



## **2007 financial results (IFRS) and financial assumptions for 2008 plan**

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**ORLEN**

## 2007 financial results – overview

- Financial assumptions for 2008 plan
- Supporting slides



# Realization of PKN ORLEN Group strategy in 2007

## Implementation of projects enabling long term production and sales increase

Segment	Action realized	Effect achieved
Refinery	<ul style="list-style-type: none"> <li>Restoring the VDU in Mazeikiu Nafta (Lithuania)</li> <li>Modernisation shutdowns in Mazeikiu Nafta refinery (Lithuania)</li> <li>Upgrading capacity of hydrocracking installation in Litvinov (Czech Republic)</li> </ul>	<ul style="list-style-type: none"> <li>Restoration of processing capacities to before 2006 fire level, 10 m t</li> <li>Savings in energy consumption. White products yield increase</li> <li>Upgrading hydrocracking capacity by 0,3m t up to 1,5m tonnes; diesel oil production increase by 18%</li> </ul>
Retail	<ul style="list-style-type: none"> <li>Implementation of restructuring and optimalization of filling stations network in Poland</li> <li>Implementation of two-tier strategy in Czech Republic</li> <li>Implementation of new brand in retail network in Lithuania: „ORLEN Lietuva”</li> </ul>	<ul style="list-style-type: none"> <li>257 stations modernized. Fuel sales increase in Poland by 15% y/y</li> <li>172 stations modernized. Fuel sales increase in Czech Republic by 10% y/y</li> <li>12 stations modernized. Fuel sales increase in Lithuania by 24% y/y</li> </ul>
Petrochemicals	<ul style="list-style-type: none"> <li>PX/PTA project: implementation and project kick-off.</li> </ul>	<ul style="list-style-type: none"> <li>Realisation of the next stage of the biggest strategic investment project in accordance to the plan</li> </ul>
Corporate governance	<ul style="list-style-type: none"> <li>Business lines management introduced in Mazeikiu Nafta and Unipetrol</li> </ul>	<ul style="list-style-type: none"> <li>Adjusting subsidiaries structure as well as their internal laws to PKN ORLEN standard</li> </ul>

# EBITDA increased by 8% in 2007 vs 2006

despite maintenance turnarounds both in refining and petrochemical segments

Key financial data in 2007 <sup>1</sup>			
PLN m	2006	2007	r/r [%]
	1	2	3=2/1
EBITDA	4 685	5 039	8%
<b>EBITDA</b> excluding one-off effects*	<b>5 293</b>	<b>5 947</b>	<b>12%</b>
Net profit attributed to shareholders of the parent company	1 986	2 323	17%
<b>Net profit</b> attributed to shareh. of the parent company excluding one-off effects*	<b>2 577</b>	<b>3 041</b>	<b>18%</b>
Cash flow from operations	3 693	1 965	-47%
ROACE (%) <sup>2</sup>	8,0%	7,0%	-1,0pp
Gearing (%) <sup>3</sup>	27,2%	37,4%	10,2pp
Net debt / EBITDA <sup>4</sup>	1,5	1,6	7%

1) Refers to the PKN ORLEN Capital Group including Unipetrol and Mazeikiu Nafta, IFRS numbers in the presentation unless otherwise stated

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

3) Gearing = net debt / equity

4) Interest-bearing borrowings less cash & cash equivalents and less short term investments / (EBITDA + dividends received from Polkomtel)

#### Selected main one-off item:

**2007: Refinery:** maintenance shutdown in PKN ORLEN - PLN249 m and Mazeikiu Nafta -PLN 177m; logistic disturbance - PLN 70 m, shutdown and breakdown in Unipetrol -PLN 52 m; Petrochemical: shutdown and breakdown in Unipetrol -PLN 327 m.

**2006: Refinery:** goodwill write-off in Mazeikiu Nafta - PLN 271 m, shutdown in Unipetrol -PLN 52 m and PKN ORLEN -PLN 49 m; **Petrochemical:** write-off of Kaucuk - PLN 230 m, shutdown in Unipetrol -PLN 55 m.

# Wholesale and retail fuel volumes sales increase

as a result of efficiency improvement and retail network modernization

## Key operating data in 2007

	2006		2007		y/y [%]	y/y [%]
	<i>unconsolidated</i>	Group	<i>unconsolidated</i>	Group	<i>unconsolidated</i>	Group
	1	2	3	4	5=3/1	6=4/2
Wholesale (kt) <sup>1</sup>	6 806	<b>9 703</b>	7 093	<b>13 761</b>	4,2%	41,8%
Retail sale (m litres) <sup>2</sup>	3 030	<b>5 269</b>	3 499	<b>5 799</b>	15,5%	10,1%
Petrochemical sale (kt)	1 603	<b>3 051</b>	1 647	<b>3 059</b>	2,7%	0,3%
Crude oil throughput (kt)	13 612	<b>18 023</b>	13 646	<b>23 114</b>	0,2%	28,2%
Refinery utilisation ratio <sup>3</sup>	98,6%		<b>98,9%</b>		0,3pp	

