PKN ORLEN Acquires Mažeikių Nafta

Largest Foreign Acquisition in Poland's History

Igor Chalupec, President of the Management Board, CEO

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Paweł Szymański, Member of the Management Board, CFO

26 May 2006

Agenda

PKN ORLEN has Signed Agreements to Acquire Control of Mažeikių Nafta
2,8 bn USD[1] Transaction - the Largest Foreign Acquisition in Poland's History

MAŽEIKIŲ NAFTA

ORLEN

Yukos International UK B.V.	**53,7022%** for USD 1.492m[2]	➢ PKN ORLEN and Yukos have signed a Shares Sale and Purchase Agreement
The Government of the Republic of Lithuania (GoL)	**30,6615%** for USD 852m[2] **10,0006%** Put Option	➢ PKN ORLEN escrowed a signed Shares Sale and Purchase Agreement ➢ GoL can countersign only after approval of the Lithuanian Parliament ➢ GoL retains 10,00% of Mažeikių Nafta and has the option to put these shares to PKN ORLEN; the put option is valid for five years ➢ If the GOL exercises the put option within three years from the closing of the 30,66% stake, the price will be USD 284m; from three years to five years, the price will be USD 278m
Public Shareholders in Mažeikių Nafta	**Up to 5,6357%** [3]	➢ PKN ORLEN will launch a mandatory tender offer for the 5,64% public float on closing the transaction with Yukos Int. UK B.V.

1. *Price refers to estimated value of 100% shares of Mažeikių Nafta*
2. *Current Agreement with Yukos and current offer to the GoL are priced at USD 3,927 per Mažeikių Nafta share.*
3. *At the expected tender price of USD 3,927 per share, total price of the mandatory tender offer, if all shares in free float are tendered, is USD 157m.*

Next Steps in the Mažeikių Nafta Acquisition Process

26 May 2006	➢ Yukos International UK B.V. and PKN ORLEN signed the Agreement for Yukos's 53,70% stake of Mazeikiu Nafta

Next Steps	➢ GoL Consent for the Transaction with Yukos International UK B.V.
	  ➢ Yukos International UK B.V. to present the Agreement with PKN ORLEN to the GoL (the GoL will have 30 days from delivery of the Agreement to exercise its right of first refusal)
	➢ GoL and Parliamentary Approval for the Transaction with the GoL
	  ➢ PKN ORLEN's offer to acquire 30,66% of the GoL's shares will be submitted by GoL to Parliament for approval
	  ➢ Lithuanian Parliament is expected to approve the transaction by 10 July 2006 the latest

Process to Closing	➢ European Commission clearance
	  ➢ PKN ORLEN to submit the application seeking consent for the transactions
	➢ With Approval of the Lithuanian Parliament
	  ➢ GoL will execute the Agreement previously signed and delivered by PKN ORLEN
	➢ Once Closing Conditions are Satisfied
	  ➢ Simultaneous closing of both transactions is expected, at the latest, in Q1 2007

