

ORLEN

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

3Q 2003 Results

Restructuring yields significant results

November 2003

Financial highlights

Operating cash flow almost PLN 1 bn

| IFRS basis , in PLN m | 3Q 03 | 3Q 02 | change |
|-----------------------|-------|-------|--------|
| Revenue | 6 609 | 4 691 | 40,9% |
| EBIT | 350 | 285 | 22,8% |
| EBITDA | 651 | 578 | 12,6% |
| Net profit | 253 | 176 | 43,8% |
| Net profit (LIFO) | 203 | 70 | 190,0% |
| Operating cash flow | 987 | 150 | 558,0% |
| CAPEX netto | 320 | 261 | 22,6% |
| | 3Q 03 | 2Q 03 | change |
| Equity | 9 082 | 8 813 | 3,1% |
| Net debt | 2 446 | 3 024 | -19,1% |
| Gearing | 26,9% | 34,3% | -7,4pp |
| | 3Q 03 | 3Q 02 | change |
| EBITDA margin | 9,9% | 12,3% | -2,4pp |
| ROACE* | 8,8% | 4,3% | +4,5pp |
| ROACE (LIFO)* | 7,0% | 2,3% | +4,7pp |

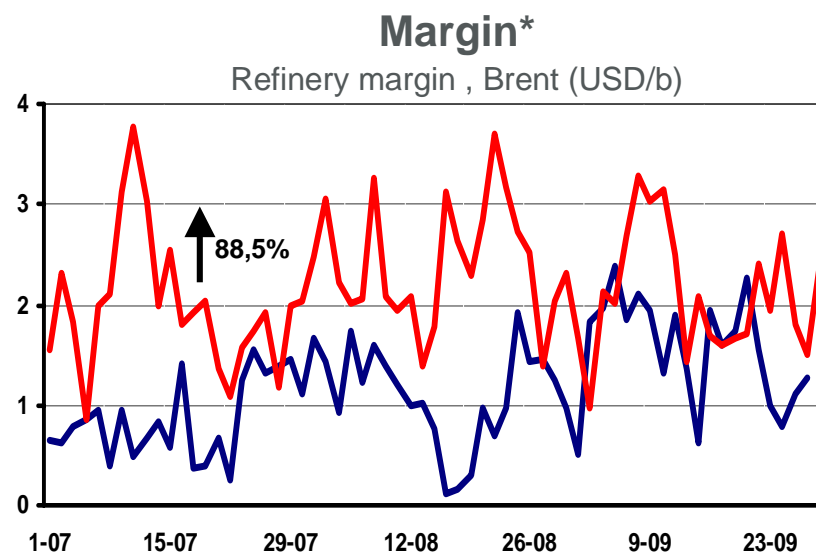
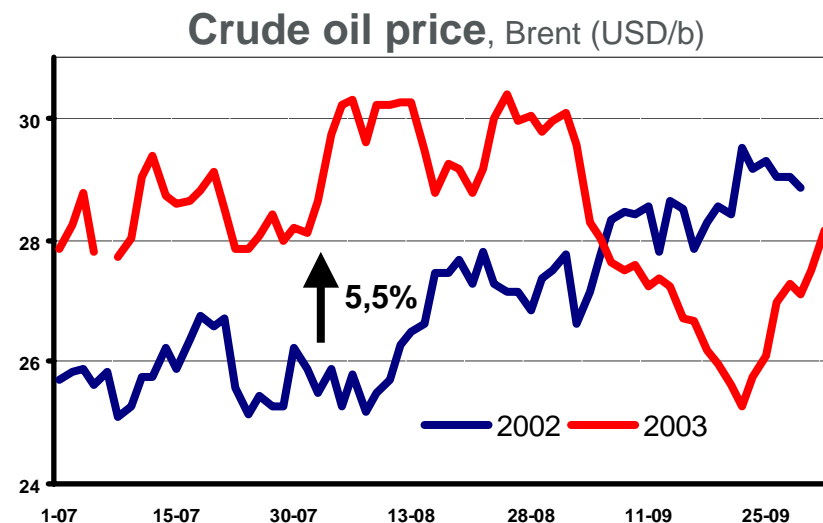
- Surge in revenues due to consolidation of German activities
- First effects of cost-cutting visible in increase of profitability in reporting results as well as on LIFO basis
- Efficiency increase and inventory structural change led to **6.5**** times increase of operating cash flow to almost PLN **1 bn**
- Decreased gearing strengthened PKN ORLEN's financial potential in terms of regional consolidation

*ROACE = EBIT after taxation / average (Shareholders' equity + Net debt)

** In case of this item much better is to look at the accumulate CF for 9 months. In terms of such comparison change is at a level of 70%

