

# Taking pole position for further dynamic growth

## PKN ORLEN Investor and Analyst Day

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# Opening balance 2008/09: PKN Orlen's situation was difficult – both on the strategic and financial levels

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## Impact on the financial situation

- Rising debt - **net debt** has **increased rapidly** from PLN 0.5 bn in 2004 to PLN 14.3 bn in 1Q 2009
- Large investment program: PLN 21 bn of planed capex in Strategy 2007-2012
- Real **risk of breaching banking covenants**, lower ratings and cash-flow problems

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## Company's growth before 2008

- The so-far strategy of PKN ORLEN was mainly based on the **geographic expansion**
- This led the to the **increase in the value gap** of PKN ORLEN in relation to its regional competitors
- In the meantime, other oil and energy companies transformed into integrated **multi-utility concerns**



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## Deep economic crisis

- Increasing threat to foundations and prospects of oil companies focused on the crude oil processing
- **Low refining margins and Urals-Brent differential**
- **Overcapacity** together with **falling demand** significantly increases the **competitive pressure**

New PKN ORLEN Group Strategy  
2009-2013

*„Taking pole position to the further  
dynamic growth”*



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## The new strategy for 2009-2013 assumes core business development, divestments of non-core assets and entry into new attractive areas

### Main objectives of PKN ORLEN

### Priorities

|                                      |  |  |   |
|--------------------------------------|--|--|---|
| <b>Debt reduction</b>                | <b>Release of capital employed</b> through working capital optimization, assets disinvestment in chemical and telecom segments, solving the issue of obligatory reserves | <b>2009 – 2010</b><br><br><b>Preparation for further growth:</b> actions to improve financial performance, increase efficiency, reduce debt and finalize investments in core areas of activity |   |
| <b>Efficiency improvement</b>        | <b>Efficiency improvement as well as development and extension of the value chain in core areas of activity</b> - refining, retail and petrochemical segments            |  | <b>2011 – 2013</b><br><br>Further effectiveness increase of core assets,  |
| <b>Entry into new business areas</b> | <b>Diversification of activities,</b> strengthening the Group by limiting the downstream share in total business   |  | <b>investments in new segments in order to increase the company value</b> |



## Extensive range of strong and rigorous actions on debt reduction



### *Decreasing net debt by PLN 4 bn...*

- **Renegotiation of contracts with 27 banks** in order to maintain access to credit lines (waiver)
- **Financial leverage reduction** by 19 p.p. to 47%, which allowed to avoid the risk of downgrading rating (Rating Watch Negative)
- **Safe level** of net debt / EBITDA ratio
- Participation in drafting a new **law on obligatory inventories** and pioneering sale of inventories of USD 280 m
- **Sale of rights to CO<sub>2</sub> emissions** of PLN 700 m
- Continuing **program of non-core assets divestment**: Anwil, Polkomtel
- **Significant improvement of cash flows from operations**, both q/q and y/y, operating revenues higher than capital expenditures.

### *...despite the need to resolve issues from the past, amounting to PLN 2.3 bn*

- Redemption of the remaining shares in Orlen Lietuva (USD 285 m) – in order to obtain **full ownership and control** over the company
- **Purchase of Polkomtel shares** from TDC (EUR 177 m) in connection with the disinvestment process
- Solved **multi-case litigation with Agrofert**
- Initiated **arbitration proceedings against Yukos** in connection with the AB Mazeikiu Nafta acquisition





## Substantially efficiency improvement, security increase and development of core business



***Considerable efficiency improvements, savings of PLN 5.9 bn ...***

- **Increase of crude oil throughput**, improvement of both the yields structure and cost efficiency in the refining segment
- **Record results in the Retail segment**
- **Development of Petrochemical segment** - construction of PX / PTA and sales increase
- Wage freeze and **employment optimization** in the Orlen Group
- **Implementation of Poland's biggest optimization program to improve efficiency**, incl.:
  - CAPEX optimization – PLN 0.5 bn
  - Cost reduction – PLN 0.6 bn
  - Cash flow optimization – PLN 4.3 bn
  - Employment optimization - PLN 0.3 bn