After Closing	➢ Mandatory tender offer for 5,64% public float will be launched

Acquisition of Mažeikių Nafta – a Logical Step of PKN ORLEN Strategy 2005-2009

Acquisition of Mažeikių Nafta Addresses Pillar 3 of PKN ORLEN Strategy

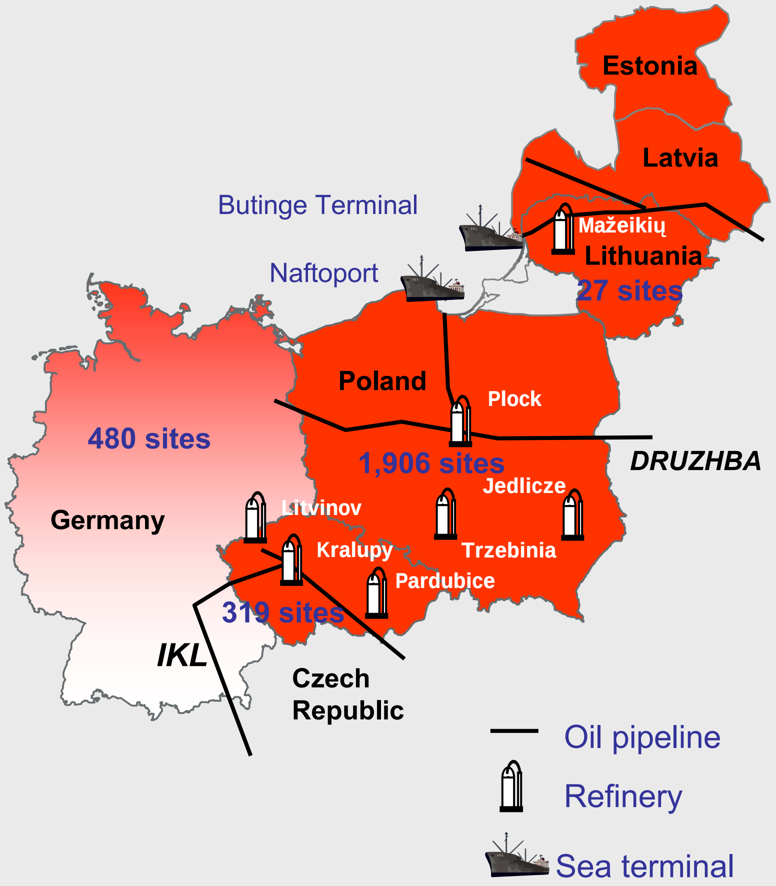
		Strategy	

Pillar 1	Implement improvements and investments	➢ Change of corporate culture – remedy of the situation within the Company
		➢ Partnership Programme – efficient integration of Unipetrol with PKN ORLEN
		➢ Efficiency enhancement as a priority during the first stage of the strategy impleme
		  ➢ Restructuring and optimisation of the retail network
		  ➢ Implementation of the new cost reduction programme
		  ➢ Group restructuring and implementation of management by segm
		  ➢ Implementation of the value management system
		➢ High return capital investments in core areas of operation
		➢ Implementation of the remedy plan for Orlen Deuts	

Pillar 2	Strengthen existing core businesses in home markets	➢ Allocation of capital for selective acq... maintain competitive edge ➢ Retail acquisitions ➢ Development of petr...cal operations ➢ Review of PK...LEN Group portfolio and structure simplification through disposals of non-core assets	Non-organic
Pillar 3	Monitor expansion opportunities on new markets	➢ Monitoring the market for availability of development or interesting acquisition opportunities ➢ Focus on markets with high growth potential	**Non-organic**

PKN ORLEN and Mažeikių Nafta – A Unique Opportunity
Baltic States to Become Next Three Home Markets for PKN ORLEN

Strengthening PKN ORLEN'S Footprint

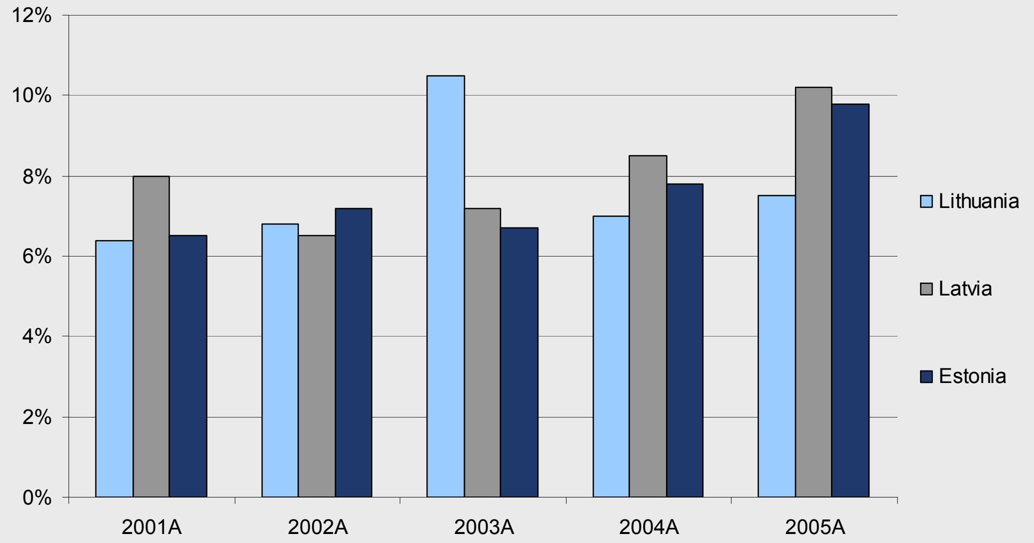


Opportunities of the Transaction

- Broadens and further diversifies PKN ORLEN'S position in Central and Eastern Europe
  - Strengthens PKN ORLEN in our existing markets (Poland, Czech Republic and Germany) and allows us to expand to new markets (Lithuania, Latvia and Estonia)
- Improves operational and financial performance through:
  - Optimising combined refinery systems
    - Product, margin and cost optimisation
    - Common policy of crude oil procurement
  - Modernisation and investments at Mažeikių Nafta
  - Wholesale and retail optimisation
  - Share "Best Practices"