Market environment in oil & gas sector

Satisfactory margin level



Source: Platt's and PVM

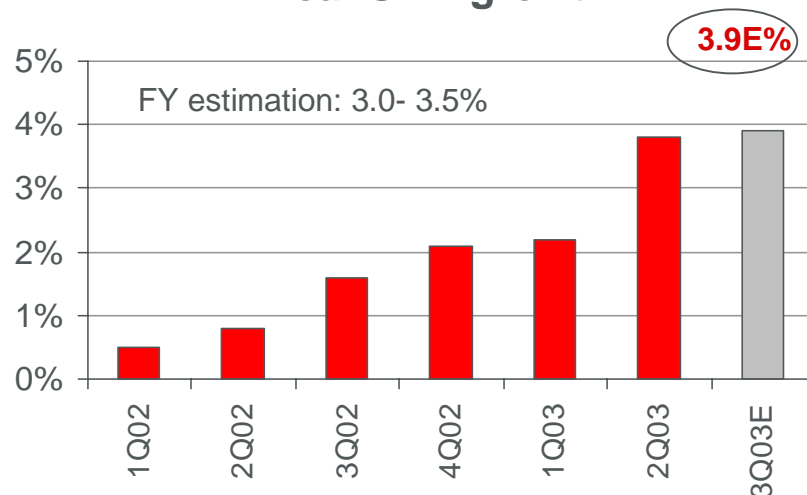
- Stable demand for crude in OECD countries (y-o-y)
- Average increase in crude oil (Brent) in 3Q by **5.5%** from USD 26.94 to USD **28.41** (y-o-y)
- Increase in Refinery Margin by 88.5% from 1.13 USD/bbl to **2.13 USD/bbl** (y-o-y)
- Positive theoretical effect of higher crack-spread on EBIT of almost PLN **106 m**
- Increase in Ural/Brent differential of 13.8% from 1.09 USD to USD **1.24** (y-o-y). Theoretical effect on EBIT about PLN **14 m**

*Calculated as: Products (88.36%) vs Brent Dtd (100%). Products contain Premium Unl (25.21%), EN590 (23.20%), Naphtha (16.51%), Gasoil .2 (15.31%), HSFO (5.44%) and Jet (2.69%) (all CIF NWE, only HSFO FOB ARA)

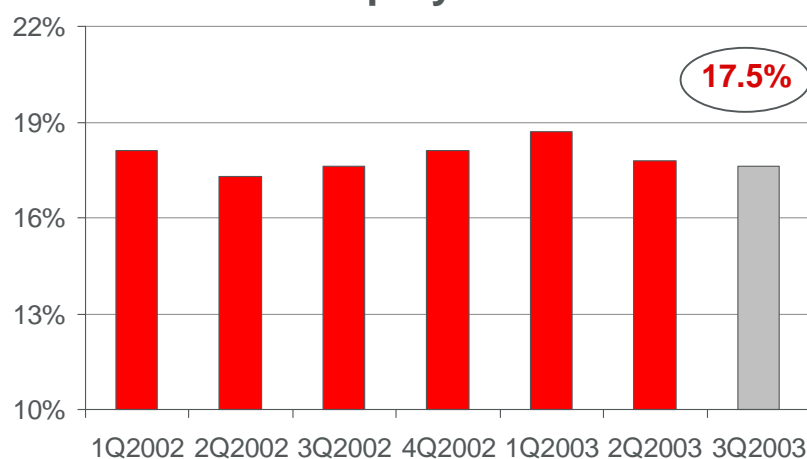
Market environment – Poland

Economic recovery on track

Real GDP growth



Unemployment rate



- Visible GDP growth confirms economic recovery. Unemployment rate **17.5%** (down by 0.1 pp y-o-y, down 0.3 pp q-o-q)
- Increase in new car sales of **11.8%E** (3Q03 vs. 3Q02)
- Optimistic domestic consumption trend up by **2.9%E**.
- Estimated growth of domestic fuel consumption (gasoline, diesel and LHO) of **2.9%** (y-o-y)
- Decrease in PLN/USD exchange rate from 4.15 to 3.93. Theoretical negative effect on EBIT of above **PLN 31 m**

Operating highlights

Wholesale market share in fuels regained

| IFRS basis, in PLN m | 3Q 03 | 3Q 02 | change |
|-----------------------------------|--------|--------|--------|
| Retail sales of motor fuels (tt) | 1 051 | 599 | 75,5% |
| Light products sales (tt) * | 2 622 | 2 107 | 24,4% |
| Other refinery products sale (tt) | 765 | 681 | 12,3% |
| Pet-chem sales (tt) | 575 | 495 | 16,2% |
| Processed crude (tt) | 2 971 | 3 001 | -1,0% |
| Utilisation | 82,0% | 82,8% | -0,8pp |
| White product yield | 78,0% | 82,0% | -2.0pp |
| Fuel yield | 64,0% | 67,0% | -3pp |
| Headcount | 15 496 | 17 607 | -12,0% |

- Increase in total retail sales due to consolidation of the German activities...
- ... and domestic retail consumption as a result of our network modernisation programme
- ~1% y-o-y increase in wholesale level of light products, as a result of regaining market share
- Visible shift in sale structure (↓ gasoline, ↑ diesel and LHO)
- Due to planned revamping of HOWK (Hydrocracker) we were forced to lower volume of crude processed
- Next steps in PKN ORLEN's restructuring demonstrated by a radical headcount reduction of over 2.1 th

