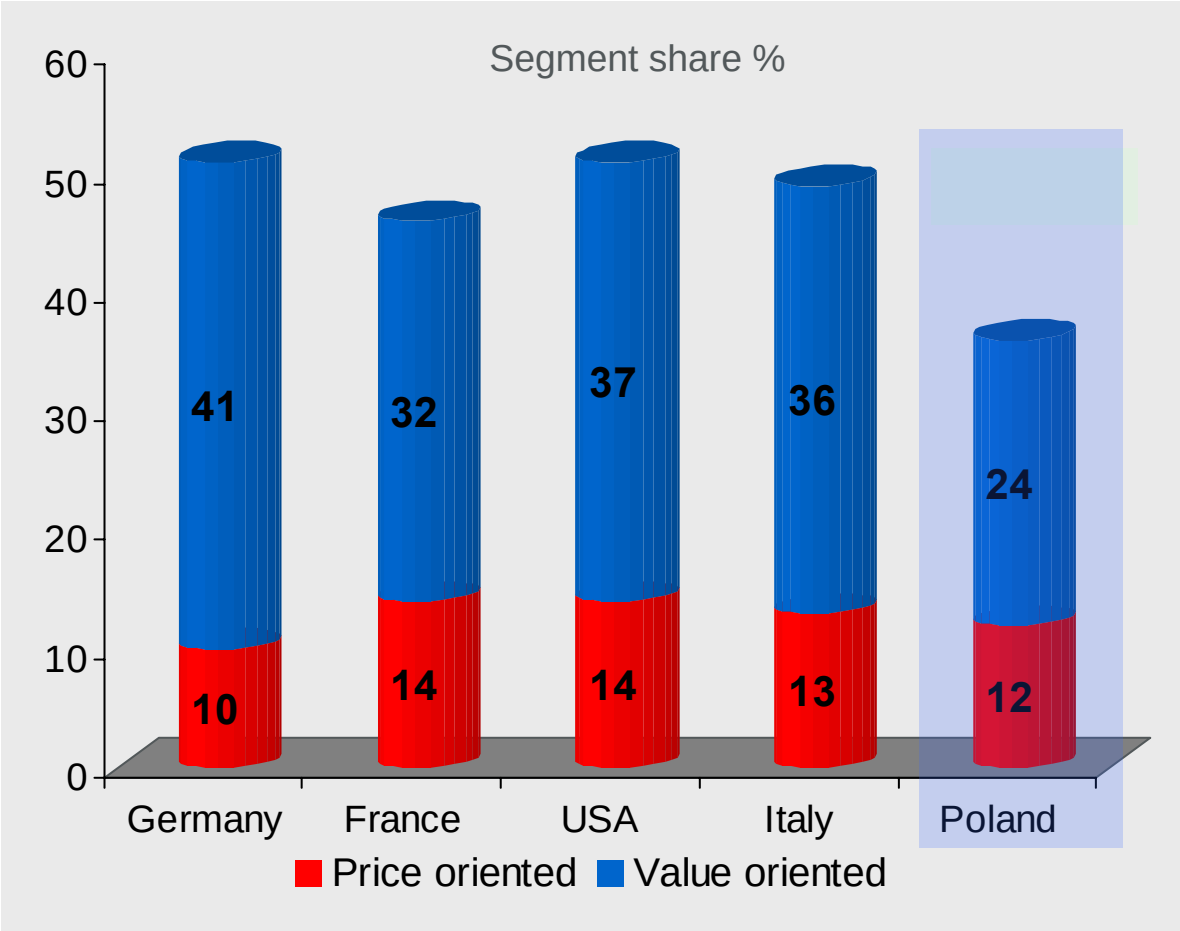
Price seekers

- Strong competition – especially from hypermarket stations and white pumpers
- Problems with winning customers' confidence in fuel quality
- White pumpers have to invest in their stations to adjust to EU requirements (environmental protection)

Example of other European countries shows potential for development of Economy service stations in the Polish market

Brand	Markets
STATOIL, 1 2 3	*Norway, Denmark, Baltic States*
Shell, metax	*Denmark*
Shell, TinQ	*Netherlands*

Economy and price seeker segments share in the whole market is up to 50% in Western countries