Baltic States
Entering the Market with Large Growth Potential

Real GDP growth



Source: Economist Intelligence Unit

Business-friendly environment

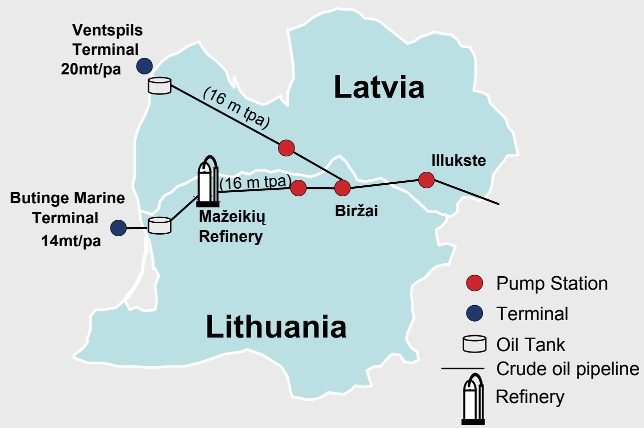
- Positive influence of European Union integration
- Ambitions of joining fast the Euro-zone
- Historical and expected economic growth
- One of the world's business-friendliest environments

Unique and High-Quality Asset of Mažeikių Nafta with Further Restructuring and Development Potential

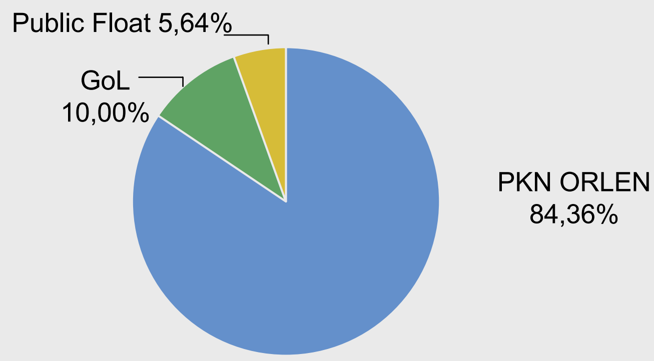
Business Overview

- Refinery
  - Large scale, highly complex refinery
    - Maximum throughput capacity of 10 million tones of crude oil per year
    - Nelson Complexity Index of 9,0
  - Only oil refiner in the Baltic States
  - Large export activities to Western Europe, Baltic Region and the United States
- Pipeline
  - Owns and operates the Lithuanian crude oil and refined product pipeline system
- Butinge Marine Terminal
  - Owns and operates Lithuania's export-import oil terminal in the Baltic Sea
- Marketing presence through 27 retail stations in Lithuania

