



## **Financial results: FY 2004 and financial assumptions for the 2005 plan**

*Igor Chalupec, CEO*  
*2 March 2005*



**ORLEN**

# Financial results 2004

## The highest net profit in PKN ORLEN's history

### Key financial data 2004<sup>1</sup>

- **ROACE<sup>2</sup>** **19.0%**
- **EBITDA** **PLN 4.0 bn**
- **Net profit<sup>3</sup>** **PLN 2.4 bn**
- **CAPEX** **PLN 1.5 bn**
- **Operating cash flow** **PLN 3.6 bn**
  
- **Gearing<sup>4</sup>** **1.5%**

1) Refers to the Capital Group, IFRS numbers in the whole presentation if not otherwise pointed

2) ROACE = operating profit after tax / average employed capital (equity + net debt)

3) Includes net profit of PKN ORLEN subsidiaries for 2004 of PLN 285 m IFRS based

4) Gearing = net debt / equity

### Operating data 2004

- **Cost cutting<sup>5</sup>** **PLN 637 m**
- **Wholesale volume sales<sup>6</sup>** **+ 8.0%**
- **Utilisation ratio<sup>7</sup>** **90.0%**
  
- **Headcount**  
**in PKN ORLEN Group** **-5.5 %**

5) For further details please go to slides 28, 29, 30

6) Refers to PKN ORLEN sales (gasoline, diesel, Jet, LHO)

7) Based on deep processing capacity of PKN ORLEN 13.5 m tonnes/year



## Summary of 2004 financial results

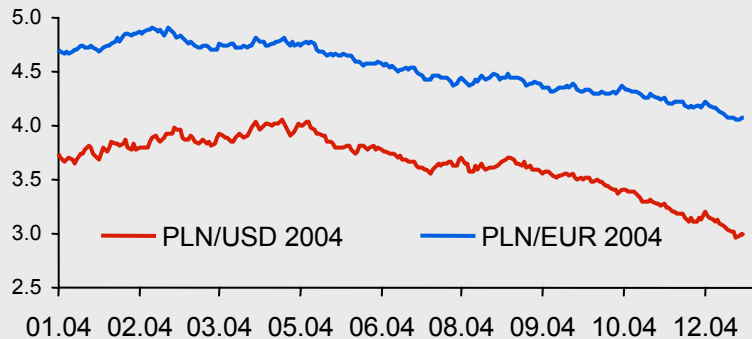
- Assumptions for 2005 financial plan
- Supporting slides



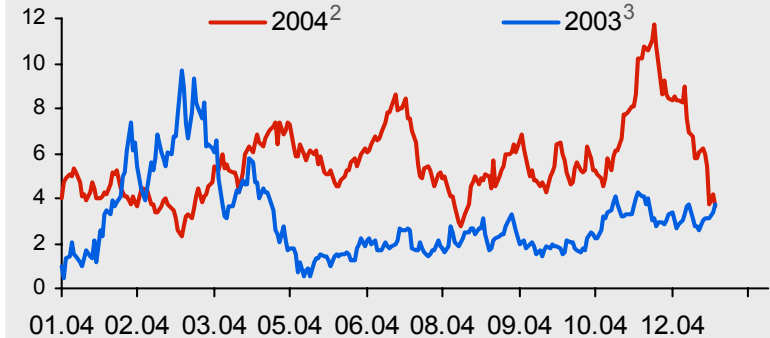
# Macroeconomic environment in 2004

## Extraordinary favourable conditions in oil & gas business

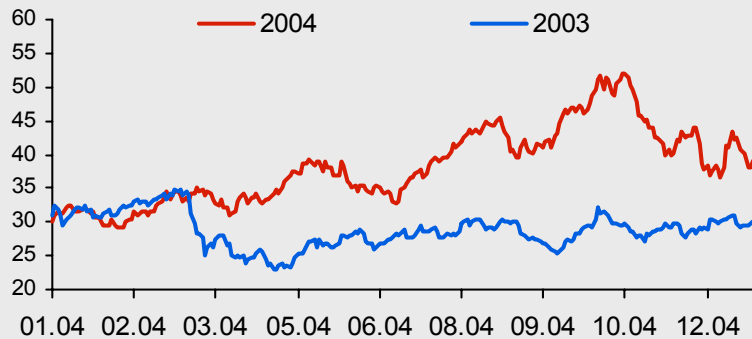
Exchange rate average in 2004<sup>1</sup>



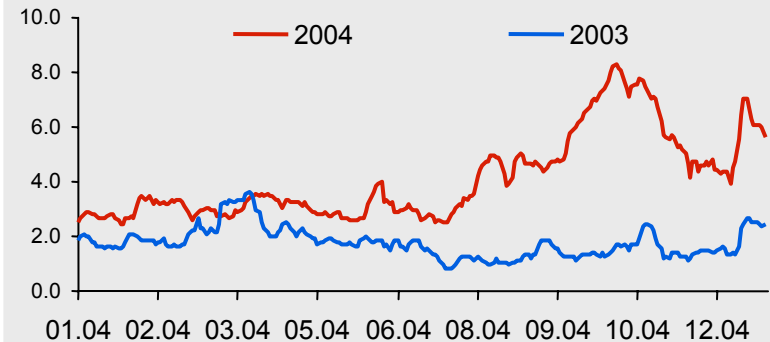
Refinery margin \$5.6/b average in 2004  
Increase of 84% 2004/2003



Brent \$38.3/b average in 2004  
Increase of 33% 2004/2003



Brent/Ural differential \$4.1/b average in 2004  
Increase of 134% 2004/2003



1) Source: NBP (Polish National Bank)

2) Calculated as: Products (88.36%) vs Brent Dtd (100%). Products contain Premium Unl (25.21%), EN590 (23.20%), Naphtha (16.51%), LHO (15.31%), HSFO (5.44%) i Jet (2.69%)

3) As in 2) above with a change: EN590 should be replaced by ULSD (source: CIF NWE quotations, except HSFO FOB ARA)

# Revenues in segmental breakdown

## Dynamic increase across all segments

IFRS basis, PLN m	2003	2004	y/y
<b>Revenue total</b>	24 412	<b>30 535</b>	25%
of which			
<b>Refining<sup>1) 2)</sup></b>	10 066	<b>14 337</b>	42%
Poland	10 066	<b>12 533</b>	25%
Germany (without excise tax)		<b>902</b>	-
<i>excise tax - Germany</i>		<b>1 094</b>	-
<b>Retail<sup>2)</sup></b>	10 651	<b>11 548</b>	8%
Poland	4 381	<b>4 910</b>	12%
Germany (without excise tax)	1 998	<b>2 646</b>	32%
<i>excise tax - Germany</i>	4 272	<b>3 992</b>	-7%
<b>Petrochemicals</b>	3 145	<b>4 000</b>	27%
Others	550	<b>650</b>	18%

Revenues increased by 25% across all segments due to growth of fuels sales volume by 5.6% and growth of fuels and petrochemical products prices quotations

Extraordinary increase of revenues in refining segment due to change in Orlen Deutschland revenues classification between retail and wholesale

Higher dynamic due to shorter 10 month consolidating period starting from March 2003

1) Refining, Wholesale and Logistics

2) The total revenue of Orlen Deutschland was attributed to the retail segment in 2003. Starting from 2004, German revenues are split into retail and wholesale segments

# Operating cost

## Variable costs grew less than revenues

IFRS basis, PLN m	2003	2004	y/y
Raw materials and energy	11 005	12 407	12.7%
Costs of goods for resale	7 537	10 594	40.6%
External services	1 789	1 774	-0.8%
Staff costs	1 055	1 035	-1.9%
Depreciation and amortisation	1 236	1 234	0.2%
Taxes and charges	263	262	-0.4%
Other	595	1 004	68.7%
<b>Total costs</b>	<b>23 480</b>	<b>28 310</b>	<b>20.6%</b>
Variable costs	19 147	23 766	24.1%
Fixed costs	3 945	3 825	-3.0%
Other operating costs	388	719	85.3%
Change in inventories	87	-182	-309.2%
<b>Total operating costs</b>	<b>23 567</b>	<b>28 128</b>	<b>19.4%</b>

Increase due to the growth of fuel prices in Orlen Deutschland (39.8%)<sup>1</sup>

