



**PKN ORLEN FY2008 consolidated financial results (audited)  
Update on corporate developments**

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**ORLEN**

# Agenda

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- 1) Settlement with banks regarding credit agreements
- 2) Put option execution with Government of Lithuania
- 3) Assets allowance - IAS 36
- 4) FY2008 consolidated financial results (audited)
- 5) Mazeikiu Nafta development program
- 6) Estimates of PKN ORLEN operating data for 1Q2009



# PKN ORLEN S.A. signed settlement with banks regarding credit agreements

AREA	ACTION
SETTLEMENTS SIGNATURE	<ul style="list-style-type: none"><li>• On 27 April 2009 PKN ORLEN signed settlements with the banks with which PKN ORLEN holds debt agreements for financing of its operations, the provisions of which could be breached referring to the debt ratio expressed as debt net/EBITDA on the day of publishing PKN ORLEN's consolidated financial statements for 2008.</li></ul>
BANKS ALLOWNACE	<ul style="list-style-type: none"><li>• On the basis of the settlements, the banks have agreed to a temporary breach by PKN ORLEN of the financial ratios for the periods ended 31 December 2008 and 30 June 2009 as acceptable under the debt agreements. Thanks to that, the Company got back the option to utilise the unused debt limits within the terms of those agreements.</li></ul>
CONDITIONS	<ul style="list-style-type: none"><li>• PKN ORLEN has committed itself not to exceed the budgeted level of investment expenditure in 2009.</li><li>• PKN ORLEN has committed not to recommend to the Company's shareholders the dividend payments until the Company achieves the debt level acceptable by the debt agreements.</li></ul>
COSTS	<ul style="list-style-type: none"><li>• PKN ORLEN agreed to pay a one-off waiver fee. The amount of the waiver-fee meets the market standards of this kind of agreement.</li><li>• PKN ORLEN agreed for an increase in debt margins from the day the settlements come into force. The increased debt margins do not exceed the level of 3.00 percent. Increase in debt margins is offset mainly by drop in basic interest rates.</li></ul>



## PKN ORLEN has unused credit lines on the level of EUR 1 bn

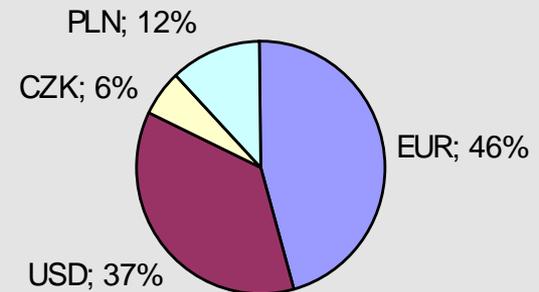
### Debt and unused credit lines

- Net debt at the end of 2008 amounted to PLN 12.6 bn.
- Foreign debt at the end of March 2009 is not significantly different from the debt at the end of 2008.
- At the end of 2008 as well as at the end of March 2009 PKN ORLEN's unused credit lines were at the level of EUR 1 bn.

### Influence of credits revaluation

- At the end of 2008 PKN ORLEN gross debt amounted to PLN 14 bl, in which debt in EUR and USD constituted 83%.
- Effect of revaluation of debt in USD, due to investment in Mazeikiu Nafta, is recorded in equity.
- Effect of revaluation of debt in EUR is recorded directly in the income statement.

### Debt structure as of 31 December 2008



# Acquisition of AB Mazeikiu Nafta (MN) shares from the Government of Lithuania (GOL) under terms of put option agreement

## Schedule of transaction

- 9.06.2006 – signature of conditional Put Option Agreement with GOL (GOL entitled to sell PKN ORLEN its 70 750 th Mazeikiu Nafta shares)
- 15.12.2006 – acquisition of MN shares from GOL and Yukos International UK B.V after fulfilling the condition
- 10.03.2009 – GOL notification regarding option execution
- 26.03.2009 – settlement with GOL regarding the schedule of option execution
- 27.03.2009 – payment of the first instalment (20% of price)
- 29.04.2009 – payment of the second instalment, transaction completed

## Consequences of transaction

- PKN ORLEN owns shares representing 100% of Mazeikiu Nafta's registered capital and can solely make corporate decisions regarding company operations
- Expired are the GOL's rights to:
  - appoint one of nine members of the Supervisory Board of MN
  - appoint one of seven members of the Management Board of MN
  - veto corporate decisions in MN
  - request that PKN ORLEN sells all its shares in Mazeikiu Nafta (in certain circumstances)
  - first refusal over MN shares

## Transaction parameters

- Shares acquired – 70 750 000 ordinary MN shares (ca 9,98% of registered capital)
- Price – USD 4.0205 per one share, i.e. USD 284 450 375 in total

On 29 April 2009, as a result of realizing the put option agreement with GOL dated 9 June 2006, PKN ORLEN become the sole shareholder in Mazeikiu Nafta.



