

ORLEN

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

Q2 2004 Results

Record profits - momentum maintained

13 August 2004

Internal strengthening supports Q2 results

- The highest **net profit** in the company's history* -> **PLN 668 m**
- **ROACE 20.2%**** >> **WACC 9.4%**
- **PLN 163 m** savings in Q2 04 due to cost cutting programme
- Increase in wholesale volume by **12.7%***** y-o-y
– driven by long-term contracts with foreign companies
- PKN ORLEN Group headcount reduced by **136** employees to 14,398
- Effective realisation of expansion projects
– successful bid for a 63% stake in Unipetrol

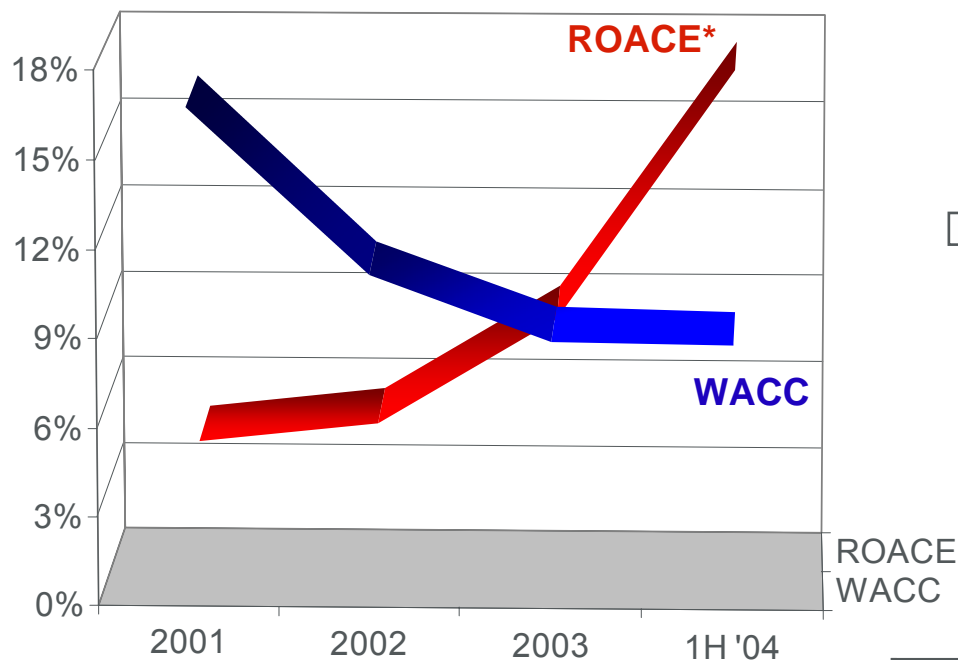
* relates to the second quarter of a year

*** 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-off items, based on reported results

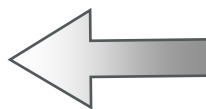
Q2 performance exceeds 2006 targets

Favourable market conditions



ROACE_{reported} exceeded WACC by over **7pp** in 1H '04

Favourable market conditions allowed us to exceed ROACE_{LIFO} target by over **6pp** in Q2 '04



Value streams	ROACE** Q2 '04	ROACE 2006
PKN ORLEN Group	14.3%	8% ✓
Production, Wholesale and Logistics	19.5%	12% ✓
Retail	6.7%	14%

* inventories due to weighted average method

** inventories due to LIFO method

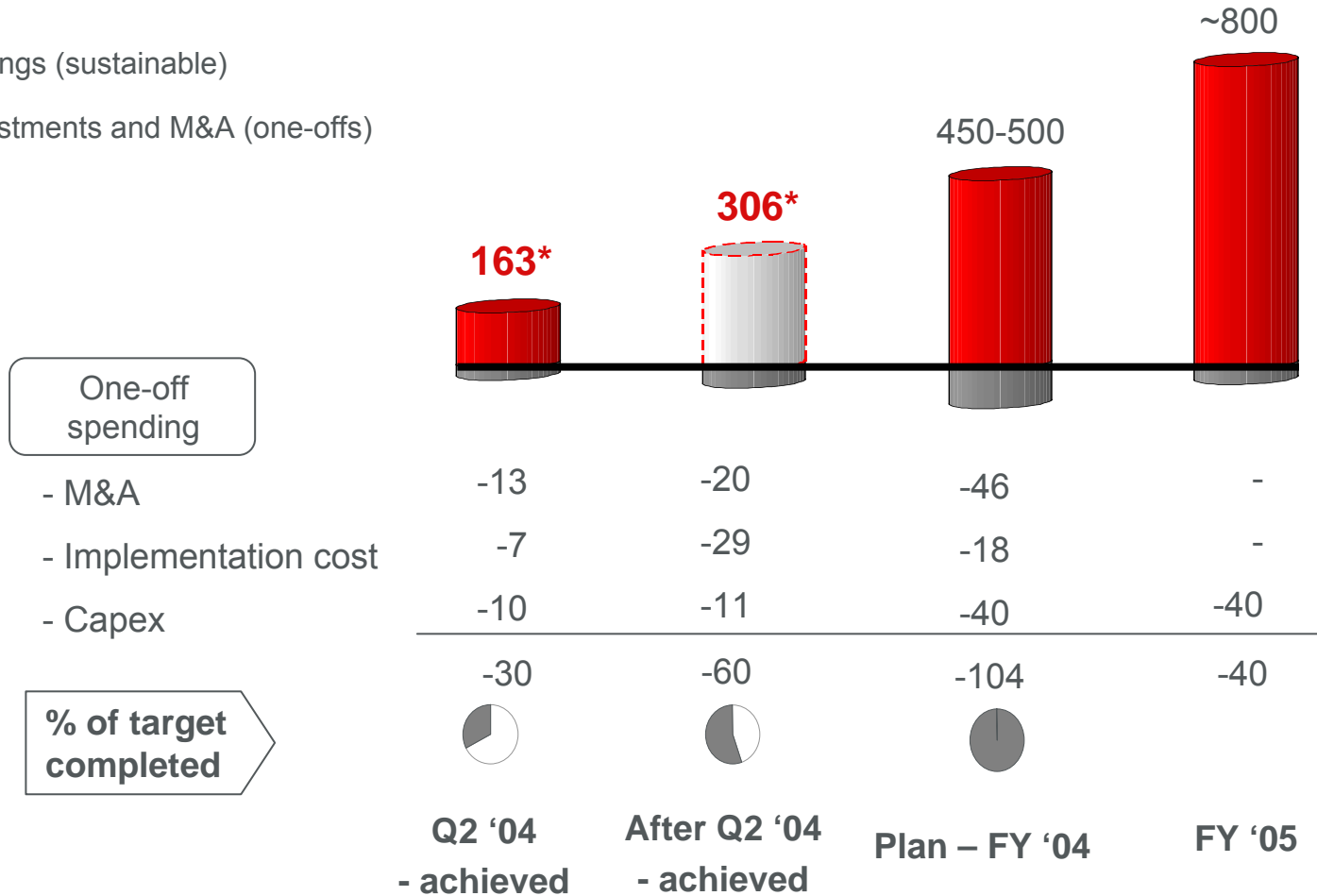
Operating cost reduction in PKN ORLEN



Q2 '04 plan fully realised

In m PLN

- Savings (sustainable)
- Investments and M&A (one-offs)



