POLSKI KONCERN NAFTOWY ORLEN S.A.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR 12 AND 3 MONTH PERIODS ENDED
31 DECEMBER 2004 AND 31 DECEMBER 2003
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONDENSED CONSOLIDATED BALANCE SHEETS
As at 31 December 2004 and 31 December 2003

	31 December 2004 (unaudited)	31 December 2003
	(in PLN million)	
ASSETS		
Non-current assets		
Property, plant and equipment	9,632	9,807
Negative goodwill	(307)	(273)
Intangible assets	119	121
Financial assets	538	534
Investments accounted for using equity method	549	493
Deferred tax assets	76	15
Other non-current assets	9	18
Total non-current assets	**10,616**	**10,715**
Current assets	3,273	3,058
Inventories	2,959	2,513
Trade and other receivables	21	65
Income tax receivables	1,124	67
Short-term investments	92	80
Deferred costs	707	562
Cash and cash equivalents	154	89
Other financial assets		
	8,330	**6,434**
Total current assets		
	18,946	**17,149**
Total assets		
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity		
Common stock	534	534
Capital reserve	1,359	1,359
Hedge accounting-cash flow hedges	56	-
Revaluation reserve	855	856
Foreign exchange difference on subsidiaries	(10)	62
Retained earnings	8,863	6,699
Total shareholders' equity	**11,657**	**9,510**
Minority interests	**379**	**427**
Non-current liabilities		
Interest bearing borrowings	1,757	1,836
Provisions	877	616
Deferred tax liabilities	221	293
Total non-current liabilities	**2,855**	**2,745**
Current liabilities		
Trade and other payables and accrued expenses	3,745	3,231
Income tax liabilities	1	-
Interest bearing borrowings	242	1,195
Deferred income	46	14
Other liabilities	21	27
Total current liabilities	**4,055**	**4,467**
Total liabilities and shareholders' equity	**18,946**	**17,149**

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONDENSED CONSOLIDATED INCOME STATEMENTS
For the 12 and 3 month periods ended 31 December 2004 and 31 December 2003

	For 12 months ended 31 December 2004	For 3 months ended 31 December 2004	For 12 months ended 31 December 2003	For 3 months ended 31 December 2003
	(unaudited)	(unaudited)		(unaudited)
	(in PLN million)			
Revenue	**30,535**	**8,313**	**24,412**	**6,908**
Cost of sales	(24,403)	(6,674)	(19,986)	(5,775)
Gross profit	**6,132**	**1,639**	**4,426**	**1,133**
Other operating income	370	161	422	112
Distribution costs	(2,180)	(585)	(2,259)	(664)
Administrative expenses	(826)	(205)	(934)	(243)
Other operating expenses	(719)	(412)	(388)	(186)
Profit from operations	**2,777**	**598**	**1,267**	**152**
Financial income	400	251	279	43
Financial expenses	(256)	(168)	(377)	(55)
Income from investments accounted for using equity method	100	29	50	8
Profit before income tax and minority interests	**3,021**	**710**	**1,219**	**148**
Corporate income tax	(524)	(88)	(198)	78
Profit after tax	**2,497**	**622**	**1,021**	**226**
Minority interests	(55)	(12)	(34)	(7)
Net profit	**2,442**	**610**	**987**	**219**
Basic earnings per share for the period (in zloty per share)	**5.71**	**1.43**	**2.35**	**0.51**

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONDENSED CONSOLIDATED CASH FLOW STATEMENTS
For the 12 month periods ended 31 December 2004 and 31 December 2003

	For 12 months ended 31 December 2004 (unaudited)	For 12 months ended 31 December 2003
	(in PLN million)	
Cash flows from operating activities		
Net profit for the period	**2,442**	**987**
Adjustments for:		
Minority interests	55	34
Net income from investments accounted for under equity method	(100)	(50)
Depreciation and amortisation	1,205	1,207
Interest and dividend charges, net	(53)	29
Income tax on current period profit	524	198
Loss / (Profit) on investing activities	96	59
(Increase) in receivables	(537)	(114)
(Increase) in inventories	(250)	(158)
Increase in accrued expenses and payables	663	(111)
Increase in provisions	300	25
Other adjustments	(137)	14
Net income tax paid	(616)	(413)
Net cash flows from operating activities	**3,592**	**1,707**
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(1,497)	(1,337)
Proceeds from sales of property, plant and equipment	63	40
Proceeds from sales of available for sale investments	46	17
Acquisition of investments available for sale and entities accounted for under equity method	(49)	(56)
Acquisition of business in Germany, net of cash acquired	-	(279)
Acquisition of short-term securities	(1,232)	(62)
Proceeds from sales of short-term securities	130	55
Dividends and interest received	105	85
Loans granted/repaid	7	83
Other	45	73
Net cash flows used in investing activities	**(2,382)**	**(1,381)**
Cash flows from financing activities		
Proceeds from long-term and short-term loans and other borrowings	864	4,452
Repayment of long-term and short-term loans and other borrowings	(1,582)	(4,207)
Interest paid	(57)	(116)
Dividends paid	(278)	(59)
Other	(12)	(12)
Net cash flows gained / (used) in financing activities	**(1,065)**	**58**
Net increase/(decrease) in cash and cash equivalents	**145**	**384**
Cash and cash equivalents at the beginning of the period	**562**	**178**
Cash and cash equivalents at the end of the period	**707**	**562**