*Gasoline, Diesel, LHO, Jet

Production numbers relate to Plock Refinery; adjusted capacities amount to 14.5mt

Profit/ Cash flow – visible effects of restructuring in ↑ operating CF ↑ profitability

| IFRS basis, in PLN m | 3Q 03 | 3Q 02 | change |
|--|--------------|--------------|---------------|
| Revenues | 6 609 | 4 691 | 40,9% |
| Cost of sale | -5 487 | -3 741 | 46,7% |
| Distribution costs | -569 | -424 | 34,2% |
| Administrative expenses | -232 | -249 | -6,8% |
| Other | 29 | 8 | 262,5% |
| Profit from operations | 350 | 285 | 22,8% |
| Profit before income tax and minority interests | 323 | 260 | 24,2% |
| Net profit | 253 | 176 | 43,8% |
| Cash flows from operating activities | 987 | 150 | 558,0% |
| PLN | 3Q 03 | 3Q 02 | change |
| Diluted EPS | 0,6 | 0,42 | 42,9% |

- Increase in consolidated retail sales of PLN 1.9 bn due to consolidation of German retail network...*
- ... and distribution and administrative costs by PLN 94 m and PLN 21 m respectively.
- Substantial influence of FOREX on financial income and expenses (by 82 and PLN 129 m respectively; in the case of costs these are mainly unrealized foreign exchange losses)**
- Increase of operating CF in Capital Group and PKN ORLEN itself by PLN 837m and PLN 638 m respectively

*as well cost of sale by PLN 1.8 bn

**there were no significant changes in extraordinary items

Balance sheet

Financial strengthening of PKN ORLEN's position

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| IFRS basis, in PLN m | 3Q 03 | 2Q 03 | change |
|--|---------------|--------|--------|
| Non current assets | 10 704 | 10 323 | 3,7% |
| Current assets, of which | 6 532 | 6 430 | 1,6% |
| Inventories | 3 002 | 3 150 | -4,7% |
| Cash and cash equivalents | 711 | 433 | 64,2% |
| Total assets | 17 236 | 16 753 | 2,9% |
| Shareholders' equity | 9 082 | 8 813 | 3,1% |
| Minority interests | 422 | 411 | 2,7% |
| Non current liabilities, of which | 2 329 | 1 456 | 60,0% |
| Interest bearing borrowings | 1 376 | 447 | 207,8% |
| Current liabilities, of which | 5 403 | 6 073 | -11,0% |
| Interest bearing borrowings | 1 781 | 3 010 | -40,8% |
| Total liabilities | 17 236 | 16 753 | 2,9% |

- Change in inventory structure and higher demand led to value decrease in inventory

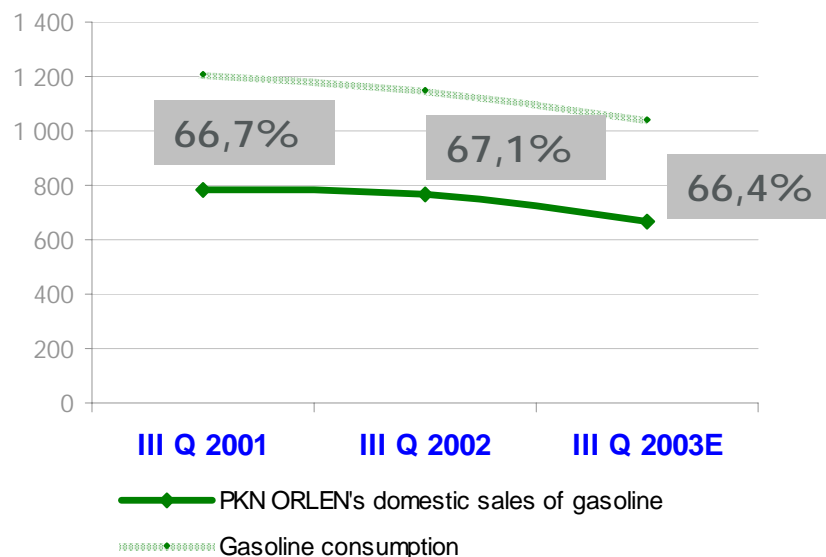
- Shift between items of working capital in Germany leads to substantial increase in cash