* Savings achieved due to the 350 cost cutting initiatives implemented

Refining and wholesale still the main contributor to revenues

In m PLN

<i>Revenue*</i>	Q2 '04	Q2 '03	Q1'04
Retail	3 030	2 883	2 473
Germany	1 764	1 797	1 476
Wholesale	3 362	2 210	2 724
Germany	481	-	451
Pet-chem	869	724	953
Other	145	116	175
Total revenues	7 406	5 933	6 325

All revenues in Germany were included in retail in 2003

36% increase in crude oil prices
reflected in **25%** increase in revenues

All segments delivered higher profitability

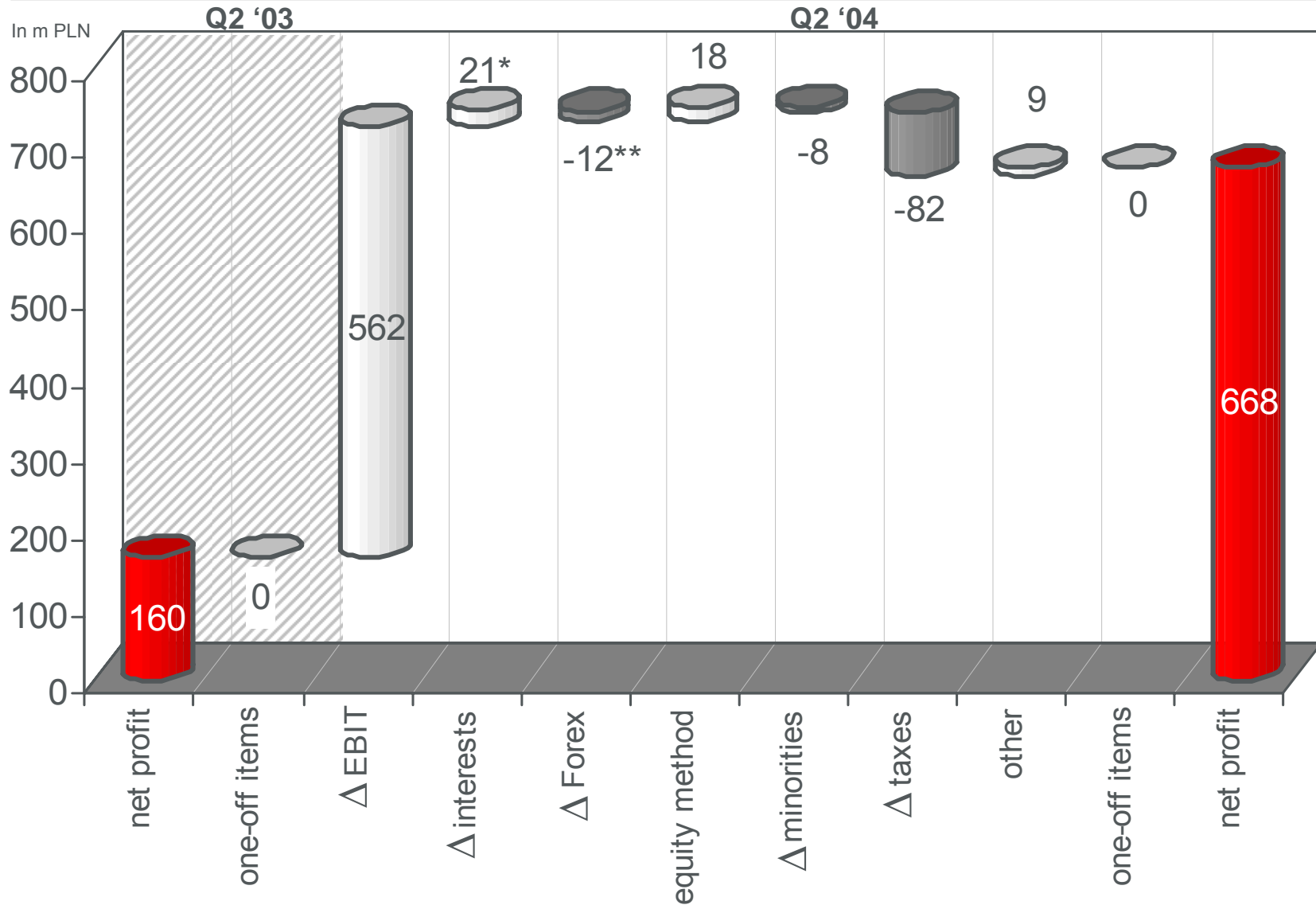
In m PLN

<i>Operating profits</i>	Q2 '04	Q2 '03	Q1 '04
Gross profit	1 523	1 002	1 213
Admin. expenses	-235	-250	-184
Distribution costs	-525	-571	-542
Other	-26	-6	18
EBIT*	737	175	505
Wholesale	654	159	424
Retail	53	39	-19
Pet-chem	117	82	202
Other	27	-2	34
Not attributable	-114	-103	-136

Cost cutting programme visible in **8%** reduction in distribution costs

Increase in refining margin and crude oil prices reflected in **311%** improvement in profit from refining operations

