

**MANAGEMENT BOARD COMMENTARY  
ON BUSINESS OPERATIONS  
OF POLSKI KONCERN NAFTOWY ORLEN  
CAPITAL GROUP**

**FOR THE SIX MONTHS ENDED 30 JUNE 2002  
(DIRECTORS' REPORT)**

<b>INTRODUCTION.....</b>	<b>4</b>
<b>I. CHARACTERISTICS AND CHANGES IN STRUCTURE OF PKN ORLEN S.A. CAPITAL GROUP... 4</b>	
<b>1.1 STRUCTURE OF CAPITAL GROUP AS OF 30 JUNE 2002.....</b>	<b>4</b>
<b>1.2 CHANGES IN THE CAPITAL GROUP DURING THE SIX MONTH PERIOD ENDED 30 JUNE 2002 .....</b>	<b>6</b>
<b>1.3 DESCRIPTION OF CONSOLIDATED COMPANIES OF CAPITAL GROUP .....</b>	<b>8</b>
1.3.1 Consolidated subsidiaries:.....	8
1.3.2 Consolidated associated companies.....	26
1.3.3 Unconsolidated company of significant importance to the PKN ORLEN S.A. Capital Group – Polkomtel S.A.....	28
<b>II. CHANGES IN ORGANISATION AND MANAGEMENT OF CAPITAL GROUP COMPANIES OF AND IMPACT OF EXTERNAL AND INTERNAL FACTORS ON OPERATIONS OF CAPITAL GROUP .....</b>	<b>29</b>
<b>III. CURRENT AND PROJECTED FINANCIAL POSITION OF CAPITAL GROUP .....</b>	<b>37</b>
<b>3.1 PRODUCTION .....</b>	<b>37</b>
<b>3.2 INFORMATION ABOUT CORE PRODUCTS AND SERVICES, SUPPLY AND SALE MARKETS OF COMPANIES OF CAPITAL GROUP.....</b>	<b>38</b>
<b>3.3 FINANCIAL RESOURCES MANAGEMENT.....</b>	<b>38</b>
3.3.1 Loans, sureties and guarantees granted to employees and companies of the Capital Group.....	38
3.3.2 Bond issuance.....	39
3.3.3 Financial resources management .....	39
<b>3.4 INCOME STATEMENT .....</b>	<b>40</b>
3.4.1 Revenues.....	40
3.4.2 EBIT.....	40
3.4.3 Financial activity .....	41
3.4.4 Extraordinary gains and losses.....	41
3.4.5 Gross profit, tax and net profit.....	41
<b>3.5 BALANCE SHEET .....</b>	<b>42</b>
<b>3.5.1 ASSETS.....</b>	<b>42</b>
<b>3.5.2 NET FINANCIAL INDEBTEDNESS .....</b>	<b>42</b>
<b>3.6 CASH-FLOW .....</b>	<b>42</b>
3.6.1 Operating activities.....	43
3.6.2 Investing activities.....	43
3.6.3 Financing activities.....	43
<b>3.7 EMPLOYMENT .....</b>	<b>44</b>
<b>3.8 SEGMENTS .....</b>	<b>44</b>
3.8.1 Refining Segment.....	44
3.8.2 Chemical Segment.....	46
3.8.3 Other operations .....	47
<b>3.9 DESCRIPTION OF MATERIAL OFF-BALANCE SHEET ITEMS OF THE CAPITAL GROUP. 47</b>	
<b>3.10 IMPORTANT EVENTS AFFECTING CAPITAL GROUP'S OPERATIONS AND ITS FINANCIAL RESULTS FOR THE PERIOD OF SIX MONTHS ENDED 30 JUNE 2002 AND FOLLOWING YEARS.....</b>	<b>48</b>
<b>IV. IMPORTANT ACHIEVEMENTS IN THE AREA OF TECHNICAL RESEARCH AND DEVELOPMENT IN CAPITAL GROUP.....</b>	<b>49</b>
<b>V. POLICIES CONCERNING THE CAPITAL'S GROUP DEVELOPMENT.....</b>	<b>53</b>
<b>VI. IMPORTANT EVENTS THAT WERE SUBJECT OF CURRENT REPORTS IN THE SIX MONTH</b>	

<b>PERIOD ENDED 30 JUNE 2002 AND AFTER THAT DATE UNTIL THE DAY OF FINANCIAL STATEMENTS APPROVAL .....</b>	<b>56</b>
<b>ADDITIONAL NOTES .....</b>	<b>61</b>
<b>INFORMATION ABOUT SIGNIFICANT AGREEMENTS .....</b>	<b>62</b>
<b>INFORMATION ON BASIC PRODUCTS AND SERVICES, AND ON MARKETS AND SOURCES OF SUPPLY WITH ENUMERATION OF SUPPLIERS.....</b>	<b>63</b>
<b>TRANSACTIONS WITH RELATED ENTITIES.....</b>	<b>67</b>
<b>CHANGES IN THE COMPOSITION OF THE PARENT COMPANY AND IN THE CONSOLIDATED COMPANIES' MANAGEMENT AND SUPERVISORY BOARDS DURING SIX MONTHS ENDED 30 JUNE 2002. ....</b>	<b>69</b>
<b>TOTAL NUMBER OF ALL SHARES OF THE PARENT COMPANY AND OF OTHER CAPITAL GROUP ENTITIES BEING HELD BY MANAGEMENT BOARD AND SUPERVISORY BOARD MEMBERS OF DOMINANT COMPANY .....</b>	<b>77</b>
<b>SHAREHOLDERS OF DOMINANT COMPANY.....</b>	<b>77</b>

## INTRODUCTION

This report has been prepared in accordance with ordinance of the Council of Ministers dated 16 October 2001 concerning current and periodical information published by issuers of securities (Journal of Law 01.139.1569 with further changes).

### I. CHARACTERISTICS AND CHANGES IN STRUCTURE OF PKN ORLEN S.A. CAPITAL GROUP

#### 1.1 Structure of Capital Group as of 30 June 2002

On 30 June 2002 PKN ORLEN S.A. held directly or indirectly shares in of 201 companies. The Group was formed by:

- 113 subsidiaries (in which PKN ORLEN's stake exceeded 50%),
- 30 associated entities (in which PKN ORLEN's stake is between 20% and 50%),
- 58 other entities (in which PKN ORLEN's stake was smaller than 20%).

Total value of the shares (at purchase cost) owned directly by PKN ORLEN amounted at 30 June 2002 to PLN 1,284,211 thousand and compared to the corresponding period of the previous year increased by PLN 164,948 thousand or 15%.

The most important investments in the period include:

- acquisition of new issue of shares of Polkomtel S.A. (PLN 107,855 thousand),
- acquisition of shares in NOM Sp. z o.o. (PLN 35,000 thousand),

75 entities out of subsidiaries and associates were consolidated and divided into groups under the following rules:

#### 1. Most important companies in terms of sales and capital:

- Rafineria Trzebinia S.A. located in Trzebinia (and its Capital Group),
- Rafineria Nafty Jedlicze S.A. located in Jedlicze (and its Capital Group),
- Inowroclawskie Kopalnie Soli „Solino” S.A. located in Inowroclaw,
- Anwil S.A. located in Wloclawek (and its Capital Group),
- Naftoport Sp. z o.o. located in Gdansk,
- ORLEN-Oil Sp. z o.o. located in Krakow (and its Capital Group).

**2. Fuel and LPG trading companies:**

- ORLEN PetroTank Sp. z o.o. located in Widelka near Kolbuszowa,
- ORLEN PetroProfit Sp. z o.o. located in Niemce near Lublin, (and its Capital Group),
- ORLEN Petrocentrum Sp. z o.o. located in Plock,
- Petrolot Sp. z o.o. located in Warsaw,
- ORLEN PetroZachod Sp. z o.o. located in Poznan.
- ORLEN Petrogaz Plock Sp. z o.o. located in Plock (and its Capital Group).

**3. Companies established as a result of restructuring of PKN ORLEN S.A.:**

- Zakład Budowy Aparatury S.A. located in Plock,
- Petrotel Sp. z o.o. located in Plock,
- ORLEN Projekt S.A. located in Plock,
- ORLEN Medica Sp. z o.o. located in Plock,
- ORLEN Polimer Sp. z o.o. located in Plock.

**4. Maintenance companies:**

- ORLEN EnergoRem Sp. z o.o. located in Plock,
- ORLEN Automatyka Sp. z o.o. located in Plock,
- ORLEN Remont Sp. z o.o. located in Plock,
- ORLEN WodKan Sp. z o.o. located in Plock,
- ORLEN Mechanika Sp. z o.o. located in Plock,
- ORLEN Eltech Sp. z o.o. located in Plock,
- ORLEN Wir Sp. z o.o. located in Plock.

**5. Transportation companies:**

- ORLEN Transport Plock Sp. z o.o. located in Plock,
- ORLEN Transport Szczecin Sp. z o.o. located in Szczecin,
- ORLEN Transport Krakow Sp. z o.o. located in Krakow,
- ORLEN Transport Lublin Sp. z o.o. located in Lublin,
- ORLEN Transport Nowa Sol Sp. z o.o. located in Nowa Sol,
- ORLEN Transport Poznan Sp. z o.o. located in Poznan,
- ORLEN Transport Slupsk Sp. z o.o. located in Slupsk,
- ORLEN Transport Warszawa Sp. z o.o. located in Mosciska,

- ORLEN Transport Olsztyn Sp. z o.o. located in Olsztyn,
- ORLEN Transport Kedzierzyn-Kozle Sp. z o.o. located in Kedzierzyn-Kozle,
- ORLEN KolTrans Sp. z o.o. located in Plock.

**6. Other companies:**

- Chemiepetrol Sp. z o.o. located in Hamburg,
- Flexpol Sp. z o.o. located in Plock,
- ORLEN Powiernik Sp. z o.o. located in Plock,
- ORLEN Budonaft Sp. z o.o. located in Krakow.

Additionally this report includes comments on Polkomtel SA (not consolidated) because of its great importance for PKN ORLEN SA Capital Group.

**1.2 CHANGES IN THE CAPITAL GROUP DURING THE SIX MONTH PERIOD ENDED 30 JUNE 2002**

Significant capital investments and changes in organisational relations during the six month period ended 30 June 2002 include the following events:

- Increase of share capital in Petrotel Sp. z o.o. by PLN 5 million to PLN 8.2 million, for the purpose of investment programme. PKN ORLEN S.A. acquired 4,321 new shares of par value of PLN 1 thousand each. Other shares 679 shares were acquired by the company's employees, (PLN 1 thousand each). As a result of cash increase, presently PKN ORLEN S.A. owns 88.80% of shares in share capital of the company. Employees are the remaining shareholders.
- Increase of investment in ORLEN Petrogaz Plock Sp. z o.o. by contribution of: LPG distribution station in Dzierzoniow and Ugoszcz of total value equal PLN 6,020 thousand by PKN ORLEN S.A. As a result, share capital of the company increased to PLN 21,823 thousand. PKN ORLEN S.A. acquired 6,020 new shares, PLN 1 thousand each and owns 100% stake in share capital of the company.
- Contribution of a real estate, that at time was subject of a lease contract in total value of PLN 1,499 thousand to Dom Wczasowy Mazowsze Sp. z o.o. As a result of this contribution in kind transfer, share capital of the company rose from PLN 150 thousand to PLN 1,649 thousand, by setting of 2,499 shares, PLN 0.6 thousand each. All new shares were acquired by PKN, which presently owns 98.75% stake in share capital of the company.
- Increase in investment of PKN ORLEN S.A. in Serwis Rzeszow Sp. z o.o. from PLN 251 thousand to PLN 347 thousand. 192 new shares, PLN 500 each, were acquired and paid in cash by PKN ORLEN S.A., which owns 97.26% stake in share capital of the company. Company's employees are the remaining shareholders.

- Increase of ORLEN Medica Sp. z o.o. share capital from PLN 11,027 thousand to PLN 13,273 thousand by contribution in kind in form of 4,492 shares of Sanatorium Uzdrowiskowe "Krystynka" Sp. z o.o. in total value of PLN 2,246 thousand. As a result of this transaction PKN does not possess directly any shares in Sanatorium Uzdrowiskowe "Krystynka" Sp. z o.o. The Dominant Company owns 100% of shares in ORLEN Medica Sp. z o.o.

During the six months ended 30 June 2002 the following changes within the ownership structure of the Capital Group took place:

- Sale of all possessed shares of: Ciech S.A. and Deutsche Bank S.A. worth at cost PLN 1,902 thousand and PLN 8,320 thousand, respectively,
- Sale of shares to employees in the following transportation companies: ORLEN Transport Kedzierzyn Kozle Sp. z o.o., ORLEN Transport Nowa Sol Sp. z o.o. and in companies: ORLEN Automatyka Sp. z o.o. and Zaklad Urzadzen Dystrybucyjnych Sp. z o.o. for total amount of PLN 6 thousand,
- In order to adjust the value of shares to the requirements of Polish Commercial Code, shares in ORLEN Medica Sp. z o.o., Zaklad Urzadzen Dystrybucyjnych Sp. z o.o. were redeemed in the amount of PLN 0.7 thousand and share capital of Serwis Krakow Sp. z o.o. was increased by PLN 0.3 thousand.

Increase of PKN ORLEN's investments in petrol companies portfolio that at the end of June amounted to PLN 73,629 thousand was resulted from purchase of 6,000 shares of Przedsiębiorstwo Usług Morskich Ship-Service S.A., a company selling fuel for sailing. As a result of this transaction of total value equal PLN 6 million, PKN ORLEN S.A. reached a level of 30.43% stake in the share capital of the company and 22.78% share in the number of votes at the shareholders meeting.

During the six month period ended 30 June 2002 PKN ORLEN completed another stage of the process which began in the year 2000 by merging LPG companies by contribution of shares in ORLEN Petrogaz Wrocław Sp. z o.o. and Petrogaz Lapy Sp. z o.o. to ORLEN Petrogaz Plock Sp. z o.o. As a result of share capital increase in ORLEN Petrogaz Plock Sp. z o.o. from PLN 21,823 thousand to PLN 24,823 thousand, PKN ORLEN S.A. acquired 3 thousand of shares of par value PLN 1 thousand each and owns 100% stake in the share capital of ORLEN Petrogaz Plock Sp. z o.o. The increased capital was contributed in kind as 16 thousand shares of ORLEN Petrogaz Wrocław Sp. z o.o. in total face value equal PLN 1,600 thousand and 140 shares in Petrogaz Lapy Sp. z o.o. in total face value of PLN 1,400 thousand. As a result of this transaction PKN ORLEN S.A. does not possess any shares in ORLEN Petrogaz Wrocław Sp. z o.o. or Petrogaz Lapy Sp. z o.o.

Contribution of oil department of Rafineria Trzebinia S.A. to ORLEN -Oil Sp. z o.o was an effect of consolidation of oil assets in the PKN ORLEN Capital Group. Rafineria Trzebinia acquired 29,558 new shares, PLN 1 thousand each, for contributed assets. Share capital of ORLEN-Oil Sp. z o.o. increased from PLN 14 million to PLN 43,558 thousand. Rafineria Trzebinia owns 75.58% of votes at the general meeting of shareholders. The remaining shares belong to:

- |                                 |       |
|---------------------------------|-------|
| ▪ Rafineria Nafty Jedlicze S.A. | 7.71% |
| ▪ Rafineria Czechowice S.A.     | 7.71% |
| ▪ PKN ORLEN S.A.                | 9.00% |

### 1.3 DESCRIPTION OF CONSOLIDATED COMPANIES OF CAPITAL GROUP

#### 1.3.1 Consolidated subsidiaries:

▪ **Rafineria Trzebinia S.A.**

Pursuant to the terms of a share purchase agreement and a shareholders' agreement dated 16 June 1997, concluded between Nafta Polska S.A. and PKN ORLEN S.A., the latter acquired 74.88% of the shares in Rafineria Trzebinia S.A. In 1999, an increase in the company's capital was recorded and as a result the stake of PKN ORLEN S.A. in Trzebinia's share capital increased to 76.96%. On 14 September 2000 the agreement on the purchase of the remaining stake of Nafta Polska S.A. was finalised, resulting in PKN ORLEN S.A. increasing of its share in the company's capital to 77.07%.

On 30 June 2002 the share capital of Rafineria Trzebinia SA. was PLN 43,042 thousand.

The company's shareholders are:

PKN ORLEN S.A.	77.07%
State Treasury	9.18%
Other	13.75%

As at 30 June 2002 equity was equal to PLN 220,332 thousand.

Business activities of the capital group include:

- processing of crude oil,
- production and sale of fuels (including leaded and unleaded gasoline, diesel fuels and oil heating fuel),
- blending and preparation of lubricants,
- processing of paraffin slack waxes,
- production of asphalt and asphalt products.

Business activities of Rafineria Trzebinia Capital Group are focused on the manufacture of specialised high-value products, chiefly a full range of lubricants, industrial oils (hydraulic and tempering oils) and a range of paraffin products.

At 30 June 2002 the company employed 172 people (Rafineria Trzebinia Capital Group employed 1,181 people). Considerable reduction of employment in comparison to the corresponding period of previous year (by 248 people) is a result of employees transfer from oil department to ORLEN-OIL Sp. z o.o.

Rafineria Trzebinia closed the six months ended 30 June 2002 with a net profit of PLN 25,292 thousand, which is 23 times higher than the profit of respective period in the year 2001 and sales revenues equal PLN 431,927 thousand. It was possible because of lower costs of repair services and utilisation of pitch and decrease of interests from credits in connection with improvement of financial liquidity.

Rafineria Trzebinia S.A. owns shares in 9 subsidiaries and 1 associate.

In March 2002 increase in capital of ORLEN-OIL Sp. z o.o. was registered, which was in non-monetary form of oil department of Rafineria Trzebinia S.A. The company acquired new shares in ORLEN-OIL Sp. z o.o. for contributed assets. Investments of Rafineria Trzebinia S.A. in ORLEN OIL is equal PLN 32,921 thousand at the moment, which is represented by 75.58% of votes at the General Shareholders Meeting.

▪ **Rafineria Nafty Jedlicze S.A.**

Pursuant to the relevant provisions of a share purchase agreement and a shareholders' agreement of 19 November 1998, concluded between Nafta Polska S.A. and PKN ORLEN S.A., the latter acquired 75% of shares in Rafineria Nafty Jedlicze S.A. The above agreement came into effect on 1 January 1999.

On 30 June 2002 the company's share capital was PLN 78 million.

Shareholders of the company:

PKN ORLEN S.A.	75.00%
State Treasury	10.01%
Other	14.99%

The company's equity at 30 June 2002 amounted to PLN 145,806 thousand.

The company's business activities include:

- transport, processing, storage and trade in crude oil and oil derived products, as well as in used oil and other waste products,
- collection of used oils,
- production of lubricating oils and other industrial fluids,
- production of oil solvents and fuels,
- production of lubricants and bitumen,
- production of packaging and preparation of oils and other industrial fluids.

The company is Poland's second biggest lubricants producer (in terms of volume). The Refinery also manufactures limited quantities of diesel and heating oils. Moreover, Rafineria Nafty Jedlicze S.A. regenerates used oil in its regeneration facilities, which have a processing capacity of 80 thousand tons a year. The collection of used oils is carried out through a network of companies controlled by or associated with Rafineria Nafty Jedlicze S.A.

As at 30 June 2002 the company employed 547 people (the Capital Group of Rafineria Nafty Jedlicze employed 959 people).

The Refinery closed the six month period ended 30 June 2002 with a net loss of PLN 11,383 thousand compared to net profit of PLN 21 thousand in corresponding period of previous year. Sales revenues totalled PLN 257,087 thousand for six months ended 30 June 2002.

