

**ORLEN**

**Polski Koncern Naftowy ORLEN**  
Spółka Akcyjna

## **Q1 2004 Results**

**Increase of net profit y-o-y**

**14 May 2004**

# Full use made of positive refinery market conditions

- The highest **net profit** in the company's history\* -> **PLN 397 m**
- **ROACE 13.7%\*\*** >> **WACC 8.9%**
- **PLN 143 m** savings in Q1 04 due to cost cutting programme
- Increase in wholesale volume by over **7%\*\*\*** y-o-y  
– driven by long-term contracts with foreign companies
- PKN ORLEN Group headcount reduced by **599 employees** to 14,534
- Effective realisation of expansion projects  
– successful bid for a 63% stake in Unipetrol

\* relates to first quarter of the year    \*\*\* excluding German operation

\*\* ROACE = EBIT after actual tax rate / average (equity + net debt) – ratio calculated for the quarter and annualised, it also does not exclude one-offs item, based on reported results

# ROACE at relatively high level\*

Value streams	ROACE Q1 04		ROACE 2006
PKN ORLEN**	10.1%	✓	8%
Production, Wholesale and Logistics	15.8%	✓	12%
Retail	5.6%		14%
Corporate centre	na		na
Strategic expansion costs	na		na
Subsidiaries & strategic investments	na		na

# Operating cost reduction in PKN ORLEN

## Q1 04 plan fully realised



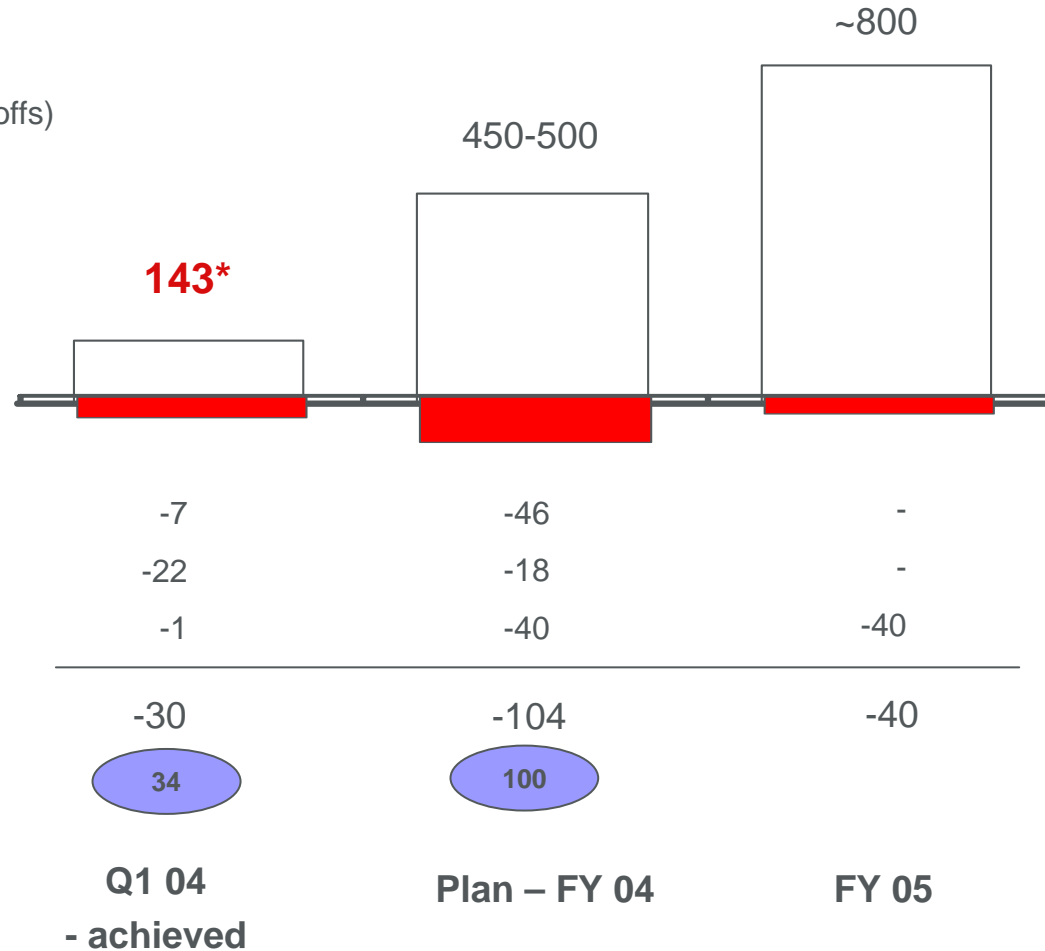
□ Savings (sustainable)