Source: Pentor, ifA Institute, Doxa, CONOCO, Roland Berger

Agenda

Retail market perspective in Poland and PKN ORLEN targets

Retail market segmentation in the Polish market

Brand approach in the Czech retail market

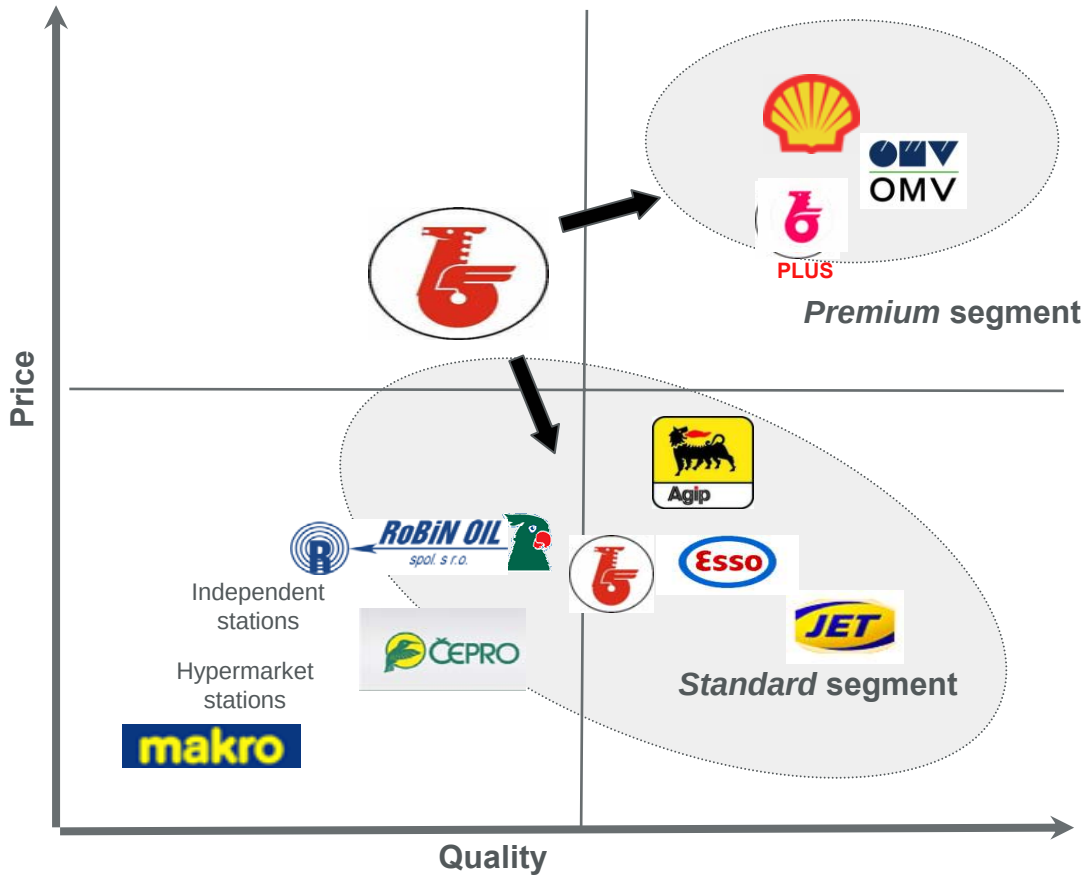
BLISKA brand implementation

Financial perspective of the economy brand implementation in Poland

Supporting slides

Dual brand strategy in the Czech market

Benzina PLUS and Benzina



Premium offering

- **Wide product offer**
- **Better quality of service**
- **High non-fuel sales**

Current situation

- **Lack of clear positioning**

Standard offering

- **Competitive prices**
- **Minimum operating costs, allowing margin optimization**

Value proposition
for BENZINA customers

Retail customers

	BENZINA PLUS offering : strengthening position in segment	BENZINA offering: Building new offering
Target segment	• Quality oriented customers ➢ Competing with international players	• Value oriented customers ➢ Competition with independent and budget stations
Offer	• High quality premium fuels • Broad non- fuel offer ➢ High quality of service ➢ Standard shops ➢ Broad service offer • Prices at the level of international players • Extensive marketing of fuels and services • Loyalty programs for premium and business customers	• Standard fuel offering • Basic offering of non-fuel products • Prices competitive to those offered by non-branded stations with similar service standard • Lower marketing expenditures • Loyalty programme adjusted to local markets
Sales channels	• Most attractive locations of own (CODO) and franchised (DOFO) stations • Cities and transit roads	• Operations in less attractive locations of own (CODO), franchised (DOFO) and dealer-owned (DODO) stations • New self-service programme in areas of high traffic

