

Regulatory announcement 17/2005 dated 1 March 2005

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 Q4 2004 and post Q4 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):

	Q4 2004	After Q4 2004	Q4 2003	After Q4 2003
PKN ORLEN's unconsolidated gross profit under PAS	927	2,639	157	1,117
PKN ORLEN's unconsolidated net profit under PAS	746	2,126	216	924
Consolidated gross profit under PAS	946	2,858	171	1,216
Consolidated net profit under PAS	809	2,363	212	998
Consolidated gross profit under IFRS	894	2,764	145	1,181
Consolidated net profit under IFRS	759	2,235	217	959

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 light of the above a market trend of increasing crude oil prices has a positive effect, and a trend of downward crude oil prices a negative one on 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 light of the above a market trend of increasing crude oil prices has a negative effect, and a market trend of downward crude oil prices a positive one on the results compared to when the weighted average method is applied. These trends appear mostly when crude oil prices show significant movement. In spite of decreasing crude oil prices during Q4 2004, crude oil prices increased significantly during the whole of 2004 compared against 2003. Therefore the correction due to the LIFO valuation (in minus) 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.