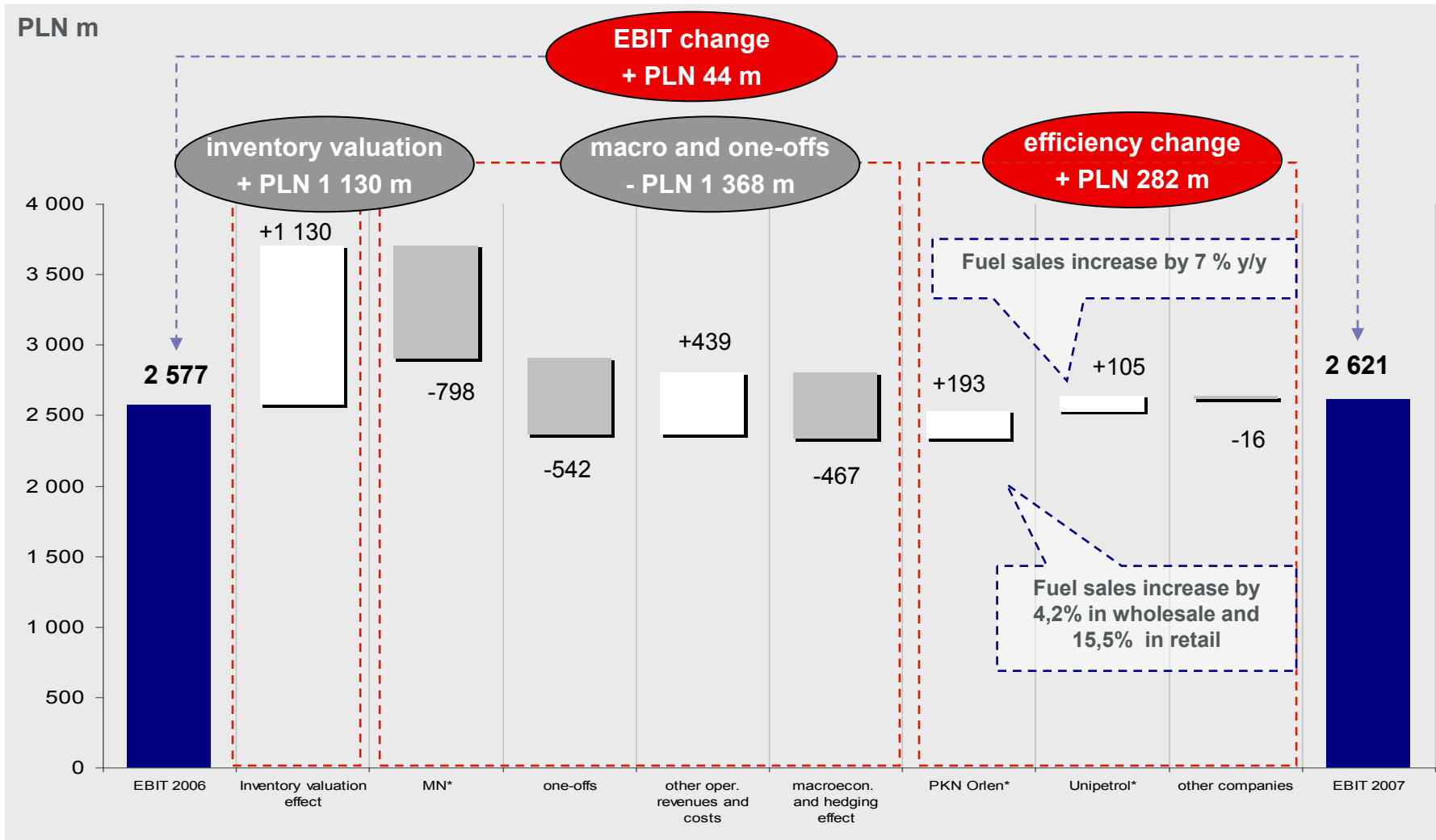
1) Refers to gasoline, diesel, Jet, LHO

2) Refers to retail sales of gasoline, diesel, LPG

3) Refers to deep processing capacity at PKN ORLEN 13.8 m t/y

# EBIT increase by 2% on yearly basis

Efficiency improvement by PLN 282 m, EBIT increase by PLN 44 m



\* According to LIFO

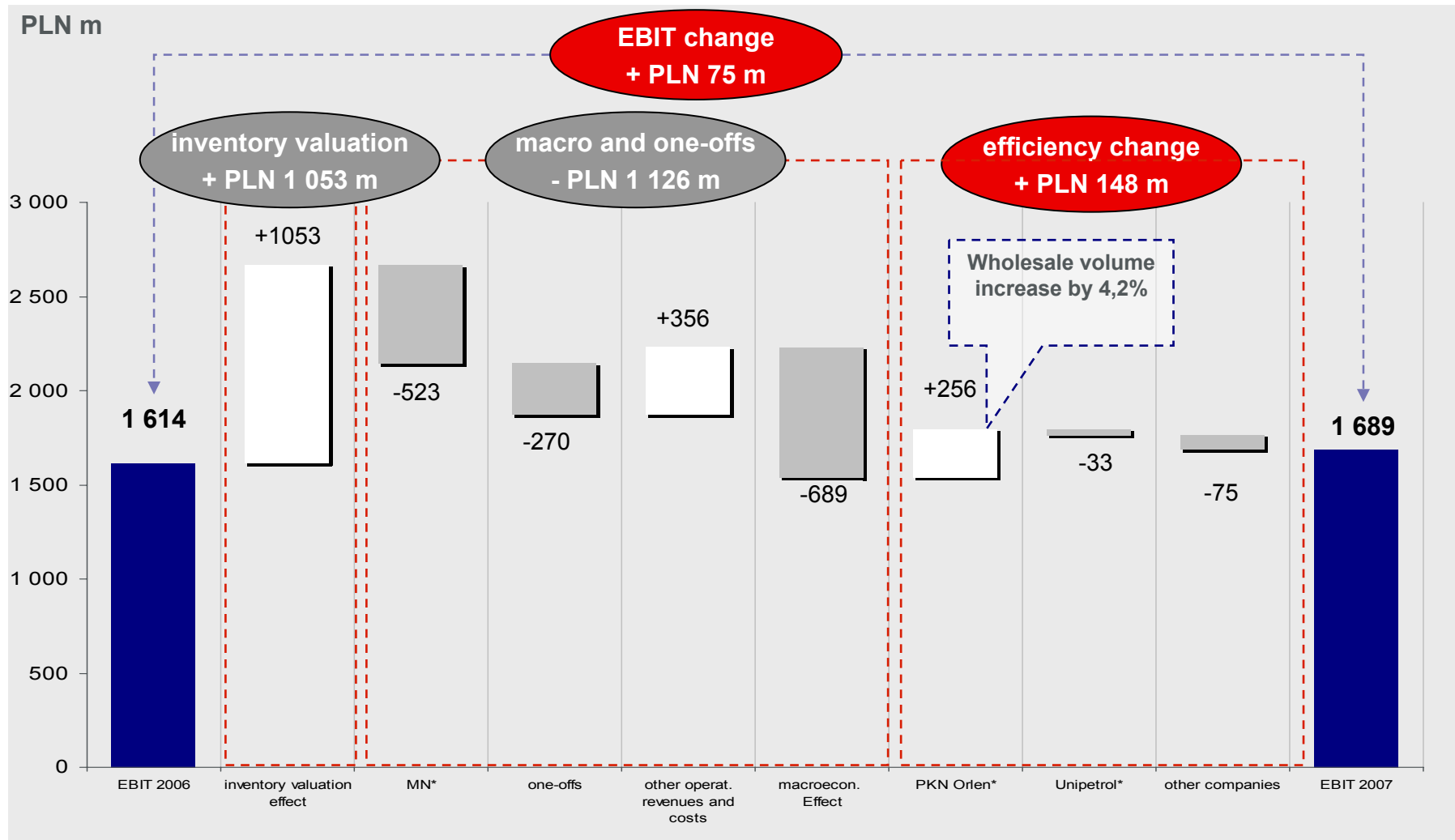
-Macroeconomic effect: PKN -PLN 602 m; Unipetrol PLN 56 m; Others PLN 79 m

-One-offs: PKN -PLN 270 m and Unipetrol -PLN 272 m

-Other operating revenues and costs: PKN -PLN 42 m; Unipetrol PLN 149 m; Others - PLN 11 m; consolidation adjustments PLN 343 m, mainly including Mazeikiu Nafta impairment test

# Refining segment

Efficiency improvement by PLN 148 m, EBIT increase by PLN 75 m



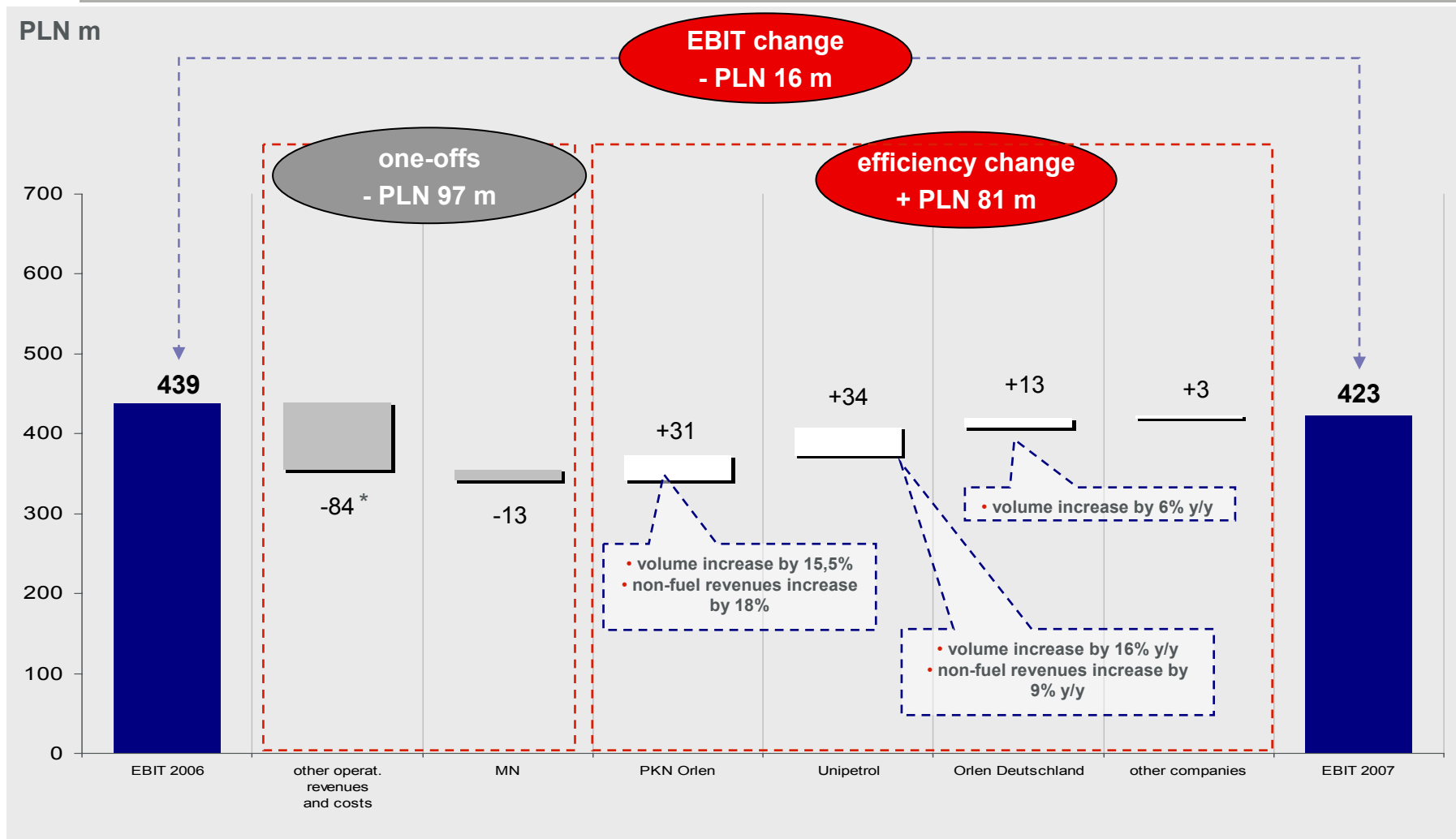
\* According to LIFO

Macroeconomic effect: crude oil quotations effect; crude oil differentials, cracks on particular products; currency exchange rates; PKN -PLN 598 m, Unipetrol -PLN 55 m; other companies -PLN 36 m

One-offs: maintenance shutdowns impact of -PLN 200 m (e.g. Hydrocracking, catalytic cracker and HOG); logistics problems in 4Q'07 of -PLN 70 m (inventory increase: lost margin and logistics cost increase) following product pipeline failure

# Retail segment

Efficiency improvement by PLN 81 m, EBIT decrease by PLN 16 m

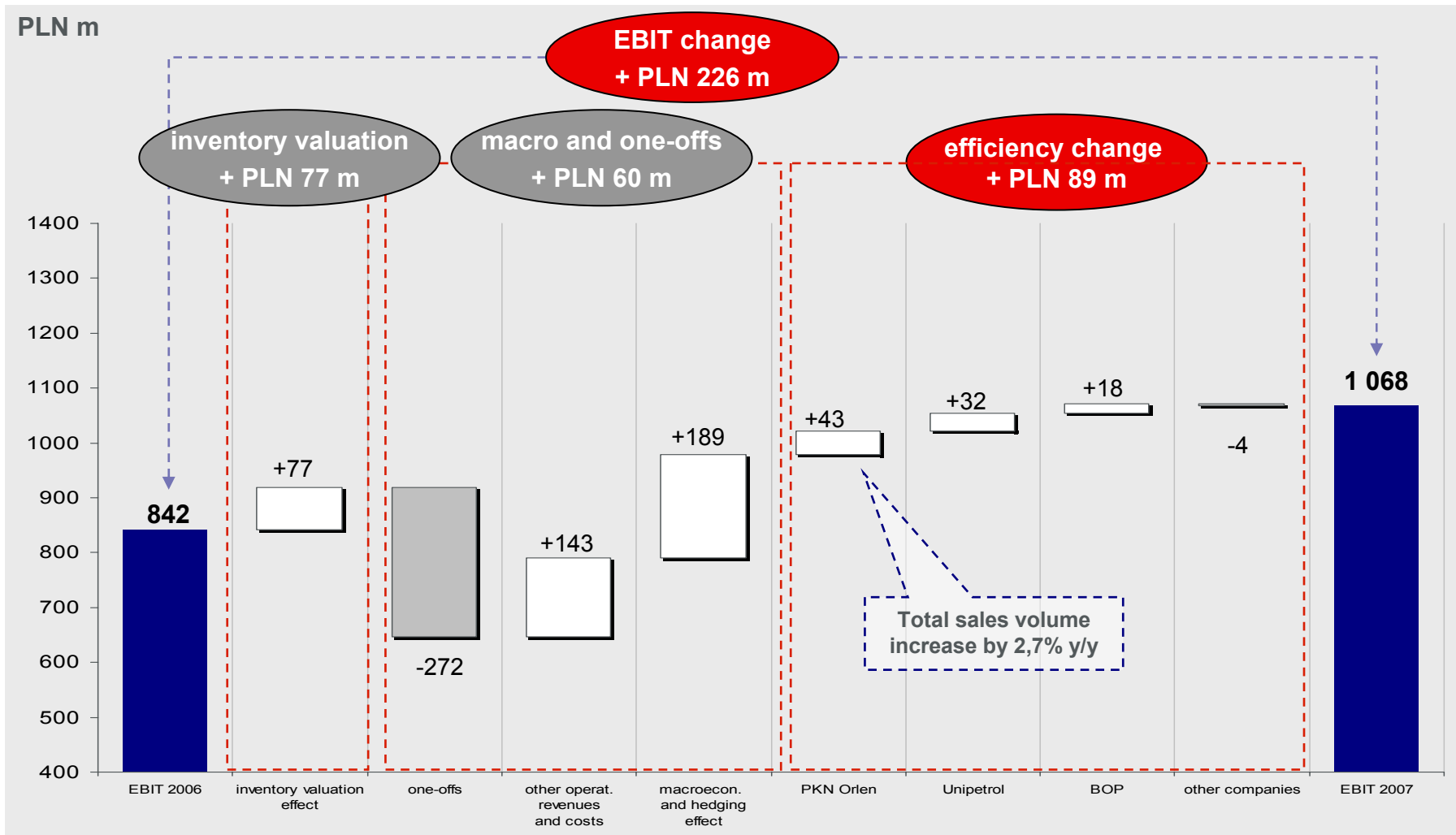


\* Other operational revenues and costs explain events not connected with current activities. Main impact was in PKN ORLEN of PLN 60 m (the biggest single element was unwinding provision for land reclamation in 2006 of PLN 32 m).