Increase of PKN ORLEN efficiency supported by decrease in fixed costs

Increase in other costs a result of higher provisions for: the cost of land reclamation and contamination removal (PLN 128 m), economic risk (PLN 147 m), asset revaluation (PLN 138 m) and non-financial assets revaluation (PLN 161 m)

1) Also higher purchase goods for resale in Orlen Deutschland in 2004 in relation to 2003 due to the consolidation starting from 1 March 2003

# Operating costs and segment split of operating profit 2004 vs. 2003

IFRS basis, PLN m	2003	2004	change
Operating profit	1 267	2 777	119.2%
of which			
Refining <sup>1</sup>	1 213	2 292	89.0%
Retail	38	49	28.9%
Petrochemical	418	810	93.8%
Others <sup>2</sup>	6	22	266.7%
Non attributable <sup>3</sup>	-408	-396	-2.9%

Operating profit improvement due to a favourable refining and petrochemical margin, the Brent/Ural differential and efficient cost control

Significant increase in petrochemical results due to high demand for PKN ORLEN and Anwil products

1) Refining, Wholesale and Logistics

2) Departments responsible for energetic media and social activity and services subsidiaries of PKN ORLEN

3) Includes corporate centre of PKN and subsidiaries not mentioned in previous segments included

# Profit and loss account

## Record net profit

IFRS basis, PLN m	2003	2004	change
Revenue	24 412	30 535	25.1%
Cost of sales	-19 986	-24 403	22.1%
Distribution costs	-2 259	-2 180	-3.5%
Administrative expenses	-934	-826	-11.6%
Other <sup>1</sup>	34	-349	-
Profit from operations	1 267	2 777	119.2%
Financial income	279	400	43.4%
Financial expenses	-377	-256	-32.1%
Profit before tax & minor. int.	1 219	3 021	147.8%
Income tax	-198	-524	164.6%
Net profit	987	2 442	147.4%

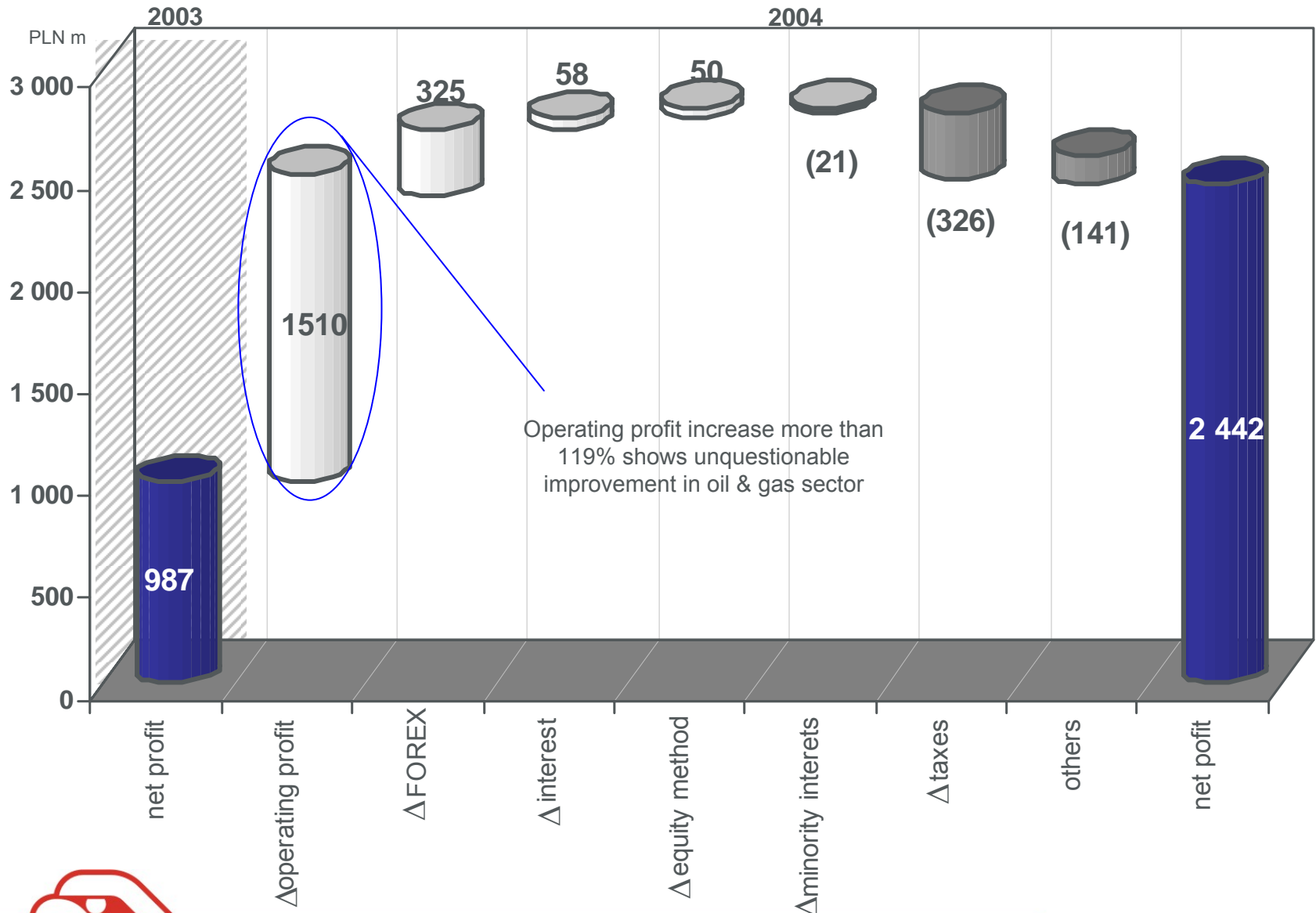
Reduction of distribution cost and administrative expenses by PLN 187 m (2004/2003)

Impact of foreign exchange rates on financial revenues and costs at a level of PLN 226 m and PLN 6 m respectively. Financial costs increased due to provision for sales receivables of NOM stake (PLN 111 m)