Rafineria Nafty Jedlicze S.A. holds shares in 25 subsidiaries and 2 associated entities.

As a result of increase in share capital of ORLEN-Oil Sp. z o.o. as at 25 March 2002 Rafineria Jedlicze's stake in ORLEN-Oil Sp. z o.o. decreased from 24% (at the end of 2001) to 7.71%.

▪ **Inowroclawskie Kopalnie Soli Solino S.A.**

On 28 September 1996 PKN ORLEN S.A. purchased from the Ministry of Privatisation 723,465 registered shares in Inowroclawskie Kopalnie Soli "Solino" S.A. with a total par value of PLN 7,235 thousand which constituted 51% of the company's share capital. In December 1999, following the acquisition of a new issue of shares and purchase of employees shares in 2000, PKN ORLEN S.A. share increased to 70.54%.

On 31 December 2001 the share capital of Inowroclawskie Kopalnie Soli „Solino” S.A. was PLN 19,146 thousand.

The company's shareholders are:

PKN ORLEN S.A.	70.54%
State Treasury	25.19%
Other	4.27%

As at 30 June 2002, the capital stood at PLN 72,598 thousand.

The Company's business activities include:

- production of industrial brine.
- processing and preparation of vacuum salt.
- trade in the company's own products on the domestic and foreign markets.
- trade in mining, mechanical, electrical, construction and transport assets.

The company is involved in mining and processing of salt, production of salt and industrial brine. The brine is supplied to such companies as Anwil S.A., a member of the PKN ORLEN S.A. Capital Group.

On 30 June 2002 the company employed 374 people.

The net profit was PLN 5,566 thousand and is by 51% higher than in the corresponding period of previous year. Sales revenue equalled PLN 41,500 thousand for 6 month period ended 30 June 2002 and was higher by almost 32% compared to the corresponding period of previous year

The company's development plans focus on salt production and sales, as well as on the construction of the second stage underground crude oil and fuel oil tank farms.

▪ **Anwil S.A.**

PKN ORLEN acquired first shares of Anwil for the debts of the company in 1995. Anwil S.A. was entered in the Commercial Register on 14 April 1993. On 31 December 2001 the share capital of the company was PLN 150 million.

The company's shareholders are:

PKN ORLEN S.A.	74.97 %
Zaklad Energetyczny Torun S.A.	3.73%
Tele-Fonika Kable S.A.	1.30%
State Treasury	5.00%
Others	15.00%

As at 30 June 2002, the capital stood at PLN 786,197 thousand.

The Company's business activities include:

- production of nitrogen fertilisers and semi-products and other associated products,
- production of polyvinyl chloride and other associated products,
- production of polyethylene packaging,
- trading activities in the above areas,
- service activities in the above areas, based on the company's productive capabilities.

The company is principally involved in the production of nitrogen fertilisers and PVC. Anwil is the largest customer for ethylene (the main raw material for the manufacture of PVC) from PKN ORLEN S.A.

At 30 June 2002 the company employed 1,571 people (the Capital Group of Anwil employed 2,618 people).

The net profit in the six month period ended 30 June 2002 amounted to PLN 7,205 thousand whereas the sales stood at PLN 506,769 thousand, which amounted for 17% and 83% of the previous year values, respectively.

Anwil S.A. held as at 30 June 2002 shares in 6 subsidiaries and 11 associated entities. The company forms a Capital Group and prepares consolidated financial statements. On 4 June 2002 a new company SK Eurochem Sp. z o.o. was formed Anwil and SK Chemicals LTD. from Korea (where Anwil has 90% of votes on shareholders' meeting of SK Chemicals LTD) are the company's shareholders. SK Eurochem Sp. z o.o. is about to manufacture plastics, PET granulate in particular.

• **ORLEN-Oil Sp. z o.o. (former Petro-Oil Sp. z o.o.)**

ORLEN-Oil was established by 4 refineries. The company was entered in the Commercial Register on 27 August 1998. On 25 March 2002 an increase in share capital was registered, which presently equals PLN 43,558 thousand.

The company's shareholders at 30 June 2002 are:

PKN ORLEN S.A.	9.00%
Rafineria Trzebinia S.A.	75.58%
Rafineria Nafty Jedlicze S.A.	7.71%
Rafineria Czechowice S.A.	7.72%

As at 30 June 2002, the capital stood at PLN 55,886 thousand.

The Company's business activities include:

- production and sales of chemicals, lubricating oils, oil bases, and liquid fuels.
- trade in chemicals, refinery products and petrochemicals in Poland and abroad.
- services, including warehousing, transportation and R&D services.
- technical advisory services.

The number of employees as at 30 June 2002 was 330 people and was higher compared to the corresponding period of last year by 235 people. An increase in employment is a result of acquisition of employees from oil department of Rafineria Trzebinia and employees of oil department being in lease from Rafineria Czechowice.

As at 30 June 2002 the company achieved net profit of PLN 5,019 thousand, which was fourfold higher than the profit of the corresponding period of last year. Sales revenue achieved PLN 193,726 thousand compared to PLN 212,690 thousand in the previous year. ORLEN-Oil Sp. z o.o. held shares in 10 associated companies at 30 June 2002.

▪ **ORLEN Petrogaz Plock Sp. z o.o.**

ORLEN Petrogaz Plock was entered in the Commercial Register on 15 December 1995. On 30 June 2002 the share capital of the company was PLN 24.823 thousand. Since 16 April 1998 PKN ORLEN S.A. has been the company's sole shareholder.

As at the end of the six months ended 30 June 2002, the capital stood at PLN 58,338 thousand.

The Company's business activities include:

- wholesale trading in LPG, in bulk or in steel cylinders.
- retail sales of gas in containers.
- installation of ductless gas devices.
- supply of LPG to customers.
- design, maintenance and repair of gas installations; organisational and legal supervision over the construction of distribution plants and their subsequent use.

The number of employees as at 30 June 2002 was 252.

The company closed the six month period ended 30 June 2002 year with a net profit of PLN 2,271 thousand compared to PLN 4,199 thousand in 2001.

Revenue was equal PLN 146,747 thousand and PLN 153,114 thousand at 30 June 2002 and at corresponding period of 2001, respectively.

The company forms its own Capital Group, which comprises 3 subsidiaries.

▪ **ORLEN PetroTank Sp. z o.o.**

The company was entered in the Commercial Register on 9 April 1996. On 31 December 2001 the share capital of the company was PLN 11,750 thousand.

The company's shareholders are:

PKN ORLEN S.A.	60.00%
Tankpol Sp. z o.o.	40.00%

At 30 June 2002, the capital stood at PLN 44,128 thousand.

The company's line of business is the wholesale and retail sales of fuels and plastics as well as the preparation of Petrygo radiator liquid.

The number of employees as at 30 June 2002 was 143 people.

The company closed the year with a net profit of PLN 4,962 thousand, which is an increase of 90% as compared with the profit achieved in the respective period of previous year. Sales increased as compared to the comparable period of the previous year by 79% and attained a figure of PLN 584,731 thousand. Despite economic slowdown on the petrochemical market, the company managed to enter new markets and exceed budgeted results. The company is a leader among Regional Market Operators thanks to well developed logistic base. The company sold 299,640 tons of fuel during the six months ended 30 June 2002.

▪ **ORLEN PetroProfit Sp. z o.o.**

ORLEN PetroProfit Sp. z o.o. from Niemce near Lublin was entered in the Commercial Register on 14 September 1995. On 30 June 2002 the share capital of the company was PLN 11,500 thousand.

The company's shareholders are:

PKN ORLEN S.A.	85.00%
Profit Sp. z o.o.	15.00%

At 30 June 2002, the capital stood at PLN 27,390 thousand.

The company's business activities comprise the wholesale and retail sale of fuels, Petrygo radiator fluid and plastics.

The number of employees as at 30 June 2002 was 77 (in the Capital Group of ORLEN PetroProfit Sp. z o.o. employment was 133 people).

The company closed the six months ended 30 June 2002 with a loss of PLN 918 thousand. The loss was caused mainly by decrease in sales of fuel and sales margins as well as economic slowdown in the region where Company operates. The company's situation is continuously improving, however. The sales at 30 June 2002 achieved comparable level with figure for the six month period ended 30 June 2001, which was PLN 160,646 thousand. The company has its own Capital Group, which comprises 5 subsidiaries.

▪ **ORLEN PetroCentrum Sp. z o.o.**

ORLEN PetroCentrum Sp. z o.o. was entered in the Commercial Register on 25 September 1996. The capital stock on 30 June 2002 was PLN 21,000 thousand of which the entire 100% was contributed by PKN ORLEN S.A. As at 30 June 2002, the capital stood at PLN 41,185 thousand.

The Company's business activities include:

- wholesale trading in solid, liquid and gas fuels.
- retail sales of fuel for motor vehicles.
- automotive, catering, hotel and transport services.

The number of employees as at 30 June 2002 was 40.

The main source of income for PetroCentrum Sp. z o.o. in 2001 was the sale of liquid fuels and retail sales within its own network of company operated 24 fuel stations. After the six months ended 30 June 2002, the company achieved a net profit of PLN 146 thousand, which was a significant improvement compared to a net loss equal PLN 579 thousand at 30 June 2001. Sales amounted to PLN 63,534 thousand which represented a 9% increase compared to the six month period ended 30 June 2001.

▪ **Petrolot Sp. z o.o.**

Petrolot Sp. z o.o. was entered in the Commercial Register on 7 January 1997. On 31 December 2001 the share capital of the company was PLN 20,039 thousand.

The company's shareholders are:

PKN ORLEN S.A.	51.00 %
PLL LOT S.A.	49.00 %

As at 30 June 2002, the capital stood at PLN 44,491 thousand.

The company's basic line of business is sales and distribution of aviation fuel JET A-1 and other oil derived products. The company's main customer was PLL LOT S.A., which purchases almost 70% of JET A-1 fuel produced by the Company. The Company also sells automobile fuels within its own fuel station.

The number of employees as at 30 June 2002 was 150.

The company sold 94,980 tons of fuels as at 30 June 2002 (93,049 tons of it was JET A-1 fuel), a bit less than during the same period of previous year (108,476 tons). The company's net profit equalled PLN 3,559 thousand at 30 June 2002 and was almost twofold higher in comparison with the level in period ended 30 June 2001.

Sales for six months ended 30 June 2002 amounted to PLN 202,566 thousand.

▪ **ORLEN PetroZachod Sp. z o.o.**

ORLEN PetroZachod Sp. z o.o. of Poznan was entered in the Commercial Register on 19 January 1998. On 30 June 2002 the share capital of the company was PLN 17,749 thousand.

The company's shareholders are:

PKN ORLEN S.A.	51,83%
BGW Wielobranzowe Przedsiębiorstwo Handlowe Sp. z o.o.	48,17%

As at 30 June 2002, the capital stood at PLN 22,840 thousand.

The Company's business activities include wholesale and retail trading in solid, liquid and gas fuels, transport services, storage and dispatch of liquid, solid and gas fuels and oil derived, and chemical products.

The company carries out its retail sales within the network of 19 own fuel stations.

At 30 June 2002 the company employed 199 people.

The sales for six months ended 30 June 2002 amounted to PLN 167,146 thousand, whereas net loss stood at PLN 830 thousand. The worsening financial situation of the company results from fall in whole and retail sales of fuels (termination of contract for storing of fuels by PKN ORLEN S.A. in the fuel storing farm belonging to ORLEN PetroZachod).

▪ **ORLEN Medica Sp. z o.o.**

The company was entered in the Commercial Register on 24 November 1997. On 30 June 2002 the share capital of the company was PLN 13,273 thousand. PKN ORLEN S.A. acquired the entire capital stock.

The company provides health-care services.

As at 30 June 2002, the capital stood at PLN 14,117 thousand.

At 30 June 2002 the company employed 126 people.

The sales at 30 June 2002 amounted to PLN 7,087 thousand. Compared to the six months ended 30 June 2001, an increase of 35% was observed. At 30 June 2002 the company recorded a net profit equal to PLN 254 thousand, that is higher by 25% compared to the corresponding period during previous year.

The company owned shares in 2 subsidiaries: Sanatorium Uzdrowskowie "Krystynka" Sp. z o.o. – 97.86% and Medilogistyka Sp. z o.o. – 80%.

▪ **ORLEN Projekt S.A.**

The company was entered in the Commercial Register on 28 May 1998. On 30 June 2002 the share capital of the company was PLN 1,500 thousand.

The company's shareholders are:

PKN ORLEN S.A.	51.00%
Employees	49.00%

The company is involved in the provision of design services.

As at 30 June 2002, the capital stood at PLN 14,498 thousand.

At 30 June 2002 the company employed 219 people.

In six months ended 30 June 2002 sales stood at PLN 9,852 thousand and constituted 84% of the six months ended 30 June 2001. The net profit was PLN 90 thousand and constituted 7% of net profit in comparable period of the previous year.

▪ **Petrotel Sp. z o.o.**

The company was registered on 14 August 1997. On 30 June 2002 the share capital of the company was PLN 8,200 thousand.

The company's shareholders at 30 June 2002 are:

PKN ORLEN S.A.	88.80%
Employees	11.20%

The company's business activity is the provision of telecommunications services.

As at 30 June 2002, the capital stood at PLN 21,390 thousand.

At 30 June 2002 the company employed 107 people.

On 30 June 2002 sales stood at PLN 15,594 thousand and net profit amounted PLN 1,604 thousand, which is about 78% of the net profit realised in the comparable period of the last year.

▪ **Zakład Budowy Aparatury S.A.**

Zakład Budowy Aparatury S.A. was entered in the Commercial Register on 27 October 1998. On 30 June 2002 the share capital of the company was PLN 18 million.

The company's shareholders are:

PKN ORLEN S.A.	96.56%
Employees	3.44%

The Company's business activities include:

- manufacturing of investment goods with respect to chemical instrumentation and similar products,
- renovation and repair of instrumentation,
- design of construction documentation for instrumentation and appliances.

As at 30 June 2002, the capital stood at PLN 26.299 thousand.

At 30 June 2002 the company employed 288 people.

On 30 June 2002 sales stood at PLN 17,425 thousand, i.e. a similar level to the results from the six month period ended 30 June 2001. Net profit in the current period was equal PLN 2,251 thousand (in the corresponding period of 2001 PLN 67 thousand).

▪ **ORLEN Polimer Sp. z o.o.**

ORLEN Polimer was entered in the Commercial Register on 9 April 1998. The share capital was fully contributed by PKN ORLEN S.A. On 30 June 2002 the share capital of the company was PLN 2 million.

ORLEN Polimer trades with plastics, pigment concentrates and domestic and imported modifiers.

As at 30 June 2002, the capital stood at PLN 8,104 thousand.

At 30 June 2002 the company employed 35 people.

On 30 June 2002 sales stood at PLN 39,883 thousand, that is similar to the comparable period in 2001 achieving net profit equal PLN 1,049 thousand, which is 90% of net profit in the comparable period of the previous year.

▪ **ORLEN Wir Sp. z o.o.**

ORLEN Wir Sp. z o.o. was entered in the Commercial Register on 1 October 1999. On 30 June 2002 the share capital of the company was PLN 1.600 thousand.

The company's shareholders are:

PKN ORLEN S.A.	51.00%
Employees	49.00%

As at 30 June 2002, the capital stood at PLN 4,848 thousand.

The company's business activity is the provision of repairing services.

At 30 June 2002 the company employed 109 people.

On 30 June 2002 sales stood at PLN 5,989 thousand and were by 6% lower than figures achieved in 2001. Net profit after two quarters 2002 was equal PLN 873 thousand, which was lower than the result of the previous year by 21%.

▪ **ORLEN Mechanika Sp. z o.o.**

ORLEN Mechanika Sp. z o.o. was entered in the Commercial Register on 22 July 1999. On 30 June 2002 the share capital of the company was PLN 4.432 thousand. The company's shareholders are:

PKN ORLEN S.A.	68.17%
Employees	31.83%

As at 30 June 2002, the capital stood at PLN 8.099 thousand.

The company's business activity is the provision of repairing services.

At 30 June 2002 the company employed 440 people.

On 30 June 2002 sales stood at PLN 19,070 thousand and were by 21% higher than in the corresponding period of previous year. After six months of 2002 net profit was equal PLN 1,904 thousand and was lower by 25% compared to 30 June 2001.

▪ **ORLEN Remont Sp. z o.o.**

ORLEN Remont Sp. z o.o. was entered in the Commercial Register on 30 April 1999. On 30 June 2002 the share capital of the company was PLN 2.400 thousand. The company's shareholders are:

PKN ORLEN S.A.	51,23%
Employees	48,77%

As at 30 June 2002, the capital stood at PLN 8.471 thousand.

The company's business activity is the provision of repairing services.

At 30 June 2002 the company employed 324 people.

At 30 June 2002 the Company achieved sales of PLN 13,620 thousand (an increase of 6%) and generated a net profit of PLN 1,417 thousand that is 11% more than in 2001.

▪ **ORLEN Eltech Sp. z o.o.**

ORLEN Eltech Sp. z o.o. was entered in the Commercial Register on 22 July 1999. On 30 June 2002 the share capital of the company was PLN 2.100 thousand. The company's shareholders at 31 December 2001 are:

PKN ORLEN S.A.	51.00%
Employees	49.00%

As at 30 June 2002, the capital stood at PLN 6.522 thousand.

The company's business activity is the provision of repairing services.

At 30 June 2002 the company employed 289 people.

On 30 June 2002 sales stood at PLN 18,398 thousand and were by 38% higher than in 2001 and generated a net profit of PLN 1,796 thousand, which is more by 13% compared to the corresponding period of former year.

▪ **ORLEN Automatyka Sp. z o.o.**

ORLEN Automatyka Sp. z o.o. was entered in the Commercial Register on 30 April 1999. On 30 June 2002 the share capital of the company was PLN 2,400 thousand. The company's shareholders are:

PKN ORLEN S.A.	52.42%
Employees	47.58%

As at 30 June 2002, the capital stood at PLN 8,178 thousand.

The company's business activity is the provision of repairing services.

At 30 June 2002 the company employed 257 people.

On 30 June 2002 sales stood at PLN 12,990 thousand and were by 8% higher than figures of the corresponding period of former year. Net profit after 2 quarters of 2002 was equal PLN 1,454 thousand and was lower by 22% than last year's result.

▪ **ORLEN WodKan Sp. z o.o.**

ORLEN WodKan Sp. z o.o. was entered in the Commercial Register on 22 July 1999. On 30 June 2002 the share capital of the company was PLN 2,200 thousand. The company's shareholders are:

PKN ORLEN S.A.	82.28%
Employees	17.72%

As at 30 June 2002, the capital stood at PLN 3,721 thousand.

The company's business activity is the provision of repairing services.

At 30 June 2002 the company employed 159 people.

On 30 June 2002 sales stood at PLN 7,746 thousand and were by 16% higher than the results of year 2001. Net profit at 30 June 2002 was equal PLN 504 thousand and was higher than the results of year 2001 by 148%.

▪ **ORLEN EnergoRem Sp. z o.o.**

ORLEN EnergoRem Sp. z o.o. was entered in the Commercial Register on 30 April 1999. On 30 June 2002 the share capital of the company was PLN 1,800 thousand. The company's shareholders are:

PKN ORLEN S.A.	51.00%
Employees	49.00%

As at 30 June 2002, the capital stood at PLN 3,349 thousand.

The company's business activity is the provision of repairing services.

At 30 June 2002 the company employed 264 people.

On 30 June 2002 sales stood at PLN 9,049 thousand and were by 12% higher than the results of year 2001. Net profit after 2 quarters of 2002 was PLN 378 thousand and was lower by 22% compared to the previous year.