# Petrochemical segment

Efficiency improvement by PLN 89 m, EBIT increase by PLN 226 m

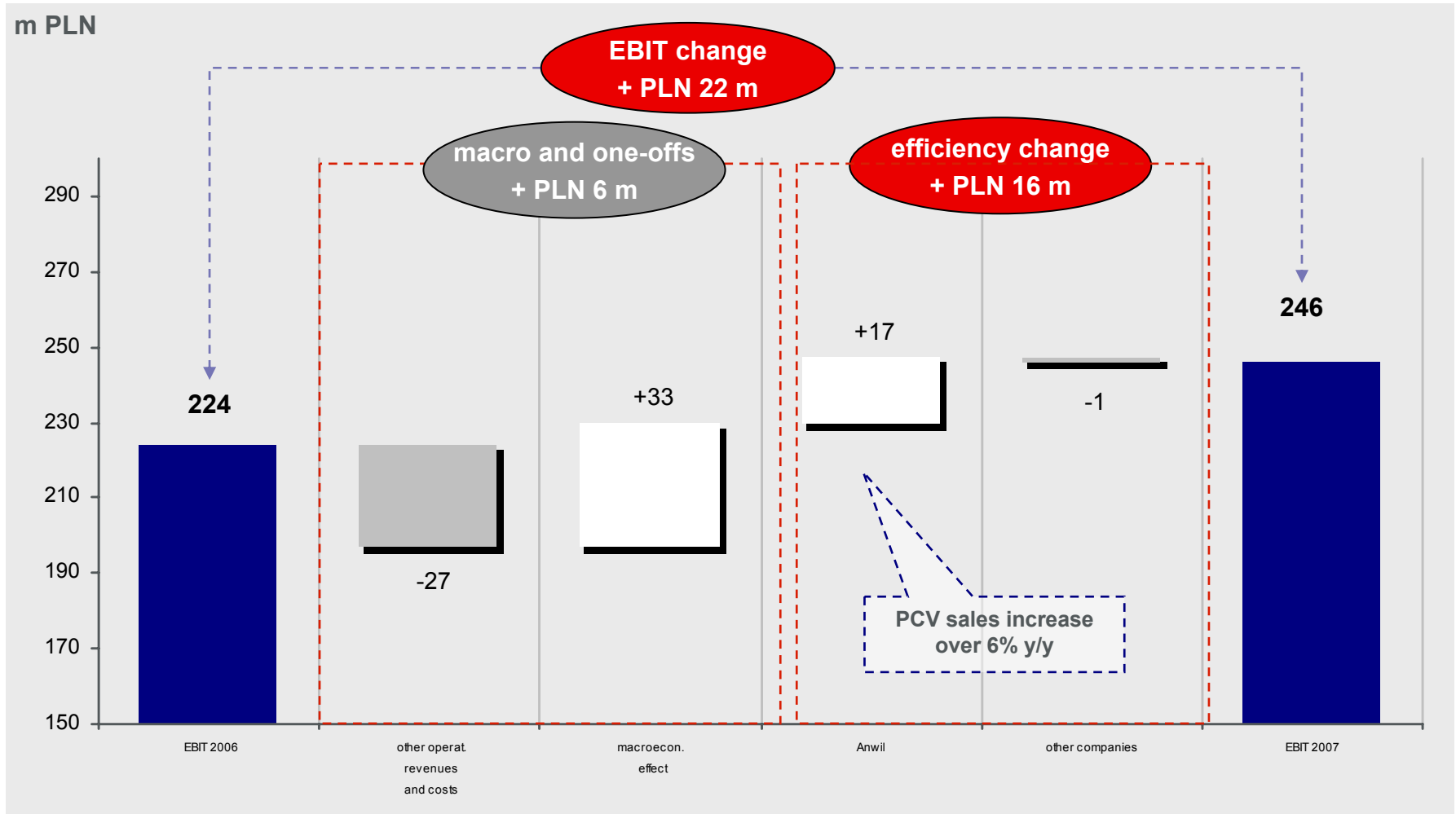


Macroeconomic effect: cracks on particular products; currency exchange rates, macroeconomic effect: PLN 111 m Unipetrol, PLN 82 m BOP, -PLN 4 m hedging result in PKN

-One-offs: Maintenance shutdown and turnaround in Unipetrol -PLN 327 m vs maintenance shutdowns in Unipetrol - PLN 55 m in 2006

# Chemical segment

Efficiency improvement by PLN 16 m, EBIT increase by PLN 22 m



# Agenda

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- 2007 financial results – overview
- **Financial assumptions for 2008 plan**
- Supporting slides



# Investment plans for 2008 as part of strategy till 2012

Projects driven by higher demand for high margin middle distillates and petrochemical products

Segment	Planned action	Expected effect
Refinery	<ul style="list-style-type: none"> <li>• Completion of the main investment phase of HDS<sup>1</sup> VII and Hydrogen Unit II construction (Płock)</li> <li>• Start-up of the HDSH<sup>2</sup> Unit (Płock)</li> <li>• Building diesel desulphurization unit in Mazeikiu Nafta</li> </ul>	<ul style="list-style-type: none"> <li>• Start up in 2009 of the installation with processing capacity of 2m t/y of the middle distillates</li> <li>• Ca.0,5 mt of middle distillates more</li> <li>• Preparation of the refinery for EU 2009 standards</li> </ul>
Retail	<ul style="list-style-type: none"> <li>• Further implementation of two-tier strategy in the Polish and Czech markets</li> <li>• Building of new retail sites. Land purchasing and general modernisation of the existing sites</li> </ul>	<ul style="list-style-type: none"> <li>• Rebranding and modernization of over 200 stations</li> <li>• Over 50 new sites in the region</li> </ul>
Petrochemical	<ul style="list-style-type: none"> <li>• Paraxylene unit (PX) construction; providing the underground infrastructure of the area and installation of rectification columns</li> <li>• Purified terephthalic acid unit (PTA) construction; underground infrastructure and main foundations completion</li> </ul>	<ul style="list-style-type: none"> <li>• 400 thousand tonnes of PX from 2010</li> <li>• 600 thousand tonnes of PTA from 2010</li> </ul>
Chemical	<ul style="list-style-type: none"> <li>• Continuation of long term program of plastic production development (PVC and caprolactam)</li> </ul>	<ul style="list-style-type: none"> <li>• PVC yields growth by 10% in Anwil</li> </ul>

1) HDS – Diesel Hydrodesulphurisation Unit

2) HDSH - Diesel Hydrofining from Residue Hydrodesulphurisation



# Main operating assumption as for 2008

Dynamic increase of production and sales in the refining segment

## Key operating assumption in PKN ORLEN Group in 2008

	Estimated change 2008/2007 in %	Plan for 2008
Crude throughput in PKN ORLEN Group	+19%	Increase by 4.5 mt y/y to 27.6 mt/y
Crude throughput in Mazeiku Nafta	+ 80%	Increase to 9 mt /y. Start of the new column
Crude throughput in Unipetrol	+ 11%	83% utilization ratio
Wholesale refining products	+15%	New long term contracts
Retail sales	+11%	Rebranding and new sites construction
Retail margin on non-fuel products sales	+ 17%	Result of the marketing strategy
Petrochemical product sales	-10%	Olefins shutdown in Płock
Chemical product sales	-1%	PVC shutdown related to Płock