High quality of fuels and service in both segments

Agenda

Retail market perspective in Poland and PKN ORLEN targets

Retail market segmentation in the Polish market

Brand approach in the Czech retail market

BLISKA brand implementation

Financial perspective of the economy brand implementation in Poland

Supporting slides

Economy brand value proposition

good quality at attractive prices

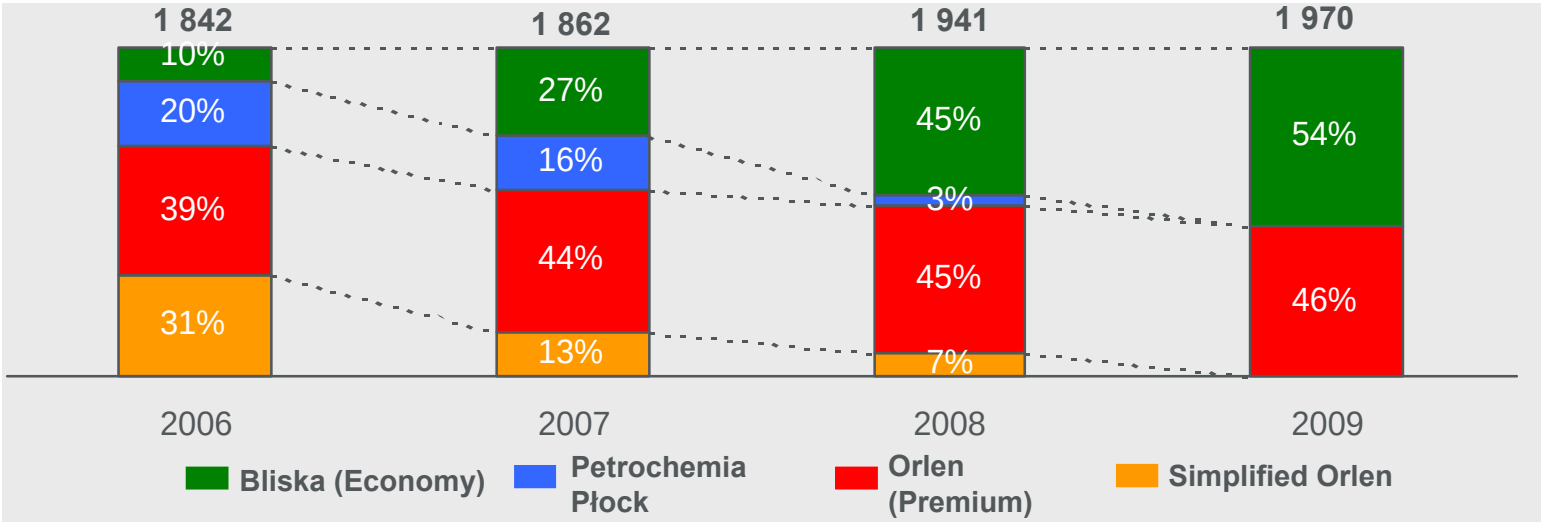
BLISKA

Economy brand value proposition

As a "smart" alternative to other branded networks the economy brand offers	• Many customers look for the best offer on the market, only a few seek the lowest price • Economy brand should be positioned as "smart" but not "cheap"
good quality	• Economy brand basically offers good quality fuels • Good quality is not the only factor that differentiates the brand
at attractive prices	• Good quality + attractive prices (not the lowest on the market) = "smart" offer
unlike Jet, the economy brand is a local, Polish network offering	• "Polish aspects" and big network are the elements that distinguish the Economy brand of PKN Orlen;
friendly, individual service	• Friendly, individual service are easy to introduce distinguishing elements for the Economy brand

Development of BLISKA network by 2009

Plan for network structure 2006 – 2009



Investment plan in the BLISKA network 2006 – 2009 shows average number of sites to be built or modernized into BLISKA in the coming years. In 2005 we opened 30 BLISKA stations.