- New consortium loan influenced term-structure of liabilities

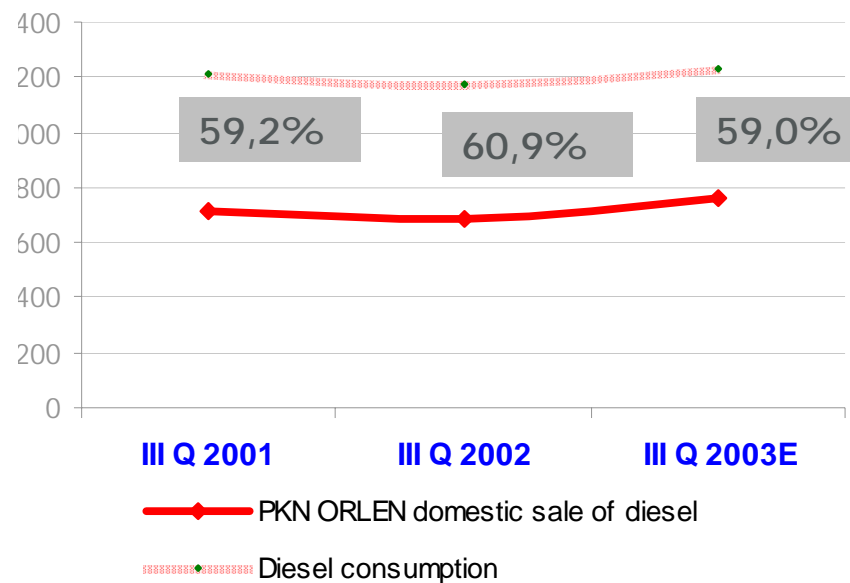
PKN ORLEN maintains its position on the Polish fuel market



Gasoline



Diesel oil

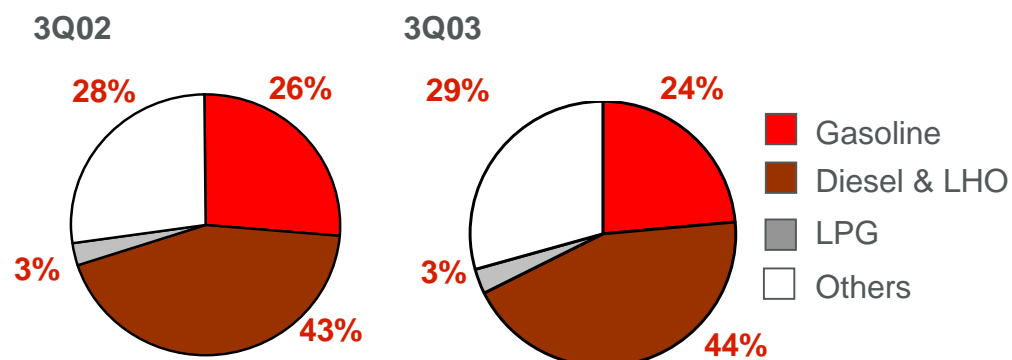


Next quarter of satisfactory profitability in refinery and wholesale segment

Refining and wholesale

| IFRS basis, PLN m | 3Q03 | 3Q02 | change |
|----------------------------|-------|-------|--------|
| Revenues | 4 026 | 4 094 | -1,7% |
| Total costs of the segment | 3 713 | 3 776 | -1,7% |
| Profit of the segment | 313 | 318 | -1,6% |
| Sales (tt) | 2 274 | 2 532 | -10,2% |

Sales by product in volume



- Substantial shift between gasoline and diesel with LPG
- Increase in sales volume of Ekoterm (6% y-o-y)
- 4% increase of refinery product sale confirms regaining position of PKN ORLEN on developing market.
- Regained market share in growing market and further steps in restructuring of PKN ORLEN visible in segment's results
- Profit of the segment decreased by **PLN 5 m**. Excluding inventory effect (on LIFO basis)* results are better by over **PLN 100 m**.

* Attributing all inventory effect to refinery and wholesale segment

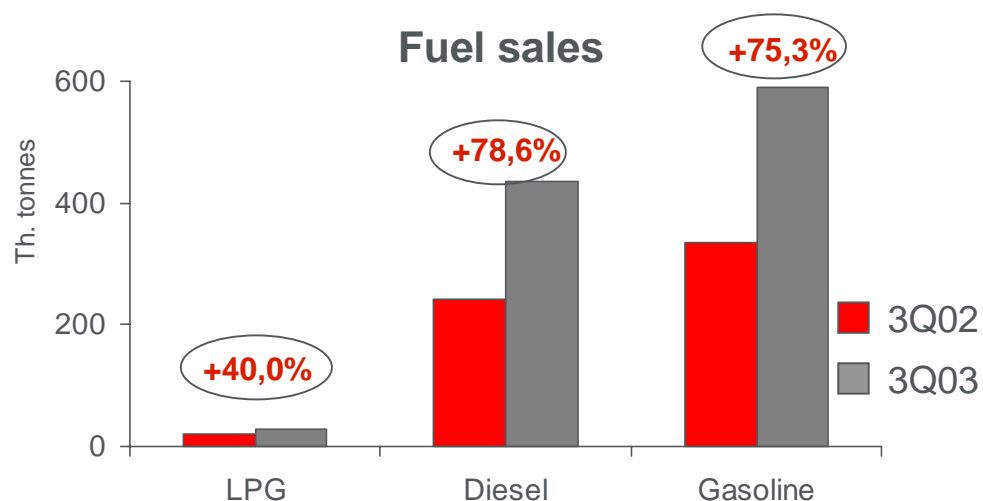
** We have recorded in current quarter decrease in volume external sale by 10.2%. It is result of hold on crude oil sale in 3q.