Effective tax rate at the level of 17.3%

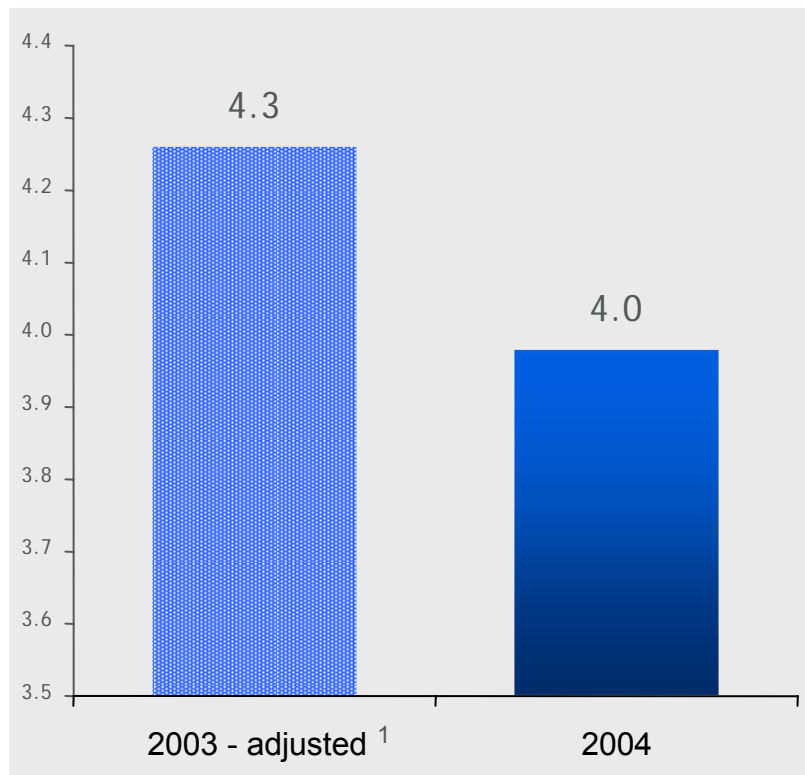


# Operating activity main driver supporting 2.5x increase in net profit

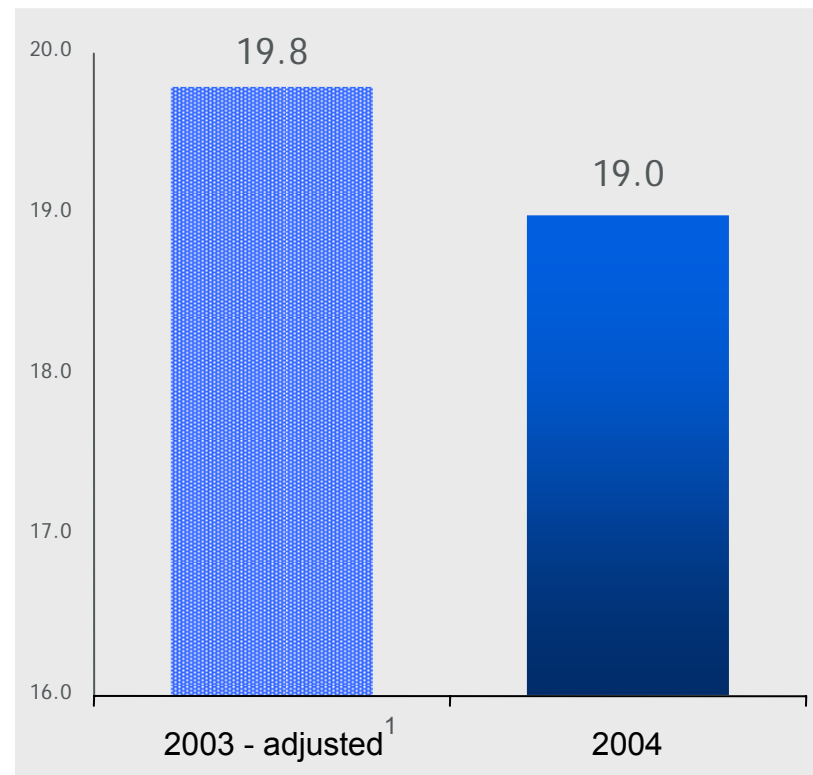


# EBITDA and ROACE in 2004 compared to adjusted 2003 results<sup>1</sup>

## EBITDA (PLN bn)



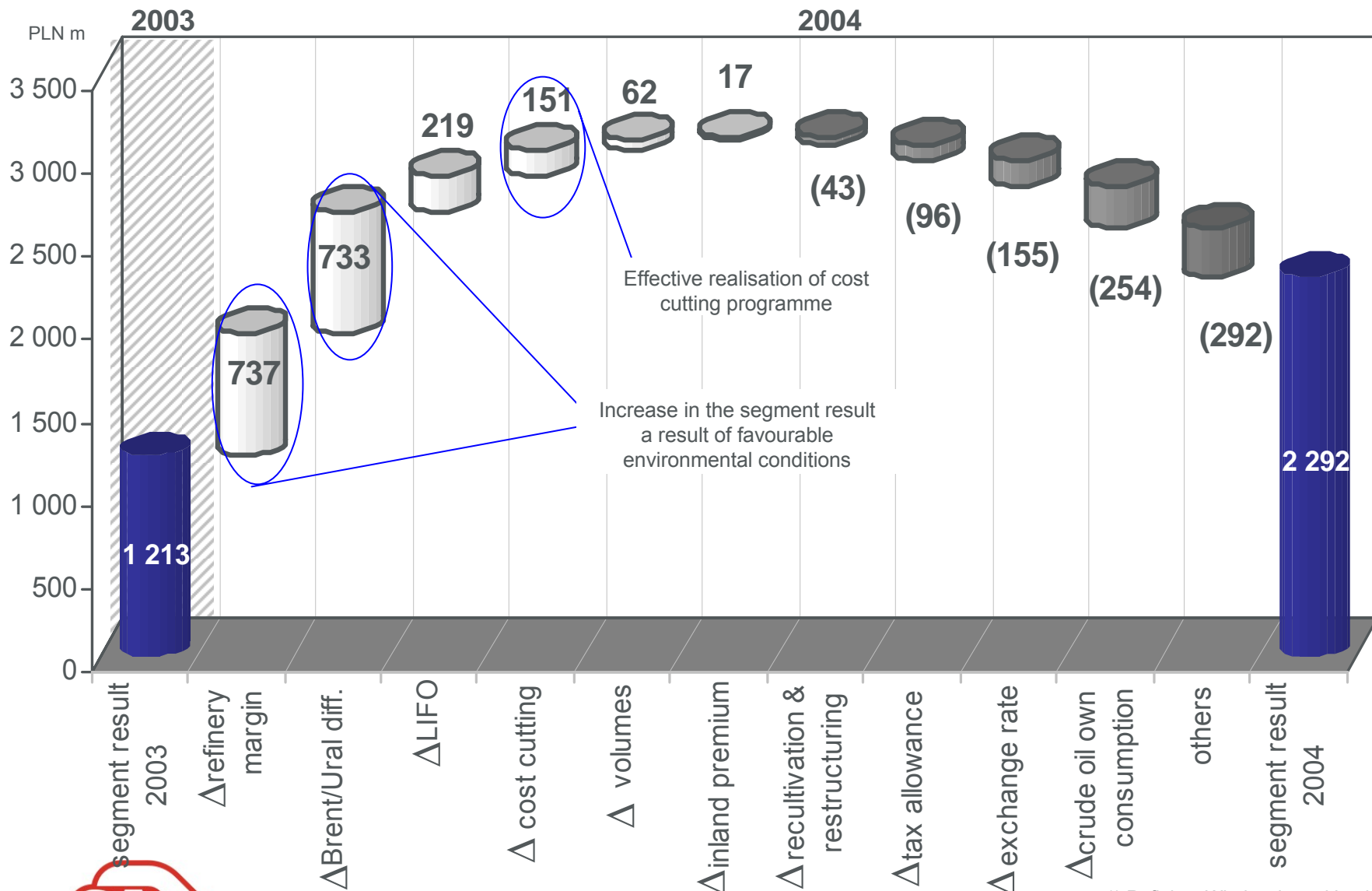
## ROACE (%)



1)2003 results adjusted to 2004 results with: Brent price 38.3\$/b, Brent-Ural differential 4.1\$/b, refinery margin 5.6 \$/b, PLN/EUR 4.52; PLN/USD 3.65