	Average no of sites 2006 - 2009
New sites CODO	31
Major reconstruction CODO	34
Modernization CODO	106
Rebranding DOFO	73

Agenda

Retail market perspective in Poland and PKN ORLEN targets

Retail market segmentation in the Polish market

Brand approach in the Czech retail market

BLISKA brand implementation

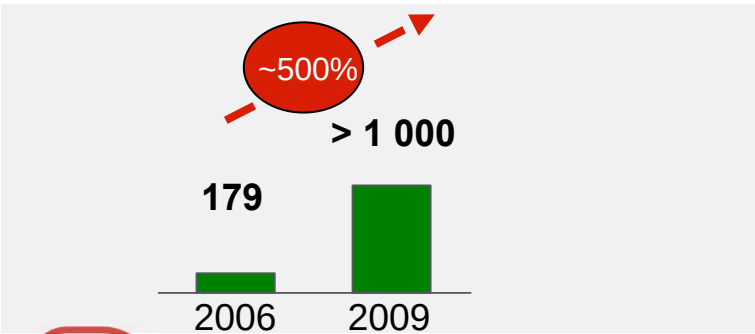
Financial perspective of the economy brand implementation in Poland

Supporting slides

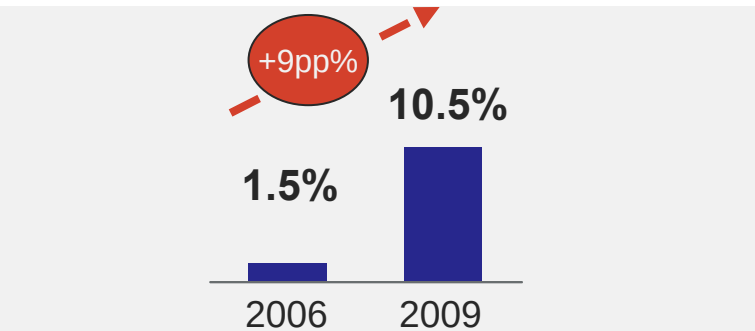
Strategic assumptions
for BLISKA network development

Main assumptions for BLISKA development	Value
Average CAPEX per site (rebranding+new sites)	PLN 1.2 m
Total CAPEX	PLN 1.16 bn
Total Volume	2 bn litres
Average volume uplift after rebranding	15%
Volume as % total sales of PKN ORLEN network	40%
Price differential vs Premium	5 gr/l
Loyalty programme, Premium fuels	No

Number of BLISKA sites in PKN ORLEN network

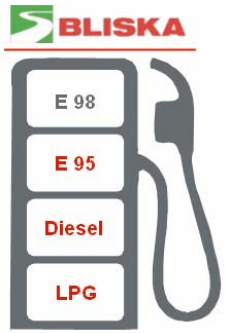


Market share of economy brand

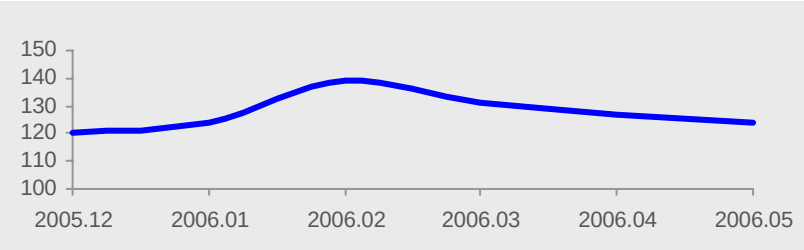


Sales increase at BLISKA stations by 30%

in the start-up period

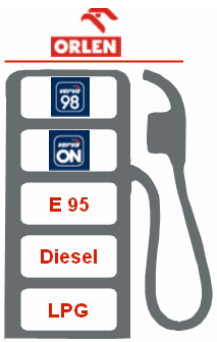


Sales dynamics in comparable conditions

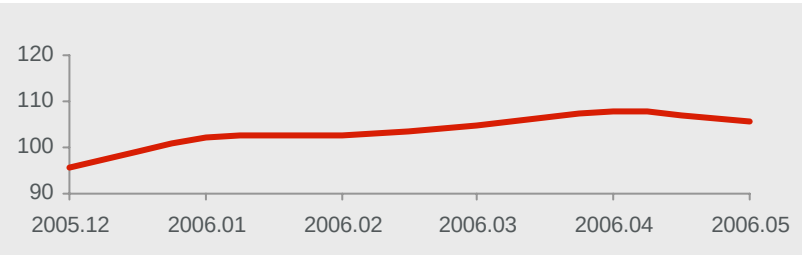


After rebranding of low-profile PKN ORLEN stations BLISKA (Economy brand), enjoys an average 30% sales increase in terms of volumes on a like-for-like basis

Average extrapolated fuel sales volume for the last 5 months amounts to 2.2 m l per site.