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# Agenda

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## **Supporting slides**

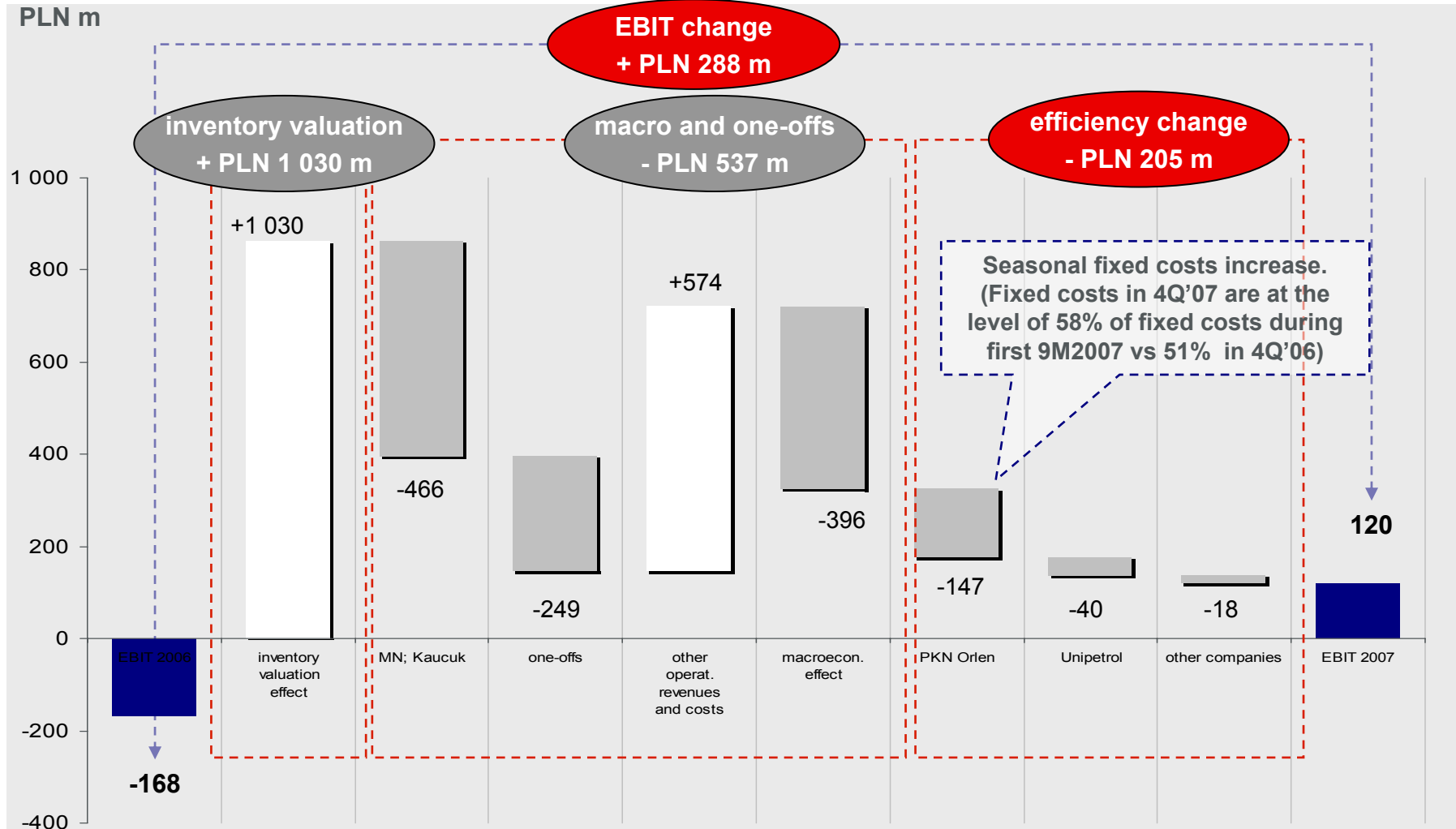
- **4Q2007 financial results**
- **Macrodata**
- **Other financial and operational data (quarterly and annual basis)**
- **Shutdown schedule as for 2008**
- **Biofuels**
- **Hedge policy**
- **LIFO methodology**





# EBIT: 4Q'2007 compared to 4Q'2006

Efficiency decrease by PLN 205 m, EBIT increase by PLN 288 m

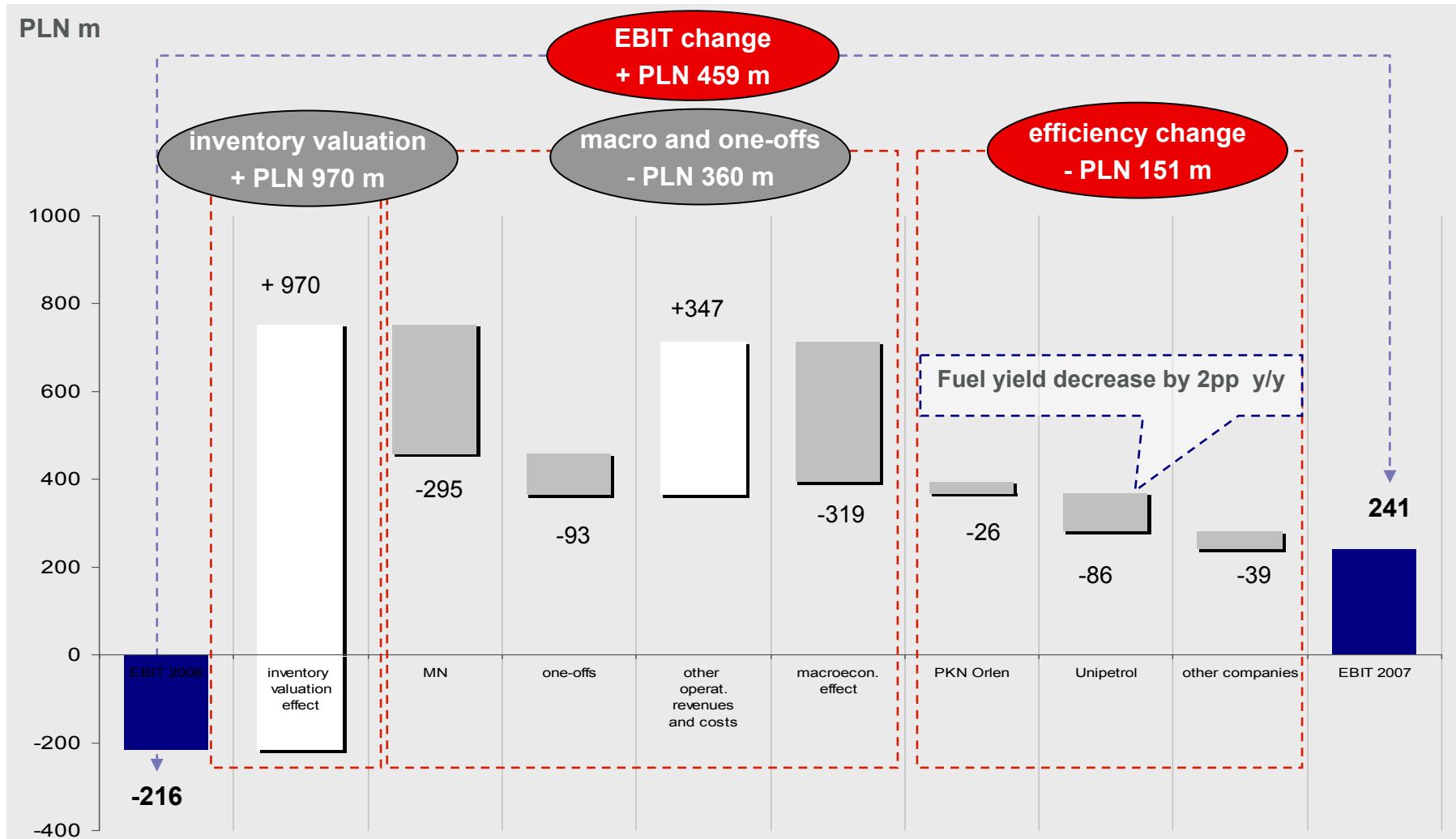


-Macroeconomic effect: PKN -PLN 293 m; Unipetrol -PLN 90 m

-One-offs: PKN -PLN 70 m; Unipetrol -PLN 179 m

# Refining segment on quarterly basis

Efficiency decrease by PLN 151 m, EBIT increase by PLN 459 m

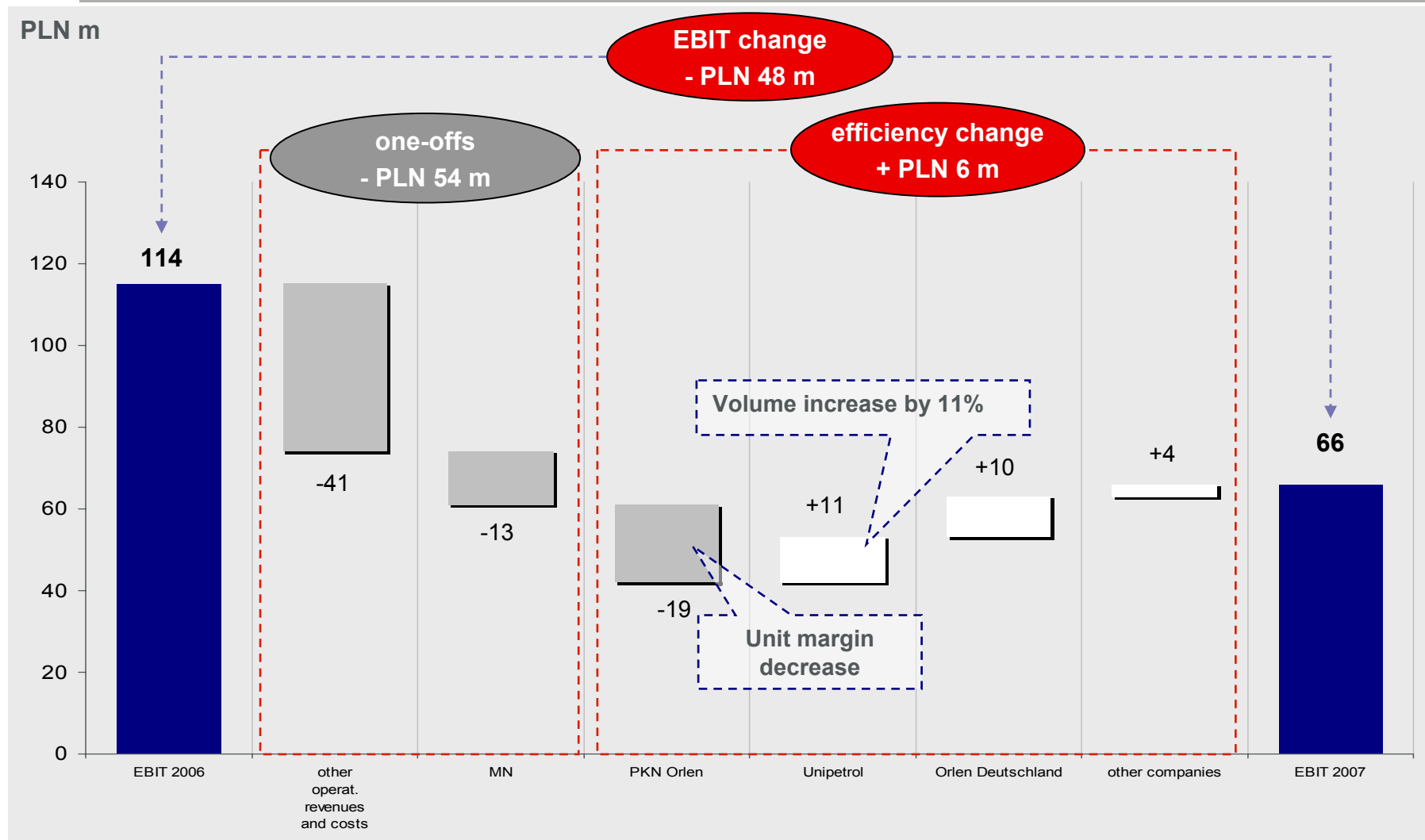


-Macroeconomic effect: PKN -PLN 284 m; Unipetrol -PLN 15 m; Other companies -PLN 20 m