# Refining segment<sup>1</sup>

Increase in operating efficiency through favourable macroeconomic conditions

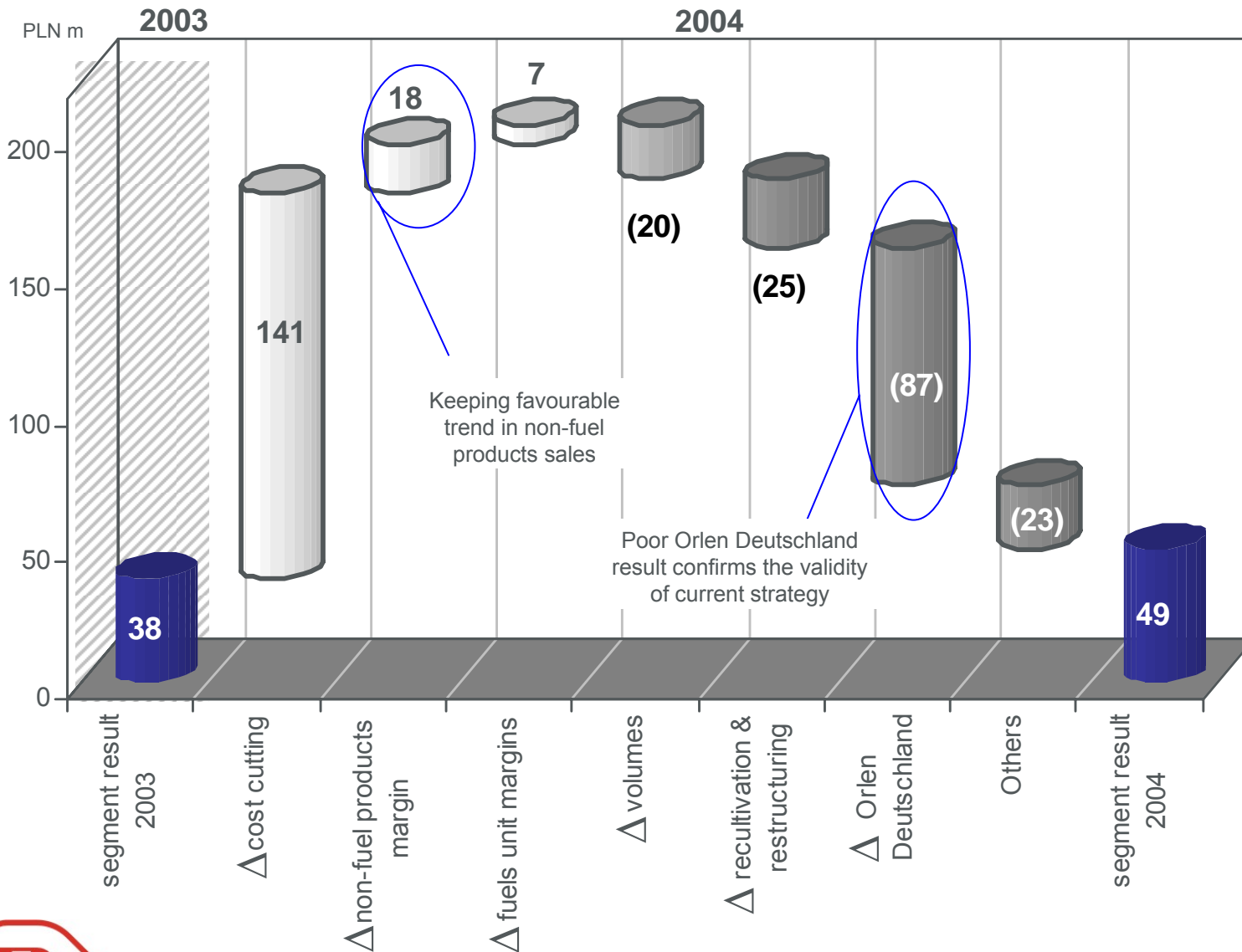


1) Refining, Wholesale and Logistics



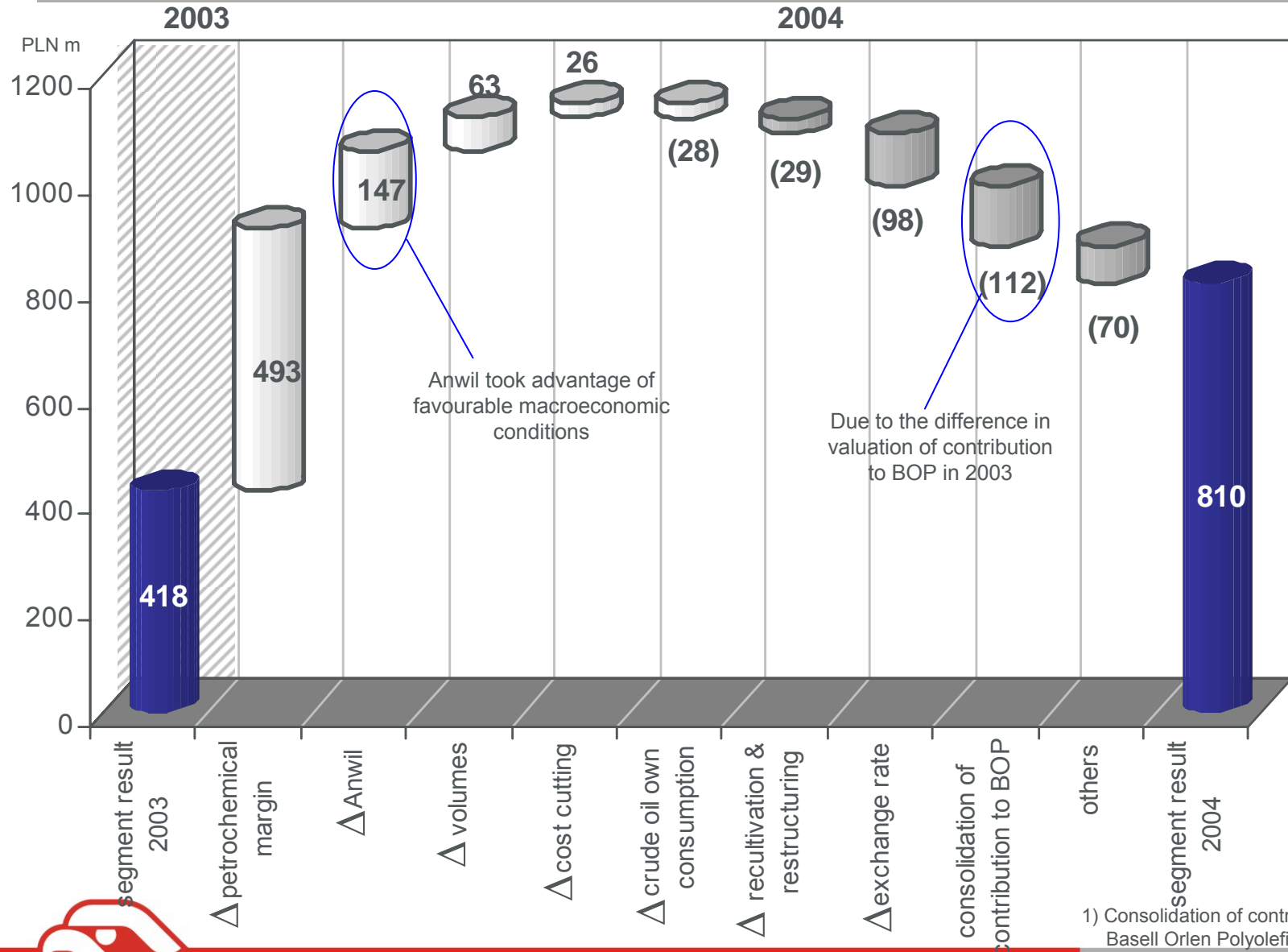
# Retail segment

## Improvement results due to cost cutting programme



# Petrochemical

## Almost double increase in segment result mainly due to petrochemical margins improvement



1) Consolidation of contribution to Basell Orlen Polyolefins (BOP)

# Agenda

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- **Summary of 2004 financial results**
- **Assumptions for 2005 financial plan**
- **Supporting slides**



## Macroeconomic assumptions for 2005

Macro assumptions <sup>1</sup>	2004	2005
• Refinery margin <sup>2</sup> :	5.6\$/b	3.4\$/b
• Brent/Ural differential:	4.1\$/b	3.5\$/b
• Brent crude oil:	38.3\$/b	36.0\$/b
• Exchange rate PLN/USD <sup>2</sup>	3.65	3.20
• Exchange rate PLN/EUR <sup>2</sup>	4.53	4.40
• Fuel consumption in Poland <sup>3</sup> :	+8.1%	+3.7%
• Retail fuel consumption <sup>4</sup> :	+6.9%	+1.4%
of which: Gasoline	0%	0%
Diesel	+12%	+10%

1) Semi annual assumptions

2) Source: please go to slide no 4

3) Own estimates calculated as: 100% gasoline and LPG consumption, and 75% diesel consumption

4) Own estimates calculated as: 100% gasoline, diesel and LHO consumption

# Operating assumptions for 2005

- Wholesale volume sales increase > 4%  
(gasoline, diesel, Jet, LHO)
- Retail volume sales increase >5%  
(gasoline, diesel, LPG)
- Petrochemical volume sales increase: >5%
- Crude oil processed 13.1 m tonnes
- Utilization rate<sup>1</sup> 96%
- Main maintenance shutdowns:
  - Olefins 60 days; 1H'05
  - Hydrocracking 27 days; 2H'05
  - Diesel oil desulphurisation 20 days; 2H'05
  - Aromatic extraction 70 days; 1H'05

1) In relation to the deep processing capacity 13,5 m tonnes/year



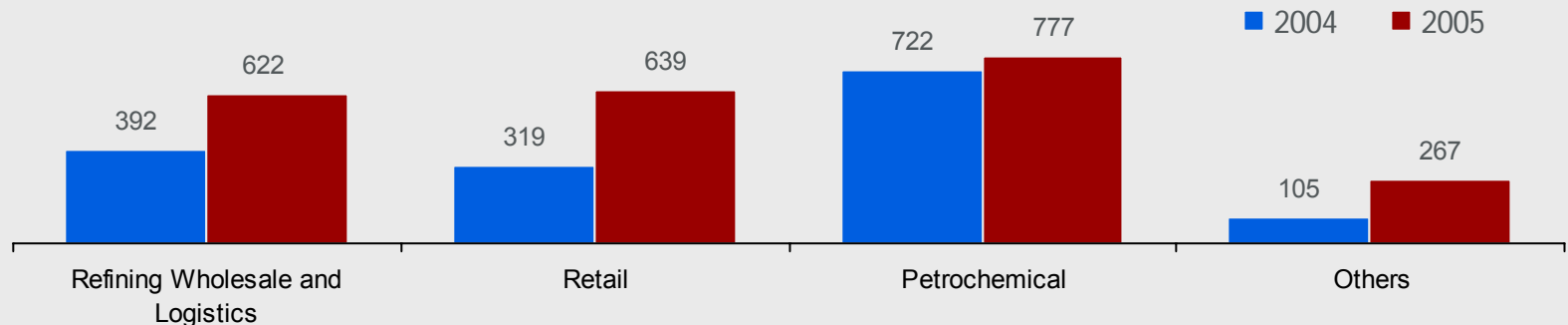


# Financial assumptions for 2005

## Financial assumptions

- EBITDA : > 14% referring to macro environment in 2004<sup>1</sup>
- Personnel cost: below the 2004 level<sup>2</sup>
- CAPEX PLN 2.3 bn<sup>3</sup>
- Dividend: recommendation of 30% payout ratio<sup>4</sup>