***...create a solid basis for further development***

- **Increased security of oil supply** as a result of long-term contracts of a total worth of PLN 45 bn
- **Stable financial situation and safe level of debt** creates a solid basis for development of projects in new areas, requiring substantial additional capital expenditures
- **Building a strong and positive brand image of PKN Orlen**



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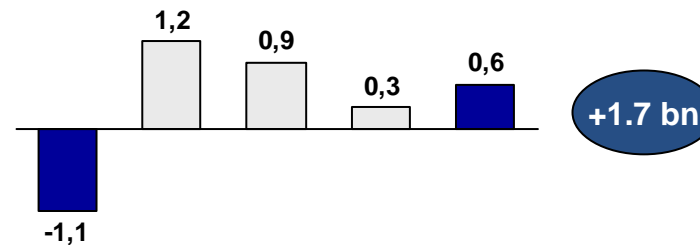
# Implemented initiatives resulted in significant improvement of financial performance

## Package of optimization programs:

- Optimization of CAPEX program initiated in 2007
- Cash flow generation
- Working capital improvement
- Sale of part of mandatory reserves
- Operating efficiency initiatives

### Net profit

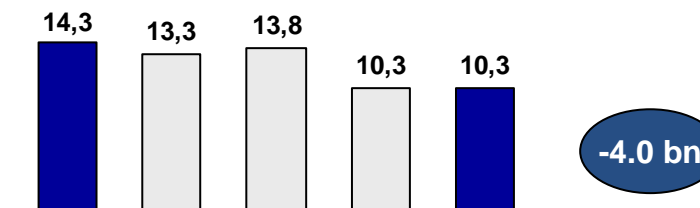
PLN bn



- Net profit improved by PLN 1.7 bn y/y and EBIT improved by PLN 0.7 bn y/y

### Net debt

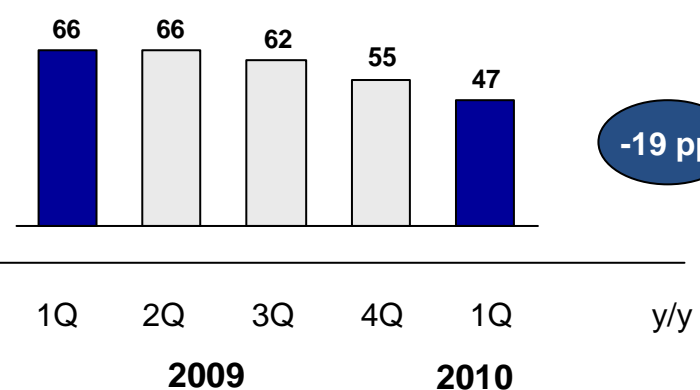
PLN bn



- Debt reduced to bn PLN 10.3 bn. Financial covenant - net debt/EBITDA on safe level >2,5x

### Gearing

%



- Net debt reduced by PLN 4.0 bn caused decrease gearing to 47%



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# Activities of PKN Orlen in 2009 were appreciated by market and external organizations

| Selected achievements                               | Description  |
|---|--|
| <i>Orlen among Top 500 companies* in the World</i>  | <ul style="list-style-type: none"> <li>• <b>FORTUNE</b> magazine ranked PKN ORLEN as <b>249th largest company in the World</b>. Orlen was the sole Polish company in the rank</li> </ul>   |
| <i>Keeping the rating and better prospects</i>      | <ul style="list-style-type: none"> <li>• <b>Fitch</b> agency <b>removed</b> PKN Orlen from a list of companies <b>under observation</b> for possible downgrading in the short term</li> </ul>  |
| <i>2010 Most convincing &amp; coherent strategy</i> | <ul style="list-style-type: none"> <li>• PKN Orlen won a <b>first place</b> for „<b>Most convincing and coherent strategy</b>” among companies in Poland</li> </ul>  |
| <i>2009 Best Investor relations in Poland</i>       | <ul style="list-style-type: none"> <li>• PKN Orlen has once again been <b>recognized and rewarded</b> by "<b>IR Magazine</b>" (an independent study of over 700 representatives from international capital market)</li> </ul>                    |
| <i>Highest reputation company</i>                   | <ul style="list-style-type: none"> <li>• PKN Orlen was awarded a title <b>Premium Brand 2009</b> and additional special title - Most Socially Engaged Company</li> <li>• First place in the ranking for "Most Valuable Polish Brands"</li> </ul> |