Sales dynamics in comparable conditions

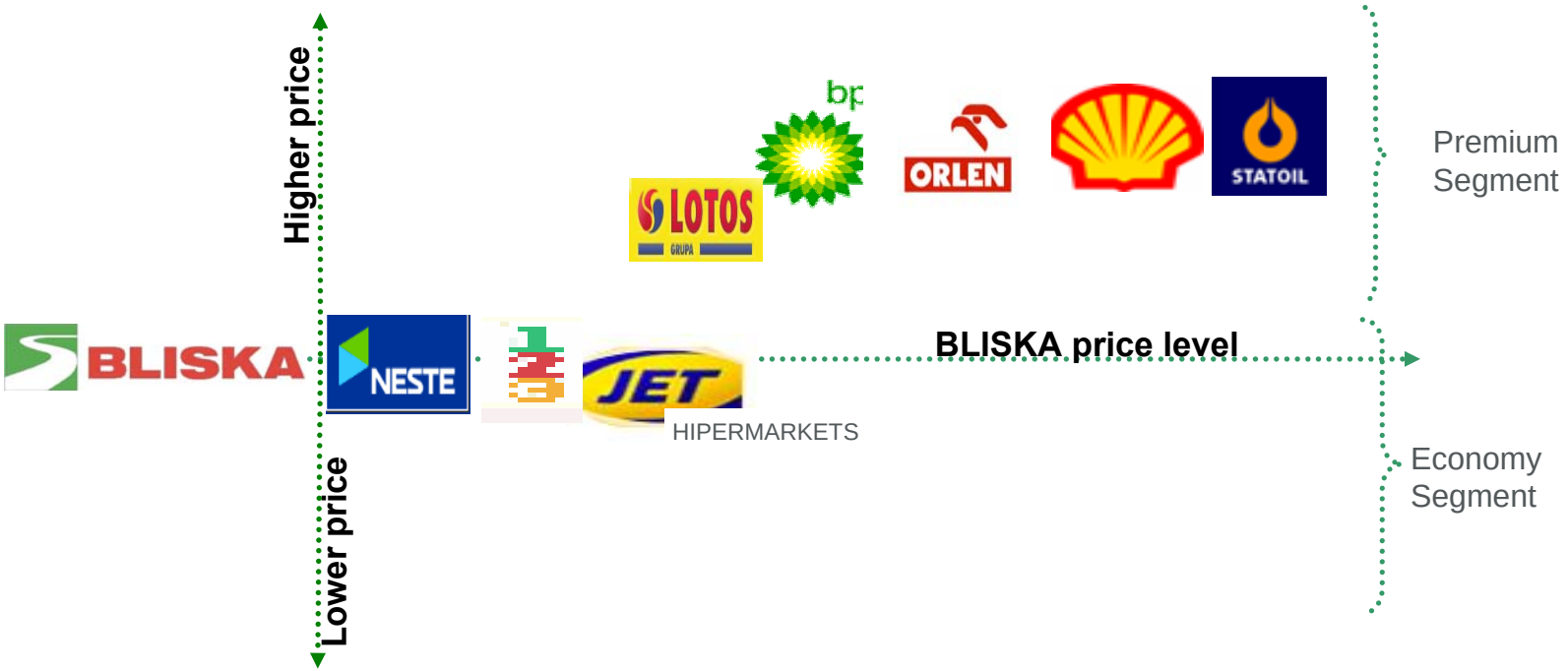


Price positioning of BLISKA
across the retail chain

Pricing at BLISKA sites

BLISKA retail chain positions its price against Neste, 123 and JET

BLISKA offers 3-5 gr/l discount against other players and price depends on local competition



Results of Retail Strategic Plan implementation

Strategic objective	Operating and financial objectives (2009)	Results Q1′2006 vs Q1′2005
Strengthening market position	Non-fuel margin share in the total retail margin in the Premium segment ~30%	+12.6% (increase in the value of non-fuel margin)
	FLOTA programme's share in the sales volume of at least 20%	+16.8% (increase in the sales volume of fuel by FLOTA)
	Average throughput at company-owned stations >2.5m litres per year	+5.3% (increase of the average throughput at stations)
Enhancing operating efficiency	Sales volume ~4.9 bn litres	+6.5% (increase in sales volume)