▪ **ORLEN KolTrans Sp. z o.o.**

ORLEN KolTrans Sp. z o.o. was entered in the Commercial Register on 13 December 2000 and commenced operations as a subsidiary company within the PKN ORLEN S.A. Capital Group at the beginning of 2001. The company was established on the basis of the assets of the former Zakład Ekspedycji Kolejowej.

On 30 June 2002 the share capital of the company was PLN 40,859 thousand.

The company's shareholders are:

PKN ORLEN S.A.	99.85%
Employees	0.15%

The company's business activities include the railroad servicing of loading and reloading points as well as the transport of the Parent Company's products.

As at 30 June 2002, the capital stood at PLN 42,119 thousand.

At 30 June 2002 the company employed 36 people.

On 30 June 2002 sales stood at PLN 7,603 thousand and achieved level of the six months ended 30 June 2001. At the end of June 2002 the company recorded net profit equal to PLN 463 thousand. In relation to corresponding period of the previous year, a fall of 23% took place.

▪ **ORLEN Transport Plock Sp. z o.o.**

ORLEN Transport Plock Sp. z o.o. of Plock was entered in the Commercial Register on 23 December 1998 and commenced operations as a subsidiary company within the PKN ORLEN S.A. Capital Group on 3 January 1999. The company was established on the basis of the assets of the former Zakład Transportu Samochodowego.

On 30 June 2002 the share capital of the company was PLN 26,420 thousand.

The company's shareholders are:

PKN ORLEN S.A.	97.58%
Employees	2.42%

As at 30 June 2002, the capital stood at PLN 28,045 thousand.

The Company's business activities include:

- sales, service and repair of motor vehicles.
- road transport of passengers and freight.
- wholesale and retail sale of solid, liquid and gas fuels and service fluids for motor vehicles.
- machinery and plant hire together with maintenance services.

At 30 June 2002 the company employed 297 people. In 2001, sales amounted to PLN 28,798 thousand, an increase of 9% in comparison to 2001 combined with a simultaneous drop of net profit from PLN 768 thousand at 30 June 2001 to PLN 244 thousand as at 30 June 2002.

▪ **ORLEN Transport Kedzierzyn Kozle Sp. z o.o.**

ORLEN Transport Kedzierzyn Kozle Sp. z o.o. of Kedzierzyn Kozle was entered in the Commercial Register on 29 May 2000 and commenced operations as a subsidiary company within the PKN ORLEN S.A. Capital Group on 1 July 2000. The company was established on the basis of the assets of the former Zaklad Transportu Samochodowego.

On 30 June 2002 the share capital of the company was PLN 5.267 thousand.

The company's shareholders are:

PKN ORLEN S.A.	87.88%
Employees	12.12%

As at 30 June 2002, the capital stood at PLN 6.393 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sales, service and repair of motor vehicles,
- wholesale and retail sale of solid, liquid and gas fuels and service fluids for motor vehicles.

At 30 June 2002 the company employed 111 people. On 30 June 2002 sales stood at PLN 6,634 thousand, and net profit amounted PLN 461 thousand. Compared to 30 June 2001, an increase of sales by 21% was obtained, with a drop of net profit by 25%.

▪ **ORLEN Transport Krakow Sp. z o.o.**

ORLEN Transport Krakow Sp. z o.o. of Krakow was entered in the Commercial Register on 5 June 2000 and commenced operations as a subsidiary company within the PKN ORLEN S.A. Capital Group on 1 July 2000. The company was established on the basis of the assets of the former Zaklad Transportu Samochodowego.

On 30 June 2002 the share capital of the company was PLN 11,342 thousand.

The company's shareholders are:

PKN ORLEN S.A.	98.15%
Employees	1.85%

As at 30 June 2002, the capital stood at PLN 10.691 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sales, service and repair of motor vehicles,
- wholesale and retail sale of solid, liquid and gas fuels and service fluids for motor vehicles.

On 30 June 2002 the company employed 152 people and sales stood at PLN 14,306 thousand related to the respective period of the previous year, a rise of 30% was achieved. The company after six months ended 30 June 2002, recorded net loss of PLN 105 thousand, and in the same period of past year, the loss was equal PLN 250 thousand

▪ **ORLEN Transport Lublin Sp. z o.o.**

ORLEN Transport Lublin Sp. z o.o. of Lublin was entered in the Commercial Register on 9 June 2000 and commenced operations as a subsidiary company within the PKN ORLEN S.A. Capital Group on 1 July 2000. The company was established on the basis of the assets of the former Zakład Transportu Samochodowego.

On 30 June 2002 the share capital of the company was PLN 10.139 thousand.

The company's shareholders are:

PKN ORLEN S.A.	97.53%
Employees	2.47%

As at 30 June 2002, the capital stood at PLN 13.382 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sales, service and repair of motor vehicles,
- wholesale and retail sale of solid, liquid and gas fuels and service fluids for motor vehicles.

At 30 June 2002 the company employed 119 people. On 30 June 2002 sales stood at PLN 7,767 thousand, in comparison to the corresponding period of the previous year it fell by 10%. After the six months ended 30 June 2002 net profit was equal PLN 528 thousand and is lower than in the end of second quarter of the previous year, when it was equal PLN 1,195 thousand.

▪ **ORLEN Transport Olsztyn Sp. z o.o.**

ORLEN Transport Olsztyn Sp. z o.o. of Olsztyn was entered in the Commercial Register on 29 May 2000 and commenced operations as a subsidiary company within the PKN ORLEN S.A. Capital Group on 1 July 2000. The company was established on the basis of the assets of the former Zakład Transportu Samochodowego.

On 30 June 2002 the share capital of the company was PLN 6.140 thousand.

The company's shareholders are:

PKN ORLEN S.A.	91.97%
Employees	8.03%

As at 30 June 2002, the capital stood at PLN 7.760 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sales, service and repair of motor vehicles,
- wholesale and retail sale of solid, liquid and gas fuels and service fluids for motor vehicles.

At 30 June 2002 the company employed 82 people. On 30 June 2002 sales stood at PLN 5,945 thousand, in comparison to the corresponding period of the previous year an increase was recorded of 19%. The company at 30 June 2002 achieved net profit of PLN 309 thousand, which is 65% of the net profit recorded last year.

▪ **ORLEN Transport Nowa Sol Sp. z o.o.**

ORLEN Transport Nowa Sol Sp. z o.o. of Nowa Sol was entered in the Commercial Register on 9 June 2000 and commenced operations as a subsidiary company within the PKN ORLEN S.A. Capital Group on 1 July 2000. The company was established on the basis of the assets of the former Zakład Transportu Samochodowego.

On 30 June 2002 the share capital of the company was PLN 10.090 thousand.

The company's shareholders are:

PKN ORLEN S.A.	96.72%
Employees	3.28%

As at 30 June 2002, the capital stood at PLN 16.443 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sales, service and repair of motor vehicles,
- wholesale and retail sale of solid, liquid and gas fuels and service fluids for motor vehicles.

At 30 June 2002 the company employed 144 people. On 30 June 2002 sales stood at PLN 9,758 thousand, and thus it became comparable with the data for the last year Net profit totalled PLN 1,508 thousand and is lower by 38% in comparison to the corresponding period of the previous year

▪ **ORLEN Transport Poznan Sp. z o.o.**

ORLEN Transport Poznan Sp. z o.o. of Poznan was entered in the Commercial Register on 1 June 2000 and commenced operations as a subsidiary company within the PKN ORLEN S.A. Capital Group on 1 July 2000. The company was established on the basis of the assets of the former Zakład Transportu Samochodowego.

On 30 June 2002 the share capital of the company was PLN 11,273 thousand.

The company's shareholders are:

PKN ORLEN S.A.	96.39%
Employees	3.61%

As at 30 June 2002, the capital stood at PLN 14,425 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sales, service and repair of motor vehicles,
- wholesale and retail sale of solid, liquid and gas fuels and service fluids for motor vehicles.

At 30 June 2002 the company employed 180 people. On 30 June 2002 sales stood at PLN 10,765 thousand. In comparison to the corresponding period of the previous year a fall of 10% in sales was observed. After six month period ended 30 June 2002, generated net profit was equal PLN 949 thousand, which is less by 27% than in the period of six months ended 30 June 2001.

▪ **ORLEN Transport Slupsk Sp. z o.o.**

ORLEN Transport Slupsk Sp. z o.o. of Slupsk was entered in the Commercial Register on 23 June 2000 and commenced operations as a subsidiary company within the PKN ORLEN S.A. Capital Group on 1 July 2000. The company was established on the basis of the assets of the former Zaklad Transportu Samochodowego.

On 30 June 2002 the share capital of the company was PLN 6.774 thousand.

The company's shareholders are:

PKN ORLEN S.A.	96.18%
Employees	3.82%

As at 30 June 2002, the capital stood at PLN 10.335 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sales, service and repair of motor vehicles,
- wholesale and retail sale of solid, liquid and gas fuels and service fluids for motor vehicles.

At 30 June 2002 the company employed 102 people. On 30 June 2002 sales stood at PLN 9,594 thousand and are lower in comparison to the corresponding period of the previous year by 20%. Simultaneous drop of net profit from PLN 1,303 thousand at 30 June 2001 to PLN 383 thousand at 30 June 2002, took place.

▪ **ORLEN Transport Szczecin Sp. z o.o.**

ORLEN Transport Szczecin Sp. z o.o. of Szczecin was entered in the Commercial Register on 15 June 2000 and commenced operations as a subsidiary company within the PKN ORLEN S.A. Capital Group on 1 July 2000. The company was established on the basis of the assets of the former Zakład Transportu Samochodowego.

On 30 June 2002 the share capital of the company was PLN 3.424 thousand.

The company's shareholders are:

PKN ORLEN S.A.	99.56%
Employees	0.44%

As at 30 June 2002, the capital stood at PLN 4.570 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sales, service and repair of motor vehicles,
- wholesale and retail sale of solid, liquid and gas fuels and service fluids for motor vehicles.

At 30 June 2002 the company employed 50 people. On 30 June 2002 sales stood at PLN 2,920 thousand, a rise of 5% in comparison to the corresponding period of the previous year. Net profit at 30 June 2002 totalled PLN 309 thousand, which represents 54% of net profit earned in the respective period of previous year.

▪ **ORLEN Transport Warszawa Sp. z o.o.**

ORLEN Transport Warszawa Sp. z o.o. of Moscicka was entered in the Commercial Register on 7 June 2000 and commenced operations as a subsidiary company within the PKN ORLEN S.A. Capital Group on 1 July 2000. The company was established on the basis of the assets of the former Zakład Transportu Samochodowego.

On 30 June 2002 the share capital of the company was PLN 6.291 thousand.

The company's shareholders are:

PKN ORLEN S.A.	94.49%
Employees	5.51%

As at 30 June 2002, the capital stood at PLN 6.523 thousand.

The Company's business activities include:

- Sales, service and repair of motor vehicles.
- Road transport of passengers and freight.
- Wholesale and retail sale of solid, liquid and gas fuels and service fluids for motor vehicles.

At 30 June 2002 the company employed 101 people. On 30 June 2002 sales stood at PLN 5,360 thousand and were by 7% higher in comparison to the corresponding period of the previous year. The company achieved net profit of PLN 56 thousand, which represents merely 17% of last year's result.

▪ **ORLEN Powiernik Sp. z o.o.**

The company was entered in the Commercial Register on 19 July 2000.

On 30 June 2002 the share capital of the company was PLN 4 thousand. PKN ORLEN S.A. is the company's sole shareholder.

The company is involved in the provision of depositary services to the benefit of PKN ORLEN S.A. in relation with the implementation of the Management Stock Option Scheme.

As at 30 June 2002, the capital stood at PLN 230.362 thousand. The company employed 2 people.

On 30 June 2002 sales stood at PLN 60 thousand. At the end of the six month period on 30 June 2002, the company recorded net profit of PLN 14 thousand.

▪ **ORLEN Budonaft Sp. z o.o.**

The company was entered in the Commercial Register on 1 February 1997. On 30 June 2002 the capital stock was PLN 3,795 thousand. PKN ORLEN S.A. is the sole shareholder in the company.

The company is involved in the provision of services with regard to the construction of service stations.

As at 30 June 2002, the net assets were PLN 373 thousand.

The number of employees as at 30 June 2002 was 250.

On 30 June 2002 sales stood at PLN 8,615 thousand, in comparison to the corresponding period of the previous year, a fall of 46%.

The current period brought a net loss of PLN 3.782 thousand. As at 30 June 2001 a loss was equal PLN 2,874 thousand.

**1.3.2 Consolidated associated companies.**

The associated companies consolidated within the PKN ORLEN S.A. Capital Group are:

• **Naftoport Sp. z o.o.**

The company was registered on 17 July 1991. Naftoport Sp. z o.o. is the largest operator of imported crude oil reloading facilities for ships in Poland. On 30 June 2002 the share capital of the company was PLN 45,942 thousand.

The company's shareholders at 30 June 2002 are:

PKN ORLEN S.A.	48.71%
Rafineria Gdanska S.A.	25.64%
PERN S.A.	17.95%
"PORT POLNOCNY" Sp. z o.o.	3.85%
J&S SERVICE AND INVESTMENT Ltd.	3.85%

As at 30 June 2002, the capital stood at PLN 95,947 thousand.

The company's main business is the reloading of crude oil and oil products for Polish refineries as well as services for Mider Refinery. Naftoport's reloading capacity is 23 million tons of crude oil a year.

At 30 June 2002 the company employed 19 people. Net profit as at 30 June 2002 totalled PLN 12,274 thousand and sales recorded a level of PLN 25,448 thousand. The respective values in the corresponding period of the previous year was PLN 12,529 thousand and PLN 26,703 thousand.

▪ **Flexpol Sp. z o.o.**

Flexpol Sp. z o.o. was entered in the Commercial Register on 3 January 2000. On 30 June 2002 the share capital of the company was PLN 12 million. The company's shareholders at 30 June 2002 are:

PKN ORLEN S.A.	40%
ZML Kety S.A.	60%

Flexpol Sp. z o.o. is involved in the production of foil.

At 30 June 2002 the company employed 114 people and the capital stood at PLN 14,237 thousand.

On 30 June 2002 sales stood at PLN 32,995 thousand, generating a net profit of PLN 2,237 thousand, i.e. maintaining similar level as in the corresponding period of the previous year.

▪ **Chemiepetrol Sp. z o.o.**

Chemiepetrol Sp. z o.o. was established on 1 January 1984. PKN ORLEN S.A. purchased shares in the company on 28 April 1993. On 30 June 2002 the share capital of the company was PLN 205 thousand.

The company's shareholders are:

PKN ORLEN S.A.	20%
CIECH S.A.	60%
Jurgen Kleiner	20%

The company business activities include trading and agency services in all types of goods, in particular foreign trade in chemical products.

As at 30 June 2002, the capital stood at PLN 3,627 thousand.

At 30 June 2002 the company employed 9 people.

On 30 June 2002 sales stood at PLN PLN 14,671 thousand.

Chemiepetrol Sp. z o.o. closed the six month period ended 30 June 2002 with a net loss of PLN 30 thousand.

### **1.3.3 Unconsolidated company of significant importance to the PKN ORLEN S.A. Capital Group – Polkomtel S.A.**

The company was established on 19 December 1995. On 30 June 2002 the share capital of the company was PLN 2.050 million, whereas capital investment of PKN ORLEN was equal PLN 436,495 thousand. PKN ORLEN S.A. owns 19,61% of shares and the same percentage of votes at the General Shareholders Meeting.

Since 23 February 1996 Polkomtel S.A. has been one of the three entities which have a licence for the development of a GSM mobile telephony network. On 1 October 1996 the company commenced its commercial activity under the trade name of Plus GSM.

The company's shareholders are:

PKN ORLEN S.A.	19.61%
KGHM Polska Miedz S.A.	19.61%
Tele Danmark A/S	19.61%
Vodafone Americas Asia, Inc.	19.61%
Polskie Sieci Elektroenergetyczne S.A.	16.05%
Weglokoks S.A.	4.00%
Tel-Energo S.A.	1.01%
Tel Bank S.A.	0.50%

The Company's business activities include:

- design, installation, operation, and management of a GSM system.
- provision of mobile telephony services.
- sales of GSM-related products and services.

Net profit as at 30 June 2002 amounted to PLN 288,467 thousand, with sales of PLN 2,301,656 thousand. The respective figures for the corresponding period of the previous year were PLN 230,441 thousand and PLN 1,985,757 thousand.

Since 20 December 2000 the Company has had a licence for the provision of the third generation UMTS mobile telephony services.

According to Polkomtel S.A. strategy agreed on General Shareholders Meeting investments in the development of third generation UMTS mobile telephony network will be financed from company's own as well as external sources. First steps towards realisation of this strategy was increase in Company's share capitals by PLN 550 million on 24 September 2001 and a PLN 500 million loan granted by all shareholders in proportion to their stakes. PKN ORLEN's share was PLN 98,050 thousand.

## **II. CHANGES IN ORGANISATION AND MANAGEMENT OF CAPITAL GROUP COMPANIES OF AND IMPACT OF EXTERNAL AND INTERNAL FACTORS ON OPERATIONS OF CAPITAL GROUP**

PKN ORLEN S.A. is comprised of Main Plant in Plock and 12 Regional Organizational Units (Regions) with offices in Bialystok, Gdansk, Katowice, Krakow, Lublin, Nowa Wies Wielka, Plock, Poznan, Rzeszow, Szczecin, Warszawa and Wroclaw having the status of an employer within the meaning of Art. 3 of the Labour Code. Regional Organizational Units (Regions) are composed of Regional Wholesale and Logistics Offices, Regional Retail Trade Offices, Regional Investment and Maintenance Offices and Regional Financial Offices / Financial Offices.

On 8 February 2002 by virtue of the decision of the Supervisory Board, Andrzej Modrzejewski was dismissed from the position of the President of the Management Board, General Director, Jaroslaw Tyc from the position of the Vice-President of the Management Board, Retail Trade Director and Andrzej Dretkiewicz from the position of the member of the Management Board, Wholesale Trade Director.

On that day, Zbigniew Wrobel was appointed the President of the Management Board, General Director, Slawomir Golonka was appointed Vice-President of the Management Board and Andrzej Ernest Macenowicz was appointed the member of the Management Board. In connection with the appointment for the position of the Vice-President of the Management Board, Slawomir Golonka was dismissed from the Supervisory Board of Dominant Company.

During its session on 7 March 2002 the Supervisory Board of Dominant Company made another changes in the composition of the Management Board, decreasing number of its members from seven to five. Consequently, the following members of the Management Board were dismissed from their positions: Czeslaw Bugaj from the position of the member of the Management Board, Production Director, Wladyslaw Wawak from the position of the member of the Management Board - Development and Technology Director and Wojciech Weiss from the position of the member of the Management Board - Employee and Restructuring Director.

Additionally, Janusz Wisniewski was appointed to the Management Board and took the position of the Vice-President of the Management Board. Moreover, the Supervisory Board appointed Andrzej Macenowicz the Vice-President of the Management Board, who hitherto held position of the member of the Management Board. In connection with the above information, the Management Board of Dominant Company was composed of 5 members:

- Zbigniew Wrobel, President of the Management Board,
- Krzysztof Cetnar, Vice-President of the Management Board, Economic and Financial Director,
- Slawomir Golonka, Vice-President of the Management Board, Sales Director,
- Andrzej Macenowicz, Vice-President of the Management Board, Human Resources and Management Systems Director,
- Janusz Wisniewski, Vice-President of the Management Board, Development and Production Director.