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the 12 month periods ended 31 December 2004 and 31 December 2003
(in PLN million)

	Common stock	Capital reserve	Hedge accounting-cash flow hedges	Revaluation reserve	Foreign currency translation	Retained earnings	Total shareholders' equity
1 January 2003	**525**	**1,174**	**-**	**859**	**-**	**5,771**	**8,329**
Issue of shares	9	-					9
Share premium	-	185					185
Foreign exchange gain on consolidation	-	-	-	-	62	-	62
Dividend	-	-	-	-	-	(59)	(59)
Net profit	-	-	-	-	-	987	987
Non-current assets impairment	-	-	-	(3)	-	-	(3)
Hedge accounting-cash flow hedges	-	-	-	-	-	-	-
31 December 2003	**534**	**1,359**	**-**	**856**	**62**	**6,699**	**9,510**

	Common stock	Capital reserve	Hedge accounting-cash flow hedges	Revaluation reserve	Foreign currency translation	Retained earnings	Total shareholders' equity
1 January 2004	**534**	**1,359**	**-**	**856**	**62**	**6,699**	**9,510**
Foreign exchange on consolidation	-	-	-	-	(72)	-	(72)
Dividend	-	-	-	-	-	(278)	(278)
Net profit	-	-	-	-	-	2,442	2,442
Non-current assets impairment	-	-	-	(1)	-	-	(20)
Hedge accounting-cash flow hedges	-	-	56	-	-	-	75
31 December 2004 (unaudited)	**534**	**1,359**	**56**	**855**	**(10)**	**8,863**	**11,657**

1. Principal activities

The dominant company of the Capital Group of Polski Koncern Naftowy ORLEN (further referred to as "the Group") is Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN", "the Company") located in Plock, Poland, 7 Chemikow Street.

The Company was established in 1993 as Mazowieckie Zaklady Rafineryjne i Petrochemiczne "Petrochemia Plock" S.A. On 20 May 1999 the Company changed its name to Polski Koncern Naftowy S.A. On 12 April 2000 the Company changed its name to Polski Koncern Naftowy ORLEN S.A.

The Company is engaged in the processing of crude and manufacturing a broad range of petroleum products and petrochemicals and in the transportation and wholesale and retail distribution of such products. The other companies in the Group operate primarily in related downstream activities including manufacturing and distribution of petroleum and chemical products.

2. Basis of presentation

The Group applied for these condensed consolidated financial statements International Financial Reporting Standards ("IFRS") effective for respective accounting periods except for accounting for hyperinflation under International Accounting Standard No 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29) and revaluation of fixed assets under International Accounting Standard No 16 "Property, Plant and Equipment" (IAS 16) and recognition of perpetual usufruct of land under International Financial Reporting Standard No 1 ("IFRS 1") "First-time Adoption of International Financial Reporting Standards", as explained below.

In 2003 the International Accounting Standards Board has issued IFRS 1, which is effective for the preparation of financial statements for periods beginning on or after 1 January 2004, In accordance with the pronouncements of IFRS 1 the Company is considered as the first time adopter of IFRS. Particularly, IFRS 1 requires from an entity to recognize in its financial statements all assets and liabilities whose recognition is required by IFRS. In accordance with IFRS 1 an entity may measure an item of property, plant and equipment at the date of transition to IFRSs at its fair value and use that fair value as its deemed cost at that date. The Group did not determine fair value as a deemed cost in relation to the fixed assets discussed above, which would result from the requirements of IFRS 1.

Perpetual usufruct rights granted to the Group Companies in the past based on administrative decisions meet the definition of an asset. Accordingly, these perpetual usufruct rights should be recognised in the Group's financial statements based on fair value. The Group did not perform a fair value estimation of the above discussed perpetual usufructs as it was not practically possible.