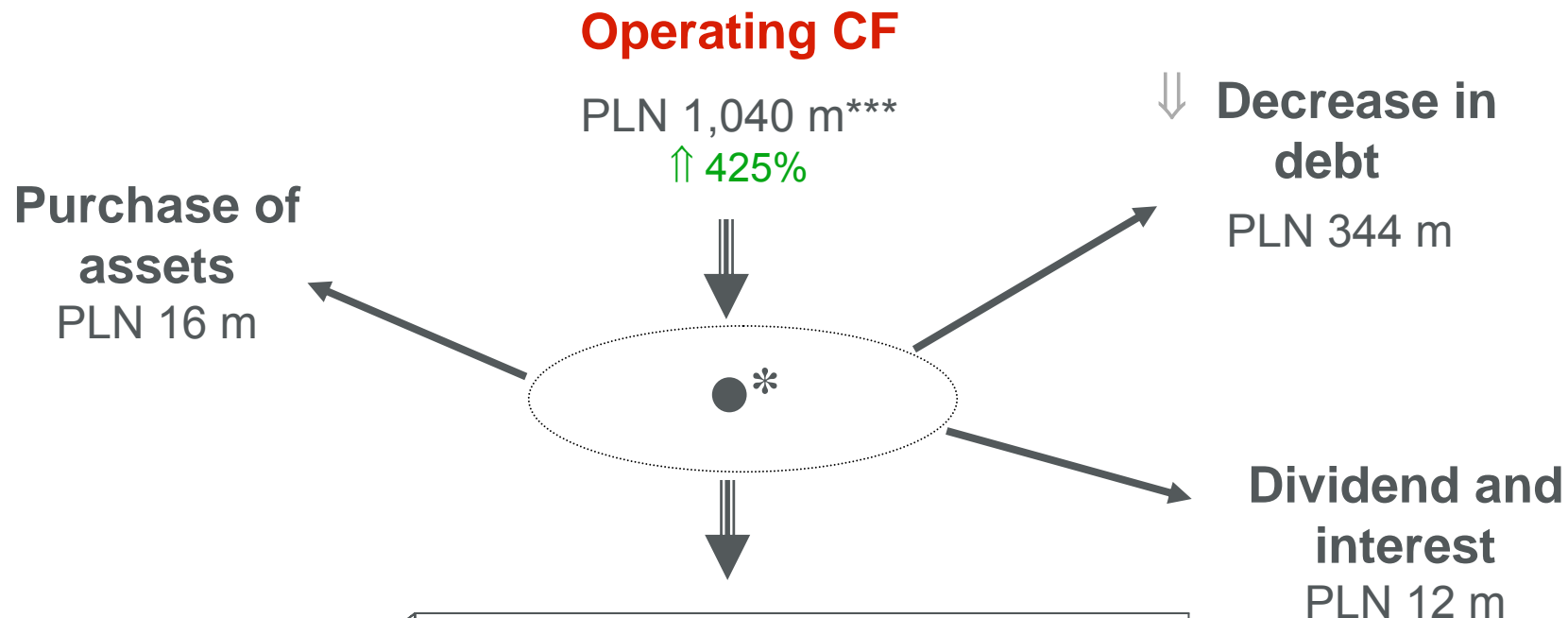
Net profit – cost-cutting and utilisation of favourable market conditions drive profitability



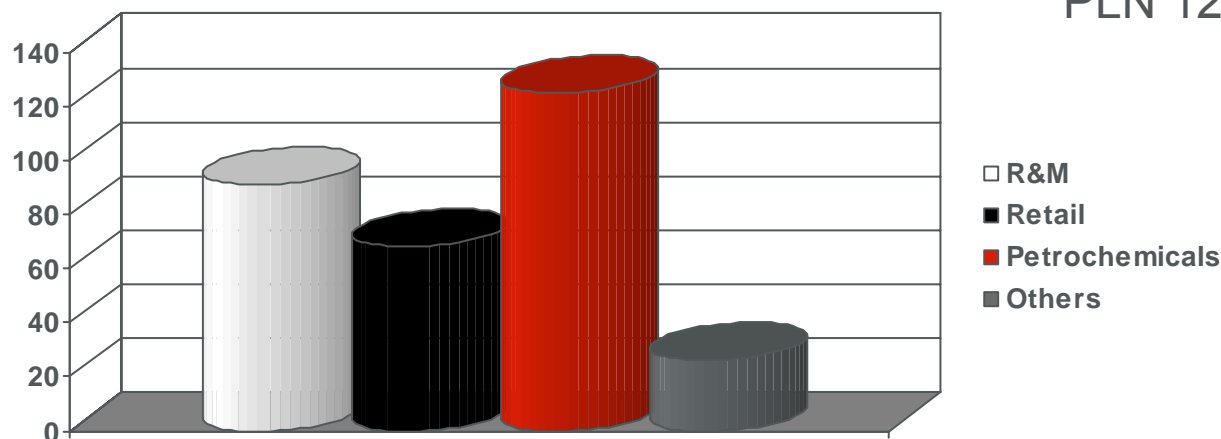
* net interests in 2004 at PLN -2m, in 2003 at PLN -23m
 ** total FOREX gain in 2004 at PLN 31m, in 2003 at PLN 43m

