

**ORLEN**

**Polski Koncern Naftowy ORLEN**  
Spółka Akcyjna

## **Q3 2004 Results**

Consolidated , IFRS basis

**15 November 2004**

# Internal strengthening supports Q3 '04 results

- Increase in **wholesale volume** by **10.1%\*** y-o-y driven by long-term contracts with foreign companies
- **PLN 182 m savings** in Q3 '04 due to cost cutting programme
- **PLN 837 m - net profit** the highest quarterly profit in the company's history
- **ROACE 18.3%\*\* >> WACC 9.4%**

ROACE	After Q3 '04
PKN ORLEN - Group	18.3%
PKN ORLEN	22.9%
Production, Wholesale and Logistics***	32%
Retail	11%

\* PKN ORLEN – light products (gasoline, diesel, jet, LHO) \*\*\*Refining, Wholesale, Logistic and Petrochemicals

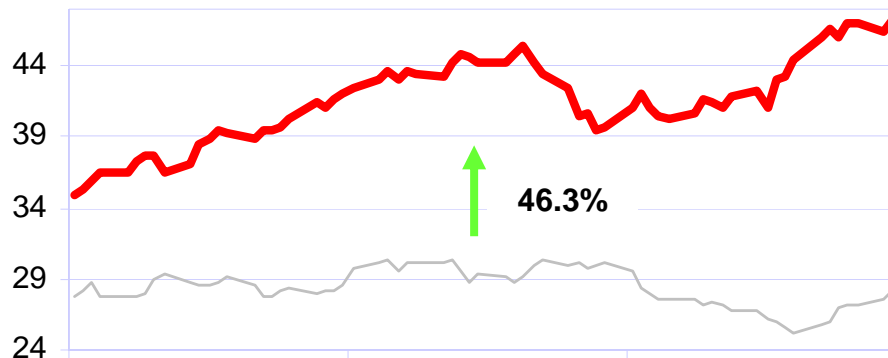
\*\* ROACE calculated for PKN ORLEN Group, IFRS basis, after 9 months and annualized

# Market environment in the oil & gas sector

## Favourable conditions

**Crude oil price, Brent (USD/b)**

— Q3 '04 vs Q3 '03 —

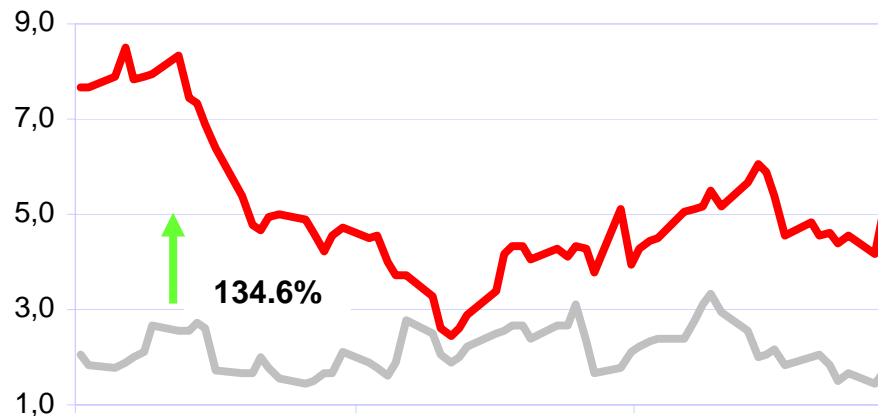


**Crude oil**  
Average in quarter

↑ 46.3% (y-o-y)  
to **41.57 USD/b**

**Refinery margin \*, Brent (USD/b)**

— Q3 '04 vs Q3 '03 —



**Refinery margin**  
Average in quarter

↑ 134.6% (y-o-y)  
to **5.02 USD/b**

**Ural/Brent differential**  
Average in quarter

↑ 246.8% (y-o-y)  
to **4.30 USD/b**

Source: Platt's and PVM

\*Calculated as: Products (88.36%) vs Brent Dtd (100%). Products contain Premium Unl (25.21%), EN590 (23.20%), Naphtha (16.51%), Gasoil .2 (15.31%), HSFO (5.44%) and Jet (2.69%) (all CIF NWE, only HSFO FOB ARA)

# 46% increase in crude oil price visible in 57% increase of refining\* revenues

IFRS basis, PLN m	Q3 '03	Q2'04	Q3 '04	y/y	q/q
<b>Refining</b>	2 620	3 362	<b>4 124</b>	57%	23%
<i>Poland</i>	2 620	2 879	<b>3 610</b>	38%	25%
<i>Germany (without excise tax)</i>	-	194	<b>231</b>	-	19%
<i>excise tax - Germany</i>	-	289	<b>283</b>	-	-2%
<b>Retail</b>	3 112	3 030	<b>3 120</b>	0,3%	3%
<i>Poland</i>	1 200	1 237	<b>1 379</b>	15%	11%
<i>Germany (without excise tax)</i>	760	730	<b>687</b>	-10%	-6%
<i>excise tax - Germany</i>	1 152	1 063	<b>1 054</b>	-9%	-1%
<b>Petrochemicals</b>	744	869	<b>1 050</b>	41%	21%
<b>Others</b>	134	145	<b>157</b>	17%	8%
<b>Revenues total</b>	<b>6 610</b>	<b>7 406</b>	<b>8 451</b>	<b>28%</b>	<b>14%</b>

Total revenues increase y-o-y in Germany as a result of increase of sales volume

Crude oil price increase visible in petrochemical revenues increase

# Operating costs

## Visible cost cutting effect

IFRS basis, m PLN	Q3 '03	Q2 '04	Q3 '04	y/y	q/q
Raw materials and energy	2 774	2 939	3 541	27,6%	20,5%
Costs of goods for resale	2 222	2 651	2 771	24,7%	4,5%
External services	456	452	440	-3,5%	-2,7%
Staff costs	254	295	243	-4,3%	-17,6%
Depreciation and amortisation	301	313	305	1,3%	-2,6%
Taxes and charges	58	62	66	13,8%	6,5%
Other	267	29	173	-35,2%	496,6%
<b>Total cost</b>	<b>6 332</b>	<b>6 741</b>	<b>7 539</b>	<b>19,1%</b>	<b>11,8%</b>