■ Investments and M&A (one-offs)

One-off spending

- M&A
- Implementation cost
- Capex

% of target completed

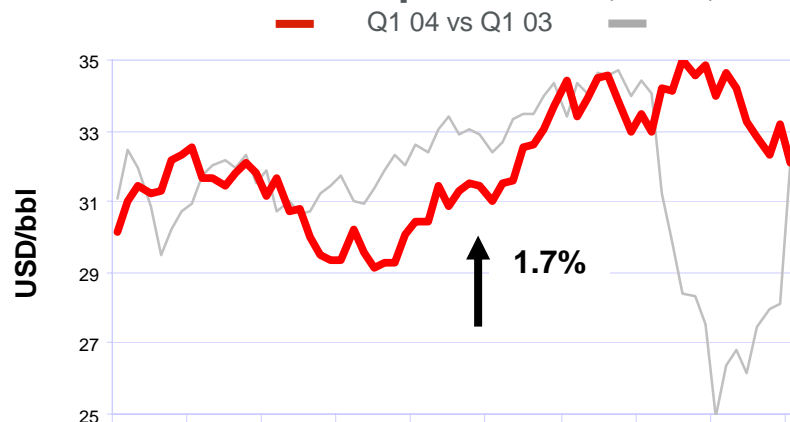


\* Savings achieved due to the 350 cost cutting initiatives that have been implemented

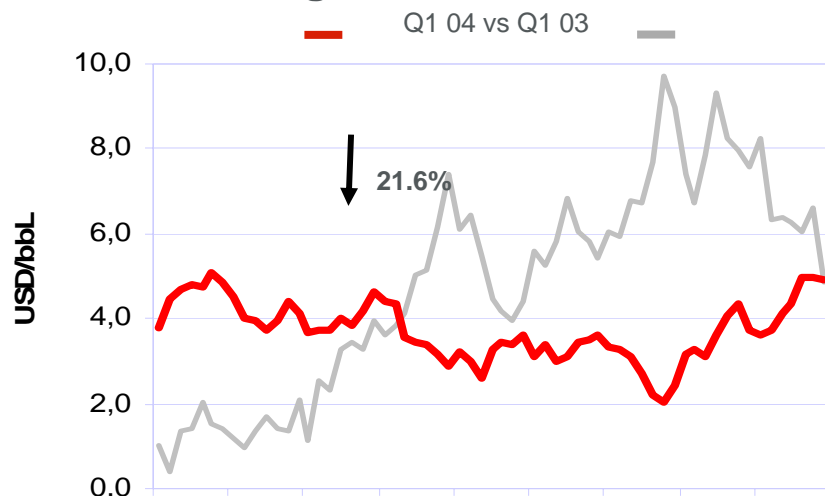
# Market environment in oil & gas sector