Operating CF >> organic CAPEX

Efficient cash flow management



Organic investment
PLN 315^{**} m
↑ 35%



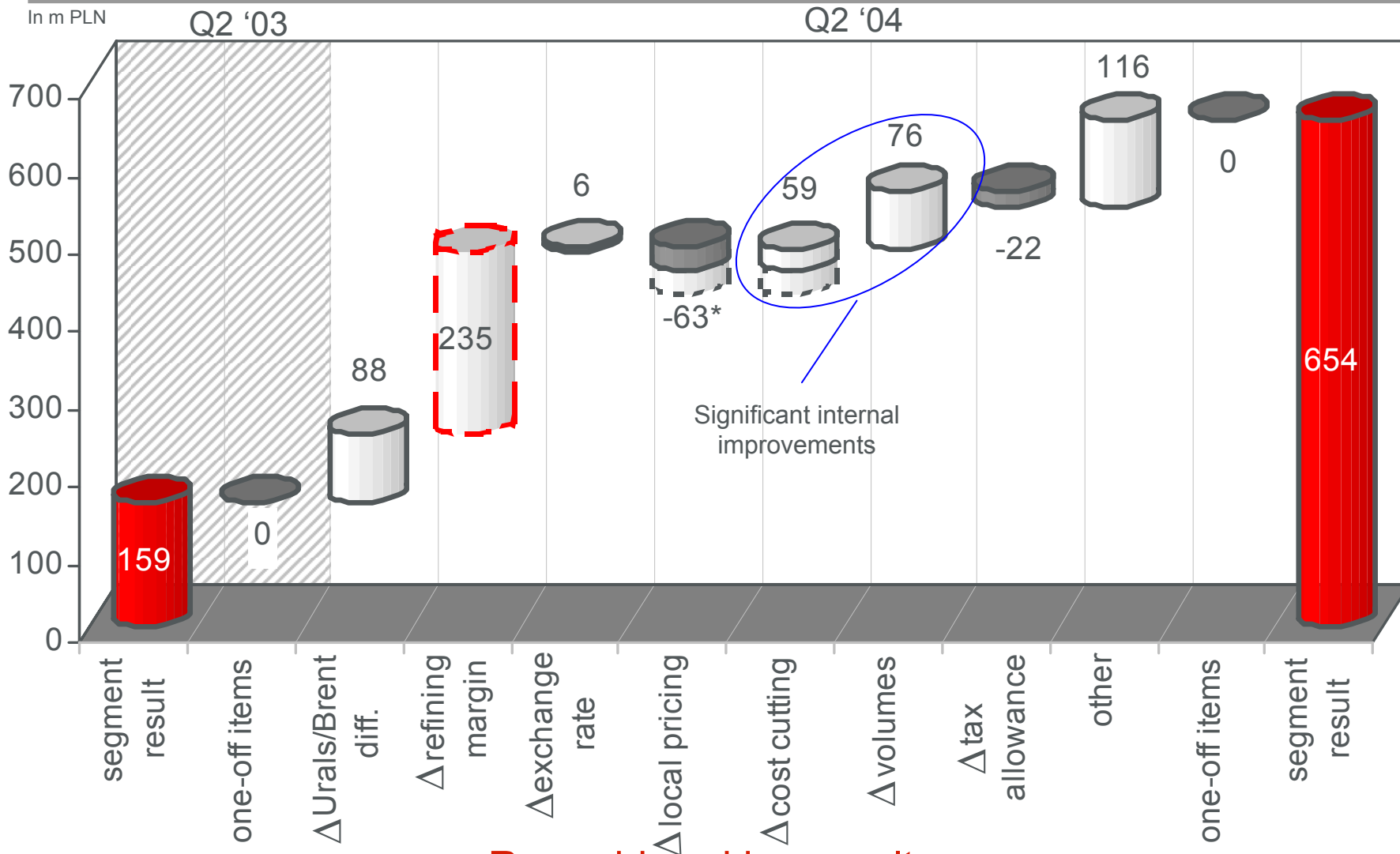
* others -> PLN 353 m

*** c. PLN 200m comes from one-off change in excise tax regulations

** Assuming memorial accounting principle - the total investment in Q2 04 amounted to PLN 310 m

Refining

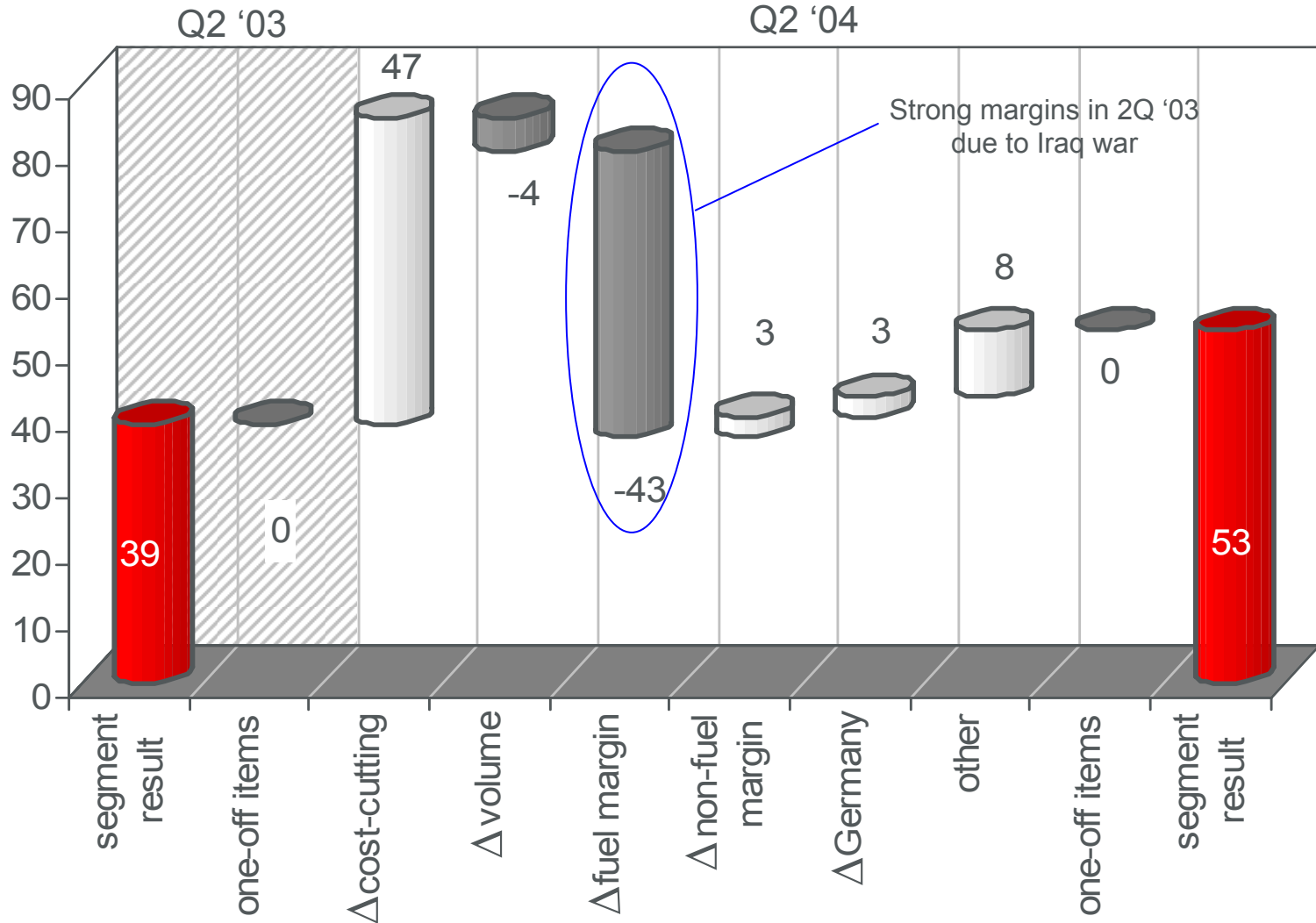
Visible improvement in operating efficiency



Record-breaking results

* savings in the primary logistics at PLN 33m have been excluded from inland premium; reported/statutory inland premium decreased by PLN 30m