## Total increase in CAPEX of ca. PLN 800 m 2005 vs. 2004



1) Macroeconomic environment conditions as in 2004 :Brent price 38.3\$/b, Brent-Ural differential 4.1\$/b, refinery margin 5.6 \$/b, PLN/EUR 4.52; PLN/USD 3.65

2) Refers to PKN ORLEN

3) Refers to PKN ORLEN Group

4) Refers to PKN ORLEN net profit of 2004

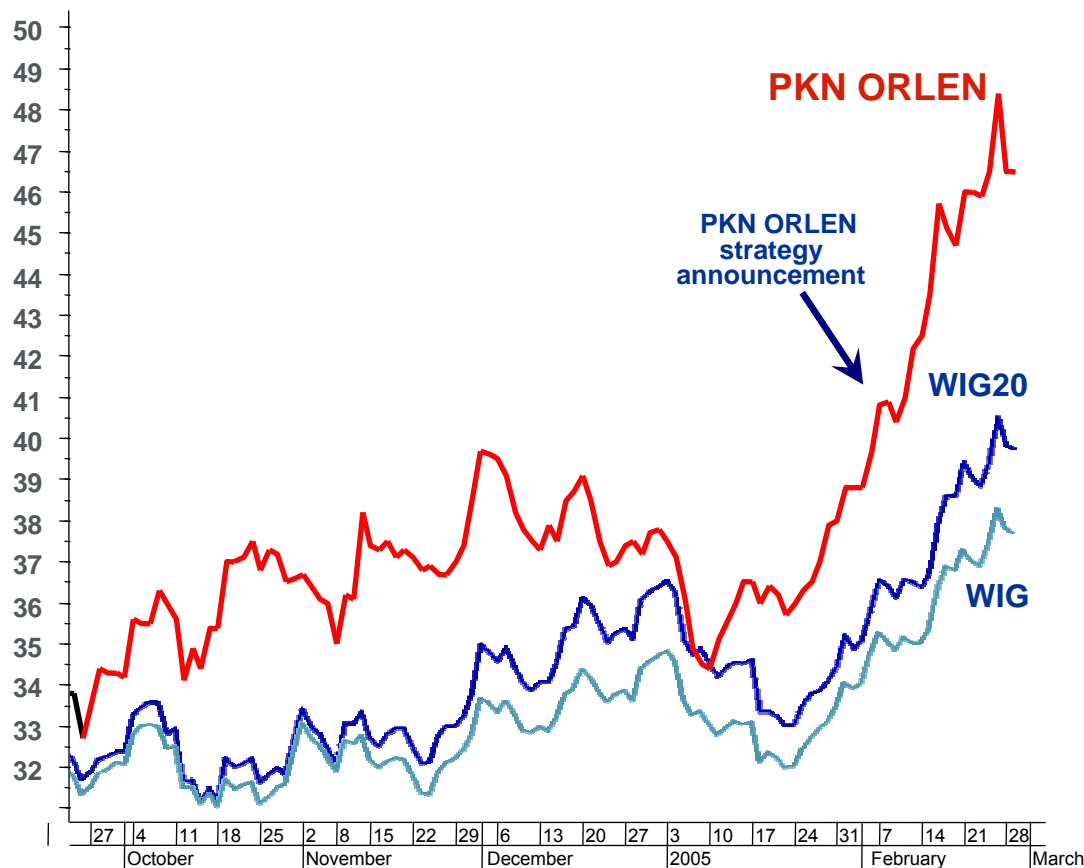
## Internal strengthening of home markets

- Effective implementation of new retail strategy
  - Closing the Unipetrol acquisition transaction programme
  - Preparation and implementation of the integration plan for Unipetrol
  - Defining of further actions on German market
- Preparation of new cost cutting programme
  - Centralization of procurement
  - Implementation of a new management system
  - Implementation of Management by Objectives



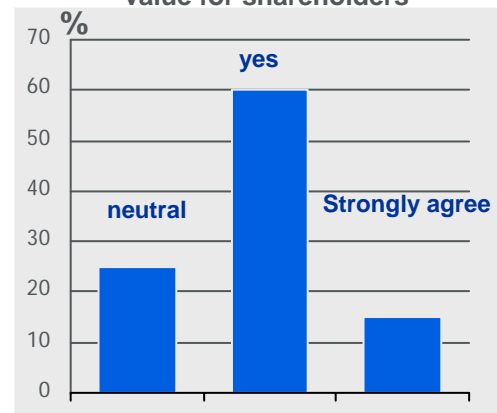
# PKN ORLEN share price performance against WSE indexes

## PKN ORLEN price performance<sup>1</sup>



## Analysts comments<sup>2</sup>

Strategy will create shareholder value for shareholders



PKN ORLEN strategy is the best way of equity utilization

*"The story coming out from the strategy presentation shows in our opinion determination on internal depoliticisation and strengthening and corporate governance. 2009 financial targets are ambitious and exceed our estimations. It supports our opinion than our model and assumption were conservative and realistic"*

JPMorgan, 03 February

1) Source: PKN ORLEN source based on closing prices

2) Source: Based on interview made by Smithfield in 9,10 February 2005

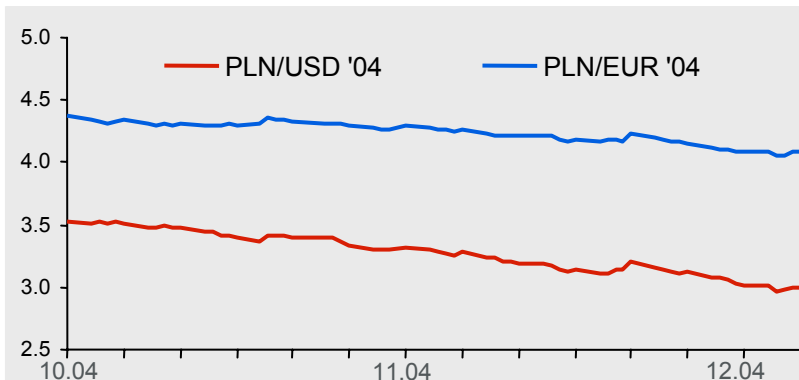
## Supporting slides

- **Macroeconomic environment**
- **Operating and financial data for Q4 2004**
- **Cost cutting**
- **ORLEN Deutschland**