Margin optimization and domestic market recovery visible in improved segment result



Retail

| IFRS basis, PLN m | 3Q03 | 3Q02 | change |
|-----------------------------|-------|-------|--------|
| Revenues | 3 239 | 1 163 | 178,5% |
| Total costs of the segments | 3 177 | 1 176 | 170,2% |
| Profit of the segment | 62 | -13 | - |
| Sales (tt) | 1 113 | 603 | 84,6% |



- Next quarter of visible recovery in domestic volumes* by **2.4%** y-o-y
- Decreasing volumes of gasoline are compensated by increase in volume of diesel and LPG
- Margin optimization results in high unit margin on diesel and LPG. It results in **PLN 45 m** increase of fuel margin, y-o-y
- Focusing on our margin strategy – non-fuel margin increases by **18%**
- All our activities allow us to record the best result in this segment** – **PLN 62 m**

* .CoDo station

** Since we started reporting by segment

Next consecutive quarter of robust profitability of Pet-chems

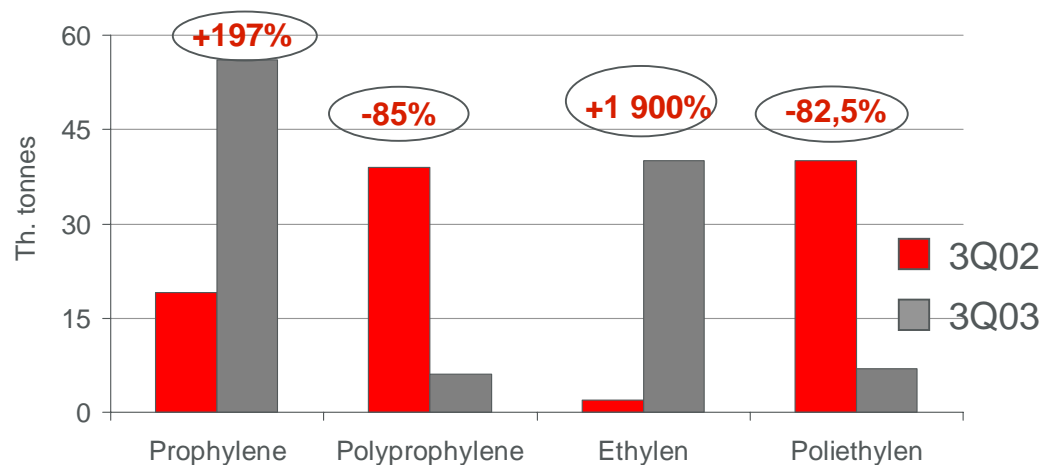
Petrochemicals

| IFRS basis, PLN m | 3Q03 | 3Q02 | change |
|----------------------------|-------|-------|--------|
| Revenues | 1 085 | 1 150 | -5,7% |
| Total costs of the segment | 1 031 | 1 112 | -7,3% |
| Profit of the segment | 54 | 38 | 42,1% |
| Sales (tt) | 575 | 495 | 16,2% |

- Increase of sales volume in monomers and fertilizers resulted in total sales growth of **16%**

- Shift in sales between polyolefins and olefins due to JV with Basell

Main petrochemicals sale



- Smooth start-up of JV with Basell and further margin optimization compensate decrease of margin in comparison to 1H03

- Profit of the segment increases by **42%**, y-o-y

Outlook for 4Q 2003



- **Retail** – a small percentage increase in volumes with a slight decrease in unit margins on fuels. But a still visible increase in the margin of non-fuel products. A visible shift between gasoline and diesel and LPG
- **Wholesale** – price policy focused on maximisation total margin of the whole company. As a result we will record a few percentage volume increase in light products. A visible shift from gasoline to middle distillate
- **CAPEX** at PLN 0.5 bn, securing planned investments (olefins, restructuring of retail network)
- As a result reported profit for 4Q03 should be much better against last year's 4Q performance*

*.Without taking into account lower tax rate.