Cost cutting visible in  
**3.5%** reduction in  
external costs

Headcount decrease  
in PKN ORLEN  
Group by **1 306**  
employees during  
last 12 months

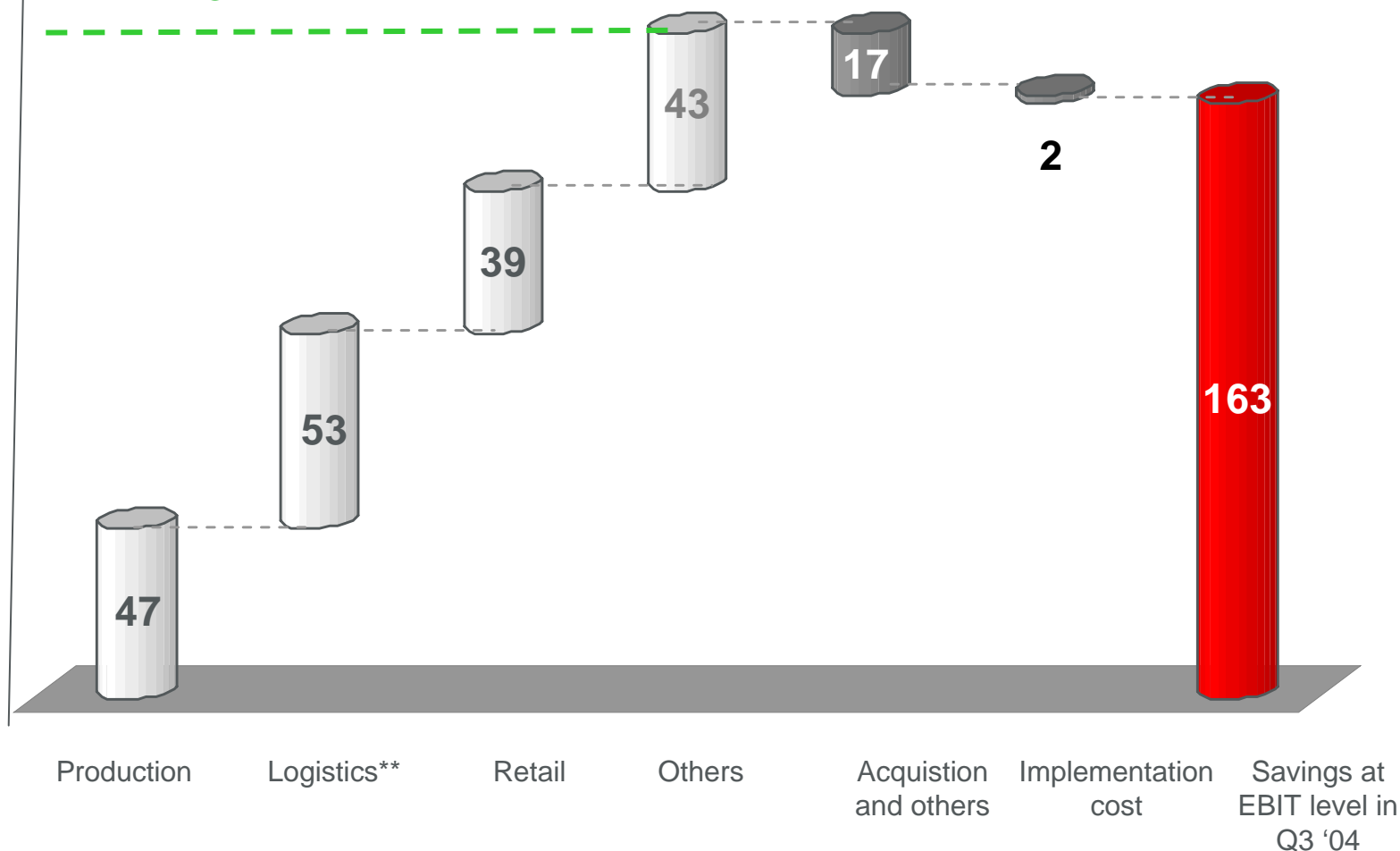
Change in inventories, deferred and  
accrued costs and cost of products  
and services for own use and others

Higher increase of total revenues  
28% (y-o-y) and 14% (q-o-q)  
compared to increase in total costs

# Positive influence of cost cutting programme on Q3 '04 results

In m PLN

PLN 182 m\*



\* Reduction costs vs 2002 costs base

\*\* Reduction costs in secondary logistics is attributed to the retail segment in our report

# Cost cutting visible in higher operating profit

IFRS basis, m PLN	Q3 '03	Q2 '04	Q3 '04	y/y	q/q
<b>Profit on sales</b>	1 122	1 523	<b>1 735</b>	55%	14%
GA expenses	(232)	(235)	<b>(202)</b>	-13%	-14%
Selling cost	(569)	(525)	<b>(528)</b>	-7%	1%
Others*	29	(26)	<b>10</b>	-66%	na
<b>Operating profit</b>	<b>350</b>	<b>737</b>	<b>1 015</b>	190%	38%
Refining**	313	654	<b>770</b>	146%	18%
Retail	62	53	<b>81</b>	31%	53%
Petrochemical	54	117	<b>216</b>	300%	85%
Others*	31	27	<b>13</b>	-58%	-52%
Non attributable	(110)	(114)	<b>(65)</b>	-41%	-43%