\* Ranked by revenues



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## Further value increase of PKN ORLEN is based on three catalysts



### Subsidiaries

#### Orlen Lietuva – maximising the possessed potential

- Logistics improvement
- Increase of sales volumes and market share
- Costs optimization including main turnaround moved to 2011

#### Unipetrol – further operating efficiency improvement

- Further optimization of employment
- Increase of retail sales efficiency and market share
- Optimization of polymers pricing policy and volumes growth



### Further reduction of debt

- **Obligatory inventories** – expected decision of Government regarding the draft of the act, partial sales of inventories to Deutsche Bank subsidiary
- **Anwil** – price offer below expectations. Sales process will be continued
- **Polkomtel** – completion of information package for investors. Preparation the Company both to IPO and to trade sale



### Development investments

#### Current segments

- **Start-up** at the end of 2010 **PX/PTA unit** producing 600 ths. tonnes of PTA
- **Start-up HON** unit mid 2010 allowing increase of target crude oil throughput by 2mt/y at full utilization of PX/PTA capacities

#### New segments

- Further preparation of investment in new segments: **upstream** and **energy**

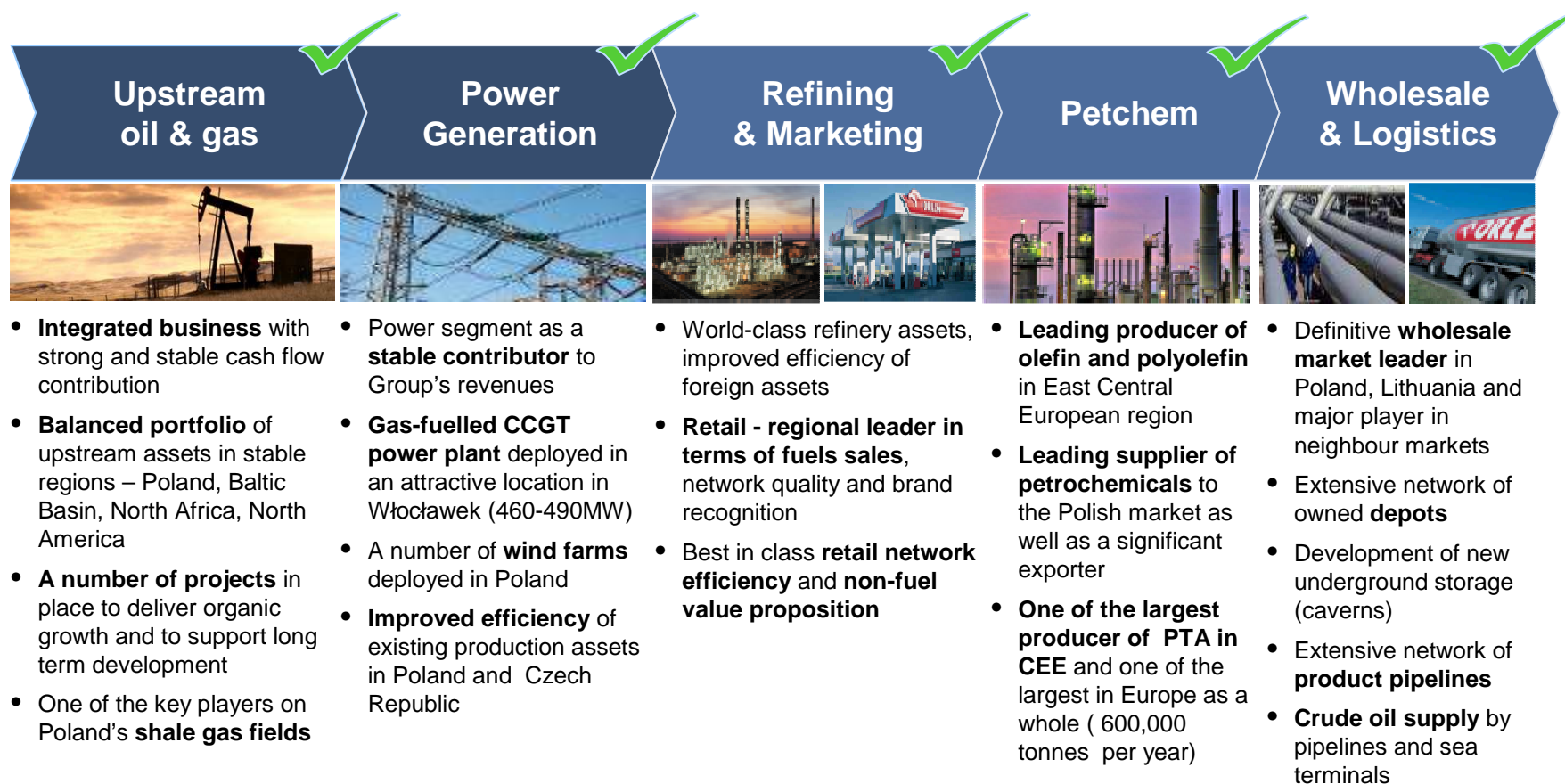


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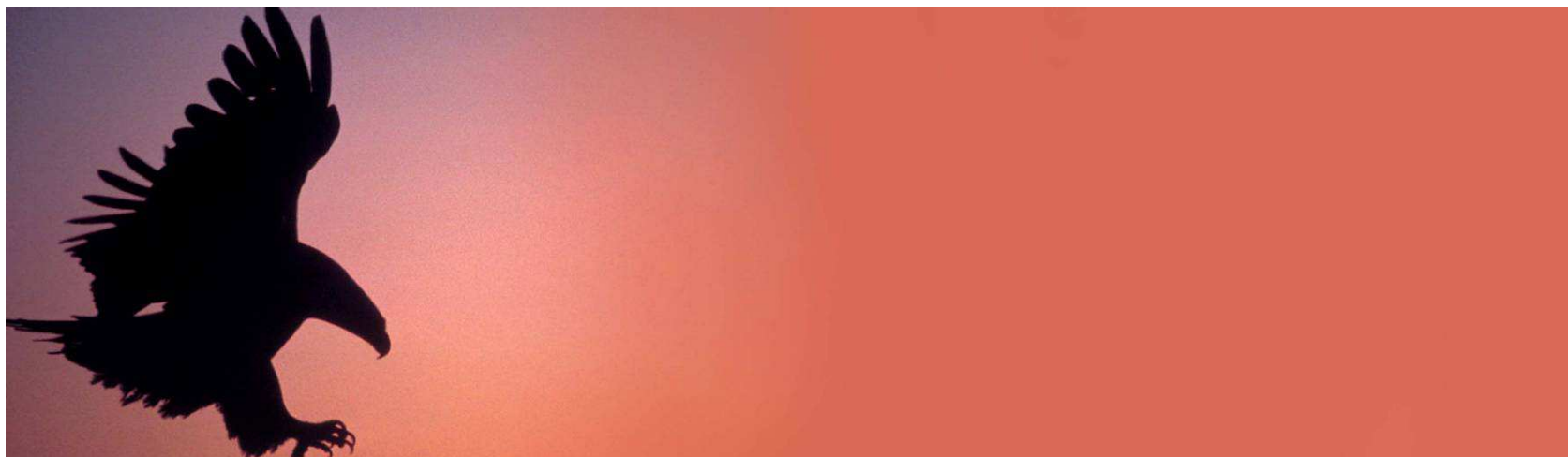


# Our vision is to turn PKN ORLEN into a multiutility player by moving into new segments – upstream and power generation

## PKN ORLEN's positioning



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## **Thank You for Your attention**

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