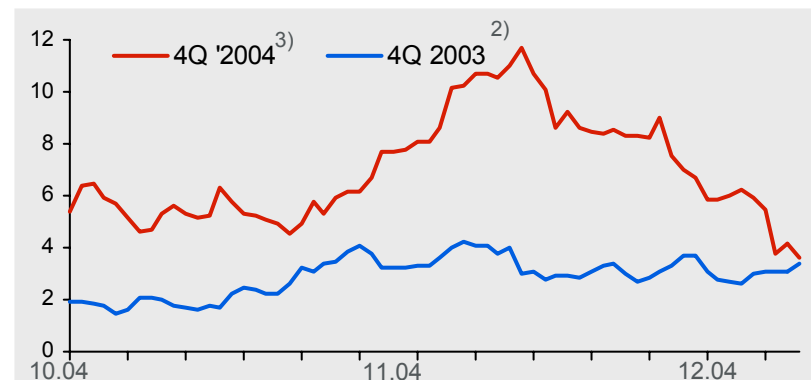


# Macroeconomic environment in Q4 2004

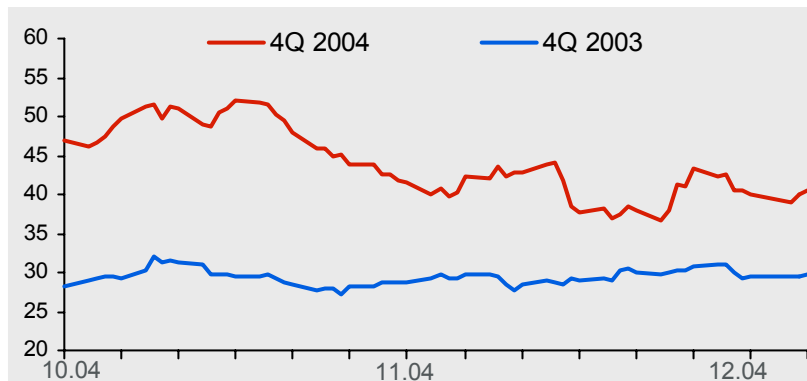
Exchange rates<sup>1</sup> in Q4'04



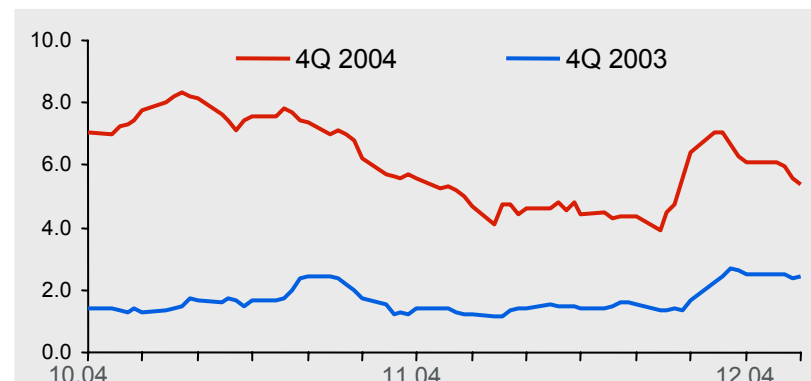
Refining margin – \$7/b average in Q4'04  
Increase by 139% 2004/2003



Brent \$44/b average in Q4 '04  
Increase by 49% 2004/2003



Brent/Ural differential \$6,1/b average in Q4 '04  
Increase by 262% 2004/2003



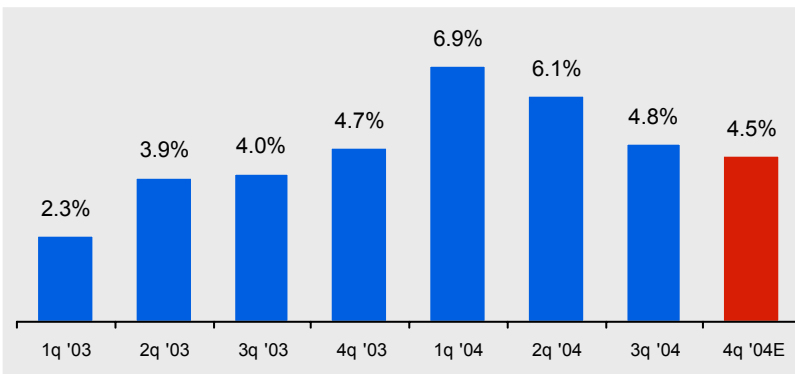
1) Source: NBP (Polish National Bank)

2) Calculated as: Products (88.36%) vs. Brent Dtd (100%). Products contain Premium Unl (25.21%), EN590 (23.20%), Naphtha (16.51%), LHO (15.31%), HSFO (5.44%) and Jet (2.69%)

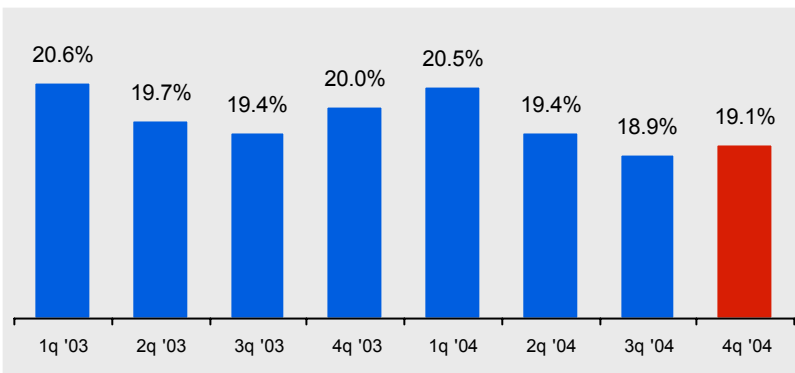
3) As in 1) above with a change: EN590 should be replaced by ULSD (source: CIF NWE quotations, except HSFO FOB ARA)

# Macroeconomic environment in Poland

## Real GDP growth



## Unemployment rate



- Strong growth of GDP supports stable economic tendency. Still high unemployment rate – **19.1%** (decrease by 0.9 pp y/y)
- New car sales estimated decline to **10%** to 318.1 thousand (2004/2003)
- Growth in fuel consumption (gasoline, diesel, LHO) estimated at **6.9%E** (2004/2003)
- Decrease in exchange rate of PLN/USD by over 6% from 3.89 to **3.65** (2004/2003)

# Profit and loss account

## Q4 2004 vs. Q4 2003

IFRS basis, PLN m	Q4 '03	Q4 '04
Revenue	6 908	8 313
Cost of sales	-5 775	-6 674
Distribution costs	-664	-585
Administrative expenses	-243	-205
Other <sup>1</sup>	-74	-251
<b>Profit from operations</b>	<b>152</b>	<b>598</b>
<b>Financial income</b>	<b>43</b>	<b>251</b>
<b>Financial expenses</b>	<b>-55</b>	<b>-168</b>
<b>Profit before tax &amp; minor. int.</b>	<b>148</b>	<b>710</b>
<b>Income tax</b>	<b>78</b>	<b>-88</b>
<b>Net profit</b>	<b>219</b>	<b>610</b>

Distribution and GA cost reduction by PLN 117 m

Increase in „other costs” includes items mainly relating to environmental readjustment, business risk and asset revaluation

1) Other operating revenue and costs included

# Operating highlights

## Q4 '04 vs. Q4 '03

Operating data <sup>1</sup>	Q4 '03	Q3 '04	Q4 '04	y/y	q/q
<b>Total sales (tt), of which</b>	4 112	<b>4 053</b>	<b>4 041</b>	-1,7%	-0,3%
light product sales <sup>2</sup>	2 721	<b>2 743</b>	<b>2 754</b>	1,2%	0,4%
- other refinery products sales (tt)	801	<b>675</b>	<b>618</b>	-22,8%	-8,4%
- pet-chem sales (tt)	563	<b>579</b>	<b>569</b>	1,1%	-1,7%
- other products sales (tt)	27	<b>56</b>	<b>100</b>	270,4%	78,6%
<b>Retail sales of motor fuels<sup>3</sup></b>	971	<b>893</b>	<b>852</b>	-12,3%	-4,6%
<b>Processed crude (tt)</b>	3 001	<b>3 256</b>	<b>3 240</b>	8,0%	-0,5%
<b>Utilisation</b>	88,9%	<b>96,5%</b>	<b>96,0%</b>	+7.1pp	-0.5pp
<b>White product yield</b>	81,9%	<b>80,3%</b>	<b>80,0%</b>	-1.9pp	-0.3pp
<b>Fuel yield</b>	71,0%	<b>67,5%</b>	<b>68,0%</b>	-3pp	+0.5pp
<b>Headcount<sup>4</sup></b>	15 133	<b>14 191</b>	<b>14 296</b>	-5,5%	0,7%

1) Refers to PKN ORLEN

2) Gasoline, Diesel, LHO, Jet

3) Gasoline, diesel, LPG

Production data refers to Plock Refinery only, nameplate capacity of 13.5 m t



## Refining, Wholesale and Logistics 4Q'04 vs. 4Q '03

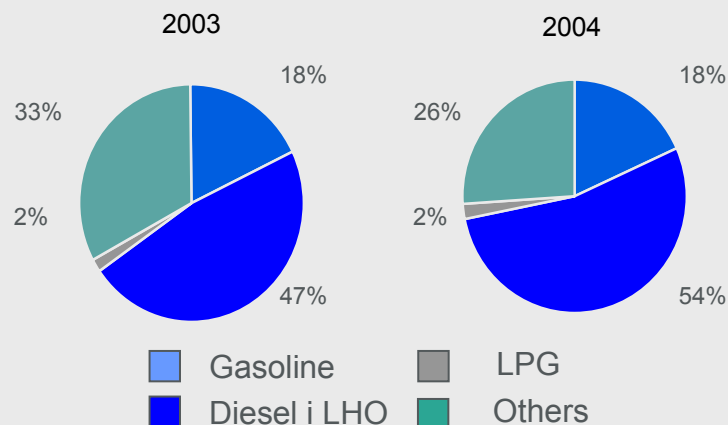
IFRS basis, PLN m	Q4 '03	Q3 '04	Q4 '04	y/y	q/q
Revenue	4 372	6 015	<b>5 933</b>	36%	-1%
Segment costs - total	4 133	5 245	<b>5 392</b>	30%	3%
<b>Profit</b>	<b>239</b>	<b>770</b>	<b>541</b>	126%	<b>-30%</b>
Sales (tt)	2 473	2 524	<b>2 519</b>	2%	0%

### Changes

↑ **2%** y/y

Total volume sales increase. Visible shift towards middle distillates.