Impact of Cost-cutting

Cost-cutting in line with our plan

- **PLN 49 m** savings in 3Q03 , with PLN 4 m implementation cost
- **PLN 100 m** savings in **2003 as a result** of smooth start up of about 500 initiatives, including for example:
 - Decrease of catalysator utilisation
 - Renegotiation of services with external companies
 - Reduction of exploitation cost and office running costs
- Implementation of supporting programme
 - Voluntary redundancy scheme
 - Change in organisation structure

PLN 100 m savings to realize in 2003



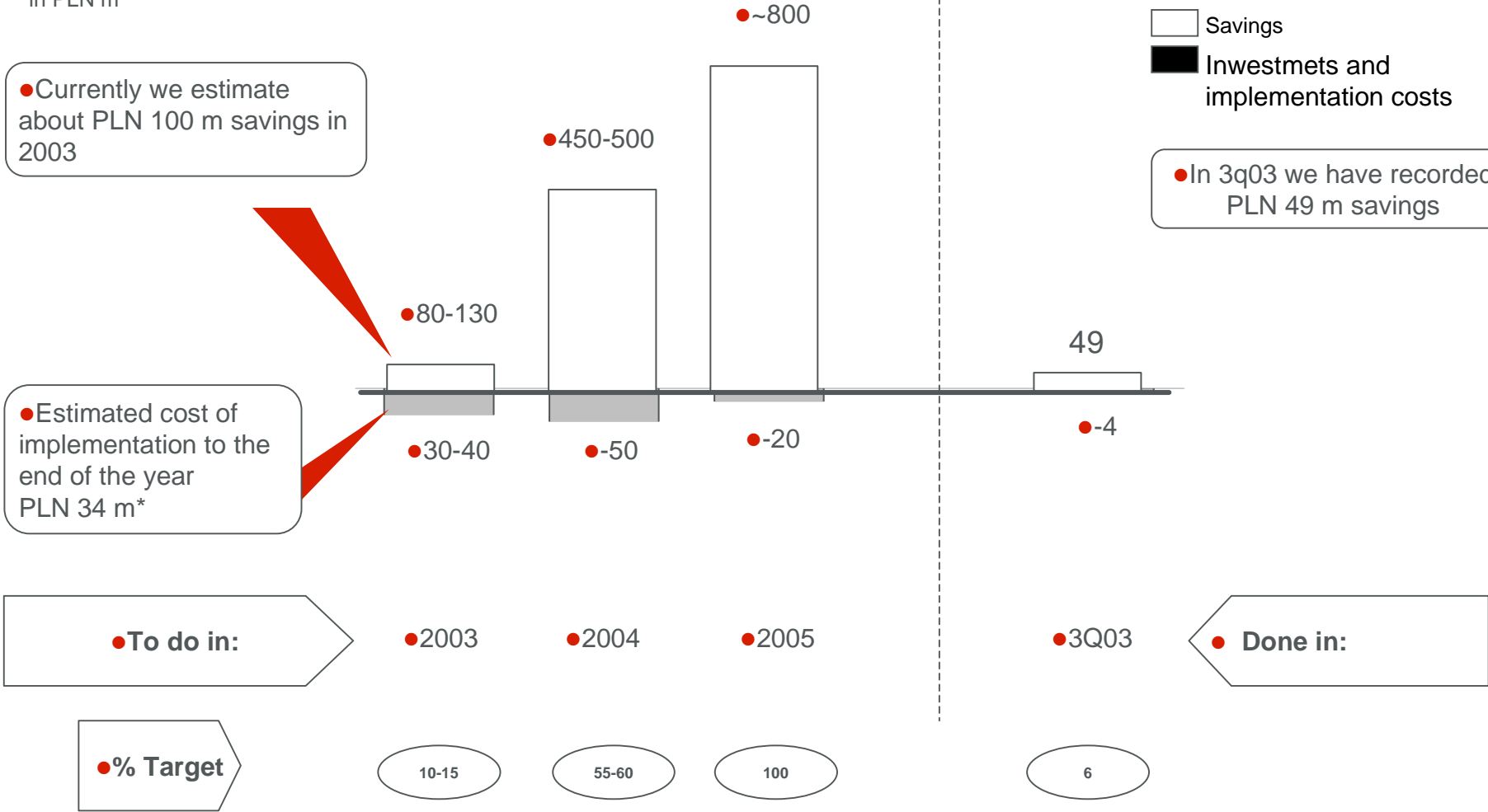
in PLN m

• Currently we estimate about PLN 100 m savings in 2003

• Estimated cost of implementation to the end of the year PLN 34 m*

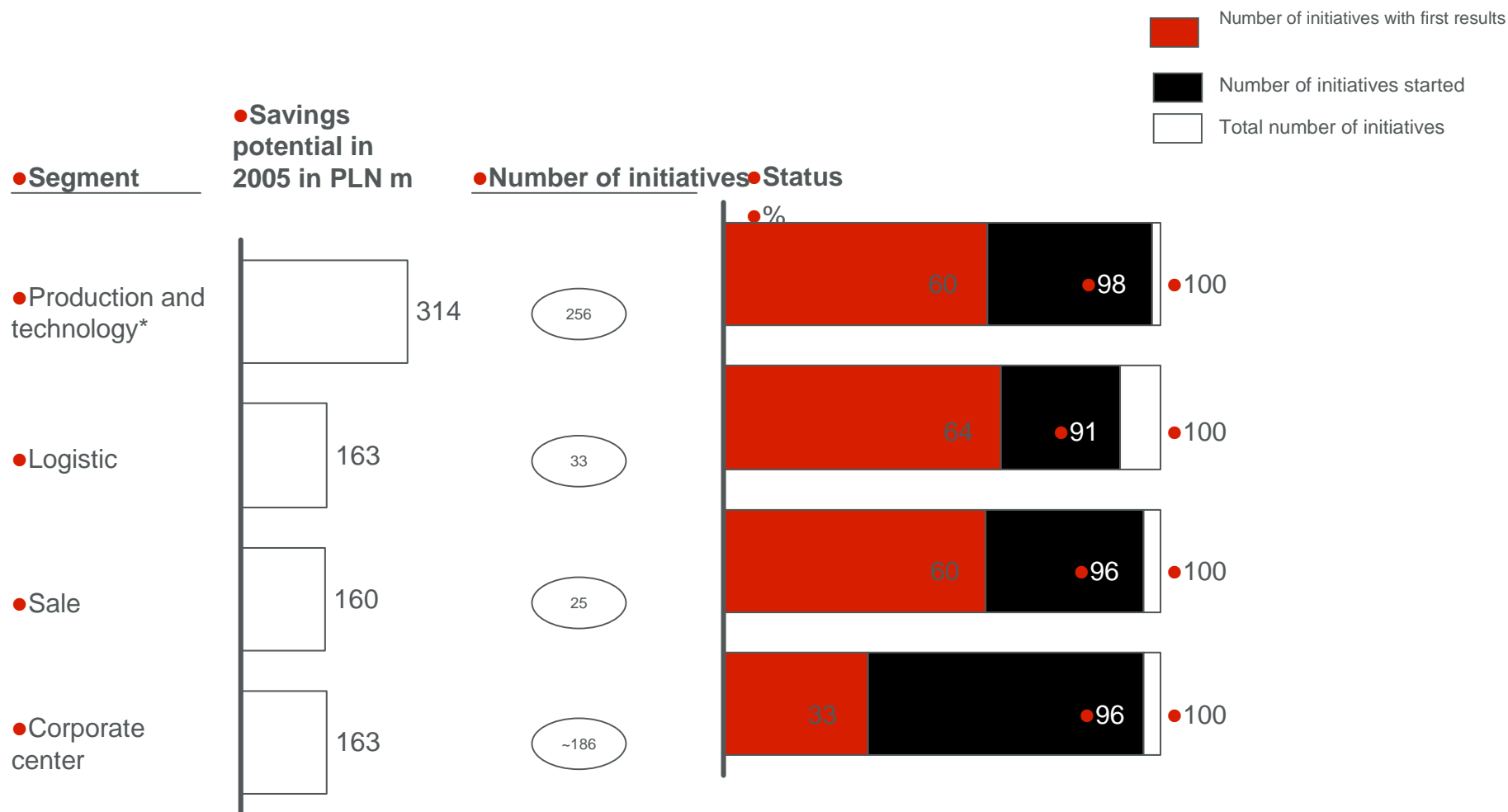
□ Savings
■ Investments and implementation costs

• In 3q03 we have recorded PLN 49 m savings



* Some of the cost will be moved to 2004

The number of initiatives started reflects the effective implementing the cost-cutting programme