## Favourable conditions utilised

### Crude oil price, Brent (USD/b)



### Margin\* Refinery margin, Brent (USD/b)



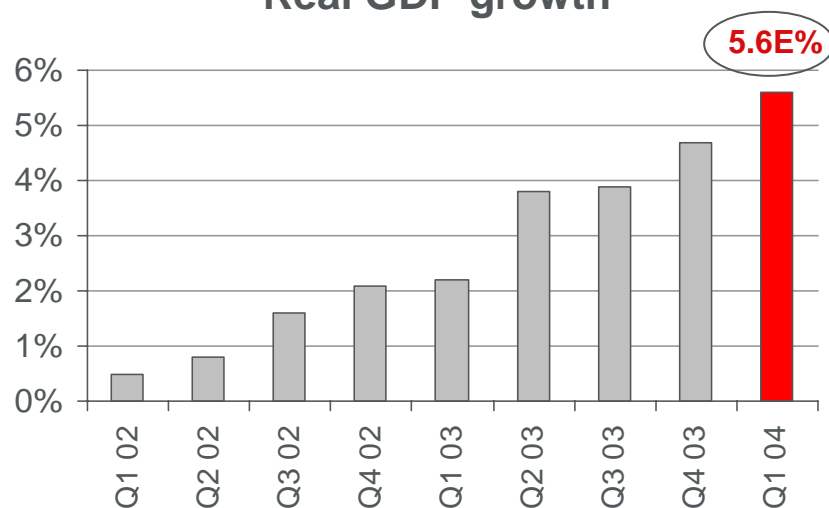
Source: Platt's and PVM

- Crude oil price increased by 1.7% on average in Q1, from 31.52 USD/b to **32.05 USD/b** (y-o-y)
- 21.6% fall in refinery margin from 4.79 USD/b to **3.76 USD/b** (y-o-y)
- Negative impact of lower refinery cracks on EBIT of about **PLN 46 m** (ceteris paribus)
- Increase of Ural/Brent differential by 41.8%, from 2.08 USD to 2.95 USD (y-o-y), theoretical positive impact on EBIT of about **PLN 73 m** (ceteris paribus)

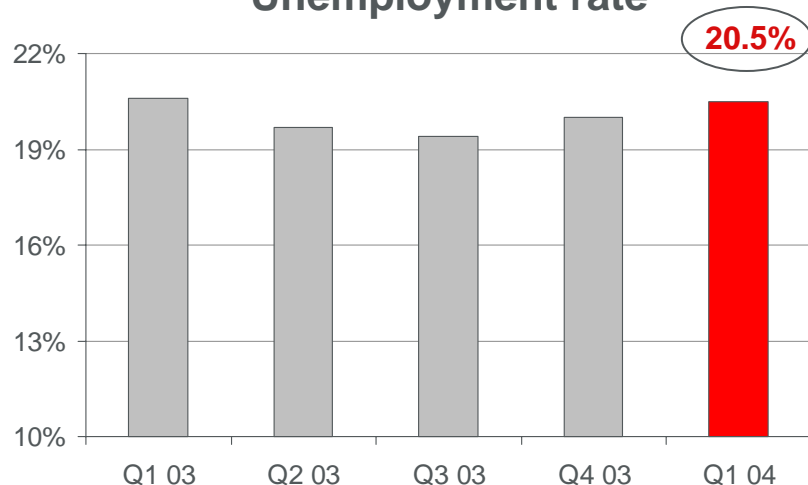
# Market environment – Poland

## Noticeable recovery in the economy

### Real GDP growth



### Unemployment rate



- Visible increase of GDP proves stable economic recovery. High unemployment rate continues – **20.5%** (fall of 0.1pp y-o-y vs. increase of 0.5 pp q-o-q)
- Increase of new car sales by **22.5%E** (Q1 04 vs. 1Q 03)
- Sale increase of domestic industrial production by **19.1%**
- Estimated increase of domestic fuel consumption (gasoline, diesel and LHO) by about **6%** (y-o-y)
- Decrease in PLN/USD exchange rate from 3.90 to 3.82. Negative impact on EBIT of almost **PLN 14 m** (ceteris paribus)

# Profit – result of restructuring reflected in net profit\*\*\* ↑

IFRS basis, PLN m	Q1 04	Q1 03	change
Revenues*	6 325	4 962	27,5%
Cost of sales*	-5 112	-3 793	34,8%
Distribution costs	-542	-455	19,1%
Administrative expenses	-184	-209	-12,0%
Other	18	85	-78,8%
<b>Profit from operations</b>	<b>505</b>	590	-14,4%
Profit before income tax and minority interests	517	513	0,8%
<b>Net profit</b>	<b>397</b>	355	11,8%
<b>Net profit - LIFO</b>	<b>305</b>	205	48,8%
<b>PLN</b>	<b>Q1 04</b>	<b>Q1 03</b>	<b>change</b>
<b>EPS</b>	<b>0.93</b>	0.84	10,7%