The measurement and the reporting currency of these condensed consolidated financial statements is Polish Zloty ("PLN").

The presented condensed consolidated financial statements reflect all the necessary adjustments, except for adjustments required by IAS 29 and IAS 16, and perpetual usufruct rights valuation required by IFRS 1, in order to reflect fairly the Company's condensed consolidated results of operations, cash flows for the 12 month periods ended 31 December 2004 and 31 December 2003 and consolidated financial position as at 31 December 2004 and 31 December 2003.

The condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the consolidated results of operation, balance sheets and cash flows for each period presented.

In 2004 the Group has changed the estimate of the closing exchange rate used for reporting of foreign currency monetary items. Until 31 December 2003 foreign currency monetary assets were reported at lower of commercial bank's buy rate and NBP average rate while foreign currency monetary liabilities were reported at higher of commercial bank's sell rate and NBP's average rate. Since 1 January 2004 the closing rate used for reporting foreign currency assets and liabilities is approximated by the average National Bank of Poland exchange rate at the end of an accounting period. The effect of estimate change amounted to PLN 26 million and has an impact on the current year result.

(in PLN million)

The condensed consolidated financial statements were prepared under assumption that the Group's companies are going to continue their activities in the foreseeable future. As at the date of authorisation of the financial statements, there are no circumstances, indicating any threat of Group's entities' continuation of their activities.

3. Selected explanatory notes

3.1. Accounting policies

Accounting policies and methods of computation applied by the Company are included in the yearly financial statements for the year 2003 issued, with the exception of the effects of IFRS 1 described in Note 2.

Starting from 2005 the Company is to apply the requirements of IFRS 3 – "Business Combinations". In accordance with IFRS 3 goodwill is no longer to be amortized, but annually will to be tested for impairment accounted for in accordance with IAS 36, while negative goodwill will be recognized in the income statement.
All business combinations taking place after 31 March 2004 are accounted for in accordance with IFRS 3 "Business Combinations". Additionally the Company have been applying the requirements of updated IAS 36 since 31 March 2004.
In accordance with IAS 38, an acquirer of an entity recognises at the acquisition date all intangible assets if the asset's fair value can be measured reliably.
The Company is analysing the impact connected with the adjustments resulting from other than above mentioned changes in the IFRS standards, that has been applied since 1 January 2005. As at the date of the preparation of the condensed consolidated financial statement the impact of the above mentioned changes is not yet specified.

3.2. Dividends

In 2004 there were dividends paid out by the Company from 2003 net profit, amounting to PLN 278m, i.e. 0.65 PLN per share.

3.3. Interest bearing borrowings

	31 December 2004 (unaudited)	31 December 2003
Bank loans	1,974	2,918
Other loans and credits	25	36
Short-terms bonds	-	77
Total, including:	1,999	3,031
Short-term portion	242	1,195
Long-term portion	1,757	1,836

The total interest bearing borrowings incurred by the Group decreased by PLN 1,032m net within 12 month period ended 31 December 2004.
The change of debt is result of:

- raising new loans denominated in PLN:
  - PLN 192m in Bank Pekao S.A.
  - PLN 84m in PKO BP S.A.
  - PLN 52m in BPH PBK S.A.

(in PLN million)

  - PLN 37m in BH w Warszawie S.A.
  - PLN 6m in Bank Millenium S.A.
- drawing a loan within Syndicated Agreement on Dual Currency
  - EUR 57m within Syndicated Agreement on dual currency*
  - USD 19m within Syndicated Agreement on dual currency*
- issued short-term bonds: PLN 158m
- repayment of loans denominated in PLN:
  - PLN 441m in PKO BP S.A.
  - PLN 284m in BH S.A.
  - PLN 105m in Pekao S.A.
  - PLN 53m in Bank Millenium S.A.
  - PLN 12m in BPH PBK S.A.
  - PLN 11m in NFOSiGW
  - PLN 6m in ING Bank Slaski S.A.
- repayment of loans in German entities:
  - EUR 63m
- repayment of foreign currency loans
  - EUR 25m in Bank Pekao S.A
- redemption of bonds: PLN 239m
- PLN (335)m results from foreign exchange gains/losses.

* The Syndicated Agreement on dual currency loan in the amount of EUR 500m was signed on 29 July 2003. The loan will be repaid in 2008. The loan can be utilized in EUR as well as in USD.