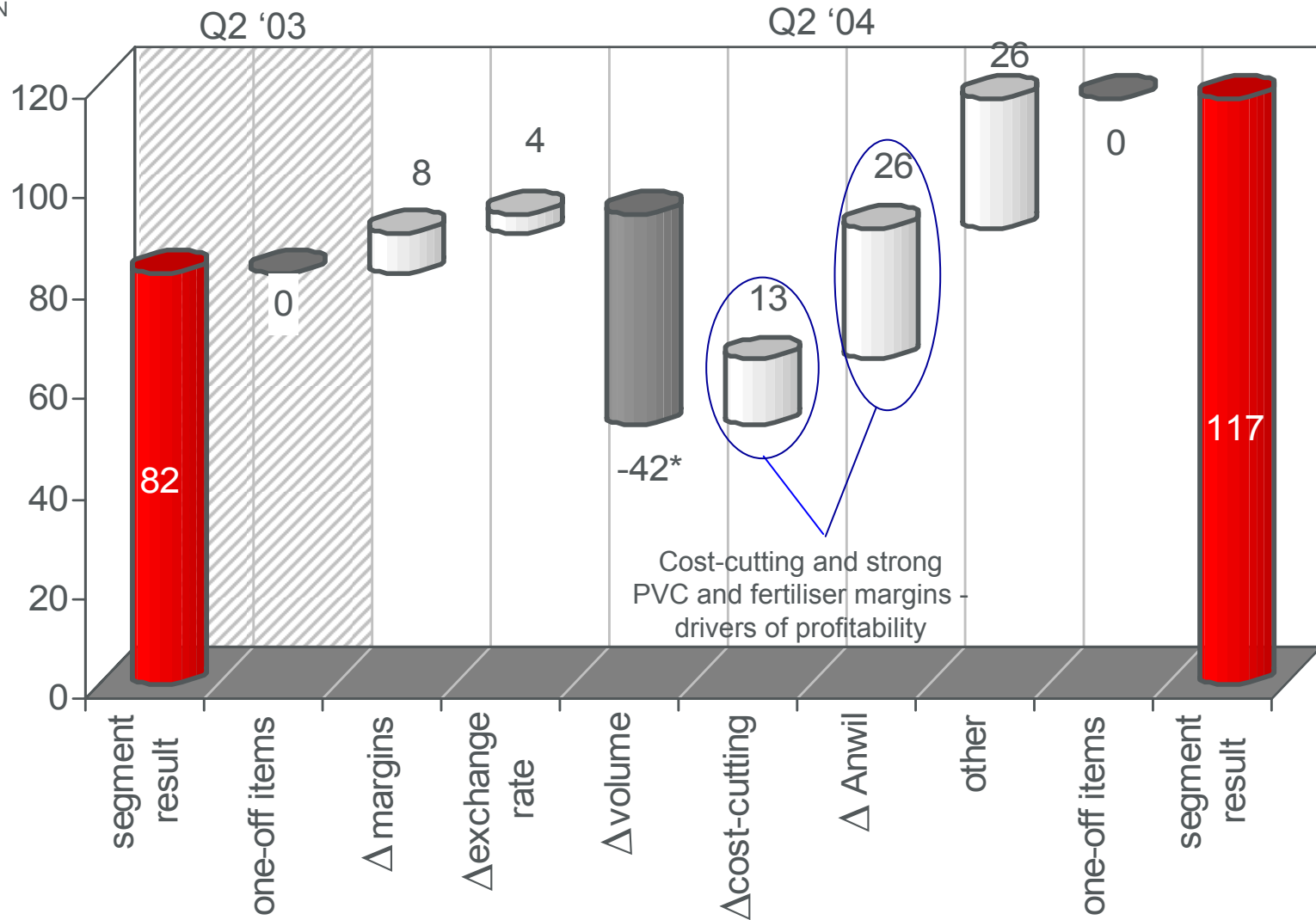
In m PLN



Further development of non-fuel sales

Strong profitability in face of expansion in polyolefins

In m PLN



Anwil as a second pillar of pet-chem profitability

* mostly due to scheduled maintenance

Implementation of operating targets after Q2 '04

	Promise 2004		Result 1H'04
Cost cutting	PLN 450 m in '04, PLN 800 m by '05	✓	PLN 306 m
<i>sales</i>			
Δ total sales volume*	6%	✓	7.1%
Δ retail sales**	2%		-0.2%
VITAY – participants	5m	✓	4.8m
<i>margin</i>			
Δ gross retail margin	6%		-5.2%
<i>Rebranding</i>			
ORLEN brand	Extending at DoFo +100***		31****
Simplified rebranding	To be completed	✓	Done

Cost-cutting exceeding expectations – reflected in strong profitability

Synergies with German operations and pick up in the economy support sales volume

Q2 '03 retail margins were extremely high due to end of Iraq war

Full commitment to reducing operating costs

internal strengthening

- Implement necessary management processes to increase efficiency and prepare the company for expansion steps
- Reduce the headcount
- Restructure the Capital Group -> sale of non-core assets
- Reduce costs by PLN 800m till end of 2005

expansion

- Restructure Unipetrol's assets
- Gather experience in upstream
- Consolidate Polish Oil & Gas assets

Full commitment to deliver value to shareholders...

- Face the challenges of growing competition
- Take advantage of pick up in domestic economy as well as favourable Oil & Gas environment
- Maintain market share in retail
- Accelerate investment process in retail
- Introduce fuels meeting new EU specifications
- Advance process of selling the stake in Polkomtel
- Unipetrol: close the transaction and take over operational control

...according to adopted Value Based Management principles.

Supporting slides

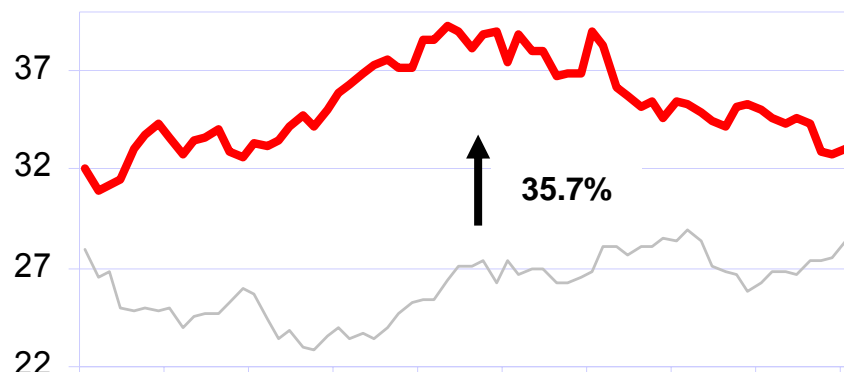
Market environment

Market environment in oil & gas sector

Favourable conditions utilised

Crude oil price, Brent (USD/b)