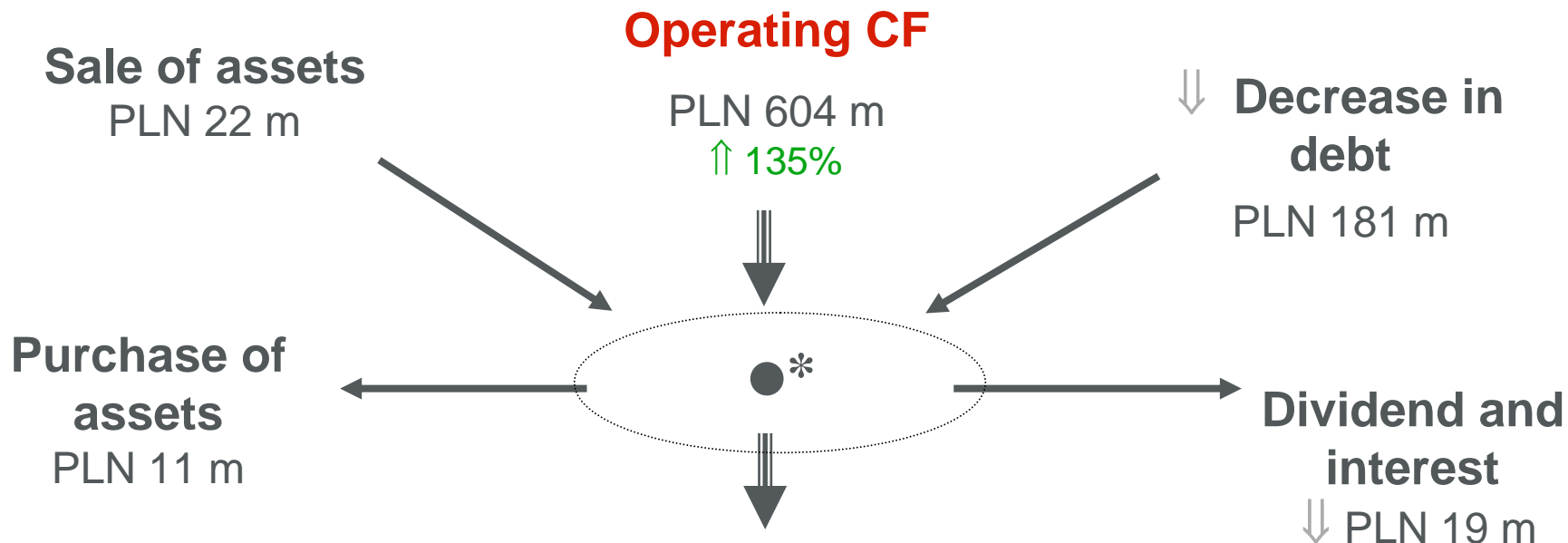
- **c.2%** increase of revenues, excluding German operations\*
- Visible effect of cost reduction, excluding German operations:
  - Reduction of cost of sales on LIFO basis by about **1%**
  - Only **2%** increase in cost of distribution, against volume increase of 7%\*\*
  - Reduction of administrative expenses by about **9%**
- Negative effect of forex of **PLN 44 m**
- Positive impact of Polkomtel dividend on net profit of **PLN 68 m** vs. PLN 47 m in Q1 03

\* Orlen Deutschland consolidation increases revenues by PLN 1,928 m and cost of sales by PLN 1,862 m and in Q1 03 PLN 643 m and PLN 609 m respectively \*\* wholesale volume of light products, excluding German operations

\*\*\* Positive impact of contribution in kind to Basell Orlen Polvolefins on results in Q1 03 of PLN 112 m