-One-offs: PKN -PLN 70 m; Unipetrol -PLN 23 m

# Retail segment on quarterly basis

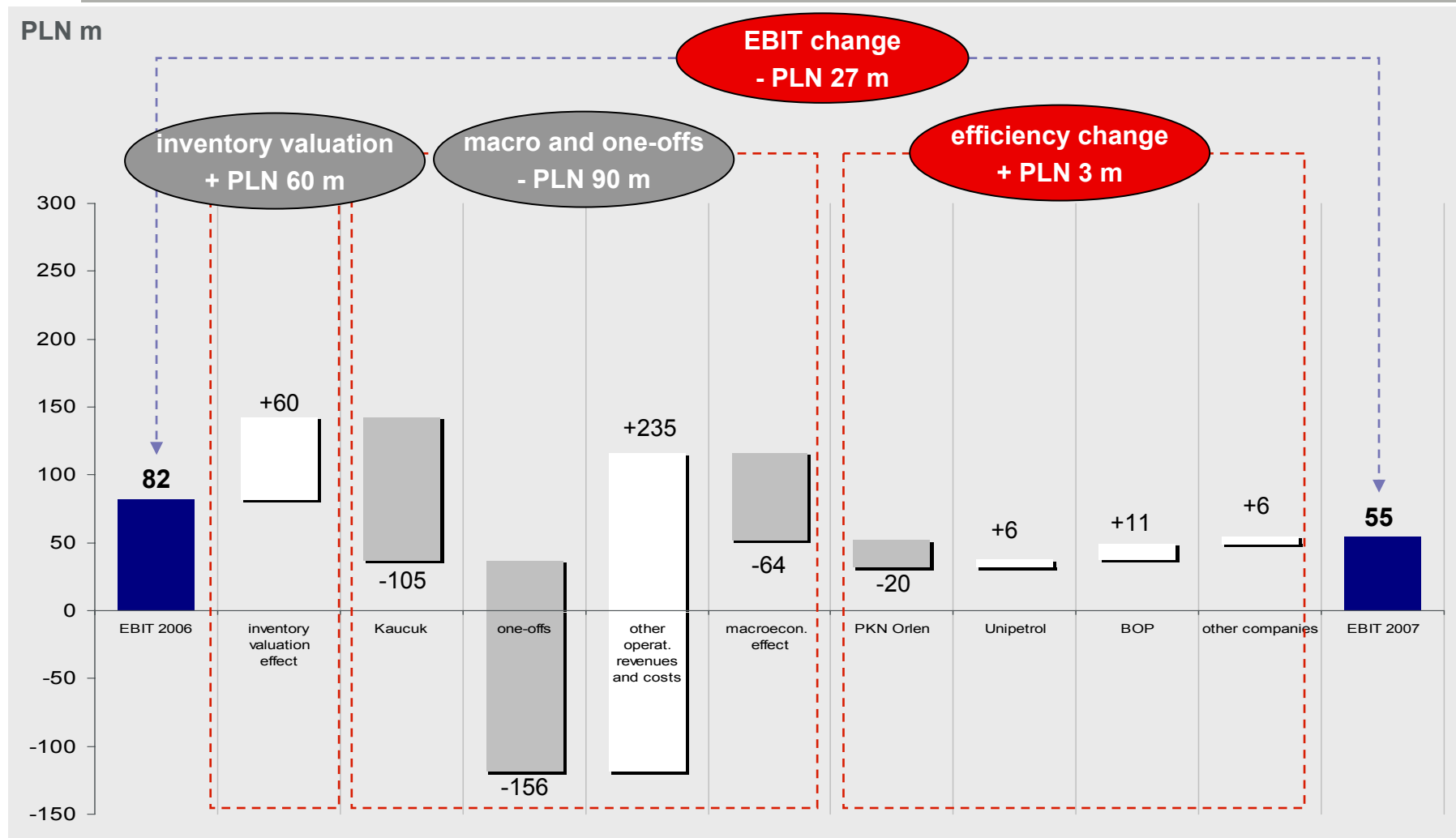
Efficiency improvement by PLN 6 m, EBIT decrease by PLN 48 m



\* Other operational revenues and costs explain events not connected with current activities. Main impact was in PKN ORLEN: land reclamation release in 2006 of PLN 32 m.

# Petrochemical segment on quarterly basis

Efficiency improvement by PLN 3 m, EBIT decrease by PLN 27 m



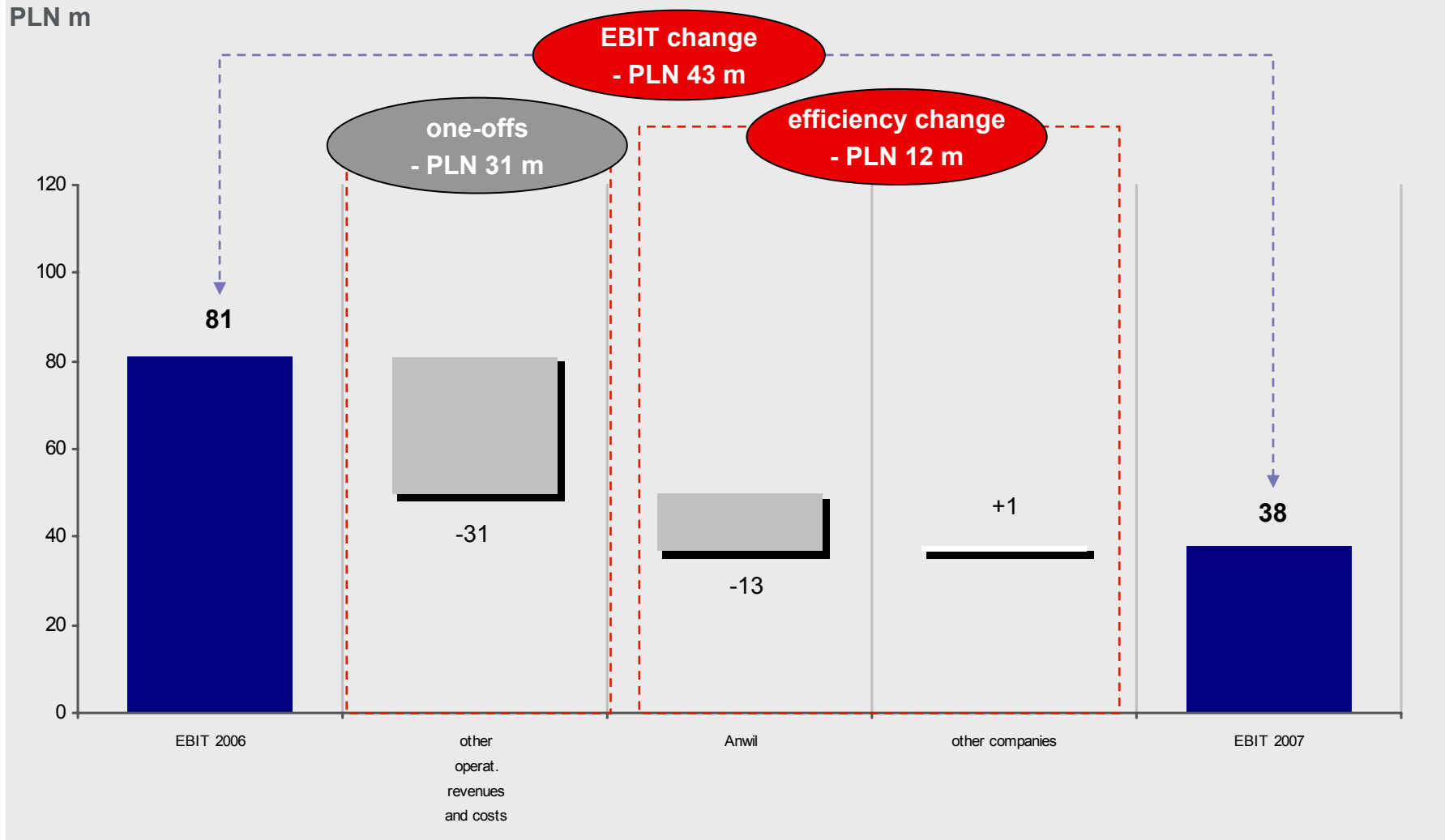
-Macroeconomic effect: PKN -PLN 9 m; Unipetrol -PLN 75 m; BOP PLN 20 m

-One-offs: difference in maintenance effects (Unipetrol)