Agenda

Retail market perspective in Poland and PKN ORLEN targets

Retail market segmentation in the Polish market

Brand approach in the Czech retail market

BLISKA brand implementation

Financial perspective of the economy brand implementation in Poland

Supporting slides

Premium and economy offer
meets market expectations

	Premium offer	Economy offer
Customer group	• Drivers caring for themselves and their cars – demand for quality and services	• Value oriented drivers not believing in the difference between branded sites – but they will not sacrifice quality for price
Offer	• High quality branded fuels (Verva) • Broad service offer (eg car wash) • Full convenience offer, mainly premium brands • Bistro offer – where possible • Loyalty programme	• Standard quality fuels • Basic service offer (compressor, toilet) • Basic impulse products offer and first need consumption products, also cheaper brands
Channels of distribution/ sites	• High quality sites (full rebranding) with large shops • Mainly in cities and on transit roads	• Many small shop sites (“kiosk”) • Big share of sites in small cities/villages

Source: PKN Orlen, Roland Berger

Development of dual brand strategy

Premium and Economy breakdown

Structure of the service stations network, May 2006

Full branding ORLEN — 623*

Economy BLISKA — 45

Basic branding — 743

CPN — 42

Petrochemia Płock — 469

TOTAL — 1 922

2009 target structure of the service stations network

Premium offering — ca. 900

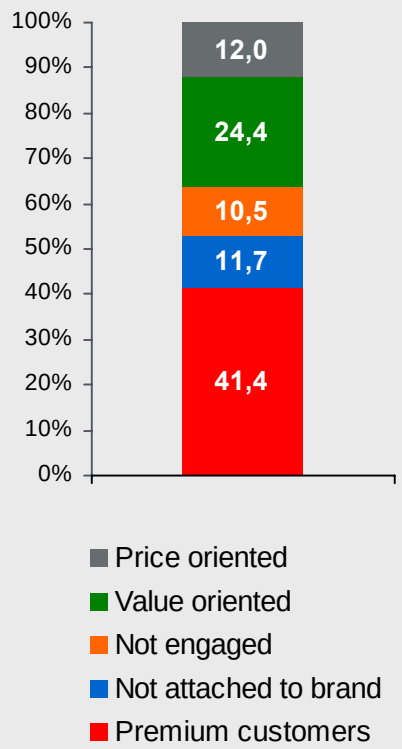
Economy offering — ca. 1 000

TOTAL — ca. 1 900

*Including 101 franchised stations

Forecast indicates that by 2009 a number of premium customers will migrate to the value oriented segment

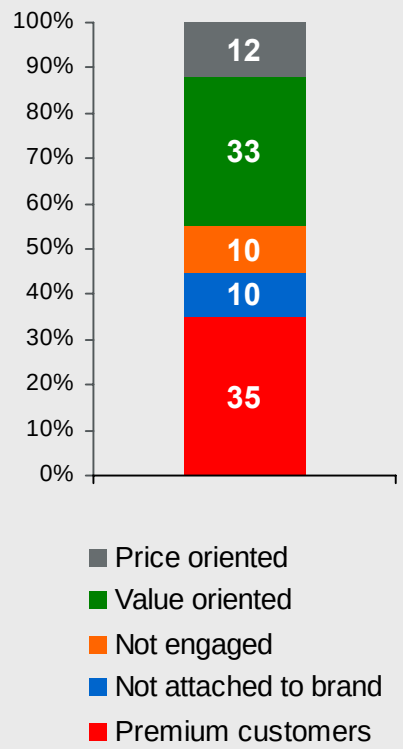
Segment size 2004 [value share, %]



Key trends

- **Moving from premium to value oriented**
- **Movement of non-attached to premium as a result of better offers**
- **No growth of the price oriented segment mainly due to the park segment renewal**
- **Stable non-engaged segment – 10% is normal in most countries**

Estimated segment size in 2009 [value share, %]



Source: Roland Berger based on Pentor 2004/2005

Three basic customer segments

are represented on most West-European markets

Examples of Premium, Economy and Price station networks in Europe

	Germany	France	England	Poland
Premium segment	Shell, TOTAL, ARAL, ORLEN	Shell, TOTAL, Esso	Shell, bp	ORLEN, Shell, bp, STATOIL
Economy segment (value oriented)	star, JET	elf	JET, Esso	BLISKA, NESTE, JET
Price segment	METRO	Auchan, Carrefour	SAFEWAY Ingredients for life., TESCO, J Sainsbury plc	Geant, Auchan, E.LECLERC, White pumpers

PKN Orlen's brands ORLEN, BLISKA, star

THANK YOU FOR YOUR ATTENTION

For more information please contact our IR Department:
phone: + 48 24 365 33 90
fax: + 48 24 365 56 88
e-mail: ir@orlen.pl
www.orlen.pl