3.4. Operating costs (by type)

	12 months ended 31 December 2004	3 months ended 31 December 2004	12 months ended 31 December 2003	3 months ended 31 December 2003
	(unaudited)	(unaudited)		(unaudited)
Raw materials and energy	12,407	3,329	11,005	2,883
Cost of goods for resale*	10,594*	2,913	7,537*	2,432
External services	1,774	481	1,789	526
Payroll and benefits (staff costs)	1,035	241	1,055	259
Depreciation and amortisation	1,234	303	1,236	326
Taxes and charges	262	50	263	61
Other	1,004	518	595	210
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	28,310	7,835	23,480	6,697
Adjustments:				
Change in inventories, deferred and accrued costs	(78)	62	188	205
Cost of products and services for own use	(104)	(21)	(101)	(34)
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Operating costs	28,128	7,876	23,567	6,868
	=====	=====	=====	=====

* Activity acquired in Germany has been consolidated since 1 March 2003 when it was acquired.

(in PLN million)

3.5. Segment data

	Refining and Marketing Segment				**Chemical Segment**				**Other operations**				**Eliminations**				**Consolidated**			
	for 12 month period	**for 3 month period**	**for 12 month period**	**for 3 month period**	**for 12 month period**	**for 3 month period**	**for 12 month period**	**for 3 month period**	**for 12 month period**	**for 3 month period**	**for 12 month period**	**for 3 month period**	**for 12 month period**	**for 3 month period**	**for 12 month period**	**for 3 month period**	**for 12 month period**	**for 3 month period**	**for 12 month period**	**for 3 month period**
	ended 31 December 2004		**ended 31 December 2003**		**ended 31 December 2004**		**ended 31 December 2003**		**ended 31 December 2004**		**ended 31 December 2003**		**ended 31 December 2004**		**ended 31 December 2003**		**ended 31 December 2004**		**ended 31 December 2003**	
Revenues																				
External sales	25,885	7,052	20,717	5,933	3,939	1,067	3,145	795	650	172	550	180	-	-	-	-	30,474	8,291	24,412	6,908
Inter-segment sales	4,321	1,230	3,759	1,397	1,481	407	1,400	369	783	210	1,103	264	(6,585)	(1,847)	(6,262)	(2,030)	-	-	-	-
Value of hedge transactions settlements	-	-	-	-	61	22	-	-	-	-	-	-	-	-	-	-	61	22	-	-
Total revenue	**30,206**	**8,282**	**24,476**	**7,330**	**5,481**	**1,496**	**4,545**	**1,164**	**1,433**	**382**	**1,653**	**444**	**(6,585)**	**(1,847)**	**(6,262)**	**(2,030)**	**30,535**	**8,313**	**24,412**	**6,908**
Total costs	**(27,564)**	**(7,636)**	**(23,161)**	**(7,083)**	**(4,668)**	**(1,211)**	**(4,266)**	**(1,091)**	**(1,364)**	**(404)**	**(1,616)**	**(462)**	**6,585**	**1,847**	**6,261**	**2,029**	**(27,011)**	**(7,404)**	**(22,782)**	**(6,607)**
Other operating income	211	122	187	85	70	19	173	15	54	13	42	10					335	154	402	110
Other operating cost	(512)	(293)	(251)	(131)	(73)	(49)	(34)	(16)	(101)	(41)	(73)	(31)					(686)	(383)	(358)	(178)
Result																				
Segment result	2,341	475	1,251	201	810	255	418	72	22	(50)	6	(39)	-	-	(1)	(1)	3,173	680	1,674	233
Unallocated corporate income																	35	7	20	2
Unallocated corporate expenses																	(431)	(89)	***(427)***	***(83)***
Profit from operations																	**2,777**	**598**	**1,267**	**152**
Financial income																	***400***	251	***279***	***43***
Financial expenses																	***(256)***	(168)	***(377)***	***(55)***
Share in profit (losses) of subordinated entities accounted for using equity method	-	-	(1)	(1)	77	25	45	10	23	4	6	(1)					100	29	50	8
Profit before income tax																	**3,021**	**710**	**1,219**	**148**
Income taxes																	(524)	(88)	(198)	78
Minority interests																	(55)	(12)	(34)	(7)
Net profit																	**2,442**	**610**	**987**	**219**

(in PLN million)