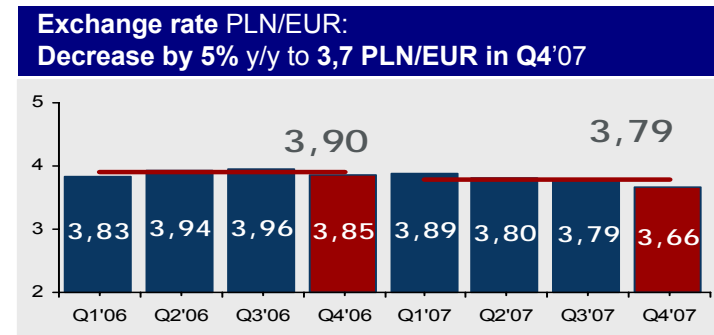
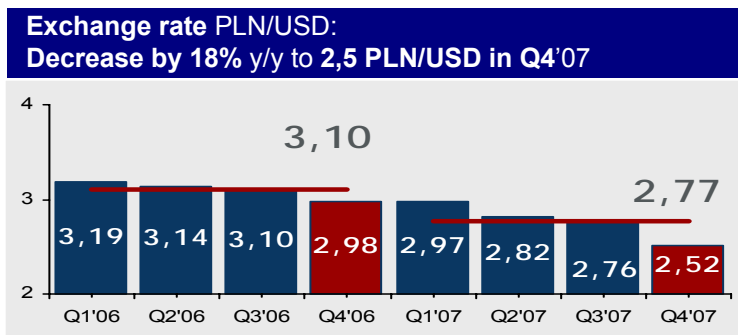
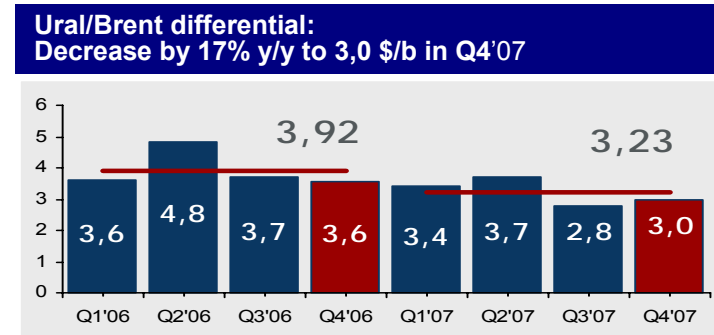
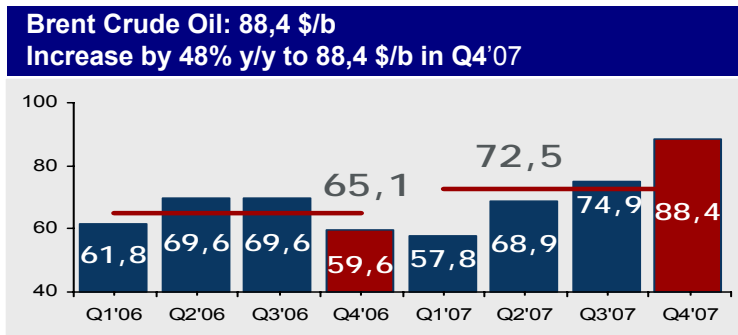
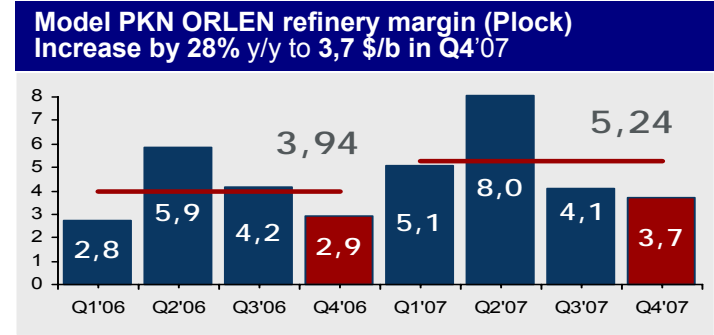
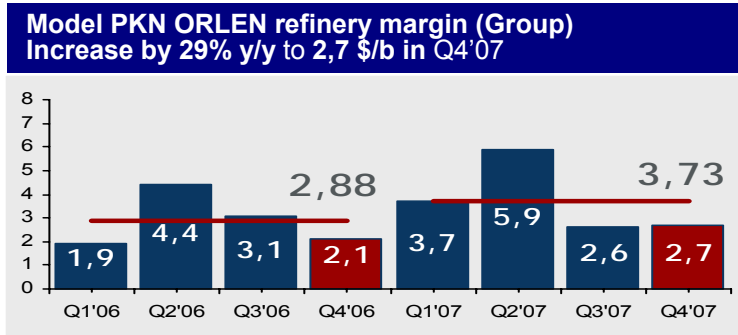
# Chemical segment on quarterly basis

Efficiency decrease by PLN 12 m, EBIT decrease by PLN 43 m



# Macroeconomic environment in 2007 compared to 2006

Strong Polish zloty and high crude oil price as external factors influencing PKN ORLEN results



1) Margin calculated as: Products (88.36%) vs. Brent Dtd (100%). Products contain Premium Unl (25.21%), USLD (23.20%), Naphtha (16.51%), LHO (15.31%), HSFO (5.44%) i Jet (2.69%) (source: CIF NWE quotations, except HSFO FOB ARA)

2) Model refinery margin PKN ORLEN = revenues from product sales (88% Products = 22% Gasoline + 11% Naphtha + 38% Diesel + 3% LHO + 4% JET + 10% HHO) less costs (100% feedstock = 88% Brent crude + 12% internal consumption); price of products based on market quotations

# Impact of one-off items on EBIT in 4Q'07 and 2007

EBIT increase excluding one-off items

Impact of one-offs on 4Q'07 EBIT				
IFRS, in PLN m	4Q'06	2006	4Q'07	2007
	1	2	3	4
<b>EBIT (reported in accordance to average weighted)</b>	-168	2 577	<b>120</b>	<b>2 621</b>
<b>One-off items +/- on EBIT</b>	<b>-569</b>	<b>-608</b>	<b>-576</b>	<b>-908</b>
Maintenance shutdown in Unipetrol	-68	-107	-247	-379
Maintenance shutdown in PKN ORLEN	-49	-49	-49	-249
Logistic disturbance	-	-	-70	-70
<b>Selected items from other operating income/expenses</b>				
Goodwill write-off in Mazeikiu Nafta	-305	-305	-	-
Impairment in Kaucuku and Spolana	-240	-240	-	-
Provision release for land reclamation	93	93	-	-
<b>Selected items from Mazeikiu Nafta Group</b>				
Maintenance shutdown	-	-	-177	-177
Provisions for resctruct., economic risk, recultivation and retirement pension			-33	-33
<b>EBIT cleaned by one-off items</b>	<b>401</b>	<b>3 185</b>	<b>696</b>	<b>3 529</b>

## Key selected one-off items:

**2007: Refinery:** maintenance shutdowns in PKN ORLEN - PLN 249 m and Mazeikiu Nafta - PLN 177 m; logistic disturbance - PLN 70 m, shutdown and breakdown in Unipetrol - PLN 52 m; **Petrochemical:** shutdown and breakdown in Unipetrol - PLN 327 m.

**2006 : Refinery:** goodwill write-off in Mazeikiu Nafta - PLN 271 m, shutdown in Unipetrol - PLN 52 m and PKN ORLEN - PLN 49 m; **Petrochemical:** write-off in Kaucuk - PLN 230 m, maintenance shutdown in Unipetrol - PLN 55 m.

# EBIT breakdown in PKN ORLEN Group in 4Q'07 and FY2007

Performance improvement in refining, petrochemical and chemical segments in FY2007

IFRS, m PLN	2006	Unipetrol effect in 2007	MN effect in 2007	2007	y/y [%]
	1	2	3	4	5=4/1
<b>EBIT, of which</b>	2 577	450	-665	2 621	1,7%
<b>Refining<sup>1</sup></b>	1 614	115	-390	1 689	4,6%
<b>Retail</b>	439	28	-13	423	-3,6%
<b>Petrochemical</b>	842	337		1 068	26,8%
<b>Chemical</b>	224			246	9,8%
<b>Others<sup>2</sup></b>	8	-30	-262	-155	-
<b>Non-attributable<sup>3</sup></b>	-550			-650	-18,2%

IFRS, m PLN	4Q2006	Unipetrol effect 4Q2007	MN effect 4Q2007	4Q2007	y/y [%]
	1	3	4	5	6=5/1
<b>EBIT, of which</b>	-168	-143	-308	120	-
<b>Refining<sup>1</sup></b>	-216	-20	-242	241	-
<b>Retail</b>	114	15	-13	67	-41,2%
<b>Petrochemical</b>	82	-129		55	-32,9%
<b>Chemical</b>	81			38	-51,3%
<b>Others<sup>2</sup></b>	-34	-9	-53	-45	-32,4%
<b>Non-attributable<sup>3</sup></b>	-195			-236	-21,0%

1) Production, Wholesale and Logistics

2) Departments responsible for energy media, PKN ORLEN's social activities, subsidiary services and crude oil turnover

3) Non-attributable includes the corporate centre of PKN and subsidiaries not mentioned in other segments.

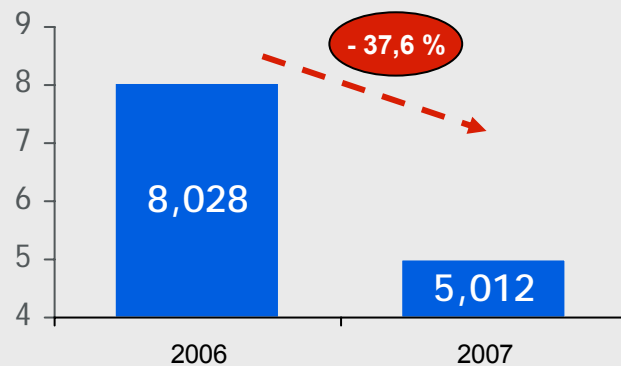


# Mazeikiu Nafta Group. Key elements of the financial statements<sup>1</sup>

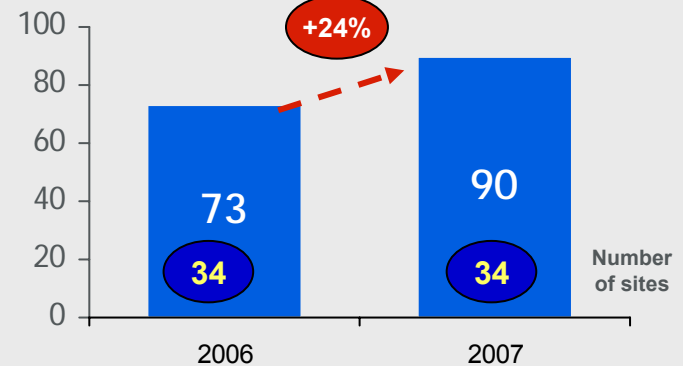
EBIT decrease in 2007 due to the maintenance shutdown and low utilisation ratio

IFRS, in USD m	4Q'06	4Q'07	change y/y [%]	2006	2007	change y/y [%]
	1	2	3=2/1	4	5	6=5/4
<b>Revenues</b>	690	<b>832</b>	20,6%	<b>4 300</b>	<b>3 502</b>	-18,6%
<b>EBITDA</b>	-83	<b>-17</b>	-79,9%	<b>109</b>	<b>70</b>	-35,4%
<b>EBIT</b>	-92	<b>-26</b>	-71,3%	<b>61</b>	<b>32</b>	-47,8%
<b>Net profit</b>	-66	<b>-16</b>	-75,2%	<b>68</b>	<b>40</b>	-40,5%