Location of Mažeikių Nafta



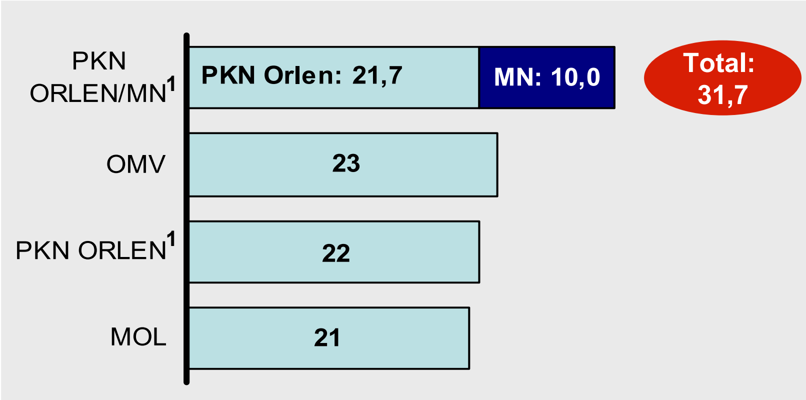
Post-Transaction Shareholder Structure



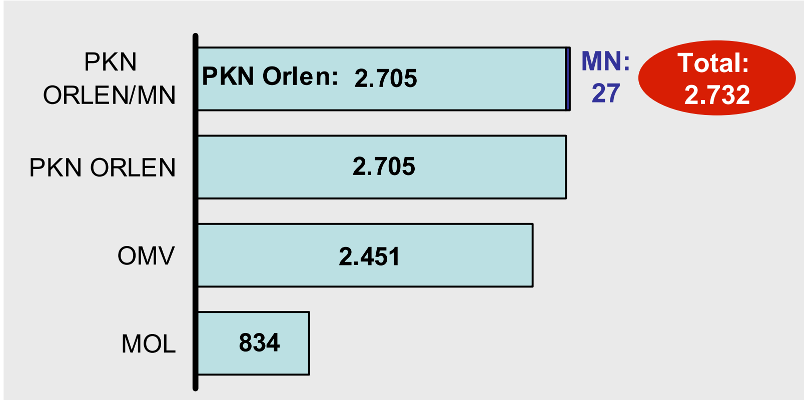
Note: Shareholder structure before Mandatory Tender Offer for Public Float.

Enlarged PKN ORLEN Group
Leader in Central Europe in Terms of Processing Capacity

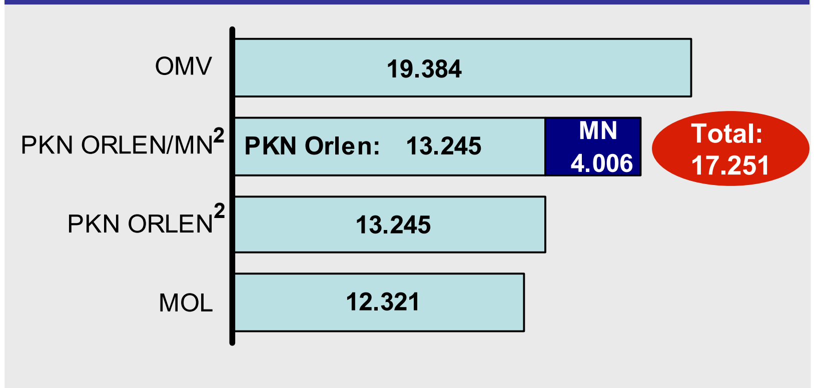
Processing capacity (mn tons annually)



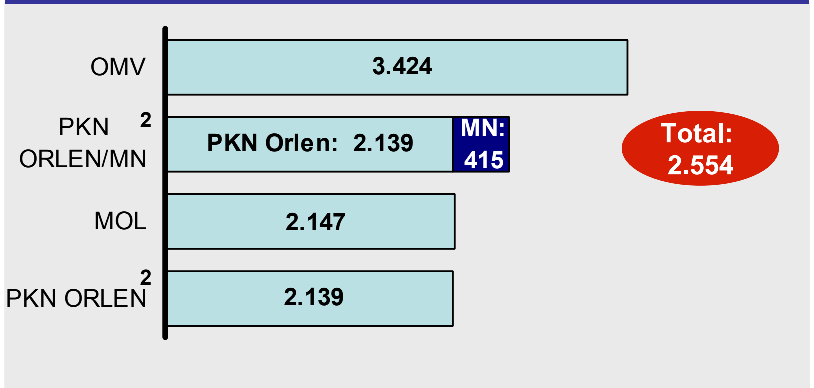
Petrol stations (number of stations)



Revenues (USDm)



EBITDA (USDm)



[1] *Assumes 100% of Unipetrol and 100% of Mažeikių Nafta*

[2] *According to IFRS reported figures; PKN ORLEN 2005 EBITDA not adjusted of negative goodwill from Unipetrol acquisition.*

Source: Companies' 2005 annual reports. Converted to USD at average 2005 exchange rates.