	Refining and Marketing Segment				Chemical Segment				Other operations				Consolidated			
	for 12 month period	for 3 month period	for 12 month period	for 3 month period	for 12 month period	for 3 month period	for 12 month period	for 3 month period	for 12 month period	for 3 month period	for 12 month period	for 3 month period	for 12 month period	for 3 month period	for 12 month period	for 3 month period
	ended 31 December 2004		ended 31 December 2003		ended 31 December 2004		ended 31 December 2003		ended 31 December 2004		ended 31 December 2003		ended 31 December 2004		ended 31 December 2003	
Property, plant, equipment and intangible assets expenditure	701	222	756	206	536	130	534	176	67	19	128	39	1,304	371	1,418	421
Property, plant, equipment and intangible assets expenditure unallocated to segments													32	9	35	8
Total property, plant, equipment and intangible assets expenditure													**1,336**	**380**	**1,453**	**429**
Segment depreciation	832	206	834	228	225	55	198	48	145	35	168	41	1,202	296	1,200	317
Unallocated assets depreciation													32	7	36	9
Total depreciation													**1,234**	**303**	**1,236**	**326**
Non-cash expenses other than depreciation	**349**	**221**	**159**	**78**	**26**	**13**	**18**	**6**	**78**	**32**	**41**	**7**	**453**	**266**	**218**	**91**

(in PLN million)

Geographical segments

As the result of long term investments in Germany, beginning from 1 March 2003 the Group operates in Poland and Germany. The following table shows the distribution of the Company's consolidated sales by geographical market segmental reporting for business segments for 12 and 3 month periods ended 31 December 2004 and 31 December 2003.

	Refining and Marketing Segment				Chemicals Segment				Other operations				Consolidated			
	for 12 month period	for 3 month period	for 12 month period	for 3 month period	for 12 month period	for 3 month period	for 12 month period	for 3 month period	for 12 month period	for 3 month period	for 12 month period	for 3 month period	for 12 month period	for 3 month period	for 12 month period	for 3 month period
	ended 31 December 2004		ended 31 December 2003		ended 31 December 2004		ended 31 December 2003		ended 31 December 2004		ended 31 December 2003		ended 31 December 2004		ended 31 December 2003	
Export sales	1,137	296	771	231	912	237	791	192	21	4	17	4	2,070	537	1,579	427
Domestic sales:	**24,748**	**6,756**	**19,946**	**5,702**	**3,088**	**852**	**2,354**	**603**	**629**	**168**	**533**	**176**	**28,465**	**7,776**	**22,833**	**6,481**
- sales in Poland	16,115	4,537	13,676	3,784	3,027	830	2,354	603	629	168	533	176	19,771	5,535	16,563	4,563
- sales in Germany	8,633	2,219	6,270	1,918	-	-	-	-	-	-	-	-	8,633	2,219	6,270	1,918
- value of hedge transactions settlements					61	22	-	-					61	22	-	-
Total external revenue	**25,885**	**7,052**	**20,717**	**5,933**	**4,000**	**1,089**	**3,145**	**795**	**650**	**172**	**550**	**180**	**30,535**	**8,313**	**24,412**	**6,908**

3.6. Basic and diluted earnings per share

	for the 12 month period ended 31 December 2004 (unaudited)	**for the 12 month period ended 31 December 2003**
Weighted average common stock outstanding	427,709,061	420,804,797
Net profit for the period per share (PLN)	5.71	2.35

There is no difference between the basic and diluted earnings per share.

3.7. Significant changes in contingent liabilities and risks after 31 December 2003

1. As at the date of these financial statements Rafineria Trzebinia, the Company's subsidiary, has no overdue budget liabilities related to the excise tax or VAT. The remaining VAT liabilities were cancelled by the decision of the Head of Tax Office of Malopolska region dated 30 April 2004. Liabilities related to the excise tax resulting from the decision of the Head of Customs Office I were cancelled on 19 April 2004. The restructuring process of remaining tax liabilities of Rafineria Trzebinia for years 1999-2001 was completed by the decision of the Head of Tax Office in Chrzanow dated 12 March 2004. Rafineria Trzebinia S.A. obtained appropriate expertises confirming correct classification of produced goods being subject to the excise duty.

2. In accordance with the Agreement signed on 20 December 2002, Tankpol Sp z o.o ("Tankpol") transferred to PKN ORLEN due to cession 40% of shares held in ORLEN PetroTank Sp z o.o. ("PetroTank") in exchange for receivables from Tankpol. On 30 October 2003 a legal case was filed against PKN ORLEN as compensation for PLN 69,898 thousand or return of the ceded shares. On 26 January 2004 Tankpol modified its claim. Nowadays the company requires payment of PLN 36,383 thousand or return of the ceded shares. Together with the claim, Tankpol presented a new valuation of PetroTank amounting to PLN 232,147 thousand. On 22 January 2004 Tankpol approached the Company with a compromise offer, stating, that the claim will be revoked if PKN ORLEN pays PLN 32,745 thousand. On 18 February 2004 during the first hearing the court suspended the legal proceeding for the period of three months, in order to allow parties to reach a compromise. On 7 September 2004 the legal proceedings were suspended for another 3 months at both sides request. However in spite of the negotiations there was no agreement concluded between both sides. On 8 December 2004 Tankpol applied in front of the court to take the suspended legal action. According to the Management Board of the Company, based on the independent legal opinion the final result of the case should not influence significantly the presented financial results and the balances of the receivables and liabilities.