## Crude oil processing in the Lithuanian refinery (in m tonnes)



## Retail volumes sales in Ventus (in m litres)



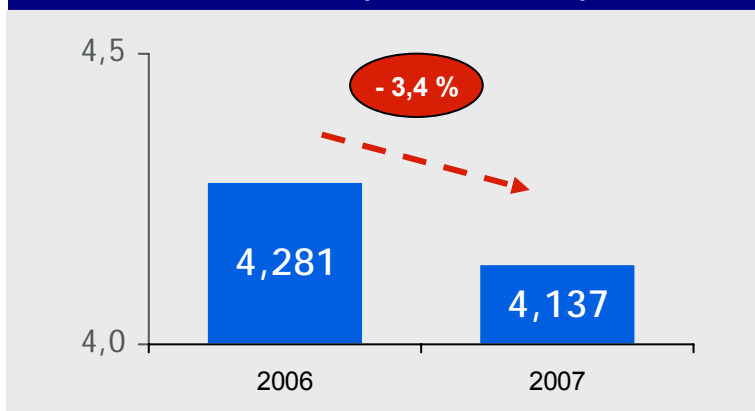
1) Note the above numbers are not subject to PKN Group consolidation and present Mazeikiu Nafta Group results according to Lithuanian accounting standards and historical cost

# Unipetrol Group. Key elements of the financial statements<sup>1</sup>

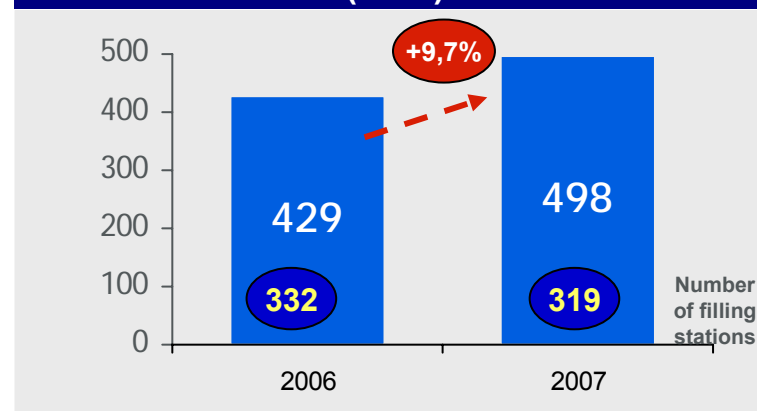
EBIT decrease in 2007 due to the planned refinery and petrochemical maintenance shutdowns

IFRS, in CZK m	4Q'06	4Q'07	change y/y [%]	2006	2007	change y/y [%]
	1	2	3=2/1	4	5	6=5/4
<b>Revenues</b>	21 719	<b>21 149</b>	-2,6%	93 698	<b>88 779</b>	-5,2%
<b>EBITDA</b>	590	<b>227</b>	-61,5%	8 219	<b>8 045</b>	-2,1%
<b>EBIT</b>	-787	<b>-657</b>	N/A	3 780	<b>4 847</b>	28,2%
<b>Net profit</b>	-1 231	<b>-557</b>	N/A	1 600	<b>1 243</b>	-22,3%

**Crude oil processing in the Czech refineries (in m tonnes)**



**Retail volumes sales in Benzina (in kt)**



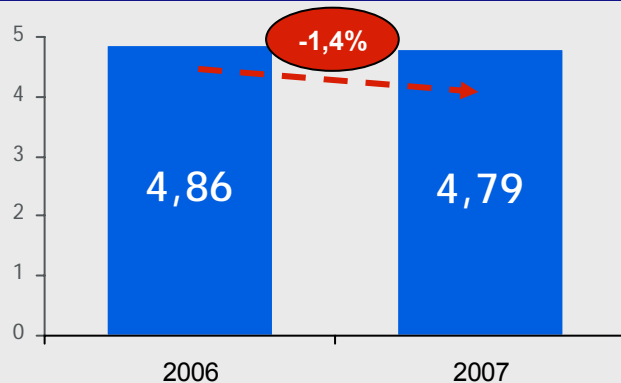
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# ORLEN Deutschland

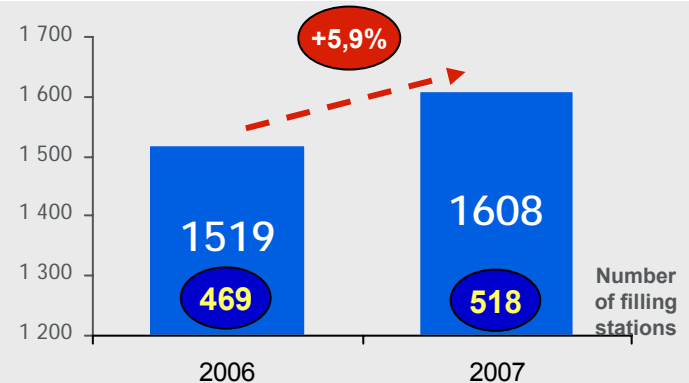
EBIT increase of 7% in 4Q'07 vs 4Q'06

IFRS, PLN m	4Q'06	4Q'07	change y/y [%]	2006	2007	change y/y [%]
	1	2	3=2/1	4	5	6=5/4
<b>Revenues</b>	2 156	<b>2 358</b>	9,4%	<b>8 838</b>	<b>8 684</b>	-1,7%
<b>EBITDA</b>	14	<b>24</b>	71,4%	<b>98</b>	<b>101</b>	3,1%
<b>EBIT</b>	-6	<b>4</b>	-	<b>28</b>	<b>30</b>	7,1%
<b>Net profit</b>	-5	<b>4</b>	-	<b>27</b>	<b>32</b>	18,5%

Reference retail margin in Germany  
eurocent/l



Retail sales volume in Orlen  
Deutschland, mln l



# Key production data

In Lithuania temporarily utilization of 51% in 2007 due to vacuum distillation unit (VDU) fire in 2006. VDU was rebuilt by the end of January 2008

Operating data	4Q'06	4Q'07	y/y [%]	2006	2007	y/y [%]
	1	2	3=2/1	4	5	6=5/4
<b>Refinery in Poland <sup>1</sup></b>						
Processed crude (tt)	3 484	3 512	0,8%	13 612	13 646	0,2%
Utilisation	101,0%	102,0%	1pp	98,6%	98,9%	0,3pp
White products yield	77,2%	79,1%	2pp	78,1%	77,9%	-0,2pp
Fuel yield	63,0%	64,0%	1pp	62,8%	63,0%	0,2pp
<b>Refineries in Czech Republic <sup>2</sup></b>						
Processed crude (tt)	1 110	908	-18,2%	4 281	4 137	-3,4%
Utilisation	81,0%	66,0%	-15pp	77,1%	75,3%	-1,8pp
White products yield	71,0%	69,0%	-2pp	72,8%	72,0%	-0,8pp
Fuel yield	57,0%	55,0%	-2pp	57,8%	58,0%	0,2pp
<b>Refinery in Lithuania <sup>3</sup></b>						
Processed crude (tt)	1 340	738	-44,9%	8 028	5 012	-37,6%
Utilisation	52,0%	30,0%	-22pp	78,5%	50,8%	-27,7pp
White products yield	52,7%	65,1%	12pp	68,5%	68,6%	0,0pp
Fuel yield	55,0%	63,0%	8pp	59,3%	66,5%	7,2pp

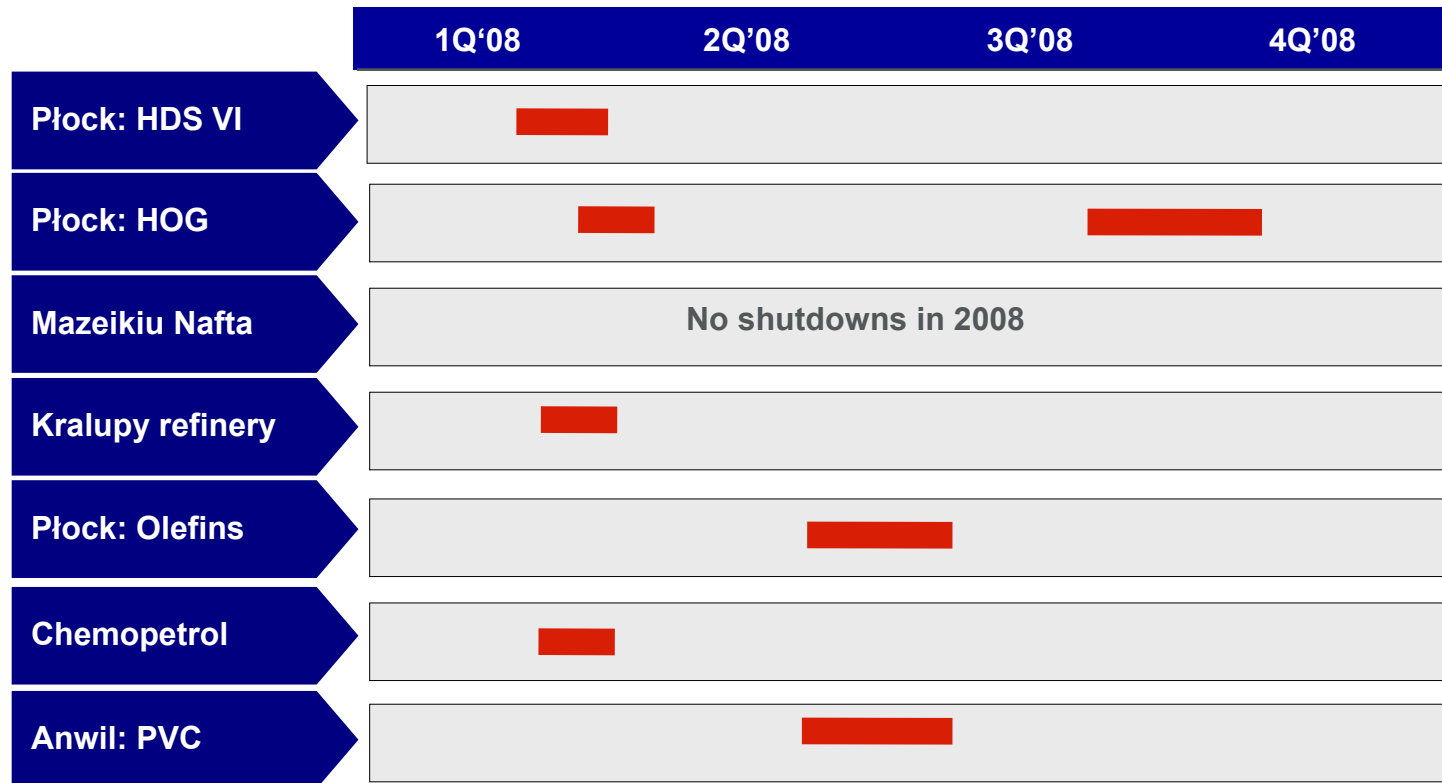
1) Production data refers to refinery in Plock, assumptions: refinery capacity of 13.8 m t/y