On 15 April 2002 a resolution of the Management Board introduced a temporary Frame Organisational Rules and Regulations of PKN ORLEN S.A. Its instructions make a combination of previous management system based on function units headed by the Members of the Management Board – Unit Directors with new range of responsibilities of the President – General Director and four Vice-Presidents of the Management Board, specified by the Supervisory Board of the Company.

New Frame Organisational Rules and Regulations of PKN ORLEN S.A. was approved by the Management Board on 18 June 2002, and from 1 July 2002 it came in force within the Company.

New Organisational Rules and Regulations reflects a change from functional to process management system. A function of the Board Member and director commanding current operations of the group of organisational units are now separated. Change of management style for process management refers not only to the Company itself, but also to the whole Capital Group of PKN ORLEN S.A.

The Members of the Management Board within the supervision over assigned areas, set unified standards and procedures of strict cooperation with selected companies of the Capital Group in order to economise realisation of tasks specified by the strategy of the Dominant Company.

According to the new Rules and Regulations the Company is managed by 5-member Management Board: President of Management Board and four Vice-Presidents. President of Management Board is the General Director simultaneously. The deputy General Director is the Director for Production and Technology within the area defined by authorisation given by the General Director. President of the Management Board – General Director leads the activities of the Company with an assistance of Vice-Presidents, who control Reporting Directors and other managers of the remaining departments and supervises the tasks assigned to the appropriate managers and directors. Reporting Directors possess the following duties: they report directly to the Members of the Management Board, they manage the selected areas of the Company, they realise objectives according to authorised operating plans of the Company and strategy approved by the Management Board.

The Management Board decided to create new regional structure in order to meet sales objectives – Macro-regions. It is planned that Macro-regions will override areas of Regional Organisation Units. Frame Rules and Regulations comprise general rules of Macro-regions operations. There is a consequence of delegating responsibilities and authorisations from the Management Board level to lower levels. Frame Rules and Regulations include areas of responsibility not only of the appropriate Members of the Management Board, but also concerning all managers of the operating units who report directly to the Members.

On 1 July 2002 Mr Krzysztof Cetnar's, CFO's, mandate and three year term of office has expired. On 11 July 2002 the Supervisory Board of PKN ORLEN appointed Mr Jacek Strzelecki to the position of the Vice President of the Management Board & CFO.

During the six month period ended 30 June 2002 in the Capital Group of PKN ORLEN S.A. another stage of consolidation of gas companies, that originally began in 2000, was completed. Shares in ORLEN Petrogaz Wrocław Sp. z o.o. and Petrogaz Lapy Sp. z o.o. were transferred into ORLEN Petrogaz Plock Sp. z o.o. as contributions in kind. Reduction of costs and improvement of profitability of gas assets, that are in possession of PKN ORLEN S.A. as well as elimination of internal competition are the main purposes of the consolidation.

The most important external factors that have an impact on the results of PKN ORLEN S.A. are the following:

- Economic growth

In 2002, an economic growth of above 1% is expected, which is about to exceed 0.5% in the first quarter 2002. Level of individual consumption in household sector and increasing exports volume will be the main factors for acceleration of the economic growth rate. Taking these circumstances into consideration, economic growth in the year 2002 is going to reach a similar level to the previous year's 1.1%. Higher budget inflows from taxes, including mainly returns from corporate income tax and indirect taxes (which are economic fluctuations dependent) may be a sign of gradual improvement in Polish economy in 2002.

- Growth of unemployment rate and reduction of households' consumption

During the six month period ended 30 June 2002 further increase of unemployment in comparison with the respective period a year ago rate took place, reaching the level of 17.3%. Growth of unemployment in Poland is a result of few factors. The most crucial ones are continuous restructuring of enterprises, growth of labour effectiveness and new legal regulations concerning labour market.

- Inflation

Yearly average rate of inflation in 2002 is 1.6%, compared to 6.2% in the previous year.

- Fluctuations of prices of crude oil and refinery products

Large fluctuations of oil prices were characteristic for the six month period ended 30 June 2002, which has an impact on operating costs of the Parent Company and companies that process crude oil. The average price of Brent crude oil from quotations for the six month period ended 30 June 2002 amounted to USD 23.15/bbl (drop of 13% compared to the period ended 30 June 2001). On the other hand, significant decrease of margins from the quotations of the products had a negative impact on results achieved by the Company and the Group. As a result of above factors, refinery margin Rotterdam Complex for Ural crude in the period ended 30 June 2002 decreased, in comparison with previous year according to Meryll Lynch study:

- for Ural crude by 74.6% to the level of USD 0.70/bbl,
- for Brent crude from USD 1.14/bbl to the level of USD (-) 0.71/bbl.

- Exchange rate fluctuations

Fluctuation of the exchange rate may influence considerably a number of economic and financial factors of the Group, including sales returns (prices in the Company are set according to the import parity), costs of crude oil and other raw materials and costs of debts expressed in foreign currencies. The Capital Group and mainly the Dominant Company purchase crude oil and most of the raw materials in U.S. Dollars and Euro. Although the revenues are realised in Polish zlotys, the most part of them is depending on the exchange rate (prices set according to the import parity). In the six month period ended 30 June 2002 average exchange rate of USD increased by 1.1% to the level of PLN 4.09 /USD (calculated as an arithmetic mean of daily rates published by the National Bank of Poland in the period from 1 January to 30 June 2002). A slight change of rate did not influence the results significantly.

- Changes in fiscal policy and legal regulations

Corporate income tax rate for the period ended 30 June 2002 was equal 28%. In the consecutive years the tax rate will be gradually reduced to the level of 22% in 2004 and the following years. On 1 January 2002 excise tax rates were increased (by PLN 37/1000 litres for fuels and by PLN 25-28 /1000 litres for diesel fuels). Increase of excise tax influences the level of fuel prices, which has a potential effect on the level of consumption.

Regulations on regeneration of used oils and organisation of used oil market are binding. For all used oils Polish Standard PN C/ 96050 is in effect which means that all used oils must be regenerated.

Dominant Company plans to manufacture bio-fuels as soon as legal conditions guarantee that this type of activity is profitable (changes are supposed to appear from 2003).

- Mandatory level of inventories

In accordance with realisation of responsibilities concerning future membership in the European Union a requirement of 90-day mandatory inventories of fuels was imposed on Poland, which is a guarantee of energy security of the country. Resulting from that producers and importers of fuels were obliged to create mandatory inventories. The actual regulation concerning mandatory level of inventories is defined by the Decree from 14 June 2002 which is in force from 1 July 2002. The inventories are created on the basis of production and imports volume, realised by the entity during the former year less the volume of exports. In years the level of mandatory inventories of liquid fuels increases by volume equal to at least 7-day average production and imports, so that in 2008, a legally required level of 76 days is met.

The Dominant Company creates and maintains mandatory inventories of fuels (petrol, diesel fuel and Ekoterm) as well as crude oil. Own storing farms and infrastructure located throughout the country are used combined with storing capacities of Naftobazy Sp. z o.o., PERN "Przyjazn" S.A. and IKS Solino S.A.

All costs attributed to creation and maintenance of mandatory inventories are carried by the producers and importers of fuels. The amended act on mandatory inventories gave the producers a possibility to create up to 80% of inventories in crude oil. That enables reduction of storing costs and increases flexibility and security of the long term storing. The Dominant Company presently uses capacities in the underground salt caverns in IKS Solino S.A., which are going to be connected by the pipeline with refinery in Plock

- Drop of car sales

According to data of SAMAR, in the period of six months ended 30 June 2002, another drop of personal car sales (by 19.7%) took place in relation to the respective period of previous year. It is another year in row of shrinkage of the car market in Poland. Economic situation in Poland and growing unemployment are the main reasons behind the collapse on the new cars' market.

- Situation in agriculture and construction industry

Uneasy situation in Polish agriculture resulting from, among other reasons, too late implementation of credits for fertilisers is the main reason for weakening demand for agriculture products. High stocks of fertilisers in Poland and abroad (mainly in Germany) were the main reason for reduction in purchases of the key wholesalers.

In the same way situation in construction industry is a reason why producers are forced to look for sales opportunities abroad.

- Interest rates

Low inflation rate and signs of economic recovery in the six month period ended 30 June 2002 had an impact on decisions of the Monetary Policy Council to reduce base interests rates. From January National Bank of Poland reduced basic interest rates by 350-500 bps in total, and from the beginning of the whole process of rates reductions, by 1100-1250 bps. Despite significant liberalisation of the monetary policy, interest rates in real terms are still too high, taking the state of economy into consideration.

- Elimination of excise tax reliefs

From 1 February 2002 former reliefs in excise tax on sale of diesel fuel with components achieved from regeneration of used oils were eliminated. This resulted in change of scale and assortment of production and had an impact on results of the Capital Group of PKN ORLEN SA. After changes being in force from 1 January 2002 organisation of used oils collection is carried out in the company "Konsorcjum Olejow Przepracowanych – Organizacja Odzysku" S.A. The volume of oils repurchase depends on the index of regeneration of these oils in relation to fresh oils introduced into the market.

- Strong competition in gas sector

According to assessment of ORLEN Petrogaz Plock Sp. z o.o. a strong competition within the sector is a characteristic feature presently. One of the main criteria during selection of the supplier is the price factor. Some of the competitors use illegal practices and competing with them by price is very difficult and in some situations almost impossible. In this situation the Group companies are forced to realise minimal level of sales margins in order to maintain an independent position among the market leaders. This reduces achieved financial results. The plurality of different entities operating in the market gives large bargaining power of the purchaser towards the supplier.

- Worsening situation in airline sector

As a result of bankruptcy of renowned airlines Swissair and Sabena as well as Qualiflyer Group corruption, the member of which was Polskie Linie Lotnicze LOT S.A. airlines, the sales of air-craft fuel JET A-1 distributed by PETROLOT Sp. z o.o. dropped.

Among the internal factors having an impact on results achieved by the Capital Group of PKN ORLEN S.A. in the six month period ended 30 June 2002 the following should be mentioned:

- Card programmes development

By the end of the the six month period ended 30 June 2002 Vitay programme was introduced in over 110 own stations and 38 franchise outlets. In the six month period ended 30 June 2002 the company issued 725.2 thousand of VITAY cards, while fleet card system attracted 470 fleets. From the beginning of existence of above products 2,643.4 thousand members joined Vitay programme and 2,100 fleets joined "Flota Polska" programme.

Additionally the Dominant Company introduced pre-paid cards. The card is a new product designed mostly for the companies. It is a kind of "electronic cash". The Dominant Company proposes its customers a card with a value limit (type "W"), which enables purchases of different kinds of fuels, until the limit is exceeded. The type "W" card is available for entrepreneurs and individual clients. As at 30 June 2002, 2,551 cards were issued within that programme and 6,692 card since the very beginning.

- Re-branding

In the year 2001 the company started the process of re-branding in order to introduce consistent image of PKN ORLEN stations. According to the plan, re-branding concerns all petrol stations which are not aimed to be sold, leased or liquidated. In the period ended 30 June 2002 the new brand was introduced in 56 outlets. It is forecast that the whole process is about to be completed until 30 June 2003.

- Investment programme

Growth of effectiveness of the Dominant Company and Capital Group is affected by investment processes in production and marketing

The biggest projects in production are the following:

- Launch in April 2002 of the intensified installation DRW III in the Dominant Company. This way PKN ORLEN's crude oil processing capacity will rise by 3 million tons a year. The main effect of launching the installation DRW III will be the decrease in unit costs of crude oil processing.
- Completed intensification of polypropylene production on Polypropylene II installation, facilitating increase in production of this product by about 27 thousand of tons a year.
- Continuous modernisation of Biturox installation – increase of storing capacities and system of asphalts distribution.
- The beginning of revamping at II Olefine Production Unit, which will lead to increase in production of ethylene to 660 thousand of tons a year and propylene to 315 thousand of tons a year.
- The beginning of Hydrocracking intensification, which will increase capacity of this installation by 30%.
- Modernisation and enlargement of PVC production area in Anwil S.A. which will bring an increase of capacities to 300 thousand of tons a year.

Within market tasks the following should be enumerated:

- Modernisation of storing farms in Ostrow Wielkopolski, Moscisk, Plock, Sokolka and Wroclaw,
- Construction of storing containers of fuels and diesel fuel in the Parent Company,
- Works carried out on fuel pipeline Plock - Ostrow Wielkopolski as well as fuel and diesel fuel pipeline to the IKS Solino S.A. salt mine,
- Continuation of construction of the underground storing caves of oil and fuels in IKS Solino S.A.
- Building of 3 new filling stations, restoration of 9 filling stations and partial modernization of 62 sites.

- Implementation of the Profit Improvement Programme

The Profit Improvement Programme realised for past two years with U.K. based KBC allowed the company a substantial decrease of costs. The programme encompasses the modification of the technological procedures and optimisation of production capacity of the installations.

The purpose of the programme is:

- optimisation of employment structure as an effect of restructuring activities,
- improvement of effectiveness of assets utilisation by sales or lease of redundant storing sites and fuel stations,
- maintaining of the production level of fertilisers (CANWIL),

- completion of restructuring of the Group's companies, management system in particular as well as organisational and capital restructuring,
- enlargement of the renovating cycle on particular installations as a result of introduction of new advanced technologies into the production and implementation of Merit system,
- continuation of investment and modernisation activities in order to achieve proper competitive position within production costs and logistics,
- activities connected with full privatisation of spinned-off service companies during restructuring process.

### III. CURRENT AND PROJECTED FINANCIAL POSITION OF CAPITAL GROUP

#### 3.1 PRODUCTION

In six months ended 30 June 2002 the amount of crude oil processed in companies of the Capital Group (PKN ORLEN S.A., Rafineria Nafty Jedlicze S.A., Rafineria Trzebinia S.A.) accounted for 6,443 thousand tones and was by 346 thousand tones (by 5.7%) higher than in the previous year. In comparison to the six month period ended 30 June 2001 the share of REBCO crude oil delivered to Plock by "Przyjazn" pipeline increased, and processing of low sulphur crude oil decreased. The reduction in processing of low sulphur crude oil results primarily from technological advantage of production installations and optimal use of hydrorefining and hydrocracking installations capability.

Main suppliers of crude oil to Plock are companies operating on the russian crude oil market. The major share in deliveries of crude oil for the Dominant Company (68%) has J&S Service and Investment Ltd. The second largest supplier is BMP Trading GmbH & Co. KG, the share of which in deliveries amounts to more than 16%. The south refineries, which belong to the Capital Group of PKN ORLEN S.A. are supplied with REBCO crude oil by forwarding it from Plock.

Main factors determining the production in the six month period ended 30 June 2002 processes were:

- putting into operation the intensified DRW III installation,
- intensification of polypropylene production in the scope of homopolymers in the Polypropylene Installation II,
- second stage of installation FKK II modernisation,
- change in structure of processed crude oil (decrease in share of low-sulphur crude oil),
- maintenance of high quality of engine fuels - only unleaded petrol and diesel oil containing sulphur at the level of <50 ppm were produced,
- change in demand structure for fuel products (change in the direction of increase in production of medium distillates together with decrease in fuels),
- increase in prices of crude oil,
- continuation of production of engine gasoline with etylotributylene ether (EETB),
- uninterrupted work of elementary production installations,
- idle time of petrochemical complex, hydrocracking, gudron hydrodesulphuring,
- production costs optimising – completion of Profit Improvement Program implementation – phase I.

### **3.2 INFORMATION ABOUT CORE PRODUCTS AND SERVICES, SUPPLY AND SALE MARKETS OF COMPANIES OF CAPITAL GROUP**

Information about core products and services, supply and sale markets of companies of Capital group is disclosed in the Additional Notes to this document.

### **3.3 FINANCIAL RESOURCES MANAGEMENT**

In six months ended 30 June 2002 the Dominant Company has prolonged two loan on current account agreements and five working capital loans.

Within the Capital Group another long term investment credit agreement was concluded for the total amount of PLN 38 million for Inowroclawskie Kopalnie Soli Solino S. A. for completion of construction of the underground crude oil and fuel tank warehouse. Negotiations of conditions of the credit were supported by the Dominant Company.

As at 30 June 2002 the indebtedness of the Capital Group from credit and loans decreased by 3.8%, and from use of the bonds issuance program by more than 170%. In the period it was concluded that it was more favourable to raise external funds by bonds issuance. Total indebtedness from external funds raised increased in comparison to the balance on 30 June 2002 by 3.2%.

Detailed information on maturity dates of credit and loans incurred by the Capital Group PKN ORLEN S.A. were additionally given in Notes 22D and 23C to the consolidated financial statements for six months ended 30 June 2002.

#### **3.3.1 Loans, sureties and guarantees granted to employees and companies of the Capital Group**

The Dominant Company in the six month period ended 30 June 2002 did not grant from the privatisation fund any loans for purchase of stakes and shares of companies funded as a result of PKN ORLEN S. A. restructuring. Closing balance of loans as at 30 June 2002 amounted to PLN 5,778 thousand.

Closing balance of loans granted from the Company's Social Fund to employees and pensioners of the Dominant Company as at 30 June 2002 amounted to PLN 21,730 thousand, and closing balance of loans granted to the employees of consolidated companies from the Capital Group, which signed an agreement with the Dominant Company on having a common social activity, amounted to PLN 3,062 thousand.

In six months ended 30 June 2002 the Dominant Company did not grant to any Capital Group's company loans, guarantees and sureties. As at 30 June 2002 the closing balance of loans, guarantees and sureties amounted to PLN 94,548 thousand.

### **3.3.2 Bond issuance**

Under the Bond Issue Program the Dominant Company is able to issue bonds up to the total indebtedness amount not exceeding PLN 700 million, both short- and medium-term bonds of up to 3 years maturity. Taking into account the characteristics of Polish securities market, the already issued bonds were exclusively short-term. According to the agreement on the bond issuance, financial resources raised by the Dominant Company in this way were used to settle current liabilities. As at 30 June 2002 the indebtedness of the Company from bond issuance amounted to PLN 325 million (including 44,800 from consolidated associates). Other companies of the Capital Group did not issue any securities in the six month period ended 30 June 2002.

### **3.3.3 Financial resources management**

In six month period ended 30 June 2002 the Company still used external financial resources to settle its current liabilities. Average daily indebtedness level in current account remained on the level of PLN 290 million. Arising temporary surpluses were used to decrease indebtedness in current accounts or invested in "overnight" deposits. The effort was aimed at negotiating the most favourable interest rates of short-term credits.

In the six months ended 30 June 2002 there was a minor increase in net financial indebtedness of the Capital Group PKN ORLEN S.A. in comparison to the comparable period of year 2001. The net shareholders equity indebtedness ratio (calculated as indebtedness from credits, loans and securities less cash owned and held-for-trade securities related to shareholders equity) increased from 30.3% in six months ended 30 June 2001 to 31.4% in six months ended 30 June 2002.

The Dominant Company more intensively than in previous period used bond issuance program. As at 30 June 2002 the indebtedness from bond issuance was 2.7 higher than on 30 June 2001.

The Dominant Company continued efforts aimed at effective management of cash flows within the Group. Companies, which had financial surpluses invested them in line with binding in the Group rules of financial resources investment. Liabilities of the Companies were in major part settled currently. To achieve it working capital and investment loans previously incurred were used, or the resources were arranged with support of the Dominant Company.