3. Due to the public information in relation to PKN ORLEN purchase transactions, the Supervisory Board has taken actions including requests to audit firms to perform specific test procedures, which were aimed at verifying the above information, including an analysis of the specified procurement transactions. The reports on these procedures have been presented to the Supervisory Board for its opinion. Simultaneously the Management Board filed notifications to the Public Prosecutor's Office regarding a suspicion of a commitment of crimes connected with:

    - disclosure of confidential information, included in auditors' reports,
    - violation of the Company's purchase procedures.

    The final outcome of the above notifications is not known as at the date of the preparation of these financial statements. However, in the Management's opinion, there are no circumstances indicating that the above mentioned matters may materially impact the true and fair presentation of the condensed consolidated financial statements for the 12 month period ended 31 December 2004.

4. On 20 May 2003, the Management Board of the Company submitted a put option execution declaration for all Niezalezny Operator Miedzystrefowy Sp. z o.o. ("NOM") shares owned by PKN to Polskie Sieci Energetyczne S.A. ("PSE"). The "put" price amounted to PLN 111,5 million and was calculated as a sum of a par value of the shares sold and a cumulative investment premium calculated according to the Agreement dated 8 June 2000 regulating the cooperation between the NOM shareholders.
    On 20 October 2003, PSE filed a suit to the Court of Arbitration of the Polish Chamber of Commerce in Warsaw, regarding the determination of the invalidity of the shares sales agreement. In the opinion of the Management Board of the Company, based additionally on independent legal analyses, the Company executed its put option and sold NOM shares to PSE. Consequently in year 2003, the Company recognised on the transaction the profit amounting to PLN 27,5 million (difference between purchase price of the stakes and the sales price resulting from the put option).
    On 23 September 2004 during the first hearing in the Court of Arbitration initial presentation of both sides' positions took place. The Court took also decision about hearing of witnesses of both sides. On 7 October

2004 there was a hearing, during which the called witnesses were examined. The hearing was postponed to 28 October 2004. As a consequence of the absence of one of the witnesses the date of the next hearing was set for 19 November 2004. The hearing did not take place however due to the illness of the chairman of judging body. During the next hearing on 17 December 2004 the both sides were requested to present additional explanations and opinions. Depending on the official stands concerning statements of the opposite side and potential claims. The Arbitration Court will make a decision either about the potential sentence or the once more recognition of the case.

Due to the prolonged arbitration proceeding the Company provided for receivable balance from PSE in full (PLN 111.5m). In the Management's opinion there is a significant risk that the receivable would not be collected.

3.8. Subsequent events

1. On 3 January 2005 Polski Koncern Naftowy ORLEN S.A concluded a wholesale agreement with SHELL Polska Spolka z o.o. for the sale of gasoline and diesel oil with an estimate gross value of PLN 1,905m for delivery during 2005.

2. On 3 January 2005 Polski Koncern Naftowy ORLEN S.A concluded a wholesale agreement with Orlen PetroCentrum Sp. z o.o. for the sale of gasoline and diesel oil with an estimate gross value of PLN 1,173m for delivery during 2005.

3. On 3 January 2005 Polski Koncern Naftowy ORLEN S.A. concluded a wholesale agreement with BP Polska Spolka z o.o. for the sale of gasoline and diesel oil with an estimated gross value of PLN 2,377m for delivery during 2005.

4. On January 3, 2005, ORLEN Deutschland AG signed an agreement with Shell Deutschland Oil GmbH, Hamburg for the delivery of fuels for PKN ORLEN's stations in Germany during 2005 with an estimated value of EUR 600m (appr. PLN 2,443m).