2) Production data refers to Ceska Rafinerska refinery [51% Litvinov (2.8 m t/y) and 51% Kralupy (1.7 m t/y)] and 100% Paramo (1.0 m t/y): Total 5.5 m t/y

3) Production data refers to Mazeikiu Nafta refinery: 10 m t/y. Data for 2006 were not consolidated within PKN ORLEN Group

# Key planned shutdowns in PKN ORLEN Group in 2008

Introduced maintenance policy enables to optimise production and increase volumes sales of refining products in long time horizon



As a result of the implemented maintenance policy and vacuum distillation column repair in Mazeikiu Nafta and optimisation of shutdowns in PKN ORLEN, the level of production in PKN ORLEN Group in 2008 will be higher by 19% compared to 2007

# BIOfuels

## PKN ORLEN fully prepared for regulations

### National Target Index (NTI): Regulations

- **NTI calculation:**

In order to fulfill NTI in 2008 amounting to 3,45% PKN ORLEN plans to put on the market around 55 th. tonnes of rapeseed oil ester in B100 and over 200 th. tonnes of rapeseed oil ester as biocomponents added to diesel. Gasoline will be enriched with 98 th.tonnes of bioethanol.

- **Charge for not complying to regulation:**

In Poland, according to act 25th August 2006 of biocomponents and liquid biofuels, the average charge for NOT complying to NTI is around PLN 7.5 th. per tonne of biocomponent not put on the market.

### NTI → impact on EBIT in 2008

- Estimated impact on **EBIT of PKN Group in 2008**  
→ - PLN 133.9 m

**Of which:**

- Refining: - PLN 90.3 m
- Logistics: - PLN 22.5 m
- Wholesale: - PLN 4.7 m
- Retail: - PLN 16.4 m

• **TOTAL** → - PLN 133.9 m

### NTI → impact on CAPEX in 2008

- Impact on **CAPEX** → PLN 81.8 m

**Of which:**

- **PKN:** own store facilities adjustment: c. PLN 50 m
- **PKN:** Bliska stations adjustment: c. PLN 12 m
- **Mazeikiu Nafta:** c. PLN 2 m
- **Unipetrol:** c. PLN 17 m



# Exchange rate and interest rate risk management policy

## focused on stabilizing cash flows

### Exchange rate and interest rate risk management policy

- The policy does not allow to speculate and is based on detailed parameters such as level and period of hedging activity
- The company uses simple instruments, i.e. forwards and swaps, although it is possible to use option strategy
- Policy implementation is monitored on a regular basis by Financial Risk Committee, and also periodically, by the Management Board and Supervisory Board

#### Currency exchange risk

- Currency exposure resulting from operational activities (revenues and costs denominated in foreign currency)
- Currency exposure resulting from main investment projects (e.g. PX/PTA)
- Currency exposure resulting from financial cash flows (e.g. declared dividends from subsidiaries)

#### Interest rate risk

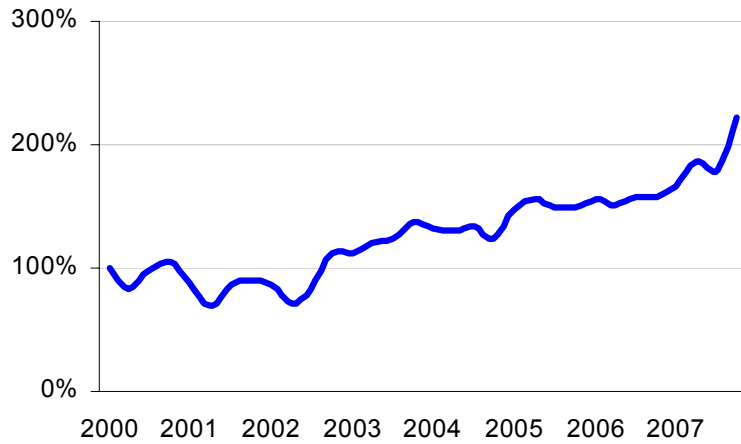
- Achieving fixed-rate debt vs floating-rate debt ratio in the range agreed within hedging policy rules („fixed-to-floating”)
- Achieving acceptable Interest-at-Risk („IaR”) level according to agreed policy



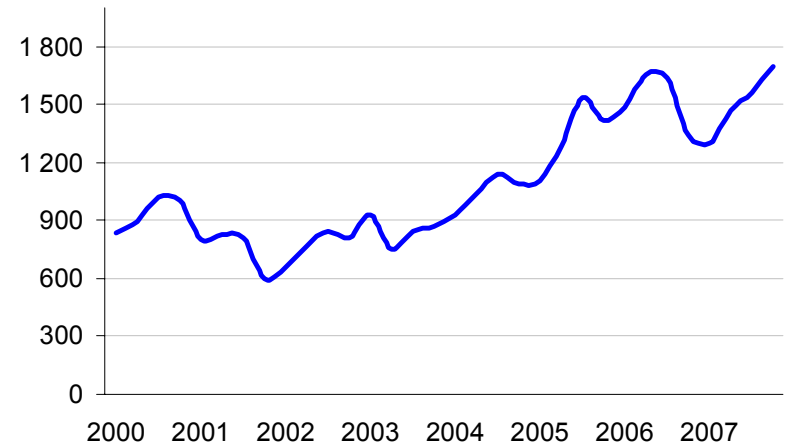
# Explanation of differences between results

based on LIFO and weighted average valuation of crude oil (1/2)

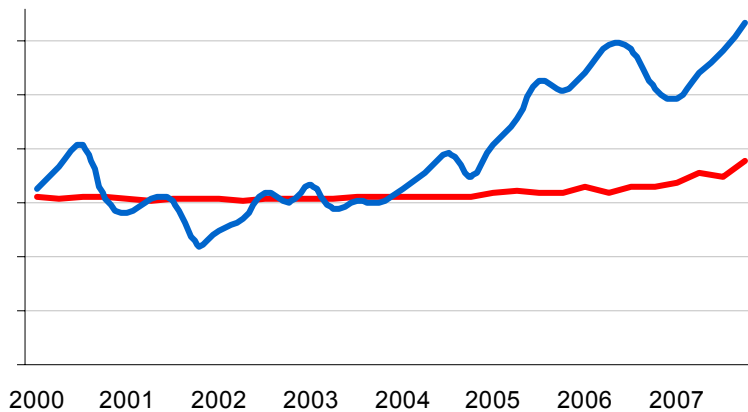
### Crude oil inventories (tt)



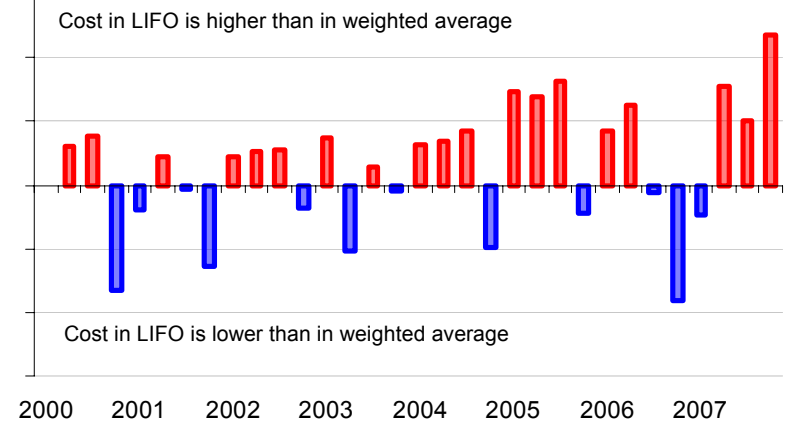
### Crude oil price (PLN/t)



### Unit price of inventories (end of period)



### Unit cost LIFO minus weighted average (PLN/t)



■ Weighted average ■ LIFO



**ORLEN**



# Explanation of differences between results

based on LIFO and weighted average valuation of crude oil (2/2)

## LIFO valuation practices in PKN ORLEN

According to LIFO method:

- Crude oil from inventories used for production is valued at current prices
- As a result costs are commensurate with revenues (current quotations)

According to weighted average method:

- Crude oil from inventories used for production is valued at average prices (i.e. weighted average of historical price and transaction price), which is not commensurate with current revenues

In summary, in case of crude oil price increases:

- According to weighted average method – average prices causes that costs are underestimated compared to transaction price and as a result operational profit is overestimated
- According to LIFO method the above-mentioned mechanism does not apply

## Additional commentary to LIFO valuation

- According to the LIFO approach, increase in inventory (new layers) is valued at the unit price of an inventory item from 1Q'07, whereas – based on actually executed transactions – inventory increase should be valued at purchase prices
- In order to provide the most accurate assessment of the revenues and costs in a given period it is necessary to multiply the difference in the above mentioned prices by the change in the inventory level
- The result will represent the impact of the change of price of new layers of the inventory (i.e. the effect related to the adjustment of the prices of the new layers to the actual prices in a given period)
- In the case of PKN ORLEN S.A. the estimated value of such adjustment in the entire 2007 amounts to PLN 196 m (while the LIFO adjustment amounted to – PLN 1.076 m), compared to - PLN 5 m in the entire 2006 (while the LIFO adjustment amounted to - PLN 62 m)