### **3.4 INCOME STATEMENT**

#### **3.4.1 Revenues**

In six months ended 30 June 2002, the Capital Group sales of finished products, goods for resale and materials amounted to PLN 12,053,778 thousand, which is 1.7% less than in six months ended 30 June 2001. The decrease in sales of the Group was mainly caused by remaining trend of crude oil prices on the markets world-wide (gasoline by 23%, diesel oil by 19% and Ekoterm by 19%). The decrease in prices of basic products and remaining on comparable level PLN/USD exchange rate adversely influenced income of the Dominant Company, which sets prices for its products on the basis of import parity. Mainly due to the above mentioned facts the share of the Dominant Company in the Capital Group decreased slightly from 92.3% in six months ended 30 June 2001 to 91.1% in six months ended 30 June 2002.

#### **3.4.2 EBIT**

Profit on sales of the Capital Group PKN ORLEN S.A. in six months ended 30 June 2002 amounted to 428,081 thousand PLN and was higher by 18.3% in comparison to the profit on sales earned in six months ended 30 June 2001. The level of profit of sales is explained mainly by profit earned by the Dominant Company, which despite of unfavourable trends in world economy (decrease in margins for fuels) generated profit on sales higher by 13.4% than in six months ended 30 June 2001. The positive results were possible due to intensification of sales activities, mainly in the area of retail sales and optimisation of costs of production and logistics. The Dominant Company recorded an increase in retail sales of engine fuels (fuels, diesel oils, LPG) by 8.4%. Optimisation of production and logistics costs resulted in considerable decrease in variable costs per unit (not including costs of crude oil and excise tax) per one ton of processed crude oil by 21.1%.

Due to the increase trend in prices of crude oil in all six months ended 30 June 2002 a positive impact had also inventories valuation method of weighted average cost applied by refineries of the Capital Group (delay in transfer of results of increase in prices for crude oil in comparison to the prices for finished products).

In six months ended 30 June 2002 loss on other operating activity amounted to PLN 28,742 thousand in comparison to profit of PLN 30,250 thousand earned in six months ended 30 June 2001. Such considerable differences result mainly from movements in provisions and assets impairment write-offs. The value of the loss results mainly from:

- lower other operating income (release of provisions). In six months ended 30 June 2001 the provision for OPCC decisions amounting to PLN 20 million,
- impairment write-offs of short-term receivables, which lowered the results in six months ended 30 June 2002 amounted to PLN 39.671 thousand,
- adjustments of non-financial assets value amounting to PLN 13,862 thousand
- provisions increase amounting to PLN 10,894 thousand (including unfavourable court decisions and

environmental costs).

Operating profit (EBIT) for six months ended 30 June 2002 amounted to PLN 399,339 thousand and is higher than in corresponding period of previous year by 1.9%.

### **3.4.3 Financial activity**

In six months ended 30 June 2002 loss on financial activity amounted to PLN 116,545 thousand and was higher by 29,316 (by 33.6%) from the loss incurred in comparative period of the previous year. In six months ended 30 June 2001 the Dominant Company sold shares of BOS S.A. which resulted in gross profit on this operation of PLN 46,651 thousand, which decreased loss on the financial activity. The result of financial activity was shaped by:

- interests charging financial costs (PLN 110,096 thousand)
- net foreign exchange gains and losses (PLN - 41,449 thousand).

### **3.4.4 Extraordinary gains and losses**

Balance of the extraordinary gains and losses amounted to PLN (-) 2,824 thousand, whereas in six months ended 30 June 2001 it was PLN 1,906 thousand. It resulted from drop in extraordinary gains by 67.8% (decrease in gains from insurance payments) and parallel increase in extraordinary losses by 130.6% (increase in losses from accidents – fire in Trzebinia Refinery).

### **3.4.5 Gross profit, tax and net profit**

As a result of profits earned on each activity the Capital Group of PKN ORLEN S.A. generated in six months ended 2002 gross profit of PLN 301,289 thousand (drop by 8.4% in comparison to six months ended 30 June 2001). The drop in gross profit and parallel increase in income tax results from different treatment of costs and revenue by the accounting and corporate tax regulation. Main discrepancy in this area in the analysed periods results from following reasons:

- in six months ended 30 June 2001 in the Dominant Company the taxable income was diminished by PLN 20 million due to OPCC provision release;
- in six months ended 30 June 2002 an increase of short-term impairment write-offs decreasing taxable income in the Dominant Company by PLN 31,486 thousand (increase by PLN 18,714 in comparison to the corresponding period of the previous year)

In six months ended 30 June 2002 the Capital Group earned net profit of PLN 199,141 thousand and is lower by 16.7% than in corresponding period of previous year.

### **3.5 BALANCE SHEET**

#### **3.5.1 Assets**

As at 30 June 2002 total assets of the Capital Group amounted to PLN 14,430,840 thousand and increased by PLN 321,559 thousand (by 2.3%) in comparison to 31 December 2001. Within the assets main part was constituted by fixed assets, the share of which in total assets amounts to 66.9% (68.9% at the end of 2001). In equity and liabilities, the major part is shareholders equity constituting 53.0% of total assets as at 30 June 2002 (53.2% as at 31 December 2001). Following conclusions result from comparison of certain balance sheet captions as at 30 June 2002 and at 30 June 2001:

- drop in fixed assets by 0.7% to the level of PLN 9,648,391 thousand as a result of a decrease in tangible fixed assets,
- increase in current assets by PLN 388,462 thousand, which is by 8.8% to the level of PLN 4,782,449 thousand, mainly as a result of increase in inventories by PLN 247,599 thousand. The above increase is a result of raise in finished products stock (including obligatory stock) and semi-products in the Dominant Company. Short term receivables increased in six months ended 30 June 2001 by 3.1% (receivables turnover ratio increased form 19 day for the year 2001 to 21 days as at 30 June 2002), whereas cash and other cash assets increased by 6.9% to the level of PLN 217,337 thousand.
- increase in level of shareholders equity by PLN 147,285 thousand to the level of PLN 7,648,424 thousand as a result of net profit earned by the Capital Group within year 2002. Lower growth than the profit earned results from dividend payment from previous year's profit.
- increase in liabilities and provisions for liabilities by PLN 183,896 thousand to the level of PLN 6,103,470 thousand resulting mainly from increase in trade liabilities (more expensive crude oil) and tax liabilities (higher excise duty).

#### **3.5.2 Net financial indebtedness**

As at 30 June 2002 the level of credits, loans and issued securities in the Capital Group PKN ORLEN S.A. amounted to PLN 2,618,135 thousand and was lower by PLN 159,586 thousand than at the end of 2001 as a result of drop by PLN 200 million of the Dominant Company financial indebtedness. The level of financial indebtedness as at 30 June 2002 in comparison to 30 June 2001 decreased by PLN 173,538 thousand to PLN 2,400,798 thousand. Increase in shareholders equity and coincident drop in net financial indebtedness lead to decrease in the Group's shareholders equity financial indebtedness ratio (credits, loans and securities less other cash assets in relation to shareholders equity) from the level of 34.3% as at 31 December 2001 to 31.4% as at 30 June 2002.

### **3.6 CASH-FLOW**

### **3.6.1 Operating activities**

In the six month period ended 30 June 2002 net cash flows from operating activities of the Group amounted to PLN 789,646 and were lower by 46.9% than cash flows from operating activities in six months ended 30 June 2001.

The most important factors influencing cash flows in six months ended 30 June 2002 in comparison to six months ended 30 June 2001 were:

- drop in net profit by PLN 39,921 thousand,
- increase in depreciation by PLN 61,083 thousand,
- movements in stock (-) PLN 592,008 thousand,
- movements in receivables (-) 239,256 thousand.

As at 30 June 2002 the working capital (inventories, short-term receivables and short-term investments less short term payables) amounted to PLN 376,302 thousand and was higher than as at 31 December 2001 by PLN 145,987 thousand, mainly as a result of more considerable increase in stock of finished products and semi-products than in short-term receivables.

### **3.6.2 Investing activities**

Net cash flows used in investing activities amounted to PLN (-) 475,500 thousand, and in the corresponding period of the previous year they amounted to PLN (-) 861,335 thousand. This level of cash flow used in investing activities results from lower expenditures both capital expenditures for fixed assets and capital investments.

### **3.6.3 Financing activities**

In six months ended 30 June 2002 net cash flows used in financing activities amounted to PLN (-) 300,194 thousand whereas in six months ended 30 June 2001 – PLN (-) 502,624 thousand. The decrease in indebtedness of the Capital Group together with reductions of interest rates resulted in lower financial burden from interests payments.

In six months ended 30 June 2002 in comparison with comparable period of the previous year one can observe:

- considerably lower level of inflows from operating activities,
- lower net inflows from investing and financing activities.

The above quoted cash flows resulted in slight increase in cash by PLN 13,952 thousand (in six months ended 30 June 2001 – PLN 122,196 thousand). Lower cash outflows from investing and financing activities did not compensate considerably lower cash inflows from operating activities in comparison to comparable period of previous year.

### 3.7 EMPLOYMENT

As at 30 June 2002 the employment in the Dominant Company and consolidated subordinated companies amounted to 17,606 people in comparison to 17,852 people employed at the end of year 2001.

### 3.8 SEGMENTS

#### 3.8.1 Refining Segment

Refining Segment data in compliance with PAS (in PLN thousand)	6 months ended 30 June 2002	6 months ended 30 June 2001	Change%
External sales	10,601,589	10,844,860	-2.2%
Inter-segments sales	1,112,071	1,176,225	-5.5%
Total income	11,713,660	12,021,085	-2.6%
Segment result	418,268	343,918	21.6%
EBITDA*	746,711	653,066	14.3%
Expenditures for fixed assets	259,652	459,892	-43.5%
<b>Share of segment in Group's results</b>	<b>76.2%</b>	<b>62.6%</b>	<b>21.7%</b>
Share of segment in Group's EBITDA	70.6%	65.6%	7.6%
Sales profitability	3.6%	2.9%	24.1%
Segment results /segment assets	4.4%	3.5%	25.7%
Segment results /shareholders capital of the segment **	6.1%	5.1%	19.6%
Indebtedness ratio /assets	27.1%	30.9%	-12.3%
Assets turnover ratio	1.242	1.240	0.2%
CAPEX/EBITDA	34.8%	70.4%	-50.6%

\*) segment result including depreciation

\*\*\*) segment's assets less segment's liabilities

In six months ended 30 June 2002 the refining segment increased its contribution to the total Group's results to nearly 13.6% but its share in EBITDA of the Group rose only by 5%. It means that the cash contribution was slightly lower. A positive signal is that despite the drop in total income (by more than 2.5%) the profitability ratios rose. Increase in land bonus and rising costs effectiveness in this area contributed to this fact.

Expenditures for tangible and intangible fixed assets were considerably lower (by almost 44 %), as well as share of the segment in total Group's investment expenditures (from 79% to 69%). However if one takes into account relation of expenditures to EBITDA, it is clear that there is an immense capacity of internal financing of the Company's growth.

Refinery segment's result is largely determined by external factors: crack margins on basic fuels and difference between prices for Brent and Ural crude oil, which in the analysed period were unfortunately unfavourable.

In six months ended the ROT complex refining margin on Ural crude oil amounted to 0.7 USD/bbl, whereas in corresponding period of the previous year accounted for 2.76 USD/bbl, which means nearly four fold fall. Similarly the price difference between prices for Ural and Brent crude oil decreased from 2.38 USD/bbl in six months period ended 30 June 2001 to 1.77 USD/bbl. Relatively stable PLN/USD exchange rate (on average 4.04 PLN/USD in six months ended 30 June 2001 and 4.09 PLN/USD in current year) did not have material influence on results fluctuations in refining segment.

Negative influence of external factors in refining segment was considerably neutralised by growing effectiveness of retail and wholesale.

The land bonus reached the level of PLN 384 million, which constitutes over 70% of the previous year result. This is mainly an effect application of proper price management policy. Better results in this area resulted also from logistics cost optimisation (over PLN 125 million) and increase in efficiency of deliveries to own network.

At the end of 2Q 2002 we owned 1,331 CODO stations and 630 DODO located in Poland. We still intensively work on the network rebuilding in order to increase its effectiveness – changes in visualisation, modernisation, enlargement of shopping areas. At the same time we reduce inefficient and not perspective stations (in six months ended 30 June 2002 – about 50 stations). It results in increase of fuel sales ratios per station by almost 17 % to the level of almost 1 million litres in six months ended 30 June 2002 and share of non-fuel products in retail sales from 12% in six months ended 30 June 2001 to 15% in the analysed period. Share in sales within Vitay program increased from 50 % at the end of year 2001 to over 60 % in year 2002, and the amount of distributed cards rose by about 700 thousand (over 30% increase).

Strong position of the Dominant Company in sales of basic fuels was sustained: volume of fuel sales slightly dropped in wholesale by 0.3% (y-o-y), growing at the same time by almost 3% sales, whereas the whole market (retail and wholesale) rose by 0.4%. Sales of diesel oil grew rapidly (wholesale 7.3%, retail sales 14.2%, market 9.2%), whereas light heating oil (Ekoterm) fell considerably (by almost 13%) reflecting effectiveness of preventive activities of the State aimed against using it for vehicles. The sales of LPG also increased considerably (over 77% growth) as a result of competitive prices in relation to fuels and diesel oil.

### 3.8.2 Chemical Segment

<b>Chemical Segment data in compliance with PAS (in PLN thousand)</b>	<b>6 months ended 30 June 2002</b>	<b>6 months ended 30 June 2001</b>	<b>Change%</b>
External sales	1,271,432	1,245,074	2.1%
Inter-segments sales	577,092	539,698	6.9%
Total income	1,848,524	1,784,772	3.6%
Segment result	82,380	167,504	-50.8%
EBITDA*	181,972	228,624	-20.4%
Expenditures for fixed assets	51,774	53,084	-2.5%
<b>Share of segment in Group's results</b>	<b>15.0%</b>	<b>30.5%</b>	<b>-50.8%</b>
Share of segment in Group's EBITDA	17.2%	23.0%	-25.2%
Sales profitability	4.5%	9.4%	-52.1%
Segment results /segment assets	3.6%	7.9%	-54.4%
Segment results /shareholders capital of the segment **	4.0%	8.9%	-57.5%
Indebtedness ratio /assets	9.9%	10.8%	-8.3%
Assets turnover ratio	0.800	0.843	-5.1%
CAPEX/EBITDA	28.5%	23.2%	22.8%

\*) segment result including depreciation

\*\*\*) segment's assets less segment's liabilities

The petrochemical sector suffered a considerable (by over 50%) drop in results, due to worse than expected Anwil's results. On cash basis (EBITDA) the drop was considerably smaller, which stems primarily from higher than in refining segment capital consuming characteristic of the segment.

A slight increase in total sales was recorded, but profitability ratios dropped dramatically, primarily due to sustaining low margins on petrochemical products. In effect of the above the share of the segment in Group's result dropped by 50%.

Taking into account increase in volume of petrochemical sales (by almost 9%) and growing margins on basic products it seems that the contribution of this segment in forecasted whole year results should be considerably higher.

The capabilities are indicated by low assets turnover and indebtedness ratios, which were much below comparable data for refining segment.

### 3.8.3 Other operations

Other operations data in compliance with PAS (in PLN thousand)	6 months ended 30 June 2002	6 months ended 30 June 2001	Change %
External sales	180,757	172,268	4.9%
Inter-segments sales	580,744	598,793	-3.0%
Total income	761,501	771,061	-1.2%
Segment result	48,216	38,124	26.5%
EBITDA*	129,453	113,204	14.4%
Expenditures for fixed assets	48,941	35,706	37.1%
<b>Share of segment in Group's results</b>	<b>8.8%</b>	<b>6.9%</b>	<b>27.5%</b>
Share of segment in Group's EBITDA	12.2%	11.4%	7.0%
Sales profitability	6.3%	4.9%	28.6%
Segment results /segment assets	3.0%	2.3%	30.4%
Segment results /shareholders capital of the segment **	4.0%	3.1%	29.0%
Indebtedness ratio /assets	23.7%	24.8%	-4.4%
Assets turnover ratio	0.477	0.475	0.4%
CAPEX/EBITDA	37.8%	31.5%	20.0%

\*) segment result including depreciation

\*\*\*) segment's assets less segment's liabilities

Other operations, including mainly energy and heating production for own use, transport, service-maintenance and constructing activity performed by other companies of the Capital Group recorded a slight decrease in income (by 1.2%), but a positive indicator is the fact that at the same time rose the external sales (by almost 5%) and profitability of the sector (by almost one-fourth). As a result the share of the segment in total results rose by almost 25%.

Unallocated costs of the Group were considerably reduced (by almost 5%), which reflects the continued cost of the processes optimisation in the Group

### 3.9 DESCRIPTION OF MATERIAL OFF-BALANCE SHEET ITEMS OF THE CAPITAL GROUP

As at 30 June 2002 total value of guarantees and sureties granted to subordinated entities (unconsolidated) amounted to PLN 1,299 thousand (drop by 9.2%) and to other entities PLN 3,082 thousand (drop by 32.0%). Other off-balance sheet liabilities amounted to PLN 46,303 thousand and were lower than at the end of year 2001 by PLN 3,924 thousand.

### **3.10 IMPORTANT EVENTS AFFECTING CAPITAL GROUP'S OPERATIONS AND ITS FINANCIAL RESULTS FOR THE PERIOD OF SIX MONTHS ENDED 30 JUNE 2002 AND FOLLOWING YEARS**

The following factors should be considered while assessing financial projections of the Capital Group:

- remaining downward trend within margins (cracks) of prices for fuels,
- fluctuations of crude oil prices which affect the costs incurred by the Group and margins realized on products in companies dealing with crude oil processing and fuels production,
- fluctuations of prices for finished products on worldwide markets, which by import parity affects prices of products made by the Group and simultaneously its revenues,
- the exchange rate fluctuations that may lead to an increase in debt servicing costs, purchase costs of crude oil and other raw materials priced in foreign currencies as well as to decrease in prices (revenues),
- remaining low demand for fuel caused by drop in amount of purchased cars and decrease in population's income in real terms,
- a slowdown on Polish cars and transport market, the effect of which is a decrease in demand for fuels,
- stagnation in the farming and construction industry negatively affects operations of companies active on those markets, for example fertilizers or PVC production,
- costs reduction in the Dominant Company due to continuation of the Profit Improvement Programme (PIP) realized in co-operation with KBC in Dominant Company,
- expected effects after improvements in PIMS program used in production process optimisation and results of reasonable decrease in costs of sustaining operation and working time of the production installations,
- planned constitution of a joint venture company with Basell Europe Holdings B.V., which intends to produce petrochemicals,
- more stringent control over distribution of Ekoterm in order to confine its illegal application as a substitute for diesel oil,
- introduction of compulsory application of bio-components used in production of fuels,
- the steady decrease of CIT rates to the projected 22% in 2004 and in following years, which reduces the Group's tax burden,
- the planned increases of excise duty imposed on liquid fuels, which will increase the prices of finished products,
- change in structure of compulsory stock in the direction of increase of crude oil share, enabling storage cost cutting (caverns of IKS Solino S.A.),
- planned implementation of new legal regulations increasing quality standards of fuels (gasoline, diesel oil) according to Resolution 98/70/UE will result in considerable growth of production costs starting from 1 January 2003.

#### **IV. IMPORTANT ACHIEVEMENTS IN THE AREA OF TECHNICAL RESEARCH AND DEVELOPMENT IN CAPITAL GROUP**

As for the Management System ISO Management Board of Parent Company conducted Yearly Review of Quality and Environment Management System Function giving further directions for actions in development of the system. Updated list of tasks of investment and organising nature was approved comprising tasks till year 2004.

In April current year, there was a two day audit of Environment Management System conducted in the Parent Company in Plock by Bureau Veritas Quality International. The audit involved Department of Quality and Environment Management, Chief Environmental Engineer and chosen production installations confirming its accurate performance.