# Operating CF >> organic CAPEX

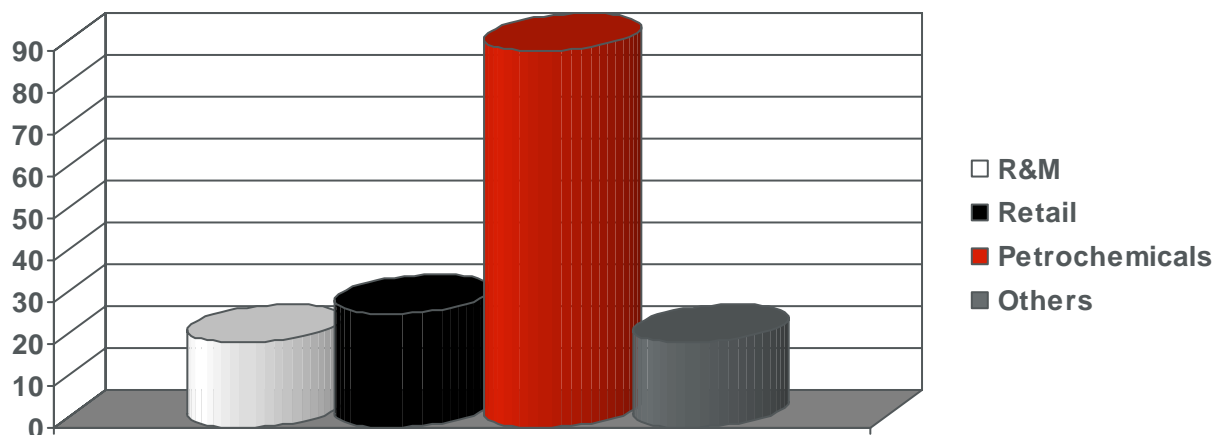
## Proper cash flow management



### Organic investment

PLN 322 m

↑ 38%



\* others -> PLN 93 m

\*\* Assuming memorial accounting principle - the total investment in Q1 04 amounted to PLN 262 m



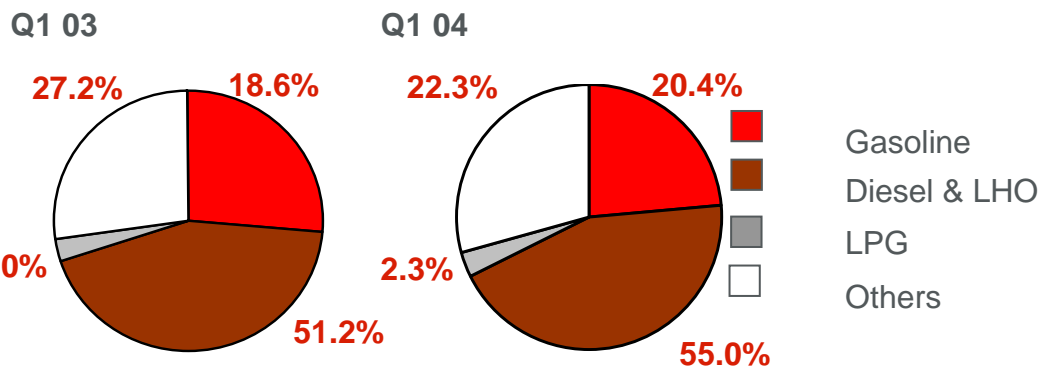
# Consequent quarter of satisfactory profitability in refinery segment

## Refining and wholesale

IFRS basis, PLN m	Q1 04	Q1 03	change
Revenue	3 958	3 942	0,4%
Total costs of the segment	3 534	3 441	2,7%
Profit of the segment	424	501	-15,4%
Sales (tt)**	1 933	1 760	9,8%

- Recovery in domestic fuel consumption
- Increase of light product sales by **6.8%\*** due to long term contracts with foreign companies
- Maximisation of margin volume and favourable fuel quotation visible in:
  - increase of inland premium to **PLN 103 m**
  - increase of fuel exports by **40%**
- **PLN 35 m** savings in logistics
- Segment result of **PLN 424 m**
- Increase of segment result on LIFO basis by **5%** to PLN 311 m

## Structure of sales, by volume



\* Excluding German sale

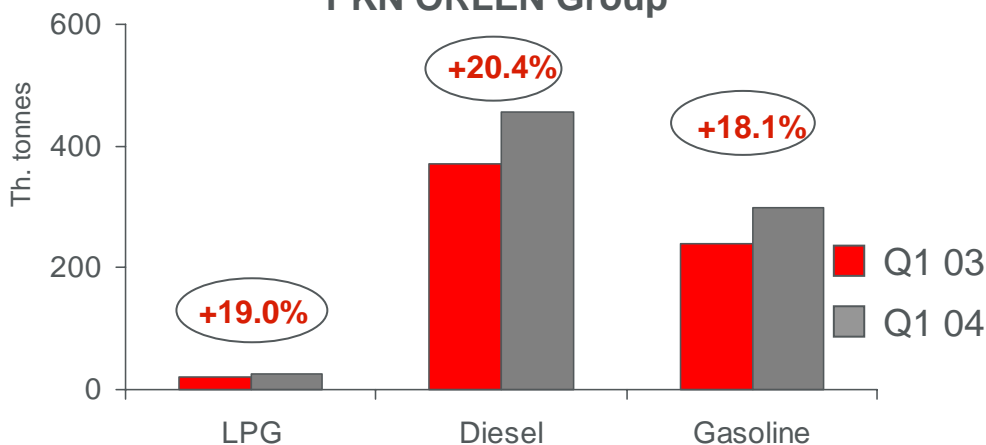
\*\* Excluding wholesale operation in Germany -> 149 th. tonnes