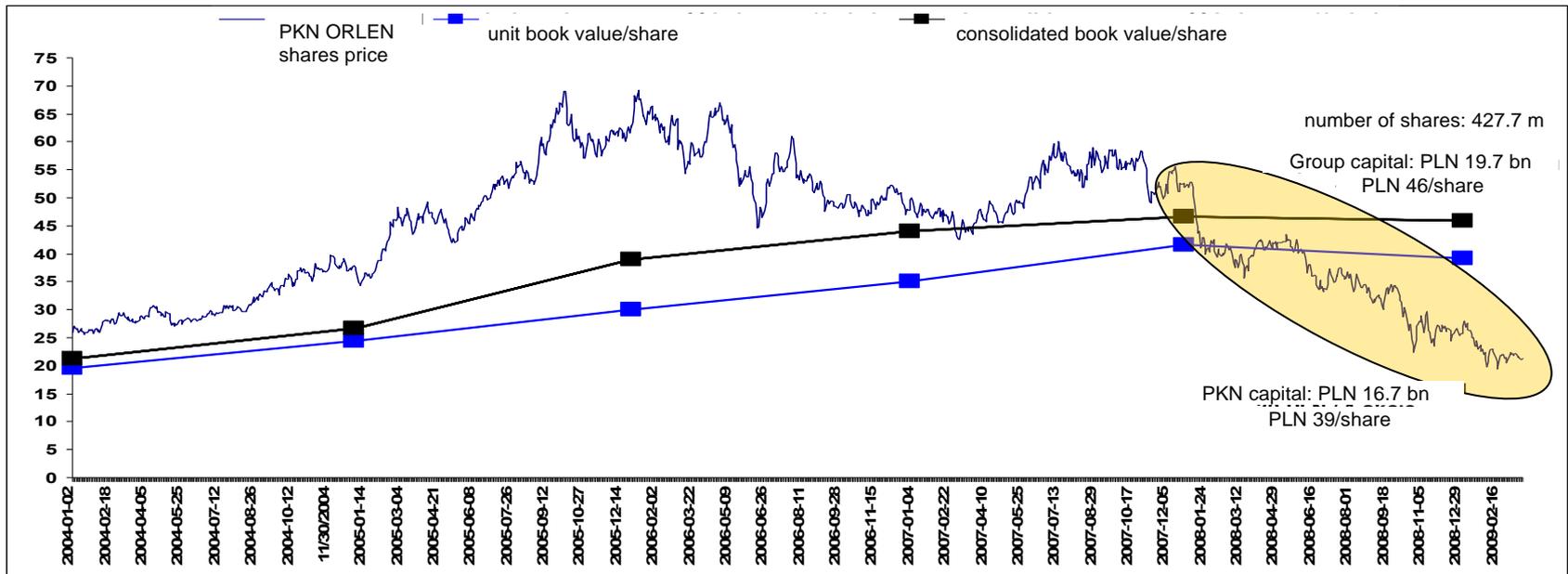
# IAS 36 „Impairment of assets”

## International Accounting Standard (IAS) 36 – impairment of assets

In accordance with IAS 36 tangible assets are carried at no more than their recoverable amount, as of balance day (value higher of two: fair value or value in use).

Reasons to make impairment test in PKN ORLEN in 2008:

- worsening of macroeconomic situation due to the world crisis
- decrease in crude oil prices and pressure on refining and petrochemical margins
- drop in the price of PKN ORLEN shares quoted on the Warsaw Stock Exchange below their book value



**PKN ORLEN reported results (consolidated) for 2008 are influenced by inventory allowance to the amount of PLN 2.4 bn**

PLN m	2008 (unaudited)	Mazeikiu Nafta allowance	Inventory allowance - other companies	Other	2008 (audited)
	2				1
<b>Revenues</b>	<b>79 535</b>				<b>79 535</b>
<b>EBIT</b>	<b>758</b>	<b>-2 171</b>	<b>-195</b>	<b>5</b>	<b>-1 603</b>
<b>Financial operating</b>	<b>-1 558</b>			<b>-21</b>	<b>-1 579</b>
<b>Net profit</b>	<b>-632</b>	<b>-1 737</b>	<b>-145</b>	<b>-13</b>	<b>-2 527</b>
<b>Tangible and intangible assets</b>	<b>29 180</b>	<b>-2 171</b>	<b>-195</b>	<b>12</b>	<b>26 826</b>
<b>Net debt</b>	<b>12 557</b>				<b>12 557</b>

The main changes in relation to the data presented in 4 quarter 2008 report refer to impairment tests effects in 2008 results, conducted in accordance to IAS 36 and finished after publication of quarterly data.