Cost cutting visible in  
**13%** GA cost  
reduction

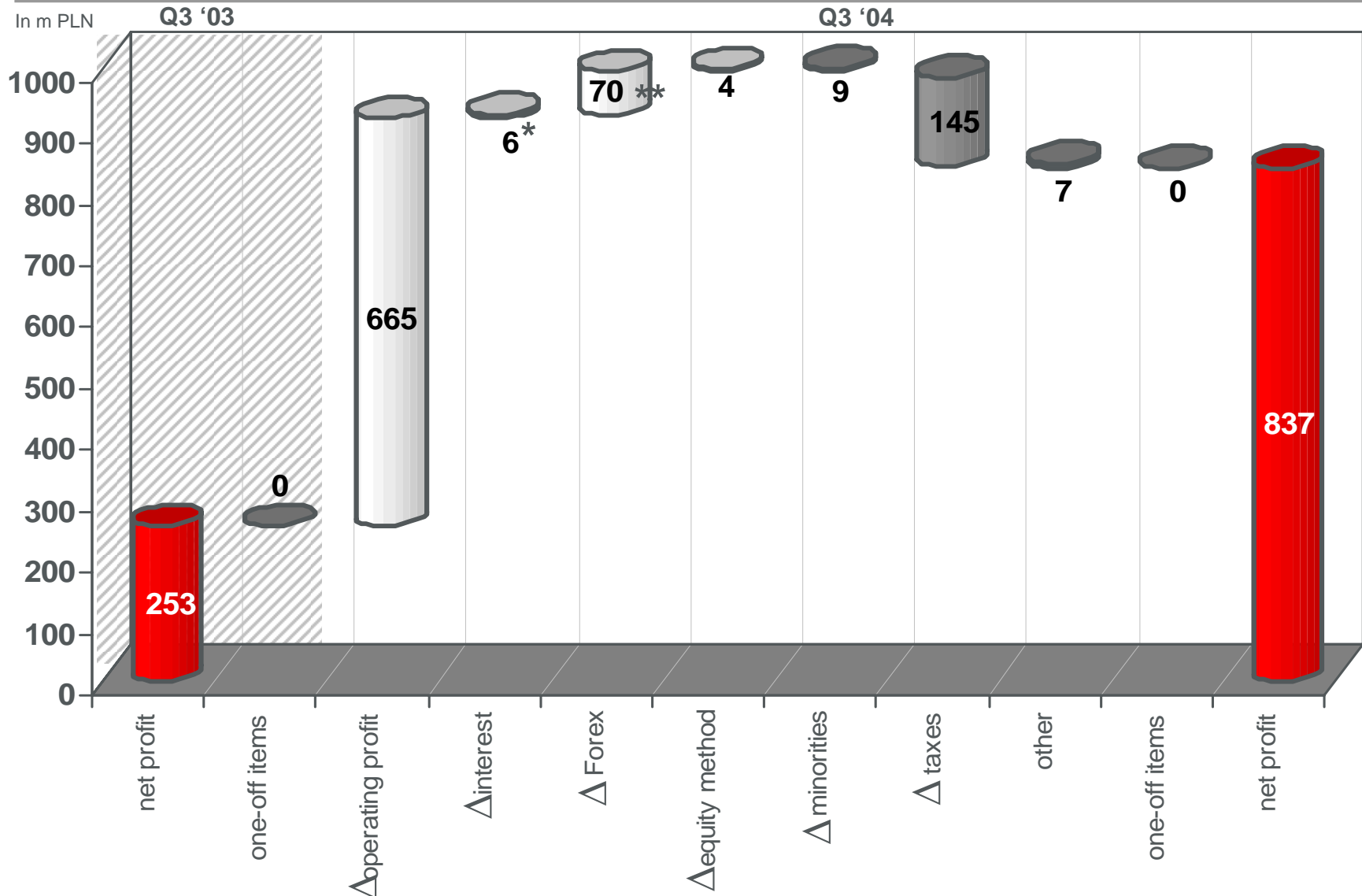
Good performance of Anwil  
and margin increase led to a  
**300%** increase in operating  
profit

Favourable external conditions, cost  
reduction and volume increase led to  
**146%** increase of operating profit in the  
Production & Wholesale segment