Agenda

Transaction Summary

Structure of the Transaction

Financing of the Transaction

Appendix

Acquisition of Mažeikių Nafta: Transaction Details

	Acquisition from Yukos International UK B.V.	Acquisition from Government of Lithuania
Acquired Stake	➢ 379.918.411 shares ➢ 53,70%	➢ 216.915.941 shares ➢ 30,66%
Consideration	➢ Total: USD 1.492m ➢ USD 3,927/share ➢ Purchase price is fixed; there are no adjustments at closing	➢ Total: USD 852m ➢ USD 3,927/share ➢ Purchase price is fixed; there are no adjustments at closing
Status	➢ Share Sale and Purchase Agreement signed by both PKN ORLEN and Yukos Yukos International UK B.V	➢ Share Sale and Purchase Agreement signed by PKN ORLEN ➢ Agreement is held by GoL in escrow pending counter-signature once Lithuanian Parliament approves
Key Documents	➢ Share Sale and Purchase Agreement	➢ Share Sale and Purchase Agreement ➢ Put Option Agreement ➢ Shareholders' Agreement

Summary of Share Sale and Purchase Agreement with Yukos International UK B.V.

Yukos International UK B.V. Share Sale and Purchase Agreement Key Conditions to Closing	➢ European Commission competition clearance obtained ➢ PKN ORLEN has adequate comfort, based on relevant documents regarding the fairness of the transaction for creditors of Yukos International UK B.V. ➢ The GoL has not exercised its currently-held right of first refusal ➢ The Agreement between PKN ORLEN and the GoL (for 30,66%) is signed – PKN ORLEN is granted not to exercise the right this condition ➢ This can only occur after the approval of the Lithuanian Parliament ➢ The GoL has agreed for PKN ORLEN to assume Yukos's rights under the 1999 and 2002 privitisation agreements and the existing shareholders' agreement

Summary of Share Sale and Purchase Agreement and Put Option Agreement with the Government of the Republic of Lithuania

Government of the Republic of Lithuania Share Sale and Purchase Agreement Key Conditions to Closing	➢ European Commission clearance obtained ➢ PKN ORLEN acquires 53,70% of Mažeikių Nafta shares from Yukos ➢ The parties have signed (a) a new shareholders' agreement and (b) a deed of termination and release of all parties' obligations under the 1999 and 2002 privitisation agreements and the existing shareholders' agreement

Government of the Republic of Lithuania Put Option Agreement
 	
Key Terms
	➢ PKN ORLEN has given the GoL a put option covering the GoL's remaining 10% shareholding in Mažeikių Nafta
	➢ The price at which PKN ORLEN will acquire the shares depends on the timing of the exercise of the option
	    ➢ If exercised within three years of closing the transaction regarding 30.66% stake, PKN ORLEN will acquire the shares for USD 4,0205 per share
	    ➢ If exercised after three years from closing the transaction regarding 30.66% stake, PKN ORLEN will acquire the shares for USD 3,927 per share

Summary of the Shareholders' Agreement with the GoL

Key Terms of the Shareholders' Agreement

- PKN ORLEN gains full operational control over Mažeikių Nafta
- GoL appoints one Supervisory Board and one Management Board member
- GoL may request to cancel a decision of Mažeikių Nafta's governing bodies, if the decision is adverse to Lithuania's national security or energy security policy
- The GoL may request PKN ORLEN to sell all the possesed Mažeikių Nafta shares if:
  - Mažeikių Nafta incurs a loss over five consecutive financial years
  - Enforcement proceedings pending with respect to the Company's assets with a value exceeding USD 200m
  - More than 50% of the votes in PKN ORLEN are taken over by an entity which in the GoL's opinion poses a threat to Lithuania's national security
- Sale of shares by each party is subject to the other party's right of first refusal

ORLEN

Agenda

Acquisition Financing
Sources and Process

Sources of Funding

- PKN intends to fund the acquisition primarily with new external debt:
  - Anticipated sources of funding:

Cash	USD	200m
Existing Credit Lines	USD	800m
New Credit Lines and Bridge Financing	USD	1.800m
TOTAL:	USD	2.800m

- PKN ORLEN's key relationship banks have confirmed the possibility of successfully closing the funding for the transaction

Funding Process

- Bridge financing terms have been extensively discussed
  - High interest in the transaction
- Simultaneously, PKN ORLEN has begun working on new sources of funding, which will ultimately refinance the bridge facility:
  - Mandates have been awarded and documentation work has begun on a new PLN 2 billion domestic bond issuance program
  - Additional sources have been confirmed in the bank market
  - Preparations for a Eurobonds issue have started

Acquisition financing
Gradual Deleveraging will be the Top Priority of PKN ORLEN's Financial Management