### Structure of volume sales



# Retail

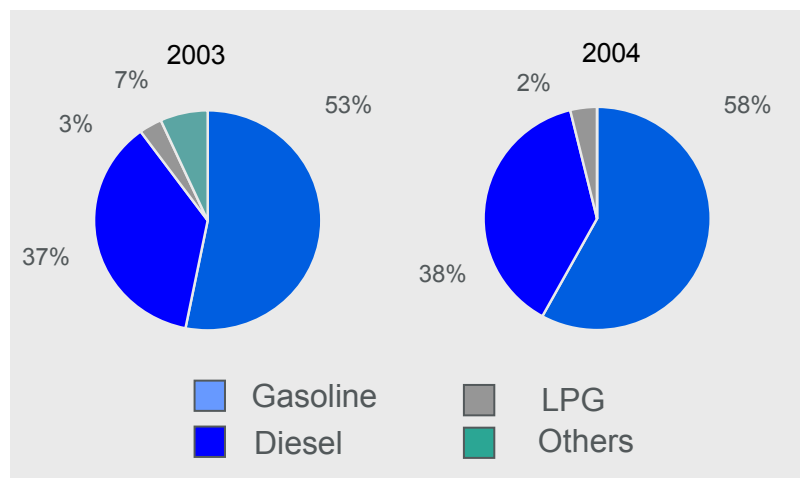
## Q4 2004 vs. Q4 2003

IFRS basis, PLN m	Q4 '03	Q3 '04	Q4 '04	y/y	q/q
Revenue	3 174	3 131	<b>2 937</b>	-7%	-6%
Segment costs - total	3 212	3 050	<b>3 003</b>	-7%	-2%
<b>Profit</b>	<b>-38</b>	<b>81</b>	<b>-66</b>	74%	<b>-181%</b>
Sales (tt)	1 049	894	<b>852</b>	-19%	-5%

### Changes

Change in structure and volume sales due to change in consolidation method of German activities since 2004

### Structure of volume sales



# Petrochemical

## 4Q' 04 vs. 4Q'03

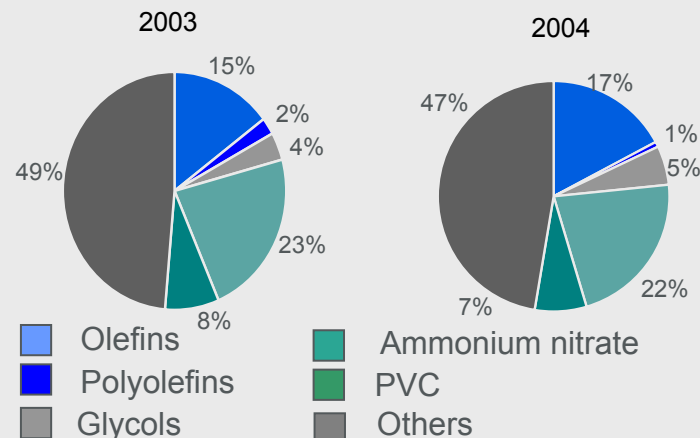
IFRS basis, PLN m	Q4 '03	Q3 '04	Q4 '04	y/y	q/q
Revenue	1 164	1 474	1 496	29%	1%
Segment costs - total	1 092	1 258	1 241	14%	-1%
<b>Profit</b>	<b>72</b>	<b>216</b>	<b>255</b>	<b>254%</b>	<b>18%</b>
Sales (tt)	563	579	569	1%	-2%

### Changes

↑ 1% y/y

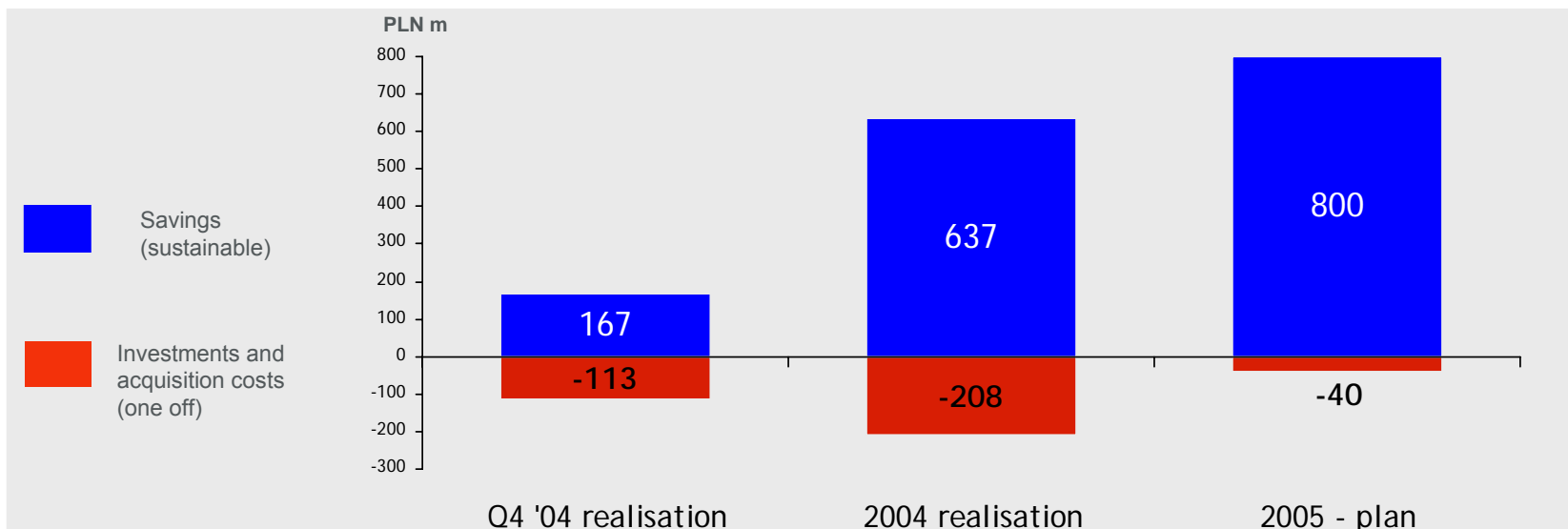
Total volume sales increase. Change due to shift in polyolefin sales to Basell Orlen Polyolefins.