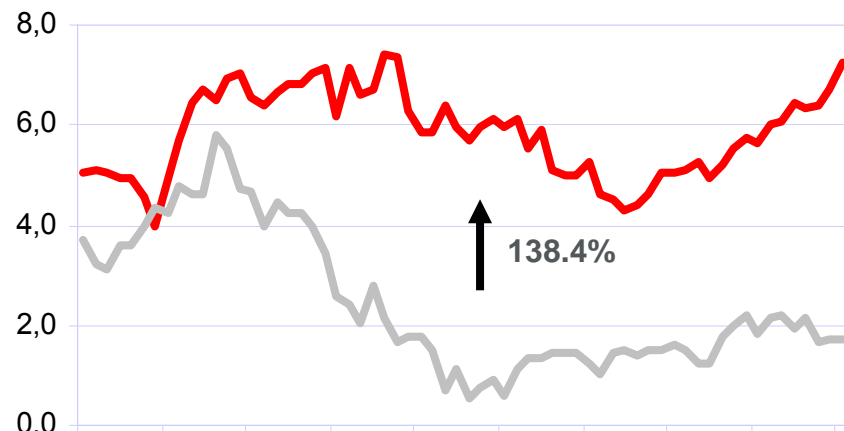
— Q2 '04 vs Q2 '03 —



Crude oil ↑ 35.7% (y-o-y)
to **35.35 USD/b**

Margin* Refinery margin, Brent (USD/b)

— Q2 '04 vs Q2 '03 —



Refinery margin ↑ 138.4% (y-o-y)
to **5.84 USD/b**

Ural/Brent differential ↑ 51.2% (y-o-y)
to **3.10 USD/b**

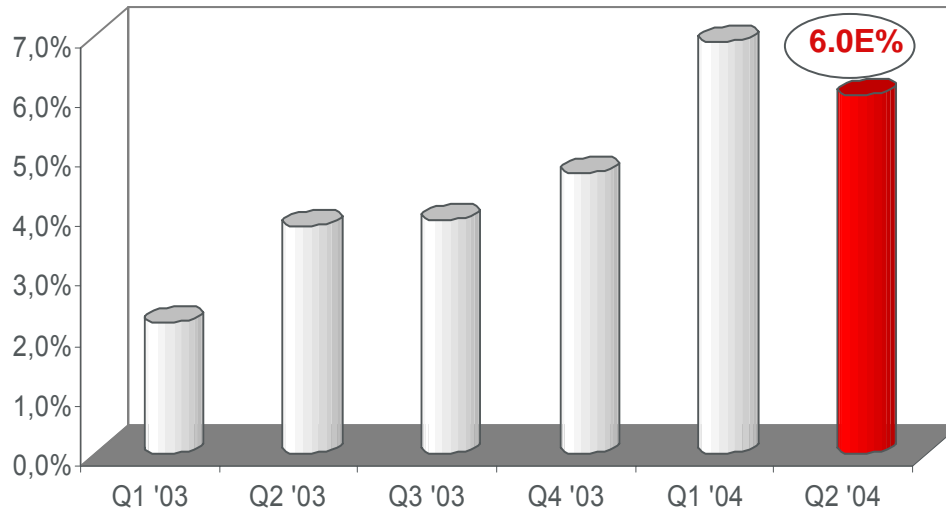
Source: Platt's and PVM

*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

Noticeable recovery in the economy

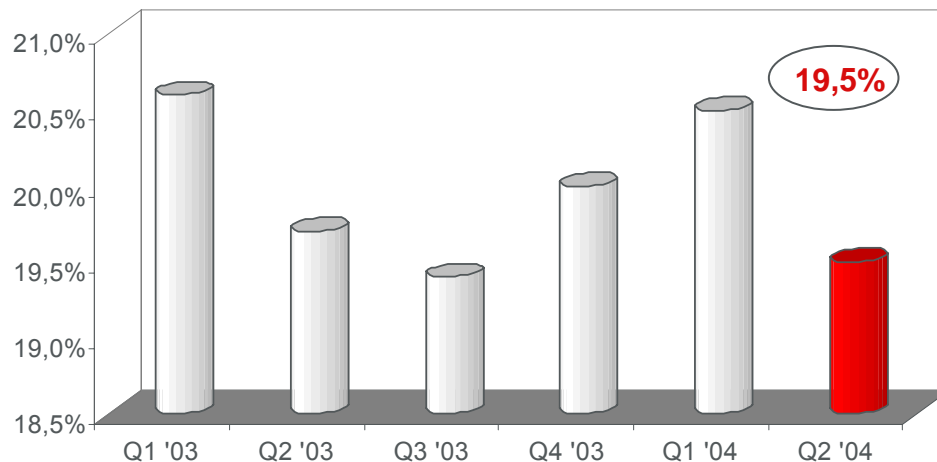
Real GDP growth



- Visible increase of GDP proves stable economic recovery. High unemployment rate continues – **19.5%** (fall of 0.2pp, y-o-y vs. decrease of 0.5 pp, q-o-q)

- Increase of new car sales by **12.5%E** (H1 '04 vs. H1 '03)

Unemployment rate



- Estimated increase of domestic fuel consumption (gasoline, diesel and LHO) by about **10.6%** (Q2 '04 vs Q2 '03)