Inventory allowances at the level of Group results refers to tangible and intangible assets.

The inventory allowance referred mainly to Mazeikiu Nafta. The inventory allowances were also made to Jedlicze Refinery, Trzebinia Refinery and Spolana.

The other changes refer mainly to the update of assumed costs estimates in 2008.

**PKN ORLEN reported results (unconsolidated) for 2008 are influenced by inventory allowance to the amount of PLN 1.7 bn**

PLN m	2008 (unaudited)	Mazeikiu Nafta allowance	Inventory allowances - other companies	Other	2008 (audited)
	2				1
<b>Revenues</b>	<b>57 227</b>				<b>57 227</b>
<b>EBIT</b>	<b>633</b>	<b>0</b>	<b>-14</b>	<b>17</b>	<b>636</b>
<b>Financial operating</b>	<b>-1 054</b>	<b>-1 730</b>	<b>84</b>	<b>0</b>	<b>-2 700</b>
<b>Net profit</b>	<b>-242</b>	<b>-1 401</b>	<b>57</b>	<b>14</b>	<b>-1 572</b>
<b>Shares</b>	<b>11 987</b>	<b>-1 730</b>	<b>84</b>		<b>10 341</b>
<b>Net debt</b>	<b>9 787</b>				<b>9 787</b>

The main changes in relation to the data presented in 4 quarter 2008 report refer to impairment tests effects in 2008 results, conducted in accordance to IAS 36 and finished after publication of quarterly data.

Inventory allowances at the level of PKN ORLEN results refer mainly to effects of impairment tests on 90% of Mazeikiu Nafta shares. The reversal of inventory allowances refers mainly to Orlen Deutschland.

The other changes refer mainly to the update of assumed costs estimates in 2008.

# Up to now actions of profitability improvement in Mazeikiu Nafta

- After acquisition of Mazeikiu Nafta the Value Construction Programme (VCP) was started. The Programme was concentrated on increasing of profitability, improving operational efficiency and modernization of production units.
- Realization of VCP Programme brought many tangible benefits:
  - Building of FCC Unit was finished – adjustment to EU requirements regarding sulphur content in gasoline
  - General renovation was conducted (refinery shutdown for 6 weeks in 2007)
  - Vacuum Distillation Unit (VDU), which was destroyed by fire in 2006, was rebuilt.
  - New Hydrogen Unit, which will ensure necessary amount of hydrogen for modernized Fuels Desulphurization Units, was built.
  - Modernization of two Diesel Hydrodesulphurization units was finished – full production capacity of diesel with low sulphur contents (below 10 ppm)
  - Competence in sea trading was being strengthened – improvement of commercial terms thanks to elimination of non-optimal contracts with agents
  - Operating costs reduced through employment reduction, decrease of energy intensity, reduction of own losses

In years 2006-2008 capital expenditure amounted to USD 800 m and consolidated EBITDA result USD 300 m. Result achieved by the Company was below the assumed plans, mainly due to fire on VDU column, suspension of direct crude oil deliveries by pipeline and efficiency improvements not fully achieved.



## Further actions in value growth of Mazeikiu Nafta

- Recent years allowed us to gain a lot of experience and prepare a plan of further actions adjusted to the current macro situation.
- Initiatives targeted at improvement of financial results will be realized within the frame work of the started second phase of VCP.

### Efficiency improvement

- Strengthening of segmental management, i.e. further integration of common operating actions, for example central purchasing system
- Full implementation of SCM (*supply chain management*) – common process of planning in production, logistics and sales
- Increase of efficiency of sea sales
- Consistent improvement of operating ratios

### Optimal finish of modernisation plan

- Capital expenditures optimization through improvement of contracting process and projects realization
- Projects realization among others in processing depth and light fractions yield, improvement of refining furnaces efficiency, sulphur graining
- Preparation and carrying out of general maintenance shutdown in 2010

