

Regulatory announcement 84/2004 dated 15 November 2004

Impact of LIFO valuation of inventories

Polski Koncern Naftowy ORLEN Spolka Akcyjna ("PKN ORLEN"), Central Europe's largest downstream oil company, would like to outline the **impact of LIFO valuation of inventories on the unconsolidated financial results of PKN ORLEN and the consolidated financial results of the PKN ORLEN Capital Group for Q3 2004 and post Q3 2004.**

Estimates of gross income and net income (after deferred taxation), assuming LIFO valuation of inventories, of PKN ORLEN under Polish Accounting Standards (PAS) and of PKN ORLEN Capital Group under PAS and under International Financial Reporting Standards (IFRS) are as follows (PLN m):

	Q3 2004	After Q3 2004	Q3 2003	After Q3 2003
PKN ORLEN's unconsolidated gross profit under PAS	829	1,711	149	960
PKN ORLEN's unconsolidated net profit under PAS	668	1,379	127	709
Consolidated gross profit under PAS	962	1,913	240	1,045
Consolidated net profit under PAS	776	1,554	207	786
Consolidated gross profit under IFRS	931	1,871	254	1,036
Consolidated net profit under IFRS	732	1,476	203	742

PKN ORLEN and the PKN ORLEN Capital Group apply a method of inventory evaluation according to the weighted average of the manufacturing cost or purchase price. Such a valuation method causes a delay in transferring the effects of oil price increases or decreases to the prices of the final products. In the light of the above a market trend of increasing crude oil prices influences positively, and a trend of downward crude oil prices negatively, the results achieved by PKN ORLEN and the PKN ORLEN Capital Group. The application of the LIFO method to inventory evaluation causes the current production to be evaluated on the basis of the current price of purchased crude oil. In the light of the above a market trend of increasing crude oil prices influences negatively, and a market trend of downward crude oil prices positively, the achieved results compared to the results when the weighted average method is applied. These trends appear mostly when crude oil prices show significant moves. Crude oil prices during Q3 2004 and the whole of 2004 were increasing more strongly and faster than in the corresponding period in 2003, so the correction due to the LIFO valuation is clearly higher.

The assumptions used for the above LIFO estimates are the same as used for previously published LIFO estimates. These assumptions were published in the current report no 29/2002, dated 21st May 2001.