\* other operating revenues and cost

\*\* Production & Wholesale

# Net profit – cost-cutting and utilisation of favourable market conditions drives profit

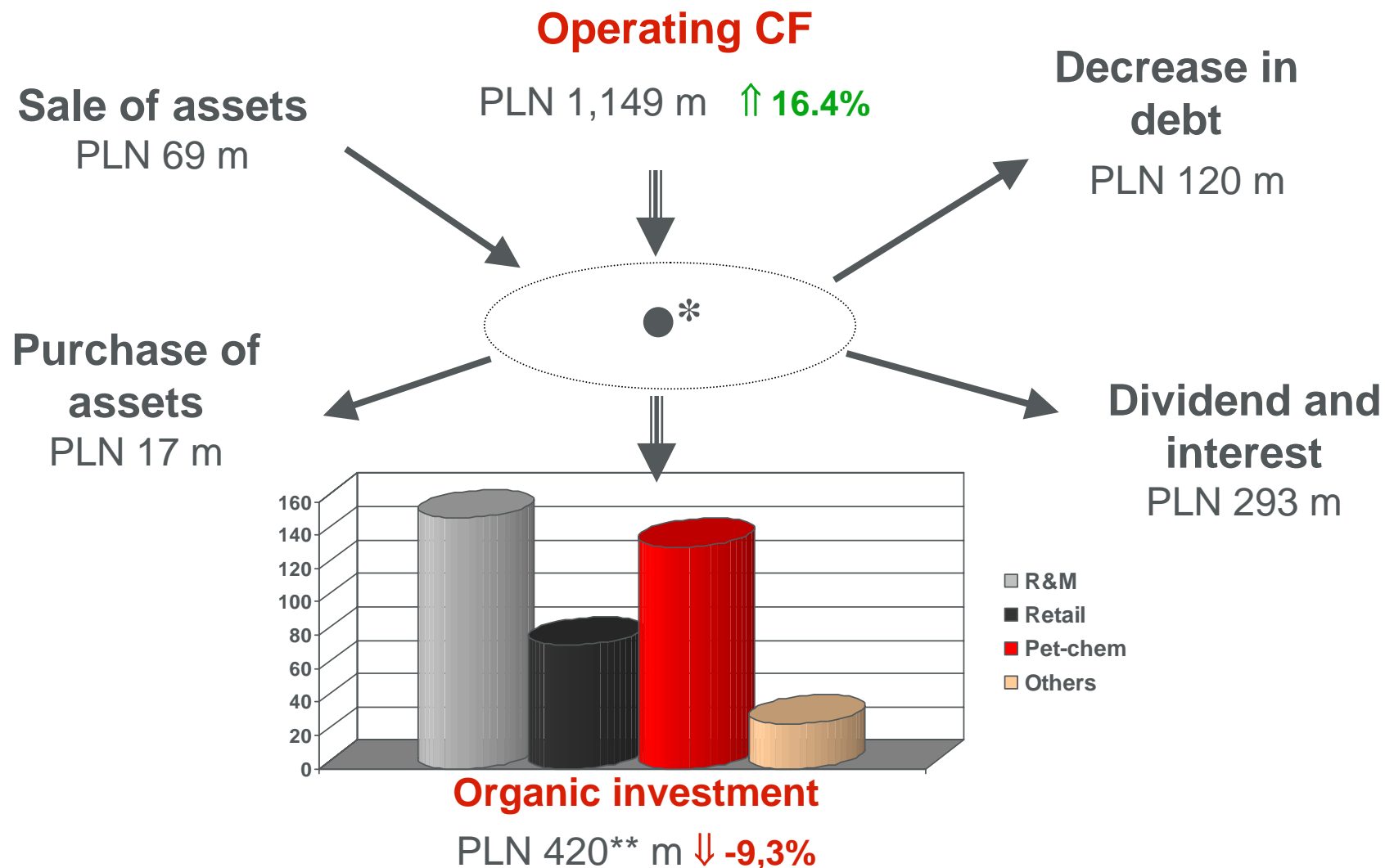


\* Net interest : PLN -6m in Q3'04 , PLN -12m in Q3'03

\*\* Forex: PLN 23m in Q3'04, PLN -47m in 3Q'03



# Company generates positive free cash flow

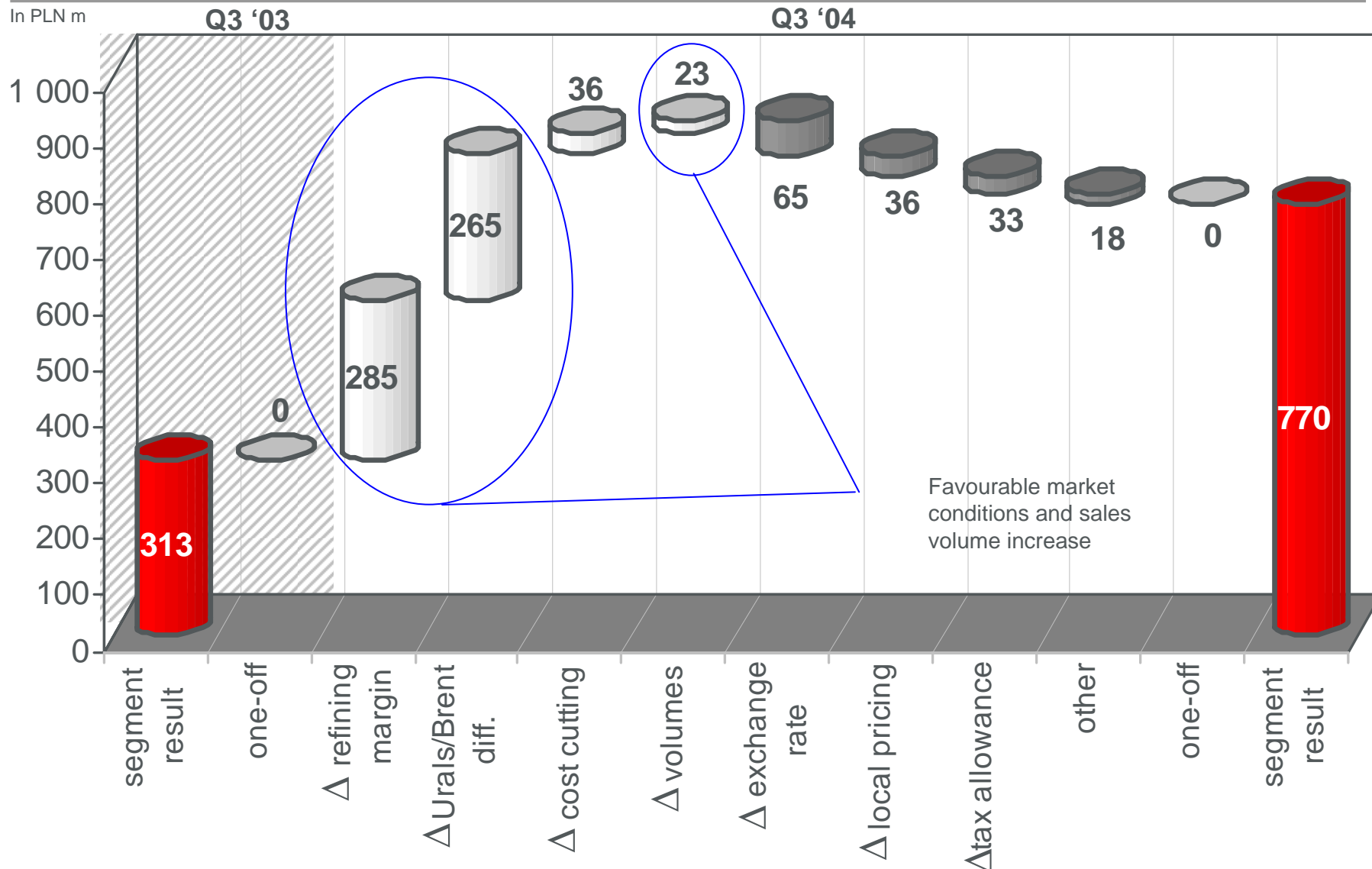


\* others -> PLN 368m

\*\* Assuming memorial accounting principle - the total investment in Q3 '04 amounted to PLN 384m