### Focus on logistics improvement

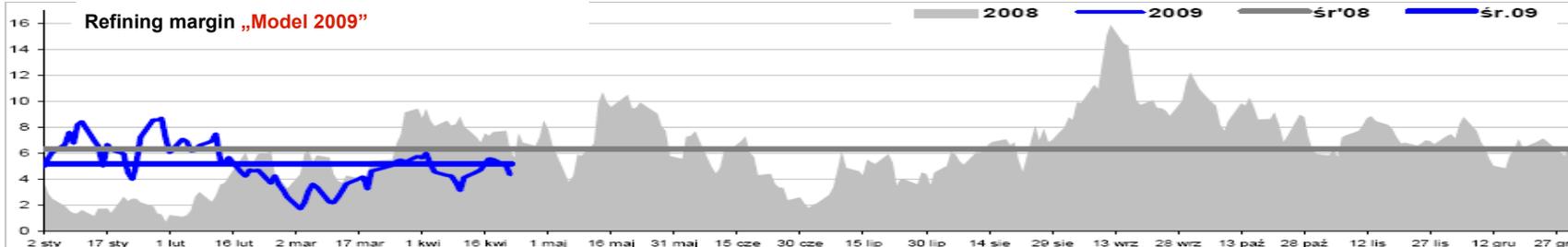
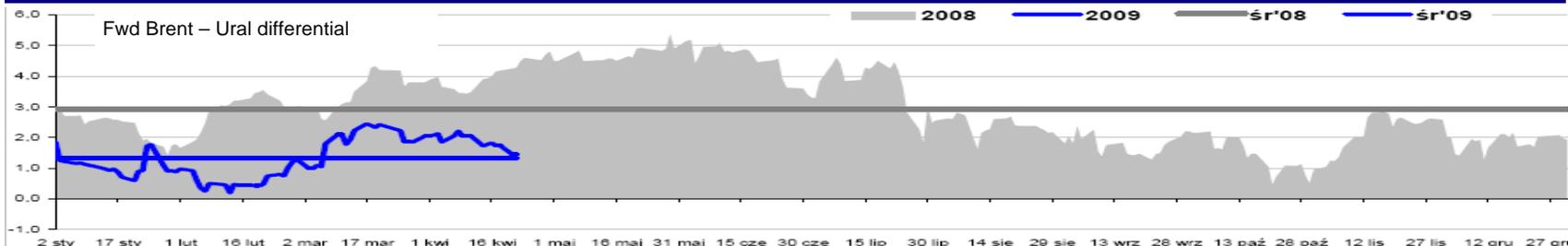
- Access to the sea terminal
- Building of production pipeline
- Optimization of railway transport conditions
- Potential restart of direct deliveries by pipeline

By 2012 a significant improvement of EBITDA at Mazeikiu Nafta is planned. Full potential of VCP 2 will be estimated with the current and forecasted macro situation.



# Macroeconomic situation in 2009

## Refining margin and URAL/Brent differential in 2009



### Variable macroeconomic environment in 2009

- Stable crude oil price at the level of USD 40-50/bbl means lower cost of fuel consumed for own energy needs
- PLN depreciation influences positively on operating results and negatively on financial costs
- Ural/Brent Differential lower in 1q2009 vs. 1q2008
- Model refining margin is higher in 1q2009 in comparison to 1q2008
- Volumes could be the significant factor for PKN ORLEN results. Our target is an increase above market average.

### Impact of environment on key segments in 1Q2009

#### REFINERY

- Neutral impact of total effect of differential and model refining margin in foreign currency
- Positive influence of higher volumes and depreciation of PLN in comparison to foreign currencies
- Negative impact of maintenance shutdowns and temporary technical problems

#### PETROCHEMICALS

- Decrease of model petrochemical margins on olefins and polyolefins
- Drop in volume sales



## Change in model margins: refining and petrochemical

Starting from 2009 PKN ORLEN introduces new way of presenting model margins for PKN ORLEN Group so as to better reflect PKN ORLEN operating results in refining and petrochemical segment.

### Refining margin „Model 2009”

*Revenues (93,5% products = 36% gasoline + 43% diesel + 14,5% HHO) - costs (100% input, i.e. crude oil and other feedstock). Total input is calculated in accordance with Brent quotations. Spot market quotations.*

*Simplifying assumptions:*

*36% gasoline (simplified model) = 19,8% gasoline + 2,3% LPG + 14% naphtha*

*43% diesel (simplified model) = 35,4% diesel + 3,0% HHO + 3,3% JET + ca 1% oils (remaining part)*

*14,5% HHO (simplified model) = 7,8% HHO + 3,0% bitumen + ca. 4 % others (without oils)*

### Petrochemical margin „Model 2009”

*Revenues (98% products = 44% HDPE + 7% LDPE + 35% PP Homo + 12% PP Copo) - costs (100% input = 75% naphtha + 25% LS VGO) market quotations contract.*

### Own consumption in model margins „Model 2009”

*12% own consumption and losses / input of crude oil*

*- 1% change of benchmark base of own consumption and losses from the crude oil to crude oil and other feedstock  
= 11% own consumption and losses / total input (crude oil + other feedstock)*

*6,5% own technological consumption and losses ascribed to refining segment*

*1,0% own technological consumption and losses ascribed to petrochemical segment*

*3,5% consumption of own feedstock in the process of production of electric energy and steam*





## Thank you for your attention

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