In April and May BVQI company conducted audits of Quality Management System in organisational units of Parent Company in Plock and Warsaw, in Production Department units and in Regional Organisational Units in Warsaw, Nowa Wies Wielka, Olsztyn and Rzeszow.

Implementation of Environment Management System in wholesales sites was continued. In co-operation with consulting BV unit training for directors of storage farms, regional procurers of systems and regional specialists of prevention departments. Documentation of the system, necessary for its implementation is in the process of preparation.

Correctness of functioning of the Quality and Environment Management System was also checked in process of internal audits in all units covered by the system. Detected errors were removed in the process of correcting activities. Organisational changes in the Parent Company are causing necessity of current actualisation of the procedures and documentation of the system.

As for other management systems in the Parent Company, there are documents of Quality System AQAP 120 under preparation, required by NATO Army Performance Standards and is binding for Polish military representatives doing purchases for the army. Due to the necessity of system adjustments to face the change in organisational structure, the implementation of the system will be in the second half of the year 2002. In order to secure the quality of the products meeting relevant norms, planned and necessary activities in all areas of activity were performed.

In the area of research and development Parent Company does not perform its own activity. Above works are outsourced to external institutions (institutes and research entities, higher education schools and of different type companies conducting that kind of activities).

Main tasks undertaken in first half of the year 2002 include:

1. Optimisation of production (contract with English company KBC for Profit Improvement Program)
2. Improvement of PIMS program ( contract with Aspen Tech. Limited Sheraton House)
3. Rational reducing refining maintenance costs and optimising plant utilisation timing (contract with Shell Global Solutions aimed at preparation and implementation of profit improvement programme).
4. Preparation of security report for Main Plant PKN ORLEN S.A.

5. Preparation of Serious Failures Prevention Program for Main Plant PKN ORLEN S.A. – agreement with The Centre of Security and Risk Analysis COPRO in Lodz.
6. Preparation of computer program showing the cycle of circulating water network – agreement with The Company for Implementation of Scientific, Technological and Organisational Improvement TECHNO-PROGRESS in Krakow.
7. Current control and appraisal of quality norms, cohesion of production and functional properties of road bitumen produced in PKN ORLEN S.A, in 2002 – agreement with Research Institute of Roads and Bridges in Warsaw.
8. Preparation and implementation of the Defence System of Electro-energetic Scheme of PKN ORLEN S.A. from Blackout – agreement with the Company Energopomiar in Gliwice.
9. Optimisation of diesel oil and light heating oil Ekoterm Plus in PKN ORLEN S.A. after launching brand new installations HOG and HON VI (Institute for Crude Oil Technology). Researches confirmed that in the area of production of diesel oil and light heating oil Plock refinery fulfils all present quality requirements presented in Directive 98/70/EC and 99/32/EC.
10. Examination of lubricating properties of diesel oil and its components in PKN ORLEN S.A. (research work carried out by Instytut Chemii Politechniki Warszawskiej in Plock (Chemistry Institute of Warsaw Technical University)).
11. Preparation of composition of the new product called QAL, existing in form of concentrate as well as industrial fluid. Both products comply not only with requirements of Polish Norm and Institute of Automobile Transportation but also requirements of military defence norm ( work done by Instytut Chemii Politechniki Warszawskiej in Plock (Chemistry Institute of Warsaw Technical University)).

Main areas of extension of Dominant Company's technical infrastructure and IT systems in first half of the year 2002 include:

1. Implementation of renovation modules on service stations
2. Upgrade of the POS systems in service stations – new functions related to service of the products list, VITAY cards, delivery of fuel from wholesale.
3. Development of the function of electronic exchange of documents – retails suppliers' invoices.
4. Introduction in own terminals network the protocol to service payment transactions APAK40 – security of transactions based on PIN.
5. Implementation of the new system to service VITAY program.
6. Improvement of the corporation network.
7. Mapping server (new version).
8. New environment for archiving and backups.

Achievements of a few most important companies in the field of development include:

- **Anwil S.A.**

In first half of the year 2002 the Company continued implementation of its 5-year development programme signed by Management Board and Supervisory board. Main goal of this programme is to strengthen Anwil's position in fertilizers and plastics:

- Continuation of preparation works aiming at finalizing of tasks in Fertilizer Complex which will result in decrease of production cost of ammonia on line A, as well as reducing energy usage of air-compressors on ammonia installations and turbo-sections on nitro acid installation. Decision as to commencement of production of ammonia on line A will depend on market situation.
- Ending with the positive result an attempt to rinse and cover the walls of the reactor in the PCV Complex, which is one of the most important elements of implementation of the technology of close reactor
- In Plastics Complex launching pilot installation to forming hard profiles and continuation of activities aiming at implementation of ecological technology in the production of granules, as well as introducing into production foam panels with lowers density.

In the II Q 2002 there was an agreement between Anwil S.A. and SK Chemicals Co. Ltd. And SK Global Co. Ltd. signed. The agreement was related to establishment of joint-venture company SK EUROCHEM, which activity will be the production of granules PET.

- **Rafineria Nafty Jedlicze S.A.**

More important undertakings concluded in the first half of the year 2002 include:

- new generation of oils with longer timing of exploitation "Extended Drain" (usage up to 160 thousands km) to use in transmittion in trucks and buses.
- research work (together with PKN ORLEN S.A.) aiming at receiving base oils group II and III on installations Rafineria Nafty Jedlicze S.A. from raw material from PKN ORLEN S.A.
- preparation and implementation of technology on de-paraffin of base oils from used oil
- studies related to the possibility of collecting, utilising and possible regeneration of industrial fluids from scrapped cars
- activity concerning regeneration of catalysers used in PKN ORLEN S.A.

- **Rafineria Trzebinia S.A.**

In the first half of the year 2002:

- continuation of modernization of raw materials and products containers
- beginning of usage of modern container with capacity of 10.000 m<sup>3</sup>.
- consecutively introducing propeller blenders to product containers and replacement of heating cables with heating inserts
- introduction of system monitoring resistance of oil and oil-products tank bottoms,
- sliding substance for ironing rollers, ironing desks and iron surfaces– based on own project, being subject to patent proposal– Synthetic Wax E-WAX introduced to production,
- based on own invention lubricant for locomotive wheel edges was introduced into production
- technology of production of high-temperature lubricant (own work)
- technology of substance to remove bitumen from the cars' bonnet (own work)
- gel for use mainly to clean chimney glasses based on own know-how.
- technology of bitumen masses for use to resist wet and humid surfaces (patent proposal)
- work in progress to create technology of bitumen glue for use in high temperatures (own work)
- paraffin composition by own development was introduced into production.

- mass to cover paper and cardboard is in the phase of modification (own work)
- use in the production of highly processed paraffin mix and deeply refining, dehydrated paraffin gas (own work)
- research on products for rubber industry
- introducing of Labour Activity Program

- **IKS Solino S.A.**

Projects conducted in the first half of the year 2002:

- continuation of building underground crude oil and fuel tank warehouse. The end of part II is planned for year 2003 and III part for year 2005,
- development of standalone operations concept of underground crude oil and fuel tank warehouse in Gora under assumption no brine is picked up and salt resources "Gora" are used up,
- preliminary research alternative soil resources e.g. in Lubien and Lanieta for underground crude oil and fuel tank warehouse.

- **ORLEN-Oil Sp. z o.o.**

In the first half of the year 2002:

- 26 new products were implemented into production and introduced to market,
- researches on utilisation of used processing emulsions with method of membrane ultra filtrating,
- purchase and launch of installation used to utilise emulsion by method of membrane ultra filtrating within rendering services by Serwis Petro-Oil,
- the highest class engine synthetic oil ORLEN PLATINUM SL/CF 0W30 was prepared to implementation and the quality of already produced oil Petro-Oil Extra Synthetic SJ/CF 5W40 was levelled up to the class of ORLEN Extra Synthetic SL/CF 5W40. For those kind of oils get approval of Mercedes, BMW and VW and the they are waiting for approval of Opel. For oil designated for heavy Diesel engines approvals of Scania and Renault was gained,
- studies were performed on new technology of hydraulic oil with washing features HLPD class, polyurethane lubricant, hydraulic oil for aviation and oil for stationary gas engines,
- marketing and trade forces of the Company were reorganised. For specified branches separate trade and service teams were established,
- consolidation of production of agent lubricants of the Capital Group PKN ORLEN S.A. was performed.

## V. POLICIES CONCERNING THE CAPITAL'S GROUP DEVELOPMENT

Crucial importance for development of as well the Dominant Company as the Capital Group assented in year 2001 a long – term development strategy for the years 2001 – 2010. Realisation of consecutive stages of the strategy anticipates following operations:

- **Realisation of programme for development of Dominant Company's manufacturing facilities**

The main event in Dominant Company's production activities is going to be intensification of Hydrocracking installation. It will enable an increase in production capacity of diesel oil of quality complying with the most stringent regulations of the European Union and will result in considerable reduction in sulphur inclusion in engine fuels.

- **Development of petrochemical part of the Dominant Company**

The Dominant Company as the only centre of ethylene, propylene, polyethylene and polypropylene production undertook recently certain activities aimed at increase of effectiveness of the Company's petrochemical part. Assented in the strategy development of the petrochemical part assuming intensification of existing olefins installations and increase in capacity of polyethylene and polypropylene production is perceived as a exceptionally favourable technical and economical undertaking, arising interest among world-recognised polyolefin manufacturers. According to the strategy of PKN ORLEN S.A. for years 2001-2010 the realisation of development of the petrochemical part of the Company with participation of external partners is both from economical and marketing point of view justified. There is an option considered to detach the petrochemical part of PKN ORLEN S.A. into a separate joint venture, in which both risks and future economic benefits would be equally shared by both partners.

- **Effects of the Profit Improvement Programme**

Within the refinery production tangible production – financial effects in form of costs per processed barrel reduction brings the realised Profit Improvement Program (introduced in co-operation with KBC).

The gist of the program is modification of technological procedures and optimisation of processing capacity of certain installations. Realisation of consequent assumes in this area will benefit in savings resulting from decrease in production costs by 0.10 to 0.15 USD per barrel of processed crude oil.

Additional a signed contract with Aspen Technology Limited Sheraton House will improve the PIMS program used for production optimisation. Also a co-operation with Shell Global Solutions will effect in rational decrease in costs of operation sustaining and working time of production installations optimisation.

- **Development of market infrastructure in the Dominant Company**

In the area of market investment the company plans to continue works related to:

- construction and modernisation of network of gasoline service stations
- re-branding,
- modernisation of warehouse bases,
- construction of the new warehouse tanks by the Dominant Company for the purposes of wholesale
- construction of long-distance pipelines.

- **Increase of retail sales efficiency**

On the filling stations of the Dominant Company new client service standards were implemented. Presently each client on the filling stations of the Dominant Company is helped in precisely described procedures. The aim of the undertaking was an increase in the competitive edge in aspects of time and efficiency of service and in the area of professionalism of the staff. The above activities are aimed at sustaining current clients and attraction of new ones. A visible sign are also stations with ORLEN logo. The plans assume change in colours of all own stations to 30 June 2003

On own stations of the Dominant Company in May and June 2002 and project called "Together Closer to the Client" was performed. The aim of this undertaking was to enable Management Board and people directly reporting to them to learn about work and processes on filling stations, particularly client service. The aim of the project was to collect remarks on necessary changes in filling stations operation.

In order to constantly improve the level of client's service on the stations of the Dominant Company there is a research "Mysterious Client" performed. The research is conducted by an external company staff, which purchase goods and fuels and parallelly assess the quality of service. Information gathered this way is used to current adjustments of probable weaknesses in stations operation.

In order to increase efficiency the Dominant Company reduces unprofitable stations (about 50 stations in six months ended 30 June 2002). Due to this and other operating activities an increase of fuel sales per station ratio by almost 17% and increase in share of non-fuel products in retail sales to 15%.

- **Loyalty programmes implemented in the Dominant Company**

Loyalty programmes FLOTA POLSKA and VITAY turned out to be a success. Great popularity was won by the loyalty program VITAY, from the beginning of its presence it attracted over 2.6 million participants. Similar interest was raised in relation to FLOTA POLSKA program, for institutional clients owning considerable fleet of cars, which joined since its beginning 2,100 fleets.

Introduction of so-called prepaid cards of "W" type strengthened the position of the Dominant Company as the leader of card programs in Poland. The prepaid cards are characterised by high level of security and have advantages of "electronic purse". To 30 June 2002 the Dominant Company sold 6.7 million cards.

- **Pact for Mazury and construction of water filling stations in the Dominant Company**

Five biggest Polish firms united its strengths for protection of the environment and improvement of sailing conditions on Mazury lakes and signed with Polish Yachting Association so called "Pact for Mazury". The aim of the program is elaborating a common stream of activities aimed at improvement of sailing conditions, increase in sailors safety and environmental protection. In six months ended 30 June 2002 the Dominant Company commenced building a network of supply for sailors and motorised sailors in the best-known villages in Mazury. The point of sales eliminate aggravating fuelling with use of canisters. Water stations offer diesel oil and unleaded fuel.

- **Prospects of development for PKN ORLEN Capital Group's companies**

The core aim of the Capital Group is strengthening of its position in strategic companies supporting the basic activity of the Group within distribution, processing and logistics of products and raw materials.

Achievement of the goal is possible thanks to:

- strengthening of position in strategic companies,
- restructuring and building up value of companies,
- sales of non-strategic companies

Strategy of the PKN ORLEN S.A. assumes following directions of activity in the Capital Group:

- among distribution companies – creating new companies with external investors and consolidation of operating

functions and activity costs control,

- among production companies – maintaining majority stakes, strengthening of dominant position intensification of co-operation in certain fields of activities, operating activity costs control,
- among financial companies – investing in actives with highest return rates in order to secure future financing sources for core activities,
- among companies established as a result of restructuring – consolidation of activities in chosen industries and privatisation. A few companies from this group will be left because of specifics of their operations,
- among companies in which PKN ORLEN S.A. acquired shares as a result of debt conversion – sale in short period of time

The effects of realisation of the strategy in the Capital Group will be:

- gaining of additional value and synergy effect due to consolidation of distribution companies,
- assurance of distribution, processing, logistics for products and raw materials,
- diversification of operating and financial risk,
- raising capital for financing of the basic activity,
- eliminating potential risks and lowering operating costs of PKN ORLEN S.A.,
- provide conditions for active and effective management of the Capital Group.

Within financial policy in the Capital Group the strategy of the Dominant Company assumes two-way strategy taking into account characteristics of the companies:

- for core companies – operating integration of financial management with processes of the Dominant Company,
- for other companies – setting certain security and effectiveness priorities without direct interventions of the Dominant Company.

Unification of management processes in core companies will concern areas of financial operations and organisation of external financing, and also operating and financing risk management.

## **VI. IMPORTANT EVENTS THAT WERE SUBJECT OF CURRENT REPORTS IN THE SIX MONTH PERIOD ENDED 30 JUNE 2002 AND AFTER THAT DATE UNTIL THE DAY OF FINANCIAL STATEMENTS APPROVAL**

1. On 4 January 2002 Fitch Ratings Limited ("Fitch") gave credit rating for PKN ORLEN S.A. at the level of BBB for long term liabilities and F3 for short term liabilities. It is the highest level of rating given to the Polish production company. Rating reflects strong market position of PKN ORLEN S.A., quite low level of indebtedness and good indices of its servicing. Modernisation of refinery part proved to be significant, thanks to which refinery in Plock is presently one of the most modern in the region. The rating involves also shares in Polkomtel and plans of the Company as to production of polymers and Joint Venture with Basell NV, the world leader in production of polyolefines. This investment decreases a possible risk connected with development of petrochemical part by PKN ORLEN S.A. In the rating, lack of investment of PKN ORLEN S.A. in upstream crude oil sector was involved and focus of the processing mainly on production complex.
2. On 25 January 2002 after a tax audit in Rafineria Trzebinia S.A., the Fiscal Control Inspector issued a decision denoting the amount of liabilities concerning excise and VAT tax for the period from June to December 1998 and interest of PLN 113.6 million. An inspector of the Tax Control Office questioned the level of accounted excise tax relief on production of diesel fuel with a component from used oil. The Management Board of Rafineria Trzebinia S.A. undertook activities in order to analyse precisely the amounts of liabilities resulting from decisions of the inspector of the Tax Control Office. The Management Board of Rafineria Trzebinia S.A. submit an annulling claim to the Tax Office in Krakow together with a claim to cease effecting of the decision of the Tax Control Office. A similar proceeding took place in relation to Rafineria Nafty Jedlicze S.A, which had a positive outcome for the Company. PKN ORLEN S.A. owns 77.06% of shares in Rafineria Trzebinia S.A.
3. Supervisory Board of PKN ORLEN S.A. on 8 February 2002 dismissed Andrzej Modrzejewski from the position of the President of the Management Board. The decreasing ability to manage the Company was among the reasons connected with decreased trust of the shareholders and significantly deteriorated financial results. Supervisory Board declared that decision form 8 February 2002 does not have any connection with press information about detainment of Andrzej Modrzejewski by the intelligent forces of UOP on 7 February 2002. Moreover the Supervisory Board of PKN ORLEN S.A. dismissed Jaroslaw Tyc from the position of the Vice-President Wholesale Trade Director and Andrzej Dretkiewicz from the position of the Board Member as a result of a claim issued by the State Treasury Minister from 8 February 2002 based on paragraph 9 section 1 point 3 of PKN ORLEN S.A. Statute. On 8 February Supervisory Board of PKN S.A. appointed Zbigniew Wrobel a President of the Management Board and General Director, Slawomir Golonka a Member of the Board and Andrzej Ernest Macenowicz a Member of the Board. Slawomir Golonka was therefore dismissed from the Supervisory Board of PKN ORLEN S.A. On 8 February 2002 State Treasury Minister appointed Grzegorz Mroczkowski to the Supervisory Board of PKN ORLEN S.A.
4. On 11 February resulting from the claim lodged by Rafineria Trzebinia S.A on 25 January 2002 Fiscal Office in Chrzanow on the basis of decision from 7 February 2002 ceased the execution of the decision of the Tax Control Inspector concerning liabilities from excise and VAT tax for the period from June to December 1998 and interest of PLN 113.6 million. The Fiscal Office issued the above-mentioned decision to the moment of deciding whether claim was substantial by the Tax Chamber in Krakow.
5. On 13 February the Supervisory Board of PKN ORLEN S.A. agreed to planned joint venture with Basell Europe Holdings B.V. in form of commercial law company and contribution in kind to cover its shares. The resolutions concerning this joint venture will be accepted by the Extraordinary Shareholders Meeting on 21 February 2002.
6. On 21 February 2002 the Extraordinary Shareholders Meeting of PKN ORLEN S.A. was organised, which passed 25 resolutions, including except for organisational ones:
  - concerning approval for creation of joint venture company with Basell Europe Holdings BV and

contribution in kind if form of organised part of the company (real estates of PKN ORLEN S.A. – Polymers Block. Extraordinary Shareholders Meeting approved disposal of these estates or perpetual lease contract of the areas and property rights of the buildings located thereon). If until 30 June 2002 the Company does not sign the agreement of joint venture creation on conditions accepted by the Management Board, unless this happens, the agreements are no longer valid.

An agreement described above requires positive opinion of the Supervisory Board of PKN ORLEN S.A.