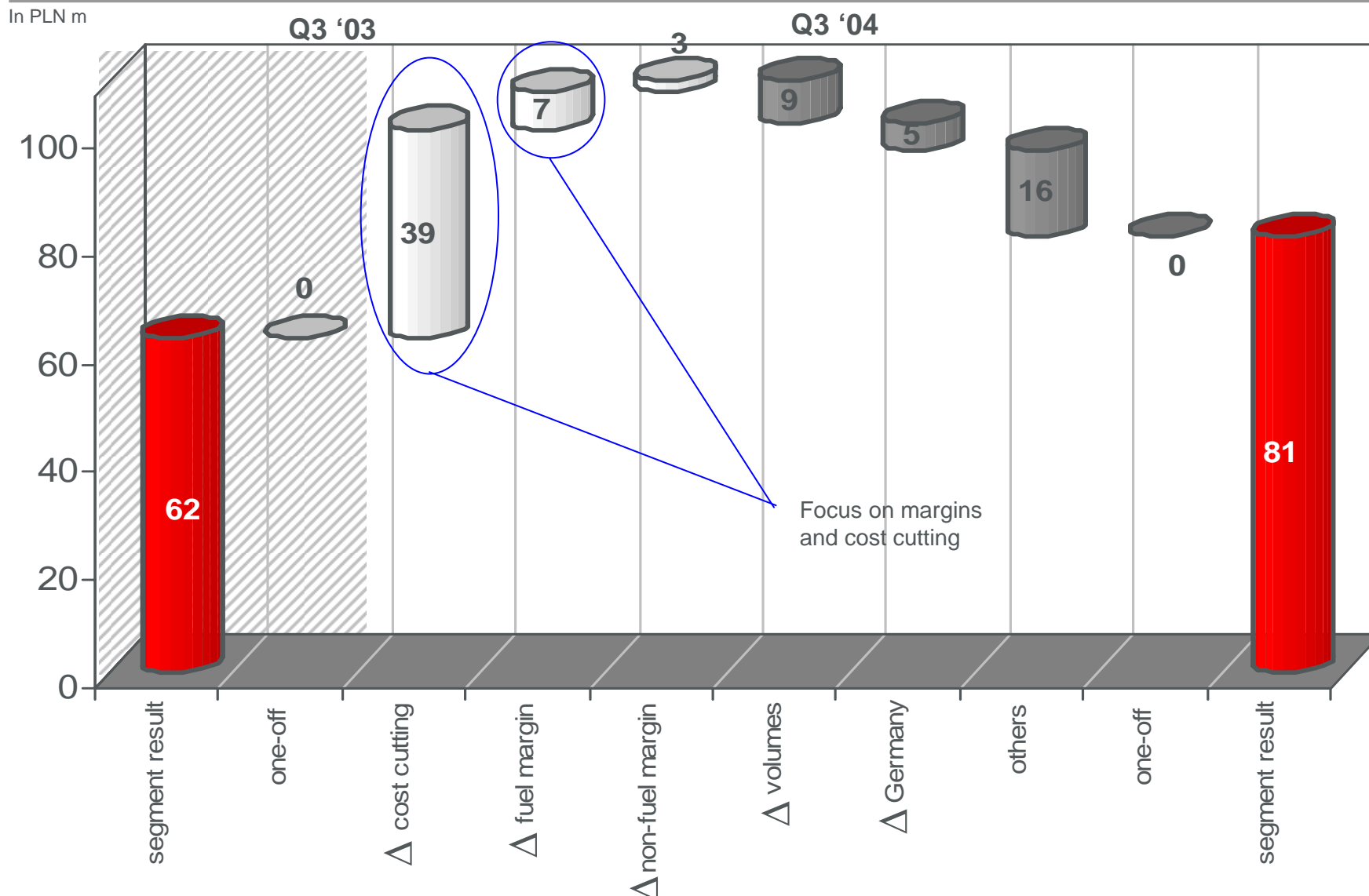
# Refining & Wholesale

## Margin and differential drives segment profit



# Retail

## Cost cutting drives segment profit



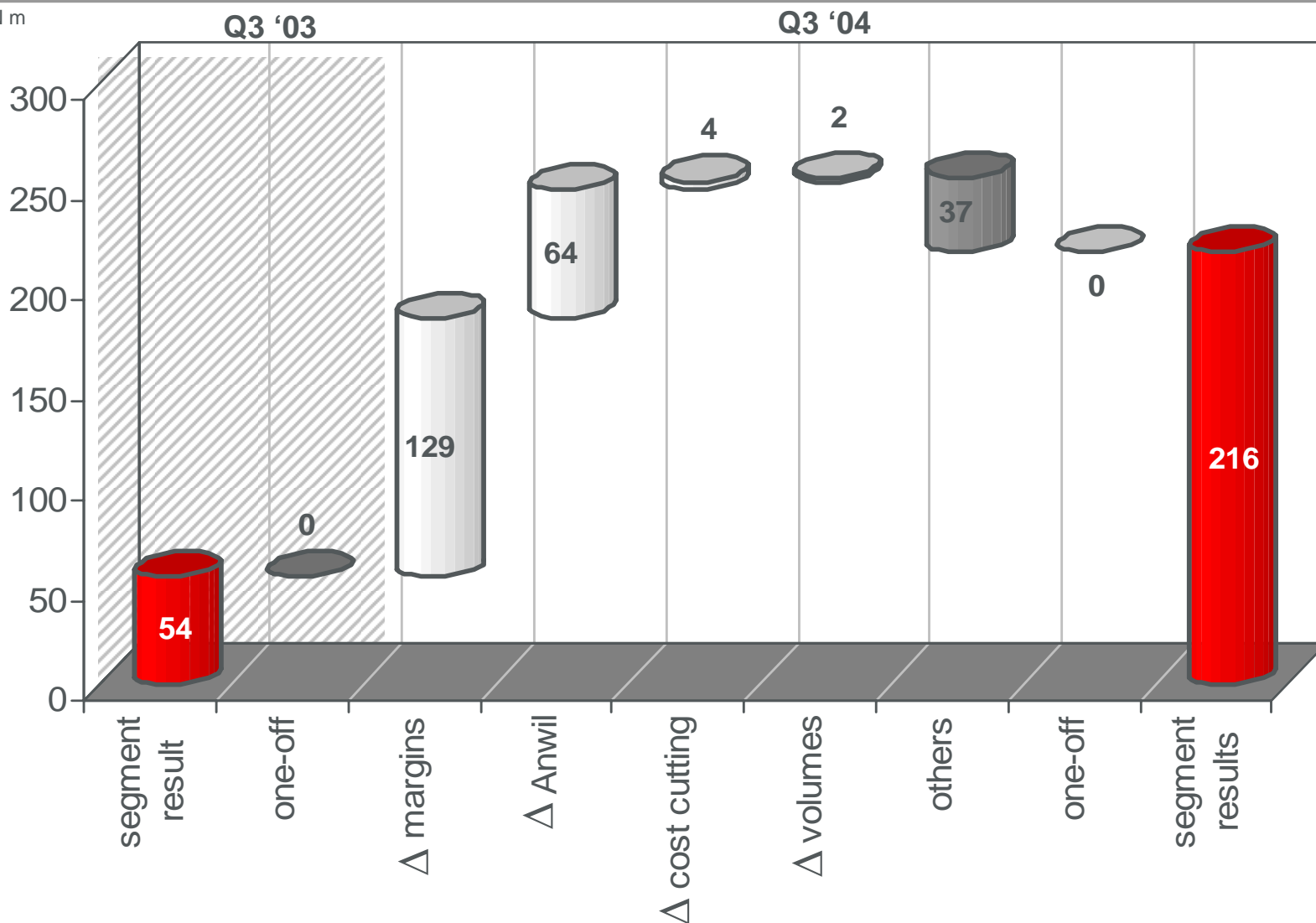
# Petrochemical

## Margin main drivers of segment profit

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In PLN m



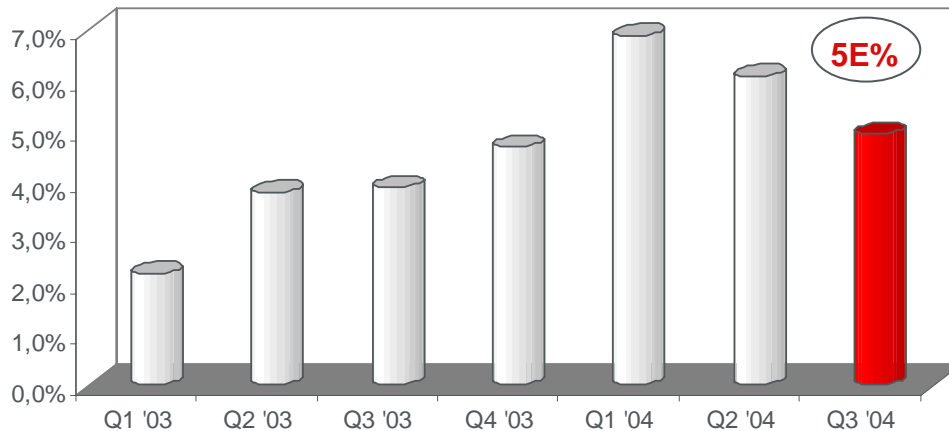
# Supporting slides

Market environment

# Market environment – Poland

## Noticeable recovery in the economy

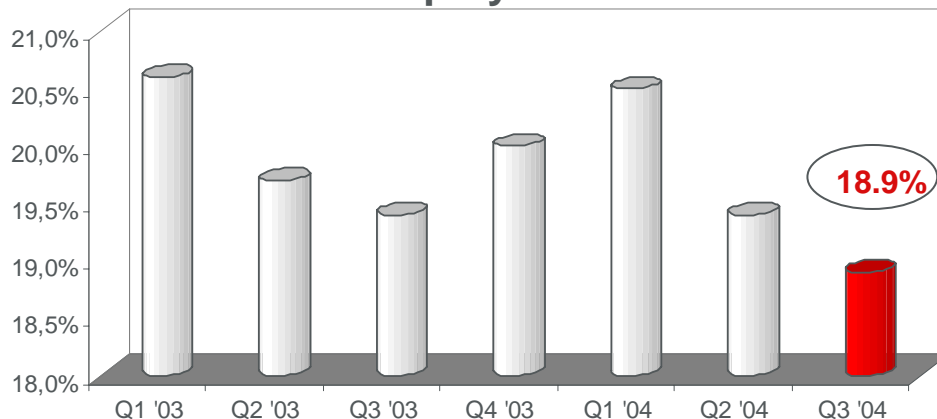