5. On 4 January 2005 Polski Koncern Naftowy ORLEN S.A. issued parent company guarantees to Holborn European Marketing Company Ltd, Deutsche BP Aktiengesellschaft, Shell Deutschland Oil GmbH for the total amount of EUR 64m and USD 56m and a letter of guarantee to insurance institution Zurich Versicherung AG for the amount of EUR 25m to secure the liabilities of ORLEN Deutschland AG resulting from its trading in fuels (PLN 533m in total), The approximate amount of PLN 533m in liabilities originates from ORLEN Deutschland's fuel trading operations. The guarantees come into force on 1 February 2005 and extend the period of validity currently binding until 31 January 2005, (see regulatory announcements dated 28 January 2004, 12 February 2004, 20 February 2004, 2 August 2004).The guarantees given to Shell Deutschland Oil GmbH are valid till 30 June 2005; the guarantees given to Holborn European Marketing Company Ltd, Deutsche BP Aktiengesellschaft and Zurich Versicherung AG are valid till 31 December 2005. PKN ORLEN holds a 100% stake in the share capital of ORLEN Deutschland AG.

6. On 6 January 2005 ORLEN Deutschland AG signed a wholesale agreement with Deutsche BP Aktiengesellschaft for the purchase of gasoline and diesel oil during 2005 with an estimated value of approximately EUR 700m (approximately PLN 2,852.5 m). The above mentioned agreement is a significant agreement according to the decree of the Council of the Ministers from 16 October 2002 concerning current and periodical information given by the securities issuers, in connection with the

fact that the value of the company exceeds 10% of the equity of PKN ORLEN. ORLEN Deutschland AG is wholly owned by PKN ORLEN.

7. On 12 January 2005 PKN ORLEN concluded a yearly agreement with Rafineria Trzebinia S.A. concerning the sale of gasoline and engine oil to this company in the year 2005. An estimated value of the transaction amounts to about PLN 343m gross. PKN ORLEN possess 77.1% of the share capital of the company Rafineria Trzebinia S.A.

8. On January 19, 2005 PKN ORLEN received a notice from PETROVAL S.A. stating that PETROVAL was halting the implementation of a forward contract to supply crude oil (dated December 21, 2002) due to a force majeure event which impeded the contract’s performance. According to the notice delivered by PETROVAL S.A., the event that qualifies as a force majeure event and justifies interruption of the contract’s performance is Yukos’ inability to deliver crude oil and it is currently impossible to assess how long this situation will persist. The Management Board of PKN ORLEN has declared that the above described situation would not impede supply crude oil continuity thanks to previously undertaken activities. Crude oil deliveries are expected to be executed according to plan, thanks to term and supplementary crude oil delivery spot contracts.

9. In compliance with the Company’s Articles of Association, PKN ORLEN's Supervisory Board, following its meetings on 21 January 2005, has appointed KPMG Audyt Sp. z o.o., based in Warsaw, to audit PKN ORLEN’s financial statements, and the Capital Group's consolidated financial statements for 2005, 2006 and 2007, according to the International Accounting Standards. In addition, KPMG will review PKN ORLEN and its Capital Group’s unconsolidated and consolidated quarterly and half year financial statements starting from 2Q 2005 till 4Q 2007.

10. On 3 February 2005 Polski Koncern Naftowy ORLEN S.A. announced that on 2 February 2005, the Company’s Supervisory Board approved a new strategy for PKN ORLEN. The PKN ORLEN strategy derives from the Company’s new mission statement: “Aiming to become the regional leader we ensure long-term value creation for our shareholders by offering our customers products and services of the highest quality. All our operations adhere to 'best practice' principles of corporate governance and social responsibility, with a focus on care for our employees and the natural environment”.

    PKN ORLEN will build its firm value primarily by harnessing its existing potential to a maximum extent. In line with the new strategy, we will continue to implement improvements in efficiency and invest in selective projects offering high returns. As part of PKN ORLEN’s focus on its core businesses, we want to strengthen the Company’s presence in its key business areas in the relevant markets, while continuing to restructure our asset portfolio.

    The presentation of the new strategy was placed on the website: www.orlen.pl.

3.9. Additional information

a) Rafineria Nafty Jedlicze, Rafineria Trzebinia and ORLEN Oil are subject to the project "Restructuring of the southern assets of the Capital Group PKN ORLEN". The project assumes optimalization and consolidation of production and the sale of fuels, engine oils, lubricants and paraffins in the Capital Group of PKN ORLEN. In the 1Q 2005 the Management Board will take decision concerning the further operations of the southern assets.
As of the date of the above consolidated condensed financial statement preparation, no results of the potential restructuring activities, which may have material impact on the presented financial data of the Group as of 31 December 2004 are known to the Management Board.