### Structure of volume sales



# Cost cutting programme in 2004

## Realisation of cost cutting programme in 2004



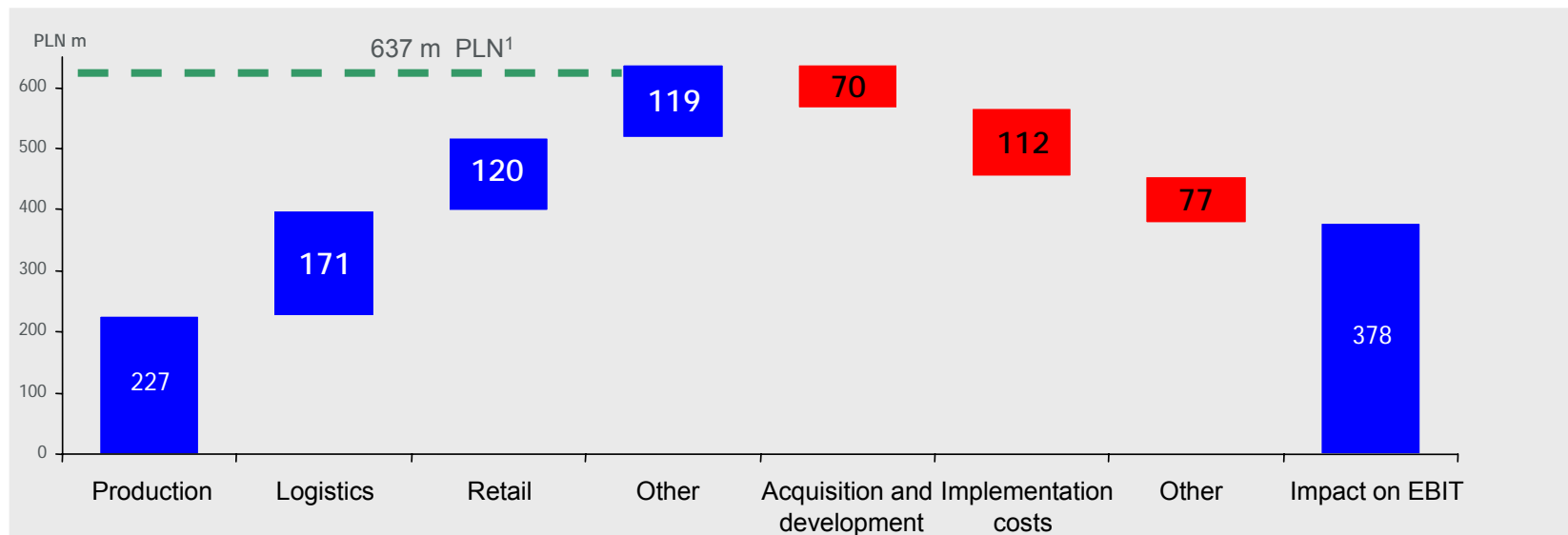
- Acquisition	0	-35	-
- Implementation costs	-85 <sup>1</sup>	-112 <sup>1</sup>	-
- Investment and development costs	-28	-61 <sup>2</sup>	-40
	<b>-113</b>	<b>-208</b>	<b>-40<sup>3</sup></b>

1) Of which mainly: restructuring provision PLN 70 m

2) Of which mainly: investments PLN 26 m

3) Excluding acquisition costs planned for 2005

# Positive effect of cost cutting programme on 2004 results



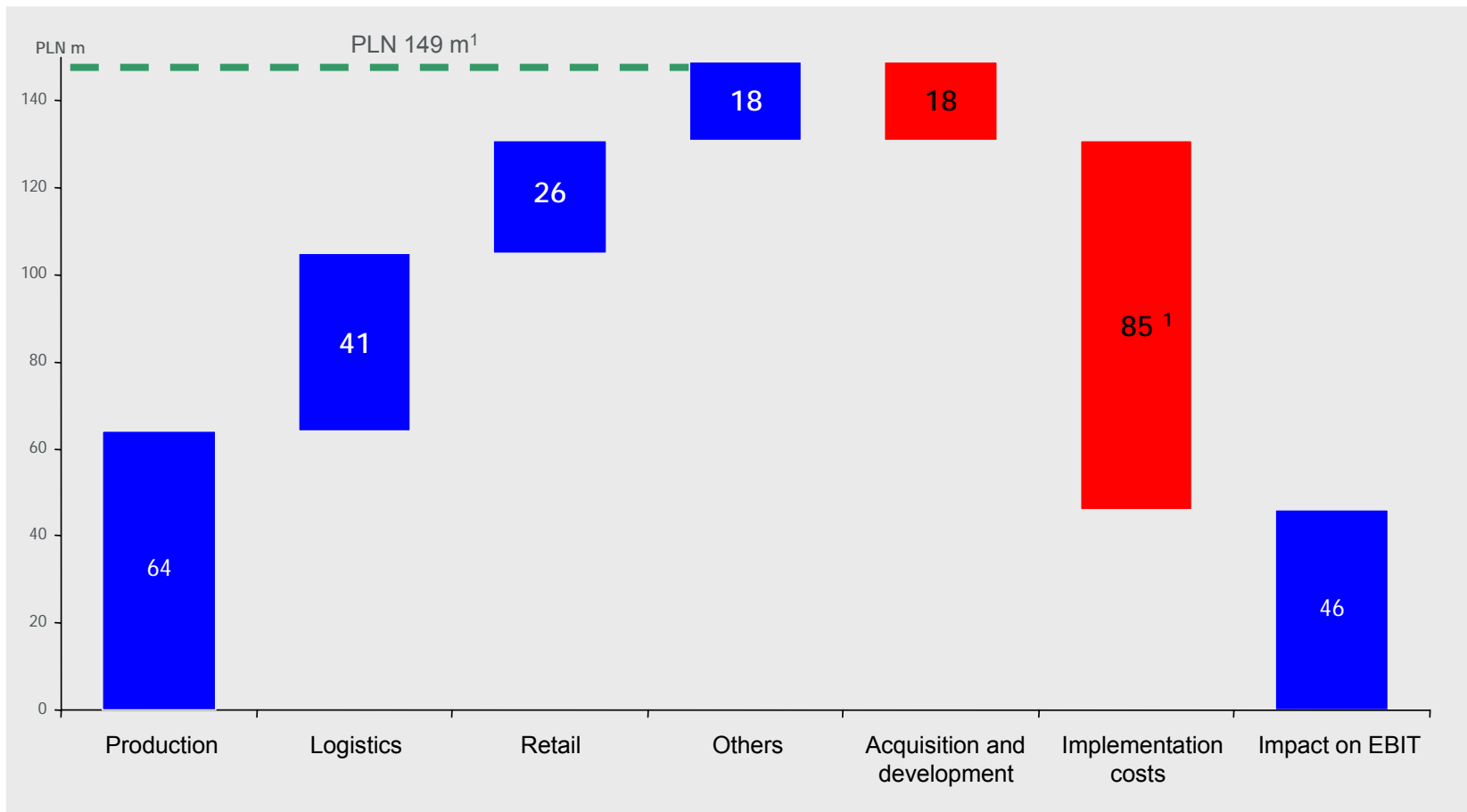
## Effects and costs of implementing cost cutting programme in 2004

- Total gross effect in 2004 of PLN 637 m
- Sustainable improvement of PLN 560 m
- Impact on EBIT of PLN 378 m

- Acquisition and development costs due to strategic projects and organizational changes
- Implementation costs mainly include provisions for future restructuring costs
- Others include mainly an increase in average remuneration costs due to annual rises

1) Operating cost cutting compared to 2002 cost base

# Impact of cost cutting programme on Q4'04 results



1) Cost cutting refers to 2002 cost base  
2) Planed restructuring provision

### Trends in Q4'04

- Retail margin in Q4'04 at 4.1 cent/litre (decrease in Q4'04 of almost 30% compared to Q3 '04). This had material effect on the financial results of Orlen Deutschland in Q4 '04 and FY 2004.
- Average retail margin in 2004 – 5.02 cent/litre
- Total volume sales increase by 5.9%
  - STAR stations increase 11.5%
  - ORLEN stations decrease 13.1%

### Fuel consumption in Germany 2004 vs. 2003<sup>1</sup>

- Gasoline - decrease 3.3%
- Diesel - increase 3.1%

1) Based on estimates of MWW Mineralölwirtschaftsverband e.V.

# ORLEN Deutschland

## Financial highlights 2004 vs. 2003

Financial highlights, PLN m <sup>1</sup>	2003	y/y	2004
Total assets	1 628	-13%	<b>1 416</b>
Equity	571	-22%	<b>447</b>
<b>PLN m<sup>2</sup></b>			
Revenue	6 270	38%	<b>8 634</b>
Costs of sale	- 5 946	40%	- <b>8 315</b>
Distribution and GA costs	- 375	15%	- <b>433</b>
Profit/loss on sales	- 51	121%	- <b>114</b>
Other revenue and costs	55	-49%	<b>28</b>
Operating profit/loss	3	-	- <b>86</b>
<b>Net profit/loss</b>	5	-	- <b>52</b>

1) Based on PLN/EUR: 4.71 for 2003 and 4.08 for 2004

2) Based on PLN/EUR: 4.50 for 2003 and 4.52 for 2004