### Real GDP growth



- Visible increase of GDP proves stable economic recovery. High unemployment rate continues—**18.9%** (y-o-y)

- Estimated increase in new car sales by **0.5%** (y-o-y)

### Unemployment rate



- Estimated increase of domestic fuel consumption (gasoline, diesel and LHO) by over **3%E** (y-o-y)

- Decrease in PLN/USD exchange rate from 3.93 to **3.62** (y-o-y).

# Supporting slides

Cost cutting programme

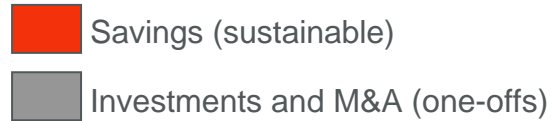
# Operating cost reduction in PKN ORLEN

## Fully realised plan for Q3 '04

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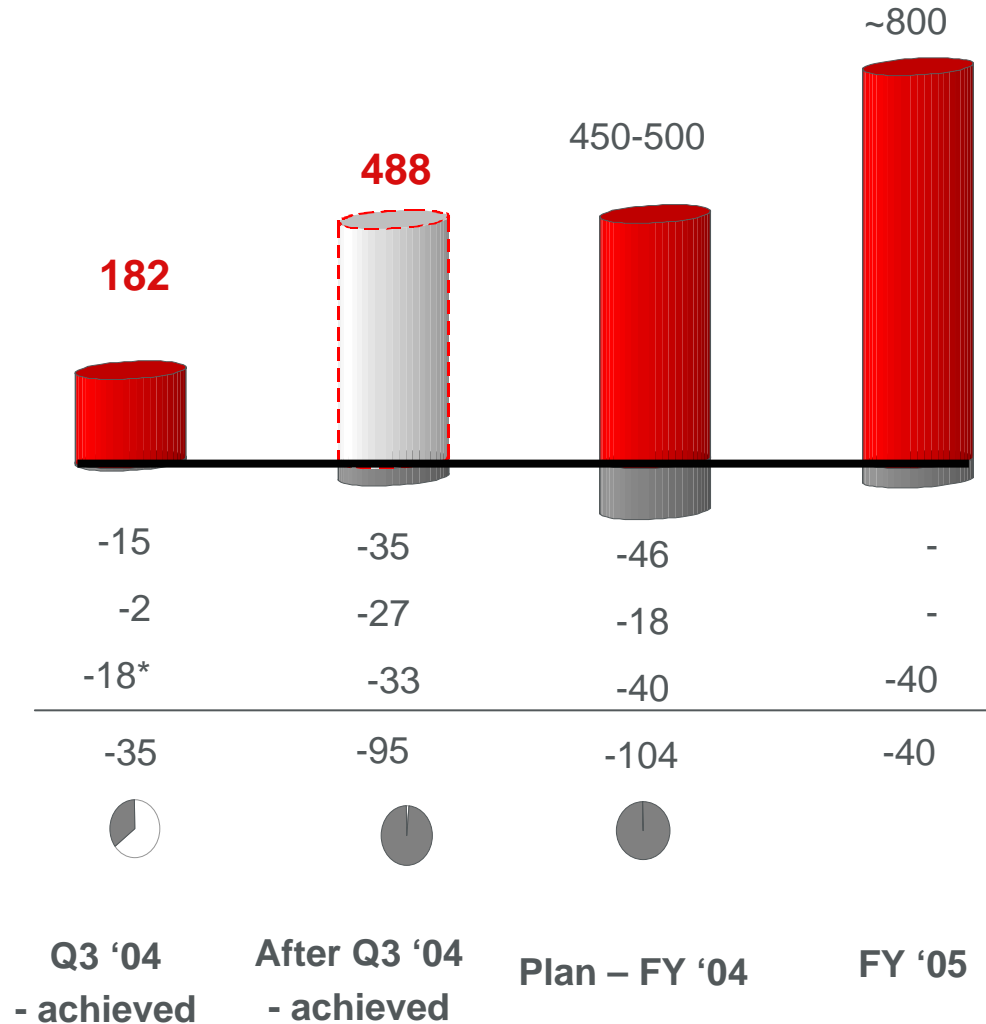
In m PLN