# Seasonality of retail sales visible in segment's profit

## Retail

IFRS basis, PLN m	Q1 04	Q1 03	change
<b>Revenue</b>	<b>2 478</b>	1 695	46,2%
<b>Total costs of the segment</b>	<b>2 497</b>	1 719	45,3%
<b>Profit of the segment</b>	<b>-19</b>	-24	-
<b>Sales (tt)</b>	<b>753</b>	637	18,2%

## Fuel sales in PKN ORLEN Group



- Total volume of sales increased by **18.2%**, mainly due to consolidation of German operation
- Decrease of gasoline volumes accompanied by an increase in diesel volumes and dramatic increase in LPG\*
- Increase of sales volume by **1.8%** in Polish CoDo sites
- As a result of the strategy implementation margins on non-fuel goods and services increased by **10%\***
- Seasonality of retail sales\*\* and low margin on German market visible in ORLEN Deutschland results
- Segment results improved by **PLN 5 m**

\* Refers to CoDo sites in Poland

\*\* Historically, fuel demand in retail is the weakest in the Q1 each year

# High profitability

## Fertilizer market recovery

### Petrochemicals

IFRS basis, PLN m	Q1 04	Q1 03	change
Revenue	1 270	1 257	1,0%
Total costs of the segment	1 068	1 047	2,0%
Profit of	202	210	-3,8%
Sales (tt)	576	598	-3,7%

- After excluding positive effect of in kind contribution to BOP result in Q1 03, performance was at comparable level of PLN 98 m

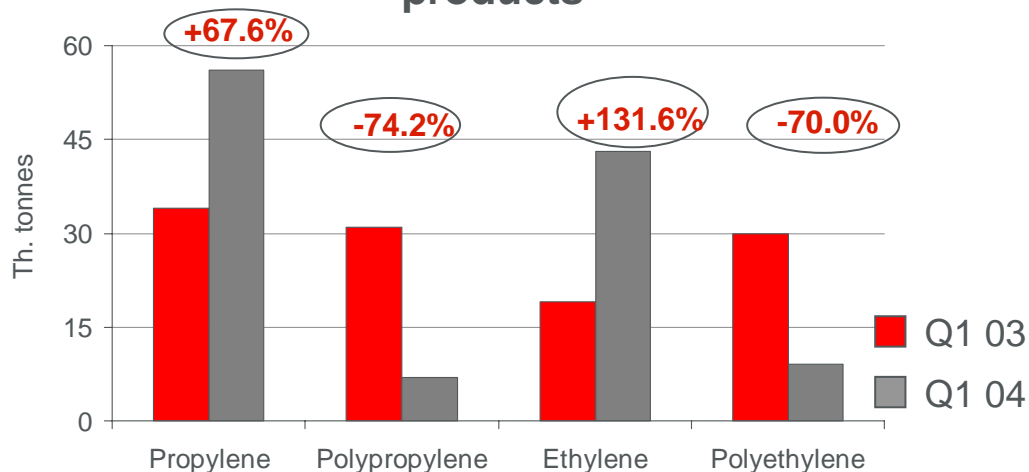
- Visible margin improvement and lower sales volume

- Operating profit increase in Anwil subsidiary of **PLN 51 m** – net profit increased by over **650%**

- **106%** increase of segment results\*\*

- Positive impact of BOP results on PKN ORLEN results of **PLN 11.9 m**, in Q1 04

### Sale of main petrochemical products\*



\* Polyolefins sales replaced by sale of olefins due to set up of Basell Orlen Poliolefins Sp. z o.o. – JV between PKN ORLEN and Basell