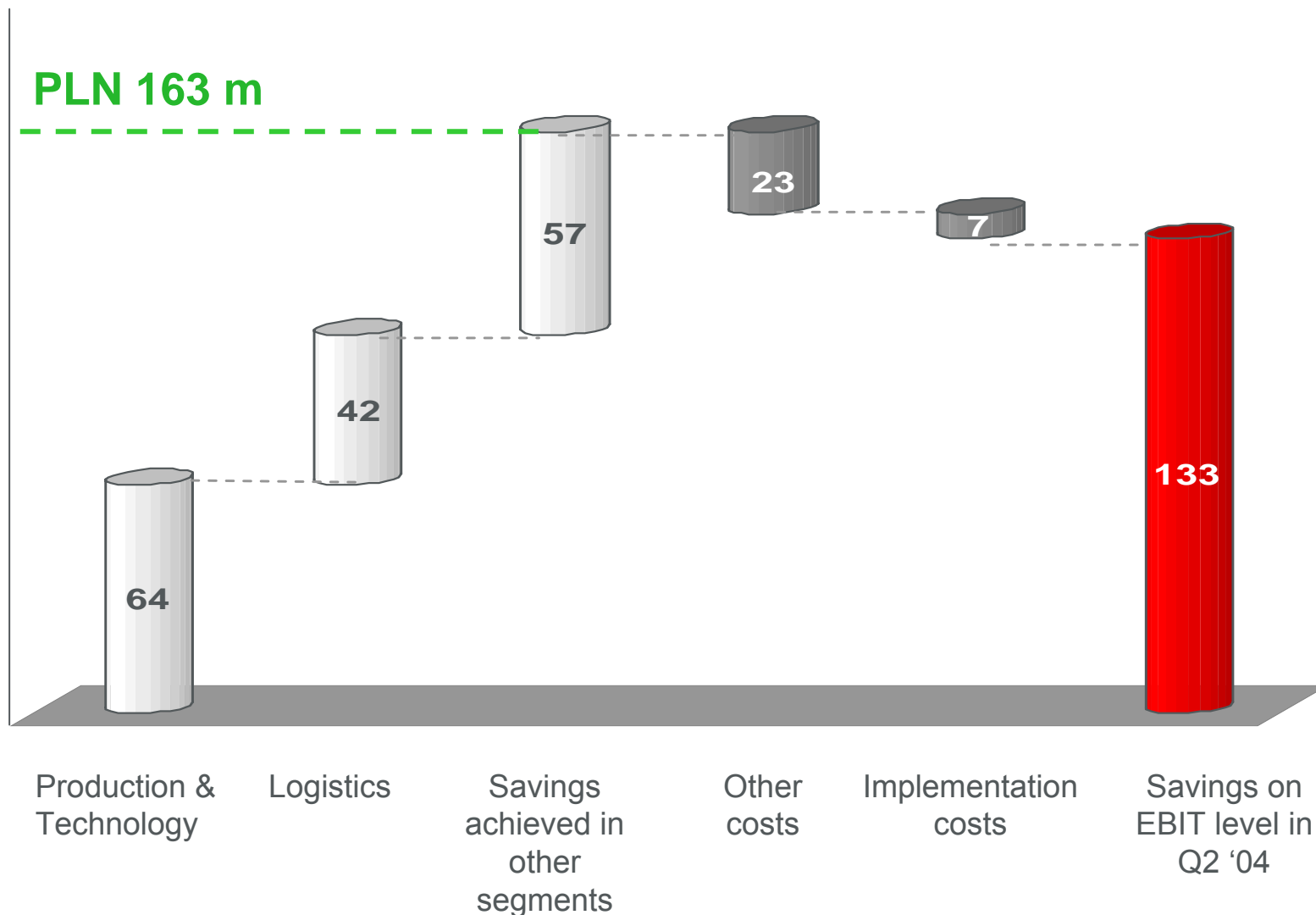
- Increase in PLN/USD exchange rate from 3.84 to 3.89.

Supporting slides

Cost cutting programme

Positive influence of cost cutting programme on Q2 '04 results

In PLN m



Supporting slides

ORLEN Deutschland

➤ Trends in Q2 '04 :

- **Increase of** retail margin by **35%** q-o-q
has positive effect on ORLEN Deutschland results
- Total volume of sales **increased by 4.7%**,
due to substantial increase of STAR sites
 - STAR sites (B-Brand - low margin) - volume increase by 11.4%
 - ORLEN sites (A-Brand – high margin) - volume decrease by 16.7%

➤ Fuel consumption on German market in H1 '04 – estimates according to MWV*

- Gasoline - decrease by 2.3%
- Diesel - increase by 4.3%

ORLEN Deutschland

Financial highlights Q2 '04

Polski Koncern Naftowy ORLEN
Spółka Akcyjna



Balance sheet - selected items IFRS basis, in PLN m	Q2 '04	Q2 '03	Change Q2'04/Q2'03	Q1 '04	Change Q2'04 /Q1 '04
Property plant and equipment	767	597	28,4%	807	-5,0%
Inventories	131	109	20,2%	128	2,9%
Trade and other receivables	308	488	-36,9%	310	-0,7%
Cash and cash equivalents	384	200	92,0%	368	4,3%
Total assets	1 640	1 434	14,4%	1 662	-1,3%
Equity	533	546	-2,4%	544	-2,1%
Long - term payables	112	135	-16,7%	125	-10,0%
Short - term payables	857	564	51,8%	843	1,7%
Total liabilities	1 640	1 434	14,4%	1 662	-1,3%
Income statement selected items	Q2 '04	Q2 '03	Change Q2'04/Q2'03	Q1 '04	Change Q2'04 /Q1 '04
Revenues	2 246	1 797	25,0%	1 928	16,5%
Cost of Sales	- 2 142	- 1 701	26,0%	- 1 862	15,1%
Distribution and Admin. Expenses	- 105	- 91	15,2%	- 109	-3,2%
Gross Profit/Loss	- 2	5	na	- 43	95,8%
Other operating costs / income	15	4	248,8%	14	11,0%
Operating profit/loss	13	9	47,2%	- 29	na
Net profit/loss	13	11	14,6%	- 31	na

Supporting slides

Other data

Operating highlights

Increase of utilisation and reduction of headcount

IFRS basis, in PLN m	Q2 '04	Q2 '03	change y-o-y	Q1 '04	change q-o-q
Total sales , of which	3 548	3 407	4,1%	3 306	7,3%
- light product sales (tt) **	2 426	2 298	5,6%	2 238	8,4%
- other refinery product sales (tt)	587	628	-6,5%	447	31,3%
- pet-chem sales (tt)	493	468	5,3%	576	-14,4%
- other product sales (tt)	42	12	236,3%	45	-6,7%
Retail sales of motor fuels (tt)*	847	919	-7,8%	752	12,6%
Processed crude (tt)	2 902	2 882	0,7%	2 920	-0,6%
Utilisation	88,6%	88,0%	+0.6pp	89,2%	-0.6pp
White product yield	79,9%	77,1%	+2.8pp	82,5%	-2.6pp
Fuel yield	69,7%	63,2%	+6.5pp	69,0%	+0.7pp
Headcount	14 398	16 288	-11,6%	14 534	-0,9%

Profit – result of restructuring reflected in net profit ↑↑

IFRS basis, PLN m	Q2 '04	Q2 '03	change y-o-y	Q1 '04	change q-o-q
Revenues*	7 406	5 933	24,8%	6 325	17,1%
Cost of sales*	-5 883	-4 931	19,3%	-5 112	15,1%
Distribution costs	-525	-571	-8,1%	-542	-3,1%
Administrative expenses	-235	-250	-6,0%	-184	27,7%
Other	-26	-6	333,3%	18	-244,4%
Profit from operations	737	175	321,1%	505	45,9%
Profit before income tax and minority interests	833	235	254,5%	517	61,1%
Net profit	668	160	317,5%	397	68,3%
Net profit - LIFO	508	334	52,1%	305	66,6%
PLN	Q2 '04	Q2 '03	change y-o-y	Q1 '04	change q-o-q
EPS	1.56	0.38	310,5%	0.93	67,7%

* Orlen Deutschland consolidation increases revenues by PLN 2,246 m and cost of sales by PLN 2,142 m