One-off  
spending

- M&A
- Implementation cost
- Others

% of target  
completed



\* Of which PLN 16 m for investment



# Supporting slides

## ORLEN Deutschland

### ➤ Trends in Q3 '04 :

- Retail margin in July and August remained at a high level. In September there was a drastic decrease of retail margin (over **30%** compared to July). It has affected Q3 '04 financial results.
- Total volume of sales **increased by 7.7%**, due to substantial increase sales at STAR sites
  - STAR sites (B-Brand - low margin) - volume increased by 13.3%
  - ORLEN sites (A-Brand – high margin) - volume decreased by 12.3%

### ➤ Fuel consumption on German market in 1-3Q '04 estimates according to MWV\*

- Gasoline - decrease by 3.1%
- Diesel - increase by 2.7%

# ORLEN Deutschland

## Financial highlights Q3 '04

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<b>Balance sheet - selected items</b>	<b>Q3 '03</b>	<b>Q2 '04</b>	<b>Q3 '04</b>	<b>y/y</b>	<b>q/q</b>
<b>IFRS basis, m PLN</b>					
Property plant and equipment	680	767	<b>741</b>	9%	-3%
Inventories	123	131	<b>123</b>	0%	-6%
Trade and other receivables	357	308	<b>316</b>	-11%	3%
Cash and cash equivalents	384	384	<b>421</b>	10%	10%
<b>Total assets</b>	<b>1 546</b>	<b>1 640</b>	<b>1 648</b>	<b>7%</b>	<b>0%</b>
Equity	571	533	<b>516</b>	-10%	-3%
Long - term payables	134	112	<b>102</b>	-24%	-9%
Short - term payables	795	857	<b>986</b>	24%	15%
<b>Total liabilities</b>	<b>1 546</b>	<b>1 640</b>	<b>1 648</b>	<b>7%</b>	<b>0%</b>
<b>Income statement - selected items</b>	<b>Q3 '03</b>	<b>Q2 '04</b>	<b>Q3 '04</b>	<b>y/y</b>	<b>q/q</b>
Revenues	1 912	2 246	2 241	17%	-0,2%
Cost of Sales	- 1 812	- 2 142	- 2 147	18%	0,2%
Distribution and Admin. Expenses	- 115	- 105	- 105	-9%	-0,1%
<b>Gross Profit/Loss</b>	<b>- 13</b>	<b>- 2</b>	<b>- 10</b>	<b>-23%</b>	<b>455%</b>
Other operating costs / income	16	15	13	-19%	-15%
<b>Operating profit/loss</b>	<b>9</b>	<b>13</b>	<b>3</b>	<b>-67%</b>	<b>-78%</b>
<b>Net profit/loss</b>	<b>3,4</b>	<b>12,9</b>	<b>2,8</b>	<b>-18%</b>	<b>-78%</b>

# Supporting slides

Other data

# Operating highlights

## Increase of utilisation and headcount reduction

IFRS basis, in m PLN	3Q '03	Q2 '04	3Q '04	y/y	q/q
<b>Total sales, of which</b>	4 034	3 548	<b>4 053</b>	0,5%	14,2%
- light product sales (tt) **	2 671	2 426	<b>2 743</b>	2,7%	13,1%
- other refinery product sales (tt)	765	587	<b>675</b>	-11,8%	15,0%
- pet-chem sales (tt)	575	493	<b>579</b>	0,7%	17,4%
- other product sales (tt)	23	42	<b>56</b>	143,5%	33,3%
<b>Retail sales of motor fuels (tt)*</b>	1 100	847	<b>893</b>	-18,8%	5,4%
<b>Processed crude (tt)</b>	2 971	2 902	<b>3 256</b>	9,6%	12,2%
<b>Utilisation</b>	90,7%	88,6%	<b>99,4%</b>	+8.7pp	+10.8pp
<b>White product yield</b>	77,8%	79,9%	<b>80,3%</b>	+2.5pp	+0.4pp
<b>Fuel yield</b>	65,8%	69,7%	<b>67,5%</b>	+1.7pp	-2.2pp
<b>Headcount</b>	15 497	14 398	<b>14 191</b>	-8,4%	-1,4%

# Profit & loss account

## Substantial cost reduction

IFRS basis, m PLN	Q3 '03	Q2 '04	Q3 '04	y/y	q/q
<b>Revenues*</b>	6 609	7 428	<b>8 469</b>	28,1%	14,0%
Cost of sales*	-5 487	-5 883	<b>-6 734</b>	22,7%	14,5%
Distribution costs	-569	-525	<b>-528</b>	-7,2%	0,6%
Administrative expenses	-232	-235	<b>-202</b>	-12,9%	-14,0%
Other	29	-126	<b>10</b>	-65,5%	na
<b>Profit from operations</b>	350	659	<b>1 015</b>	190,0%	54,0%
Profit before tax&minor. int.	323	733	<b>1 061</b>	228,5%	44,7%
<b>Net profit</b>	253	598	<b>837</b>	230,8%	40,0%
<b>Net profit - LIFO</b>	203	438	<b>732</b>	260,6%	67,1%
<b>PLN</b>	<b>Q3 '03</b>	<b>1kw '04</b>	<b>Q3 '04</b>	<b>y/y</b>	<b>q/q</b>
<b>EPS</b>	0,60	1,40	<b>1,96</b>	226,7%	40,0%