Examples of initiatives with first results



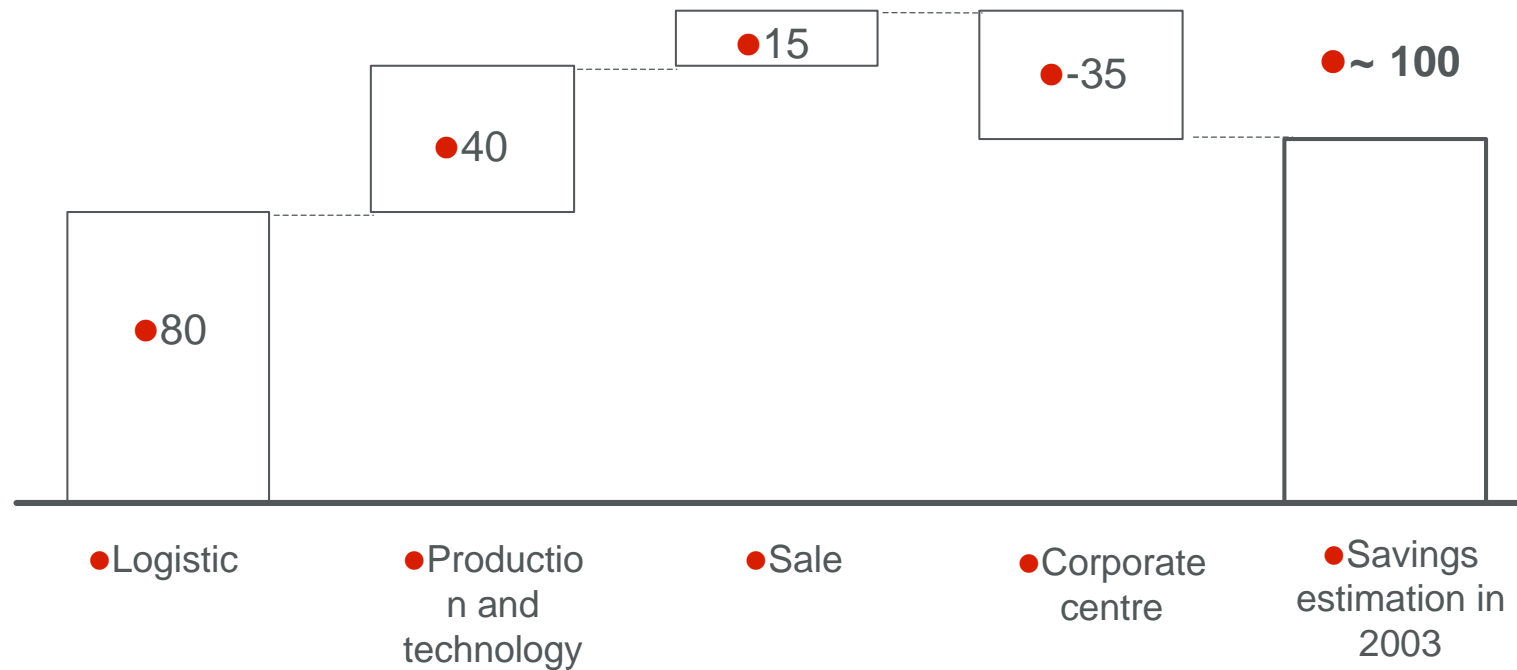
| In PLN m | ●Level of costs in 2002 included in initiatives | ●Savings potential in 2005 | ●Realisation of full potential | ●Current achievements |
|--|---|----------------------------|--------------------------------|---|
| ● Initiatives | | | | |
| ● Production and technology | | | | |
| ● Decrease of fresh catalisator in HOG | ●to be settle* | ●9,2 | ●III q. 2003 | ● Decrease in utilisation parameter – decision in June 2003 ● Change in receiver of used catalysator |
| ● Logistics | | | | |
| ● Elimination of bill of supply | ●6,0 | ●6,0 | ●III q. 2003 | ● From 01.07.2003, PKN logistic took administration of transportation orders from external companies and do not have such cost any more |
| ● Marketing and sale | | | | |
| ● Limitation of external service costs | ●38,5 | ●8,0 | ●IV q. 2004** | ● Renegotiation with companies in progress, closing at 31.10.2003 |
| ● Procurement | | | | |
| ● Office materials | ●4,0 | ●1,2 | ●IV q. 2003 | ● Prepared optimal catalogue ● Prypered methods of purchase out of the catalogue |
| ● Exploitation materials | ●4,0 | ●0,6 | ●IV q. 2003 | ● Preparation of implementation of central supply for retail sites ● Further negotiations are in progress |

* Assuming 12 month period of reaching target price

Production and logistics are pillars of the cost cutting programme in 2003



In PLN m



*.Mainly caused by programme's implementation costs (e.g. cost of Voluntary redundancy scheme)

Supplementary slides

Over 50% stations in Germany is operating under new brand

- By the end of the year all planned stations in Germany will be rebranded
- Net profit at a level of **PLN 3.4 m**
- Recorded trend in 3q 2003 in ORLEN Deutschland:
 - Station with low margin and high volume:
(previous: Eggert) – sales volume increases by **4%**
 - Stations with better location, higher margins and lower sales volume
(previous: BP i ARAL) – sales volume decreases by **11%**
- Retail margin increase of the German market by about 10% in relation to the business plan definitely increases profitability of retail sites

3q2003 - influence of ORLEN Deutschland and JV with Basell on consolidated Balance Sheet and P&L

| Balance sheets - selected items (PLNm) | 3Q2003 | 3Q2003 Germany | 2Q2003 |
|---|---------------|----------------|---------------|
| Property, plant and equipment | 9 653 | 680 | 9 449 |
| Inventories | 3 002 | 123 | 3 150 |
| Trade and other receivables | 2 710 | 357 | 2 734 |
| Cash and cash equivalents | 711 | 384 | 433 |
| Total assets | 17 236 | 1 584 | 16 753 |
| Non-current liabilities | 2 329 | 833 | 1 456 |
| Total current liabilities | 5 403 | 795 | 6 073 |
| Total liabilities and shareholders' equity | 17 236 | 1 584 | 16 753 |

| Income statements - selected items (PLNm) | 3Q2003 | 3Q2003 Germany | 3Q2002 |
|---|--------------|----------------|------------|
| Revenue | 6 609 | 1 913 | 4 691 |
| Cost of sales | -5 487 | -1 811 | -3 741 |
| Gross profit | 1 122 | 102 | 950 |
| Distribution expenses | -569 | -94 | -424 |
| Administrative expenses | -232 | -21 | -249 |
| Net profit | 253 | 3,4 | 176 |

Influence of Basell Orlen Polyolefins Sp z o.o. on PKN ORLEN Group P&L
in 3q was at a level of **PLN 15.6m**, after tax