- dismissal from the Supervisory Board of the following members:
    - Jerzy Idzik
    - Marcin Gizewski
    - Marek Wasowicz
    - Kalina Grzeskowiak-Gracz
    - Stanisław Kondracikowski
    - Aleksander Olas
    - Szczepan Targowski
  - Nomination of the following members:
    - Edward Grzywa
    - Andrzej Kratiuk
    - Maciej Gierej
    - Krzysztof Kluzek
    - Ryszard Lawniczak
    - Krzysztof Szlubowski
    - Jan Waga
  - Permission for disposal:
    - of the organised part of the Company (30 Refining Products Plants)
    - of estate connected with excluded part of the Company of Refining Products Plants No. 1 in Kielce for the sake of VISPOL International Ltd. sp. z o.o.
7. On 21 February 2002 the Supreme Court in a verdict No. CKN 1041/99 cancelling the annulling claim of Office for Protection of Consumer and Competition “OPCC” and Polish Chamber of Liquid Fuels “PCLF” from the verdict of the Anti Trust Court from 23 June 1999 which annulled the decision concerning an order for Petrochemia Plock S.A. (presently PKN ORLEN S.A.) to cease practices of fuel sales at equal prices in Plock and Regional Trade Offices of PKN ORLEN S.A. The Court stressed that despite the dominant position exercised by PKN ORLEN S.A. on the liquid fuels market and despite the fact that PKN ORLEN S.A. operates in the production sector, wholesale and retail sales sector, the way of wholesale prices calculation by the Company is not against the regulations of the antimonopoly act.
8. The Bank of New York decreased possessed number of shares by 2.19%. As at 6 February 2002 roku The Bank of New York was in possession of 106 282 258 shares of PKN ORLEN S.A. which gave 25.29% of votes at the General Shareholders Meeting.
9. Supervisory Board of PKN ORLEN S.A. on 7 March 2002 made changes in the composition of the Management Board decreasing the number of members from 7 to 5. Presently the Board operates in the following composition: President, four Vice-Presidents. On 7 March 2002 the Supervisory Board dismissed Czesław Bugaj (Production Director), Władysław Wawak (Development and Technology Director) and Wojciech Weiss (Human Resources and Restructuring). All dismissed members received proposals of exposed positions in the Company. The Supervisory Board did not present reasons for the above-mentioned dismissals. On 7 March 2002 Janusz Wisniewski was appointed Member of Management Board – Vice-President and Andrzej Macenowicz was appointed a Vice-President, as well. After these changes, the composition of the Management Board was as follows:
  - Zbigniew Wróbel - President
  - Krzysztof Cetnar – Vice-President

- Sławomir Golonka – Vice-President
- Andrzej Macenowicz – Vice-President
- Janusz Wisniewski – Vice-President

10. On 13 March 2002 Management Board of PKN ORLEN S.A. appointed the following people the proper responsibilities:

- Sławomir Golonka – Vice-President - Sales
- Krzysztof Cetnar – Vice-President - CFO
- Janusz Wisniewski – Vice-President - Development and Production
- Andrzej Macenowicz – Vice-President - Human Resources and Management Systems

President of the Management Board Zbigniew Wrobel is a General Director, responsible for establishing and implementation of the strategy.

11. On 18 March 2002 PKN ORLEN S.A. was informed from Emerging Markets Growth Fund. Inc. ("EMGF"), that EMGF located in Los Angeles, USA decreased number of possessed shares of PKN ORLEN S.A. and owns 20 932 800 shares of PKN ORLEN SA, which is 4.98% of votes at the General Shareholders Meeting.

12. On 19 March 2002 PKN ORLEN S.A. declared acquiring 3,000 shares of Petrogaz Plock S.A. located in Plock worth PLN 1,000 each, due to increase in share capital from PLN 21,823 thousand by PLN 3 m. to the amount PLN 24,823 thousand. The increased capital will be covered by non-cash contribution in form of 16,000 stakes in ORLEN Petrogaz Wroclaw Sp. z o.o. located in Wroclaw of total par value PLN 1,600 thousand and 140 stakes in Petrogaz Lapy located in Lapy of total par value PLN 1,400 thousand, the book value of the disposed shares is equal to par value. PKN ORLEN S.A. owns 100% of shares in ORLEN Petrogaz Plock Sp. z o.o. Until disposal of the shares the Company possessed 51.61% of shares of ORLEN Petrogaz Wroclaw Sp. z o.o. (the remaining 48.39% is owned by Eco-Gaz Sp. z o.o.) and 39.55% of Petrogaz Lapy Sp. z o.o. (the remaining part is owned by: ORLEN Petrogaz Plock Sp. z o.o.- 50.84% and Zaklad Naprawy Taboru Kolejowego Lapy S.A. – 9.61%). After the increase the Company will not possess any shares of ORLEN Petrogaz Wroclaw Sp. z o.o. and Petrogaz Lapy Sp. z o.o. The transaction was performed as a part of the restructuring program of the Group including LPG distribution.

13. The Management Board of Rafineria Trzebinia S.A. learned about registering on 25 March 2002 by the Regional Court for Krakow - Srodmiemie in Krakow, XI Economic Department of Domestic Court Register, increase in share capital of Petro-Oil Sp. z o. o. The share in the increased capital was fully covered by Rafineria Trzebinia S.A. in form of contribution in kind (oil department) worth 23,719 thousand zloty and 5,839 thousand zloty in cash.

After the capital injection the share capital of Petro-Oil Sp. z o. o. amounted to PLN 43,558 thousand and is divided into 43,558 stakes of PLN 1 thousand each. After the increase in share capital of Petro-Oil Sp. z o. o. the share of Rafineria Trzebinia in shareholders capital of the company amounts to 75.58%. The other shareholders possess:

- Rafineria Nafty Jedlicze S.A. – 7.71%
- Rafineria Czechowice S.A. – 7.71%
- PKN ORLEN – 9 %

Each stake gives right to one vote on the Shareholders' Meeting. The major activity of ORLEN-Oil Sp. z o.o. is production and sales of lubricating oils. Net book value of the assets contributed by Rafineria Trzebinia to increase the shareholders capital of ORLEN-Oil Sp. z o.o. amounts to PLN 22,723 thousand and cash in the amount of PLN 5,839 thousand. The net book value that will be disclosed in the books of ORLEN-Oil Sp. z o.o. accounts for PLN 23,719 thousand and was valued according to cash flow method plus cash of 5,839.

The contribution in kind of the capital results from consolidation of oil activities in PKN ORLEN S.A. Group.

14. The Bank of New York decreased possessed number of shares by 2.03%. As at 26 February 2002 The Bank of New York was in possession of 97 077 976 shares of PKN ORLEN S.A. which gave 23.10% of votes at the General Shareholders Meeting.
15. On 5 May 2002 ignition of crude oil in storage container occurred at Rafineria Trzebinia S.A. Despite of fire of one of the fuel storage tanks, the refinery operates without any interruption. The situation is controlled by specialist and no danger exists since the fire has been extinguished. Also, no environmental pollution has been detected at the adjacent area. Special inspection searches the cause of the fire, which caused damage initially assessed at about 8 million of zloty. Rafineria Trzebinia S.A. belongs to the PKN ORLEN Group. PKN ORLEN owes 77.07% of shares in Rafineria Trzebinia S.A. Same as for other similar facilities of the PKN ORLEN Group, the storage tank at Rafineria Trzebinia was fully insured. The damage shall be covered by the insurance policy and shall not affect PKN ORLEN's financial position. The fire did not impact production and commercial operations of Rafineria Trzebinia S.A.
16. On 18 June 2002 the Management Board of PKN ORLEN S.A. announced that the number of its shares held by The Bank of New York decreased by 2.23%. The Bank of New York was in possession of 88,529,062 shares of PKN ORLEN, which assured 21.07% of votes at the General Shareholders' Meeting as reported on April 24, 2002. As of 17 June 2002 the Bank of New York was in possession of 79,158,086 shares of PKN ORLEN, that constitutes 18.84% stake in the share capital as well as percentage of votes at the General Shareholders' Meeting.
17. On 20 June 2002 the Company informed that Warsaw-based Kulczyk Holding S.A. and its affiliates are in possession of 23,911,206 bearer shares of PKN ORLEN, the amount that accounts for 5.69% of the initial capital and assures 23,911,206 votes at the general meeting of shareholders and 5.69% of the votes at the general meeting of shareholders of PKN ORLEN.
18. On 28 June 2002 the Ordinary General Meeting of Shareholders decided to change regulation concerning respective legal and statutory consent for setting up a joint venture with Basell Europe Holdings BV and contribution of organised part of the Company to that entity in form of Polymers Block by means of setting 30 September 2002 as an ultimate date for concluding a contract forming joint venture with Basell Europe Holdings BV on the conditions accepted by the Management Board.
19. On 1 July 2002 the Company informed that Mr Krzysztof Cetnar's, CFO, mandate and three year term of office has expired on June 28, 2002 - the day of the Ordinary General Meeting of Shareholders which approved the Management Board's report on the Company's financial statements.
20. On 1 July 2002, the Company informed that the Ordinary Meeting of Shareholders on 28 June 2002 dismissed from the Supervisory Board Andrzej Herman. From 28 June 2002 the Ordinary Meeting of Shareholders appointed to the Supervisory Board Jozef Wozniakowski and moreover the Ordinary Meeting of Shareholders appointed Mr Maciej Gierej to hold position of the Chairman of the Supervisory Board.
21. On 8 July PKN ORLEN S.A. reported that Rafineria Trzebinia S.A. has been notified by its law advisors, Marciniak i Partnerzy Sp. z o.o., of decisions issued by the Fiscal Office in Krakow concerning:
  - completely called off decisions of the first court by which Rafineria Trzebinia S.A. had been charged with underpaying excise tax, underpaying VAT and fiscal impropriety. This, together with interest charges, totals PLN 113,6m as of the day of decision;
  - referring of the case to the first court - Chrzanow Tax Office for further inspection.

22. On 11 July 2002 the Supervisory Board of PKN ORLEN appointed Mr Jacek Strzelecki to the position of the Vice-President of the Management Board & CFO.
23. On 24 July 2002 PKN ORLEN announced that it has signed a Letter of Intent with Prague-based Agrofert Holding a.s. (AGH) in Czech Republic to conduct a joined due diligence of Unipetrol a.s. (Unipetrol) and possibly express common interest in the acquisition of 62.99% of Unipetrol.
24. On 30 July 2002 Management Board of PKN ORLEN S.A. announced that the number of its shares held by the Bank of New York decreased by 2.03%. The Bank of New York, as of 29 July 2002, owned 70,634,050 shares of PKN ORLEN S.A. which assured 70,634,050 votes the General Shareholders' Meeting, that constituted 16.81% stake in the share capital as well as share in the number of votes at the General Shareholders' Meeting.

## **ADDITIONAL NOTES**

## INFORMATION ABOUT SIGNIFICANT AGREEMENTS

Agreements entered into by Parent Company in the first half of the year 2002 comprise following breakdown:

1. On 3 January 2002 service agreement was signed between PKN ORLEN S.A. and the British company KBC Process Technology Ltd. The agreement is the continuation of finished Profit Improvement Program conducted in period 1999-2001. The service agreement is valid till the end of 2002. The aim of the Profit Improvement Program was generating and implementation of process improvements reducing production costs by 0,4 USD per barrel of processed crude oil. The Profit Improvement Program was realized with accordance to that assumptions. Forecasted effect of the realization of service agreement is reduction of production costs by 0,10 to 0,15 USD per barrel of crude oil.
2. On 4 January 2002 PKN ORLEN S.A. enter into agreement with ABB Lumus Global GmbH based in Mainz-Kastel in Germany for complex carry out of intensification of factory Olefin II in Plock. Investment will help to increase production of ethylene from 360 thousand tonnes per year to 315 tonnes per year. Till the end o that investment, that is till the end of 2004, work done will not interrupt the current level of production and finishing work will be performed during planned overhaul break in the end of the year 2004. Agreement amounts to at about PLN 650 million.
3. On 22 January 2002 service agreement between PKN ORLEN S.A. and Shell Global Solutions International B.V. (Shell GSI) based in Hag (Holland). The aim of that agreement is implementation of the concern's Profit Improvement Program through rational reduction of running cost and optimising the timing of the production installations. The service agreement is till valid till the end of the work, but not later than till the 1 August 2005. Savings, which will be brought by the program are estimated after 3 years period for at about PLN 100 million per year.
4. On 22 February 2002 PKN ORLEN S.A. signed an agreement to purchase 6,000 shares of the Przedsiębiorstwo Usług Morskich Ship-Service S.A. As a result of that transaction PKN ORLEN S.A. will get a 30.4% share in shareholders' equity and 25.8% of votes on the General Shareholders Meeting.

Agreements concluded by other companies of the Capital Group in six months ended 30 June 2002:

1. On 20 May 2002 the Company informed that Inowroclawskie Kopalnie Soli Solino S.A., included in the Capital Group PKN ORLEN S.A. concluded an agreement for a investment credit with Bank Handlowy w Warszawie S.A. branch in Bydgoszcz. The credit is incurred to finance the second part of construction of Underground Crude Oil and Fuel Tank Warehouse. The credit accounts for PLN 31,850 thousand. The credit is secured by cession of receivables from the Company for renting the Underground Crude Oil and Fuel Tank Warehouse and by cession of property rights of fixed assets, which will be constructed under the investment.
2. On 28 May 2002 Anwil S.A. and SK Chemicals and SK Global signed an agreement to from a joint venture to construct an installation polytereftalane ethylene (PET), a raw material for drink bottles production. The installation will have processing capacity of 120,000 tones a year. The construction will be placed on the site of Anwil S.A. in Wloclawek. Total value of the undertaking is planned to amount to USD 60 million. SK Chemicals and SK Global are main companies of the SK Group, third largest conglomerate in South Korea. Average yearly sales of SK Group amount to USD 45 million.
3. In 1Q 2002 Anwil S.A. concluded a credit agreement for a short-term credit with BIG Bank Gdanski S.A. for the amount of PLN 15 million. Despite of this agreement with this bank a hedging transaction against negative influence of currency differences on the financial result. The value of the hedged item amounts to EUR 19 million.
4. In 1Q 2002 Anwil S.A. signed a yearly agreement with Wavin Buk for sales of 19-20 thousand tones of POLANVIL S 67 HBD.

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**INFORMATION ON BASIC PRODUCTS AND SERVICES, AND ON MARKETS AND SOURCES OF SUPPLY WITH ENUMERATION OF SUPPLIERS**

Consolidated companies	Basic products	Markets (area of operation)	Dominating suppliers	Sales value in PLN thousand
<b>Dominant Company</b>				
PKN ORLEN S.A.	leaded and unleaded gasoline; diesel, heating and special oils; lubricants; bitumen, polyethylene, polypropylene, ethylene, propylene, butadiene, glycols, phenol, acetone;	Poland, Europe	J&S Service & Investment Ltd	10,978,161
<b>Subsidiaries</b>				
Rafineria Trzebinia S.A.*	leaded and unleaded gasoline, Diesel, heating and special oils, paraffin;	Southern Poland	PKN ORLEN S.A.	660,256
Rafineria Nafty Jedlicze S.A.*	leaded and unleaded gasoline, Diesel, heating and special oils, lubricants; bitumen	Southern Poland	PKN ORLEN S.A.	251,944
IKS "Solino" S.A.	brine and evaporated salt;	Domestic market and exports	-	41,500
Anwil S.A. *	polyvinyl chloride, ammonium nitrate, granulated PVC;	Domestic and foreign market	PKN ORLEN S.A., PGNiG S.A.	511,594
ORLEN-Oil Sp. z o.o.	Chemical, refinery, and petrochemical products sales;	Poland	PKN ORLEN S.A.	186,216
ORLEN Petro-Tank Sp. z o.o.	engine gasoline, Diesel and heating oils, Petrygo liquid, plastics;	South-Eastern Poland	PKN ORLEN S.A.	584,731
ORLEN PetroProfit Sp. z o.o.	engine gasoline, Diesel and heating oils, preparation and sales of Petrygo and Petro-blysk liquids;	Eastern Poland	PKN ORLEN S.A.	160,646
ORLEN Petrocentrum Sp. z o.o.	engine gasoline, Diesel and heating oils, LPG;	Central and North-western Poland	PKN ORLEN S.A.	63,534
Petrolot Sp. z o.o.	engine gasoline, Diesel fuel, aircraft fuel;	Airports	PKN ORLEN S.A.	202,566
ORLEN PetroZachod Sp. z o.o.	engine gasoline, Diesel and heating oil, Petrygo fluid, plastics;	Wielkopolska Region	PKN ORLEN S.A.	167,146
ORLEN Petrogaz Plock Sp. z o.o.	LPG sales;	Poland	PKN ORLEN S.A.	146,747
ORLEN Petrogaz Wroclaw Sp. z o.o.	LPG sales;	Poland	ORLEN Petrogaz Plock Sp. z o.o.	12,346

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Consolidated companies	Basic products	Markets (area of operation)	Dominating suppliers	Sales value in PLN thousand
Petrogaz Inowroclaw Sp. z o.o.	LPG sales;	Poland	ORLEN Petrogaz Plock Sp. z o.o.	9,879
Petrogaz Lapy Sp. z o.o.	LPG sales;	Poland	ORLEN Petrogaz Plock Sp. z o.o.	5,047
Zaklad Budowy Aparatury S.A.	chemical installation production, sales, and repairs;	PKN ORLEN S.A.	-	17,425
Petrotel Sp. z o.o.	telecommunication services;	Plock and surrounding area	-	15,594
ORLEN Projekt S.A.	design and technical documentation mainly for refinery sector;	Poland	-	9,852
ORLEN Medica Sp. z o.o.	health-care services	Plock	-	7,087
ORLEN Polimer Sp. z o.o.	sales of plastics	Poland	PKN ORLEN S.A.	39,883
ORLEN EnergoRem Sp. z o.o.	repairing services	Poland	-	9,049
ORLEN Automatyka Sp. z o.o.	repairing services	Poland	-	12,990
ORLEN Remont Sp. z o.o.	repairing services	Poland	-	13,620
ORLEN WodKan Sp. z o.o.	repairing services	Poland	-	7,746
Przedsiębiorstwo Remontowe ORLEN Mechanika Sp. z o.o.	repairing services	Poland	-	19,070
ORLEN Eltech Sp. z o.o.	repairing services	Poland	-	18,398
ORLEN Wir Sp. z o.o.	repairing services	Poland	-	5,989
ORLEN Transport Plock Sp. z o.o.	passenger car and cargo transportation, motor vehicle service and repairs;	Poland and other European countries	PKN ORLEN S.A.	28,798
ORLEN Transport Szczecin Sp. z o.o.	transportation services	Poland and other European countries	PKN ORLEN S.A.	2,920
ORLEN Transport Krakow Sp. z o.o.	transportation services	Poland and other European countries	PKN ORLEN S.A.	14,306
ORLEN Transport Lublin Sp. z o.o.	transportation services	Poland and other European countries	PKN ORLEN S.A.	7,767
ORLEN Transport Nowa Sol Sp. z o.o.	transportation services	Poland and other European countries	PKN ORLEN S.A.	9,758
ORLEN Transport Poznan Sp. z o.o.	transportation services	Poland and other European countries	PKN ORLEN S.A.	10,765
ORLEN Transport Slupsk Sp. z o.o.	transportation services	Poland and other European countries	PKN ORLEN S.A.	9,594
ORLEN Transport Warszawa Sp. z o.o.	transportation services	Poland and other European countries	PKN ORLEN S.A.	5,360