\*\* After excluding positive effect in kind contribution to BOP on Q1 03 results of PLN 112 m

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# Supporting slides

Cost cutting programme

# Positive influence of cost cutting programme on Q1 04 results

In PLN m



# Supporting slides

ORLEN Deutschland

### ➤ Q1 04 trends:

- Fuel margin in Q1 04 was much lower compared to Q1 03 due to tough competition and the increase in oil prices since the beginning of the year
- Sales volumes are traditionally negatively influenced by lower fuel consumption in winter months.
- STAR sites - sales volume increase by 2%
- ORLEN sites - sales volume decrease by 16%

### ➤ Total 2004 investment budget:

**37.5 m EUR**

- |   |     |
|---|-----|
| • Motorway sites (Greenfield and Rented)        | 5   |
| • Sites (Greenfield, Revamping and Acquisition) | 25  |
| • Land  | 3   |
| • Other   | 4,5 |

**Total sites:**

**30**

### ➤ Substantial upturn is expected in next quarters

# ORLEN Deutschland

## Financial highlights Q1 04

Balance sheets - selected items (PLN m)	Q1 04 Orlen Deutschland
Property, plant and equipment	807
Inventories	128
Trade and other receivables	310
Cash and cash equivalents	368
<b>Total assets</b>	<b>1 661</b>
Equity	544
Provisions	60
Long term liabilities	124
Short term liabilities	858
<b>Total liabilities and shareholders' equity</b>	<b>1 661</b>

Income statements - selected items (PLN m)	Q1 04 Orlen Deutschland
<b>Revenue</b>	<b>1 928</b>
Cost of sales	-1 862
<b>Gross profit</b>	<b>66</b>
Distribution expenses	-105
Administrative expenses	-3
Other operating revenues*/cost	14
<b>Operating loss</b>	<b>-29</b>
<b>Net loss</b>	<b>-31</b>



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# Supporting slides

Other data

IFRS basis, in PLN m	Q1 04	Q1 03	change
Retail sales of motor fuels (tt)*	752	632	19,0%
Light product sales (tt)**	2 238	1 896	18,0%
Other refinery product sales (tt)	447	503	-11,1%
Pet-chem sales (tt)	576	598	-3,7%
Processed crude (tt)	2 920	3 013	-3,1%
Utilisation	89,2%	92,0%	-2.8pp
White product yield	82,5%	82,6%	-0.1pp
Fuel yield	69,0%	68,0%	+1,0pp
Headcount	14 534	17 295	-16,0%

- Increase of gasoline retail sales by **18%** and diesel of **20%**, mainly due to consolidation of German operation (252 th.t. on retail level).
- Higher fuel yield by **1%** (increase production of gasoline 98 by 39%, diesel by 13% Jet A-1 fuel by 11% in y-o-y).
- Decrease of processed crude oil mainly due to maintenance of production site
- Headcount reduced by **599** in Q1 04 as a result of voluntary redundancy programme

# Balance sheet

## Low gearing

IFRS basis, in PLN m	Q1 04	2003	change
<b>Non current assets</b>	<b>10 684</b>	10 715	-0,3%
<b>Current assets, of which</b>	<b>6 972</b>	6 434	8,4%
Inventories	<b>3 148</b>	3 058	2,9%
Cash and cash equivalents	<b>706</b>	629	12,2%
<b>Total assets</b>	<b>17 656</b>	17 149	3,0%
<b>Shareholders' equity</b>	<b>9 894</b>	9 510	4,0%
<b>Minority interests</b>	<b>444</b>	427	4,0%
<b>Non current liabilities, of which</b>	<b>3 010</b>	2 745	9,7%
Interest bearing borrowings	<b>2 091</b>	1 836	13,9%
<b>Current liabilities, of which</b>	<b>4 308</b>	4 467	-3,6%
Interest bearing borrowings	<b>759</b>	1 195	-36,5%
<b>Total liabilities</b>	<b>17 656</b>	17 149	3,0%

- Positive impact on financing costs due to change in structuring of liabilities - reduction of short term interest bearing borrowing by **36.5%** vs increase of long term liabilities
- Increase of current assets due to rising crude oil prices
- Gearing at a low level **21.7%**, enabling purchase of Unipetrol assets