Balance sheet

Low gearing – future M&A payments fully secured

IFRS basis, in PLN m	Q2 '04	2003	change Q2'04/2003	Q1 '04	change Q2'04/Q1'04
Non current assets	10 656	10 715	-0,6%	10 684	-0,3%
Current assets, of which	7 475	6 434	16,2%	6 972	7,2%
Inventories	3 365	3 058	10,0%	3 148	6,9%
Cash and cash equivalents*	1 135	629	80,4%	706	60,8%
Total assets	18 131	17 149	5,7%	17 656	2,7%
Shareholders' equity	10 289	9 510	8,2%	9 894	4,0%
Minority interests	449	427	5,2%	444	1,1%
Non current liabilities, of which	2 896	2 745	5,5%	3 010	-3,8%
Interest bearing borrowings	1 969	1 836	7,2%	2 091	-5,8%
Current liabilities, of which	4 497	4 467	0,7%	4 308	4,4%
Interest bearing borrowings	463	1 195	-61,3%	759	-39,0%
Total liabilities	18 131	17 149	5,7%	17 656	2,7%

* Item includes short term investment

Refining and wholesale

Excellent performance of the segment

Refining and wholesale

IFRS basis, PLN m	Q2 '04	Q2 '03	Q1 '04
Revenue	5 291	3 457	3 958
Total costs of the segment	4 637	3 298	3 534
Profit of the segment	654	159	424
Sales (tt)	2 166	1 909	1 933

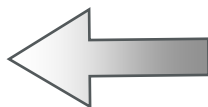
↑ **311%** y-o-y

Increase in profits of the segment due to strong refining margins and higher volumes sales

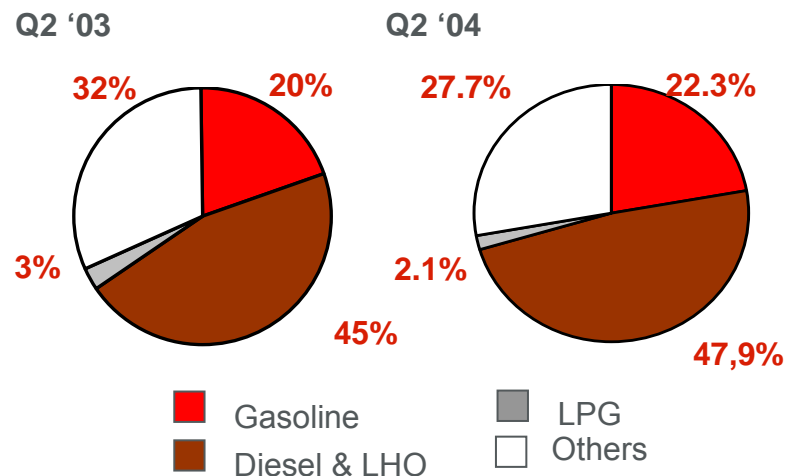


↑ **13.5%** y-o-y

Increase in total sales volume mainly due to realisation of SWAP agreements with multinationals



Structure of sales, by volume



Retail segment

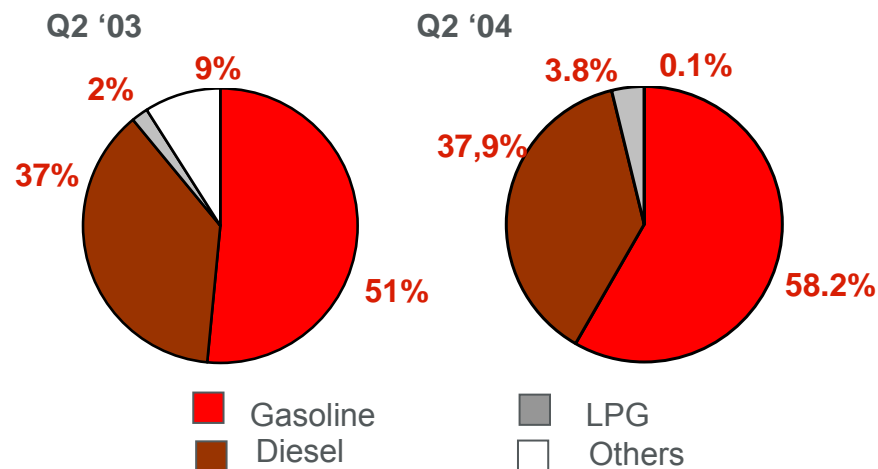
Increasing profitability of the segment

Retail

IFRS basis, PLN m	Q2 '04	Q2 '03	Q1 '04
Revenue	3 037	2 984	2 478
Total costs of the segment	2 984	2 945	2 497
Profit of the segment	53	39	-19
Sales (tt)	847	1 016	753

↑ **35.9%**, y-o-y
Increase in profit of the retail segment due to savings in OPEX

Structure of sales, by volume



Change in the structure as well as volumes sold due to deconsolidation of wholesale operation in Germany, starting from 2004

Petrochemical segment

Profitability on a satisfactory level

Petrochemicals

IFRS basis, PLN m	Q2 '04	Q2 '03	Q1 '04
Revenue	1 220	1 039	1 270
Total costs of the segment	1 103	957	1 068
Profit of the segment	117	82	202
Sales (tt)	493	468	576

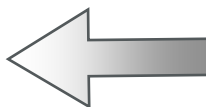
↑ 42.7%, y-o-y

Increase in segment's profit mainly due to good performance Anwil subsidiary



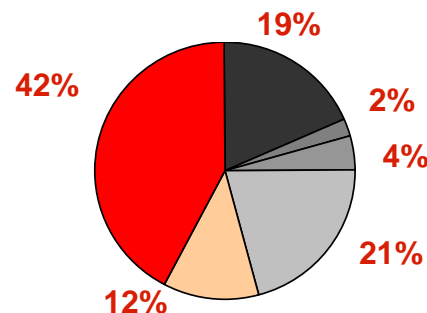
↑ 5.3%, y-o-y

Increase in volume sales mainly due to sales increase of PVC and nitro-chalk (CANWIL)

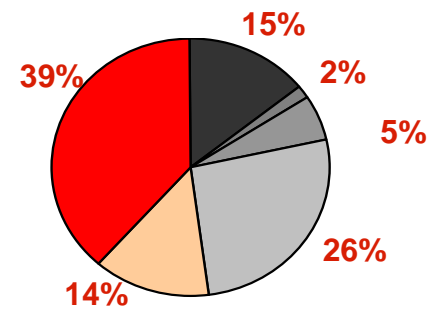


Structure of sales, by volume

Q2 '03



Q2 '04



Olefins
 Glicols
 PVC

Poliolefins
 Ammonium nitr
 Others