\* Orlen Deutschland consolidation increases revenues by PLN 2,241 m and cost of sales by PLN 2,147 m

# Balance sheet

## Low gearing – future M&A payments fully secured

IFRS basis, m PLN	Q3 '03	Q2 '04	Q3 '04	y/y	q/q
<b>Non current assets</b>	10 704	10 621	<b>10 617</b>	-0,8%	0,0%
<b>Current assets, of which</b>	6 532	7 916	<b>8 582</b>	31,4%	8,4%
Inventories	3 002	3 365	<b>3 496</b>	16,5%	3,9%
Cash and cash equivalents*	711	1 135	<b>1 502</b>	111,3%	32,3%
<b>Total assets</b>	17 236	18 537	<b>19 199</b>	11,4%	3,6%
<b>Shareholders' equity</b>	9 082	10 219	<b>11 045</b>	21,6%	8,1%
<b>Minority interests</b>	422	437	<b>453</b>	7,3%	3,7%
<b>Non current liabilities, of which</b>	2 329	2 944	<b>2 866</b>	23,1%	-2,6%
Interest bearing borrowings	1 376	1 969	<b>1 893</b>	37,6%	-3,9%
<b>Current liabilities, of which</b>	5 403	4 937	<b>4 835</b>	-10,5%	-2,1%
Interest bearing borrowings	1 781	463	<b>346</b>	-80,6%	-25,3%
<b>Total liabilities</b>	17 236	18 537	<b>19 199</b>	11,4%	3,6%

\* Item includes short term investment

# Refining & Wholesale

## Excellent segment performance

IFRS basis, m PLN	Q3 '03	Q2 '04	Q3 '04	y/y	q/q
Revenue	4 026	5 291	<b>6 015</b>	49%	14%
Segment costs - total	3 713	4 637	<b>5 245</b>	41%	13%
<b>Profit</b>	<b>313</b>	<b>654</b>	<b>770</b>	<b>146%</b>	<b>18%</b>
Sales (tt)	2 274	2 166	<b>2 524</b>	11%	17%

↑ **146%** y-o-y

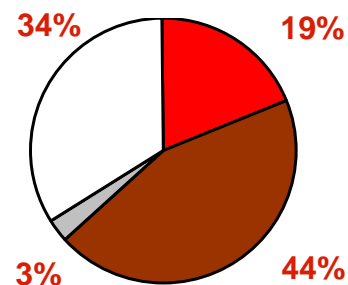
Increase in profit as a result of  
higher margin and higher  
volume sales

### Structure of sales, by volume

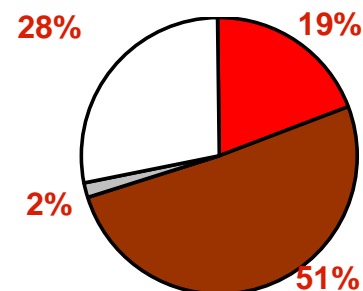
↑ **11%** y-o-y

Total volume increase due to  
higher sales to multinationals

3Q '03



3Q '04





IFRS basis, m PLN	Q3 '03	Q2 '04	Q3 '04	y/y	q/q
Revenue	3 239	3 037	<b>3 131</b>	-3%	3%
Segment costs - total	3 177	2 984	<b>3 050</b>	-4%	2%
<b>Profit</b>	<b>62</b>	<b>53</b>	<b>81</b>	<b>31%</b>	<b>53%</b>
Sales (tt)	1 163	847	<b>894</b>	-23%	6%



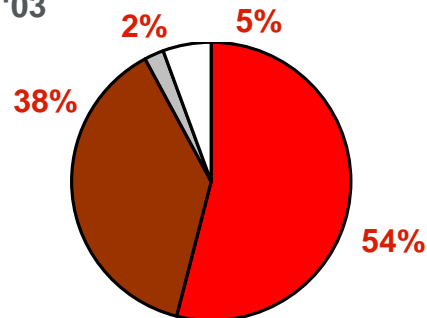
**31%**, y-o-y

Increase in segment profit as a result of cost reductions

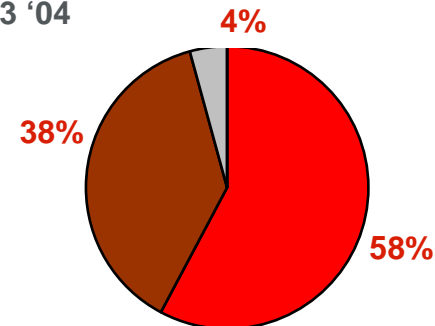
### Structure of sales, by volume

Change in the volume and structure of sales as a result of excluding the wholesale volume from Germany since the beginning of 2004

Q3 '03



Q3 '04



Gasoline  
Diesel

LPG  
Others

# Petrochemical segment

## Dynamic profit growth

IFRS basis, m PLN	Q3 '03	Q2 '04	Q3 '04	y/y	q/q
Revenue	1 085	1 220	<b>1 474</b>	36%	21%
Segment costs - total	1 031	1 103	<b>1 258</b>	22%	14%
<b>Profit</b>	<b>54</b>	<b>117</b>	<b>216</b>	<b>300%</b>	<b>85%</b>
Sales (tt)	575	493	<b>579</b>	0,8%	17%

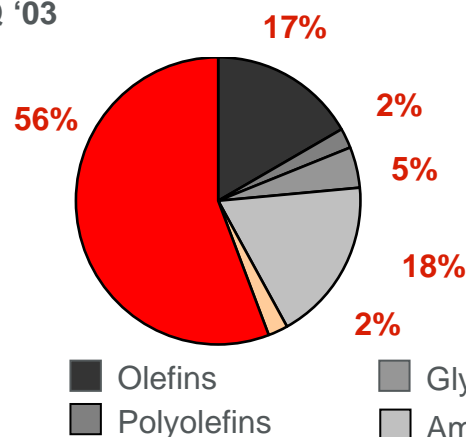
↑ **300%**, y-o-y

Increase in segment profit mainly due to the favourable market environment and the good performance of Anwil

### Structure of sales, by volume

↑ **0.8%**, y-o-y  
Increase in volume sales mainly due to sales increase of PVC and nitro-chalk (CANWIL)

3Q '03



3Q '04