- In January 2006, PKN ORLEN extensively discussed with Fitch[1] the details of the acquisition and related financing
- PKN ORLEN believes it can maintain an investment grade rating after the aquisition by making reduction of leverage to the optimal 1,5x EBITDA level PKN's top priority in the area of financial management
- Key deleveraging tools involve:
    - The consistent application of our new dividend policy based on Free Cash Flow to Equity (FCFE)[2]
    - Intensive ongoing focus on divesting remaining non-core assets
    - Prioritisation of the capital expenditures budget
- We anticipate that consolidated net debt of the Group post-acquisition will temporarily exceed 2,5x EBITDA
    - PKN ORLEN's optimal long-term net debt ratio is 1,5x EBITDA

[1] Fitch currently rates PKN ORLEN at BBB / Negative Outlook
[2] FCFE – Free Cash Flow to Equity after capex, M&A and capital structure optimisation

Disclaimer

THIS DOCUMENT INCLUDES A PRESENTATION OF ONLY THE KEY ELEMENTS OF THE TRANSACTION STRUCTURE AND ONLY THE KEY TERMS OF THE TRANSACTION DOCUMENTS RELATED TO THE ACQUISITION OF SHARES IN AB MAŽEIKIŲ NAFTA. THE COMPLETION OF THE TRANSACTIONS REFERRED TO HEREIN IS SUBJECT TO SEVERAL CONDITIONS PRECEDENT WHICH MAY NOT BECOME SATISFIED.

THIS DOCUMENT CONTAINS FORWARD LOOKING STATEMENTS ON THE ECONOMIC AND FINANCIAL POSITION OF THE PKN ORLEN GROUP. SUCH FORWARD LOOKING STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE AND INVOLVE RISKS AND UNCERTAINTIES, AND THE ACTUAL ECONOMIC AND FINANCIAL POSITION OF THE PKN ORLEN GROUP IN THE FUTURE MAY DIFFER MATERIALLY FROM THE EXPECTATIONS EXPRESSED OR IMPLIED IN SUCH FORWARD LOOKING STATEMENTS.

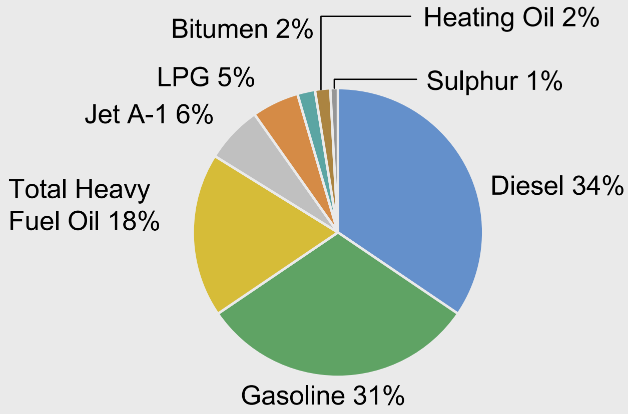
Agenda

Mažeikių Nafta Refining Yield

Product Yield Considerations

- High quality refinery with low percentage of heavy products
- Potential to significantly improve product yield through bottoms upgrade
- Potential to divert large proportion of the heavy fuel oil production to the Mažeikių power plant
- Diversified market base, including domestic and Polish markets with significant inland premia compared to Western European prices