b) On 18 August 2004 PKN ORLEN S.A. received an information that on 11 August 2004 the Register Court in Krakow registered an increase in the share capital of the company ORLEN Oil. The share capital was increased from PLN 44 million by the amount of PLN 31 million, up to the amount of PLN 75 million. The stake in the increased share capital was covered in whole by PKN ORLEN in the form of cash contribution. After the increase of the share capital of ORLEN Oil the stake of PKN ORLEN S.A. rose from 9% to 47.2%. Remaining shares are possessed by Rafineria Trzebinia S.A. (43.8%), Rafineria Jedlicze S.A. (4.5%), Rafinenria Czechowice S.A. (4.5%). Each share gives the right to one voice during the General Meeting of Shareholders. The purpose of the increase of the share capital is to acquire resources for partly financing of the acquisition of ORLEN Oil's assets being the element of the oil department of PKN ORLEN S.A. These tasks are connected with the strategy of consolidation of the oil assets of PKN ORLEN around ORLEN Oil in order to create the uniform centre managing the oil segment in PKN ORLEN S.A. The contributed assets constitute above 20% of current initial capital of ORLEN Oil and constitute financial assets of significant value in accordance with §2 Act 1 and 3 the Decree of the Council of Ministers dated on 16 October 2001 on current and periodic information published by issuers of securities.

c) The Decree of Ministry of Economy dated 14 December 2000 relating to detailed methods of determination and computation of tariffs and electricity settlement regulations (Journal of Law No. 1 dated 15 January 2001), according to the paragraph 36 the method of calculation of system fee, constituting an element of a power transfer fee has been changed. According to the paragraph 37 of the Decree a different method of power transfer fee settlement has been allowed. Following the decision of the Chairman of the Electricity Regulation Office the electricity sale agreement between Zaklad Energetyczny Plock S.A. and PKN ORLEN was signed. The agreement did not determine contentious issues concerning transfer fees for the period from 5 July 2001 to 30 June 2002, as it was regarded as a civil case to be settled by an appropriate court. Zaklad Energetyczny Plock S.A. called on PKN ORLEN to a compromise agreement, and the District Court in Warsaw called PKN ORLEN as a co-defendant in a court case Polskie Sieci Energetyczne against Zaklad Energetyczny Plock S.A. The Company's Management estimated the claim and set up an accrual in the amount of PLN 8m for liability to ZEP S.A., and provided for it in the amount of PLN 10m. As a consequence of the negative decision of the court PKN ORLEN was obliged to pay a liability connected with the above mentioned system fee to Zaklad Energetyczny Plock S.A. in the amount of PLN 46m. As a result the provision for business risks was increased by PLN 28m to cover the whole claim.

(PLN million)

3.10. Transformation for International Financial Reporting Standards purposes

The adjustments to the condensed consolidated financial statements prepared under Polish Accounting Standards (PAS) are presented below:

	12 months ended 31 December 2004 (unaudited)	3 months ended 31 December 2004 (unaudited)	12 months ended 31 December 2003	3 months ended 31 December 2003 (unaudited)
Net profit (PAS consolidated)	2,570	660	1,026*	214*
Payment from profit for social activity	(4)	-	(4)	-
Borrowing costs capitalisation, less depreciation	(221)	(81)	(68)	(29)
Amortisation of CPN goodwill	(11)	(4)	(10)	(2)
IFRS treatment of negative goodwill	16	4	17	4
Deferred tax on above adjustments	56	29	53	44
Change of accounting standards (PAS)	26	-	-	-
Other	10	2	(27)	(12)
Net profit (IFRS consolidated)	2,442	610	987	219

	31 December 2004 (unaudited)	31 December 2003
Net assets (PAS consolidated)	11,427	9,156*
Payment from profit for social activity	-	-
Borrowing costs capitalisation, net of depreciation	237	458
CPN goodwill, net of depreciation	51	62
IFRS treatment of negative goodwill	(38)	(54)
Deferred tax on above adjustments	(31)	(87)
Change of accounting standards (PAS)	-	-
Other	11	(25)
Net assets (IFRS consolidated)	11,657	9,510

* restated data due to change of foreign exchange rate estimate used in presenting monetary assets and liabilities in foreign currencies.

3.11. Other

The condensed consolidated financial statements have been authorised by Company's Management Board at premises of the Company on 25 February 2005.

SIGNATURES OF THE MEMBERS OF THE MANAGEMENT BOARD

....
President
Igor Chalupec

....	....	....
Vice President	**Vice President**	**Vice President**
Wojciech Heydel	Andrzej Macenowicz	Jan Maciejewicz
....	....	....
Vice President	**Vice President**	**Member**
Cezary Smorszczewski	Janusz Wiśniewski	Paweł Szymański