2005 Product Sales



Development of Refining Margin

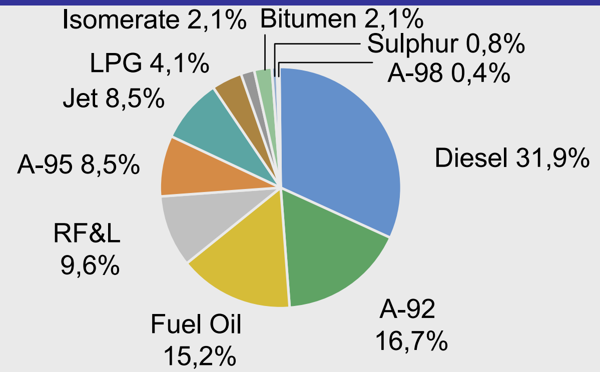
Source: Mažeikių Nafta materials

Upgrade Potential

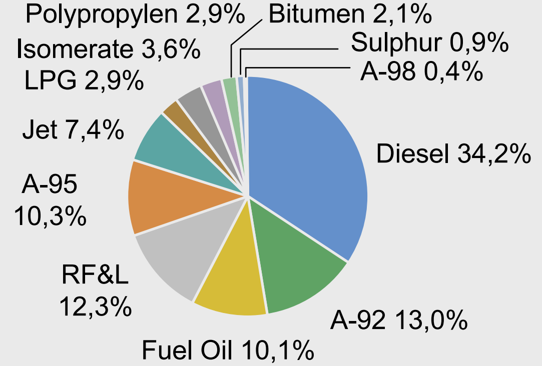
Elements of Mažeikių Nafta Upgrade Potential	
Background	➢ Ongoing modernisation programme started under Williams ➢ Future programs can be distinguished into environmental programme and upgrade programs
Environ-mental Programme	➢ Objective meet EU regulations on fuel quality and resulting environmental effects ➢ Sulphur limits ➢ Nitrogen limits
Upgrade Programme	➢ Objective: Enhance competitiveness of refinery through ➢ Bottom-of-the-barrel projects ➢ Light olefins upgrading projects ➢ CAPEX programme contractually defined in SPA agreements

Impact of the Modernisation Programme

2008



2009 (With Modernisation Program)



Long and Complex Acquisition Process

Yukos International UK B.V.

Aug-2005
Offer for the purchase of Yukos Int. stake in MN

05-Oct-2005
Appointment of Advisors:
- Technical: Muse Stancil
- Legal: Weil,Gotshal&Manges
- Environmental: Abricon
- Cost/Synergies: McKinsey
- Accounting: PWC
- Financial: Goldman Sachs

10-Nov-2005
Indicative bids placed Yukos Int.

11-Nov-2005
PKN ORLEN representatives visits Prime Minister of Lithuania

07-09- Dec-2005
Round 2
Management presentation and site visit to MN

27-Jan-2006
PKN ORLEN submits its final bid for 53.7% of MN to Yukos Int. financial advisers Lehman Brothers

25-Mar – 18 May -2006
Negotiations with Yukos Int.

25-May-2006
US Federal Bankruptcy Court in New York lifts the Temporary Restraining Order on Yukos Int.

26-May-2006
Singing the agreement with Yukos Int.

Aug-2005 | Oct-2005 | Dec-2005 | Feb-2006 | Apr-2006 | Jun-2006

Government of the Republic Lithuania

2-Apr-2006
Invitation of Government of Lithuania to PKN ORLEN for submitting an offer of MN shares purchase

13-Apr – 19 May -2006
Negotiations with Government of Lithuania

13-Apr-2006
PKN ORLEN submits an offer to the Government of Lithuania for the purchase of 40.6% stake in MN

4-May-2006
PKN ORLEN meets Prime Minister and President of Lithuania

Additional Information on the Share Sale and Purchase Agreement with Yukos International UK B.V.

- Yukos material representations and warranties:
  - Clean title to the shares and exclusive title to the pipelines and the Butinge terminal
  - No material adverse change since 31 December 2005
  - Other typical representations and warranties regarding the Mažeikių Nafta's legal and economic standing
- Limitations on Yukos's liability for breach of the Agreement:
  - Liability for false representations survives for two years after closing (five years for tax representations and unlimited survival with respect to share title liability)
  - Yukos's liability limited to USD 250m, except for liability for share title
- Drop-dead date 30 September 2006 (possible extension by six months if the sole unfulfilled condition is the absence of EC clearance)

Additional Information on the Share Sale and Purchase Agreement with the GoL

- The GoL's material representations and warranties:
  - Clean title to the shares and the exclusive title to the refinery, pipelines and Butinge terminal
  - No material tax liabilities as of signing
- Limitations of the GoL's liability for breach of the Agreement:
  - Liability for false representations survives for six months from closing date (survival of share title liability unlimited in time)
  - The GoL's liability limited to USD 100m (USD 851.828.900,31 for share title claims)
  - The GoL's liability only triggered if USD 2m claim threshold exceeded
- Drop-dead date 30 September 2006 (possible extension to 31 March 2007 if the sole unfulfilled condition is the absence of EC clearance)

Additional Information on the Deed of Release and Termination with the GoL and PKN ORLEN

- The Agreement becomes effective upon closing of the transaction with Yukos Int., on condition that, the GoL will have signed the PKN ORLEN/GoL transaction agreements
- The Agreement provides for a termination of the existing investment agreements and the existing shareholders' agreement and a mutual release from liability of the parties for the performance of the said agreement prior to the Yukos transaction closing date