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Consolidated companies	Basic products	Markets (area of operation)	Dominating suppliers	Sales value in PLN thousand
ORLEN Transport Olsztyn Sp. z o.o.	transportation services	Poland and other European countries	PKN ORLEN S.A.	5,945
ORLEN Transport Kedzierzyn Kozle Sp. z o.o.	transportation services	Poland and other European countries	PKN ORLEN S.A.	6,634
ORLEN KolTrans Sp. z o.o.	loading and unloading rail service points, forwarding of products, management of tanker cars, and trade in fuels and oils	Poland, Europe	PKN ORLEN S.A.	7,603
ORLEN Budonaft Sp. z o.o.	construction, maintenance and modernisation of service stations	Poland	PKN ORLEN S.A.	8,615
ORLEN Powiernik Sp. z o.o.	trust services to PKN ORLEN S.A.	Plock	PKN ORLEN S.A.	60

\*capital group in total

<b>Associated Companies</b>				
Naftoport Sp. z o.o.	reloading services;	Domestic and foreign customers	-	25,448
Chemiepetrol Sp. z o.o.*	petrochemical products agency services;	Germany	Polish chemical plants	14,671
Flexpol Sp. z o.o.	production of packaging and labelling materials	domestic and foreign markets	PKN ORLEN S.A.	32,994

\*capital group in total

## TRANSACTIONS WITH RELATED ENTITIES

Transactions with related entities, where value of single transaction or total value of transactions during six months ended 30 June 2002 exceeds a PLN equivalent of EUR 500 thousand (exchange rate PLN/EUR – 3.7026)

Name of business partner	Sales in PLN thousand	Purchases in PLN thousand
ORLEN Petrogaz Plock Sp. z o.o.	85,700.4	25,896.6
Orlen PetroProfit Sp. z o.o.	52,224.9	1,702.9
Orlen Petro-Tank Sp. z o.o.	477,409.3	28,541.0
IKS Solino S.A.	329.0	9,123.2
Orlen PetroCentrum Sp. z o.o.	47,752.9	2,472.9
Petrolot Sp. z o.o.	203,059.9	0.0
Petrogaz Inowroclaw	161.5	3,332.4
Petrotel Sp. z o.o.	881.3	5,029.2
ORLEN Sportowa S.A.	357.5	16,956.1
Rafineria Trzebinia S.A.	131,637.3	3,100.4
Orlen Medica Sp. z o.o.	76.6	2,738.7
Orlen PetroZachod Sp. z o.o.	78,795.3	3,467.3
Orlen Polimer Sp. z o.o.	27,229.1	0.0
Orlen Projekt S.A.	201.5	9,067.2
Orlen Ochrona Sp. z o.o.	276.7	11,974.1
Zaklad Budowy Aparatury S.A.	1,434.9	11,325.8
OrlenTransport Plock Sp. z o.o.	16,924.8	10,188.2
Rafineria Nafty Jedlicze S.A.	40,417.4	1,737.0
Orlen EnergoRem Sp. z o.o.	257.8	8,360.0
Orlen Atomatyka Sp. z o.o.	298.8	12,744.3
Orlen Remont Sp. z o.o.	981.2	10,792.0
Orlen WodKan Sp. z o.o.	631.2	7,616.1
Orlen Mechanika Sp. z o.o.	767.5	18,304.8
Orlen Eltech Sp. z o.o.	573.4	16,175.3
Orlen Wir Sp. z o.o.	379.7	5,850.8
Orlen Budonaft Sp. z o.o. Krakow	331.6	8,109.7
Serwis Wroclaw Sp. z o.o.	96.4	3,100.3
Naftoport Sp. z o.o.	0.0	4,115.4
Zaklady Azotowe Anwil S.A.	110,213.5	1,919.5
CPN Serwis Mazowsze Sp. z o.o.	2,574.0	3,686.9
Centrum Edukacji Sp. z o.o.	180.9	3,234.8
Serwis Zachod Sp. z o.o.	114.2	2,456.7
Orlen Transport Olsztyn Sp. z o.o.	1,830.7	4,582.4
Orlen Transport Lublin Sp. z o.o.	1,305.2	6,850.6
Orlen Transport Szczecin Sp. z o.o.	150.8	2,480.5
Orlen Transport Kedzierzyn-Kozle Sp. z o.o.	740.0	4,730.5

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Name of business partner	Sales in PLN thousand	Purchases in PLN thousand
Orlen Transport Poznan Sp. z o.o.	938.9	7,998.4
Orlen Transport Slupsk Sp. z o.o.	3,796.7	5,589.8
Orlen Transport Krakow Sp. z o.o.	7,582.4	6,304.6
Orlen Transport Warszawa Sp. z o.o.	1,078.7	4,243.4
Orlen Transport Nowa Sol Sp. z o.o.	1,044.3	9,119.8
Zaklad Urzadzen Dystrybucyjnych Sp. z o.o.	218.8	1,897.9
Orlen KolTrans Sp. z o.o.	1,746.1	5,887.9
Orlen Morena Sp. z o.o.	18,264.1	597.1
Flexpol Sp. z o.o.	16,539.3	20.3
Bitrex Sp. z o.o.	15,313.2	1,134.9
PetroNaft Sp. z o.o.	22,530.3	6,065.6
NaftoWax Sp. z o.o.	3,706.6	1.0
Piast Sp. z o.o.	17,592.7	0.8
Przeds. Uslug Morskich Ship - Service S.A.	27,408.0	265.6
Petro-Oil Sp. z o.o.	55,735.2	161.0
Petro-Oil-Lubelskie Centrum Sprzedazy Sp. z o.o.	149.1	4,088.4
Petrooil-Malopolskie Centrum Sprzedazy Sp. z o.o.	362.7	2,992.0
Petro-Oil Wielkopolskie Centrum Sprzedazy Sp. z o.o.	9.2	2,794.6
Petro-Oil SEEWAX Sp. z o.o.	197.1	7,039.0
Petrooil-Slaskie Centrum Sprzedazy Sp. z o.o.	0.3	2,175.9
Petro-Oil Dolnoslaskie Centrum Sprzedazy Sp. z o.o.	0.0	4,016.1
Petro-Oil-Pomorskie Centrum Sprzedazy Sp. z o.o.	0.0	5,619.6

Transactions with related entities were presented above using the arithmetic average of the exchange rates published by the National Bank of Poland for the last day of each month in the period from 1 January 2001 to 30 June 2002 – equal - 3.7026 PLN/EUR

**CHANGES IN THE COMPOSITION OF THE PARENT COMPANY AND IN THE CONSOLIDATED COMPANIES' MANAGEMENT AND SUPERVISORY BOARDS DURING SIX MONTHS ENDED 30 JUNE 2002.**

Following people were members of the Management Board of PKN ORLEN S.A. in the period from 1 January 2002 to the moment of preparation of the consolidated financial statement for six months ended 30 June 2002:

Andrzej Modrzejewski	President of the Management Board General Director until 8 February 2002
Jaroslaw Tyc	Vice-President of the Management Board Retail Sales Director until 8 February 2002
Czeslaw Bugaj	Member of the Management Board Production Director until 7 March 2002
Andrzej Dretkiewicz	Member of the Management Board until 8 February 2002 Wholesale and Logistics Director
Wladyslaw Wawak	Member of the Management Board until 7 March 2002 Development and Technology Director
Wojciech Weiss	Member of the Management Board until 7 March 2002 Employee and Restructuring Director
Krzysztof Cetnar	Vice-President of the Management Board – Economic and Financial Director (until 28 June 2002)
Zbigniew Wrobel	President of the Management Board General Director from 8 February 2002
Slawomir Golonka	Vice-President of the Management Board for Sales from 8 February 2002
Andrzej Ernest Macenowicz	Member of the Management Board from 8 February 2002 Vice-President of the Management Board for Human Resources and Management Systems from 7 March 2002
Janusz Wisniewski	Vice-President of the Management Board for Development and Production from 7 March 2002
Jacek Strzelecki	Vice-President of the Management Board for Economy and Finance from 11 July 2002

In the reporting period supervision over the activity of the Dominant Company was performed by the Supervisory Board constituted by following people:

Andrzej Herman	Chairman of the Supervisory Board until 28 June 2002
Jerzy Idzik	Vice-chairman of the Supervisory Board until 21 February 2002
Marcin Gizewski	Secretary of the Supervisory Board until 21 February 2002
Slawomir Golonka	Member of the Supervisory Board until 8 February 2002
Kalina Grzeskowiak-Gracz	Member of the Supervisory Board until 21 February 2002
Stanislaw Kondracikowski	Member of the Supervisory Board until 21 February 2002
Aleksander Olas	Member of the Supervisory Board until 21 February 2002
Szczepan Targowski	Member of the Supervisory Board until 21 February 2002
Marek Wasowicz	Member of the Supervisory Board until 21 February 2002
Maciej Gierej	Member of the Supervisory Board from 21 February 2002 until 28 June 2002 Chairman of the Supervisory Board from 28 June 2002
Edward Grzywa	Member of the Supervisory Board until 21 February 2002
Krzysztof Kluzek	Member of the Supervisory Board until 21 February 2002
Andrzej Kratiuk	Member of the Supervisory Board until 21 February 2002
Ryszard Lawniczak	Member of the Supervisory Board until 21 February 2002
Grzegorz Mroczkowski	Member of the Supervisory Board from 8 February 2002 Secretary of the Supervisory Board from 7 March 2002
Krzysztof Szlubowski	Member of the Supervisory Board until 21 February 2002
Jan Waga	Member of the Supervisory Board until 21 February 2002 Vice-chairman of the Supervisory Board from 7 March 2002
Jozef Wozniakowski	Member of the Supervisory Board from 28 June 2002

**Members of the Management and Supervisory Boards in companies of the Capital Group PKN ORLEN S.A.  
as at 30 June 2002 (below Supervisory Board members include only those representing PKN ORLEN SA).**

The companies of a greatest meaning when considering turn-over and equity:

Rafineria Trzebinia S.A.	President Member of the Management Board Supervisory Board	Grzegorz Slak Pawel Kaliciak Janusz Wisniewski – Chairman Wojciech Gurgacz, Jerzy Idzik, Danuta Kowalska, Grzegorz Wolinski
Rafineria Nafty Jedlicze S.A.	President Member of the Management Board Supervisory Board	Mieczyslaw Markiewicz Wojciech Gurgacz, Ryszard Szyszlak Krzysztof Cetnar - Chairman Czeslaw Bugaj, Andrzej Stegenta, Tomasz Gryzewski, Jerzy Rasilewicz
IKS Solino S.A.	President Member of the Management Board Supervisory Board	Czeslaw Misterski Piotr Mrozinski, Jolanta Uzarczyk- Gerus, Zbigniew Wrobel – Chairman of the Supervisory Board Marek Bakula, Piotr Kearney, Wladyslaw Wawak
Anwil S.A.	President Member of the Management Board Supervisory Board	Krzysztof Kaczorowski Teresa Szeligowska, Benedykt Michewicz Krzysztof Kaminski Janusz Wisniewski - Chairman of the Supervisory Board Krzysztof Cetnar, Slawomir Golonka, Janusz Zielinski
Naftoport Sp. z o.o.	President Member of the Management Board Supervisory Board	Tadeusz Zakrzewski Andrzej Radzikowski Andrzej Macenowicz - Chairman of the Supervisory Board Wladyslaw Wawak, Witold Czaja
ORLEN-Oil Sp. z o.o.	President Member of the Management Board Supervisory Board	Marian Andrzej Lyko Adam Gebala, Wojciech Glaziewicz Slawomir Golonka - Chairman of the Supervisory Board Janusz Wisniewski

Fuel companies:

ORLEN PetroTank Sp. z o.o.	President Member of the Management Board Supervisory Board	Stanislaw Koson Jaroslaw Wasilek, Stanislaw Kulig Tadeusz Szczerbe - Chairman of the Supervisory Board Artur Falkiewicz
ORLEN PetroProfit Sp. z o.o.	President Member of the Management Board Supervisory Board	Jan Serwa Jacek Stodolkiewicz, Ewa Josko Krzysztof Gawlowski - Chairman of the Supervisory Board Wojciech Ostrowski, Bogdan Leski
ORLEN Petrocentrum Sp. z o.o.	President Member of the Management Board Supervisory Board	Jozef Janiszewski Aniela Michalik Pawel Wysocki - Chairman of the Supervisory Board Jacek Choroszewski Jacek Piatkowski
Petrolot Sp. z o.o.	President Member of the Management Board Supervisory Board	Jan Kujawa Leszek Sieluk, Ryszard Piekarczycki Kazimierz Klek - Chairman of the Supervisory Board Dariusz Krawczyk
ORLEN PetroZachod Sp. z o.o.	President Member of the Management Board Supervisory Board	Krzysztof Badura Przemyslaw Lesnik, Zenon Gawron Andrzej Kijek - Chairman of the Supervisory Board Jaroslaw Sosinski

LPG companies:

ORLEN Petrogaz Plock Sp. z o.o.	President Member of the Management Board Supervisory Board	Krzysztof Niemczyk Dariusz Bobko, Slawomir Wojciech Zawadzki Alicja Kaminska - Chairman of the Supervisory Board Tomasz Grzela, Krzysztof Langer
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Companies established as a result of restructuring of PKN ORLEN S.A.:

Zakład Budowy Aparatury S.A.	President Member of the Management Board Supervisory Board	Antoni Jagodzinski Leszek Luniewski, Marek Wojcik Jacek Gajdka - Chairman of the Supervisory Board Jacek Stanik Robert Bednarski
Petrotel Plock Sp. z o.o.	President Member of the Management Board Supervisory Board	Marian Ostrowski Ewa Raczynska, Janusz Sawicki Lech Barszczewski - Chairman of the Supervisory Board Artur Parlicki
ORLEN Projekt S.A.	President Member of the Management Board Supervisory Board	Dariusz Nowalinski Celina Olszewska, Krystyna Korsak Roman Bak - Chairman of the Supervisory Board Przemyslaw Grabowski Andrzej Czarzasty
ORLEN Medica Sp. z o.o.	President Member of the Management Board Supervisory Board	Pawel Reszelski Wojciech Szumski Jerzy Adamus - Chairman of the Supervisory Board Malgorzata Olaszkiwicz Marzena Witkowska
ORLEN Polimer Sp. z o.o.	President Member of the Management Board Supervisory Board	Andrzej Szota Wieslaw Mazur, Tomasz Pawlikowski Tomasz Kwiecien – Chairman of the Supervisory Board Aleksandra Sieczkowska, Jerzy Nowalinski

Repairing companies of PKN ORLEN S.A.:

ORLEN EnergoRem Sp. z o.o.	President Member of the Management Board Supervisory Board	Krzysztof Miaskiewicz Jacek Lichocki Ryszard Job – Chairman of the Supervisory Board Jacek Bielecki
ORLEN Automatyka Sp. z o.o.	President Member of the Management Board Supervisory Board	Kazimierz Betlejewski Jerzy Klatte Waldemar Pobierzyn - Chairman of the Supervisory Board Janusz Wisniewski
ORLEN Remont Sp. z o.o.	President Member of the Management Board Supervisory Board	Zygfryd Plochocki Andrzej Janiak Agata Keszczyk- Chairman of the Supervisory Board Marek Baran
ORLEN Wodkan Sp. z o.o.	President Member of the Management Board Supervisory Board	Marek Kowalczyk Stanislaw Kobla Krzysztof Kosinski - Chairman of the Supervisory Board Pawel Krupa
ORLEN Mechanika Sp. z o.o.	President Member of the Management Board Supervisory Board	Tomasz Mazur Marek Wroblewski Krystian Pater - Chairman of the Supervisory Board Jozef Wieckowski
ORLEN Eltech Sp. z o.o.	President Member of the Management Board Supervisory Board	Edward Sosnowski Andrzej Gastolek Urszula Bres - Chairman of the Supervisory Board Szczepan Targowski
ORLEN Wir Sp. z o.o.	President Member of the Management Board Supervisory Board	Jozef Swiatczak Witold Kapela Zdzislaw Nicewicz – Chairman of the Supervisory Board Waldemar Zaborowski

Transport companies of PKN ORLEN S.A.:

ORLEN Transport Plock Sp. z o.o.	President Member of the Management Board Supervisory Board	Jerzy Jasinski Roman Rutecki, Remigiusz Miecznikowski Eugeniusz Korsak - Chairman of the Supervisory Board Elwira Lewtak
ORLEN Transport Szczecin Sp. z o.o.	President Member of the Management Board Supervisory Board	Pawel Hapczyk Bogdan Biskupski Anna Zdeb - Chairman of the Supervisory Board Malgorzata Malkiewicz
ORLEN Transport Krakow Sp. z o.o.	President Member of the Management Board Supervisory Board	Pawel Mularz Stanislaw Dlugosz, Jozef Wincenciak Michal Frankiewicz - Chairman of the Supervisory Board Mariusz Suchecki
ORLEN Transport Lublin Sp. z o.o.	President Member of the Management Board Supervisory Board	Andrzej Czajkowski Janusz Zaorski Mariusz Galusiakowski- Chairman of the Supervisory Board Marek Jedlak
ORLEN Transport Nowa Sol Sp. z o.o.	President Member of the Management Board Supervisory Board	Leszek Gnitecki Adam Twardak Adam Trojanowski- Chairman of the Supervisory Board Henryk Jaworski
ORLEN Transport Poznan Sp. z o.o.	President Member of the Management Board Supervisory Board	Wlodzimierz Bednarek Tomasz Puzio, Elzbieta Olejnik-Urbanska Maciej Manicki - Chairman of the Supervisory Board Piotr Radomski
ORLEN Transport Slupsk Sp. z o.o.	President Member of the Management Board Supervisory Board	Slawomir Myslinski Edward Klecha Anna Szurek - Chairman of the Supervisory Board Grzegorz Mlynarczyk
ORLEN Transport Warszawa Sp. z o.o.	President Member of the Management Board Supervisory Board	Waldemar Drymel Roman Bulik, Leszek Szmidt Krzysztof Suszek - Chairman of the Supervisory Board Anna Raczkowska
ORLEN Transport Olsztyn Sp. z o.o.	President Member of the Management Board Supervisory Board	Tadeusz Kowalczyk Stanislaw Mastylo Jerzy Majchrzak - Chairman of the Supervisory Board Anna Byszewska

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ORLEN Transport Kedzierzyn Kozle Sp. z o.o.	President Member of the Management Board Supervisory Board	Marek Gadowski Michal Miklas, Janusz Rybarczyk Dariusz Formela- Chairman of the Supervisory Board Ryszard Gibula
ORLEN KolTrans Sp. z o.o.	President Member of the Management Board Supervisory Board	Andrzej Dorosz Marcin Jezewski - Chairman of the Supervisory Board Marek Bakula Adam Wozniak

Other companies:

Chemiepetrol Sp. z o.o.	Management	Dariusz Dabrowa, Jurgen, Kleiner
Flexpol Sp. z o.o.	President Supervisory Board	Zdzislaw Nisztor Karol Marek Sep Wieslaw Idzkowski
ORLEN Powiernik Sp. z o.o.	President Member of the Management Board Supervisory Board	Arkadiusz Lewtak Malgorzata Kowalska Andrzej Barna – Chairman of the Supervisory Body (a specific form of supervision regulated by Polish Commercial Code) Iwona Zawidzka Grazyna Tomala
ORLEN Budonaft Sp. z o.o.	President Member of the Management Board Supervisory Board	Aleksander Musialik Ewa Czernicka, Bogdan Kolpa Wojciech Weiss - Chairman of the Supervisory Board Krzysztof Kulik Miroslaw Kochalski Walenty Cywinski

**TOTAL NUMBER OF ALL SHARES OF THE PARENT COMPANY AND OF OTHER CAPITAL GROUP ENTITIES BEING HELD BY MANAGEMENT BOARD AND SUPERVISORY BOARD MEMBERS OF DOMINANT COMPANY**

On 30 June, 2002 management staff and supervisory board members did not possess any shares and stakes in the Parent Company and other companies in the Capital Group.

**SHAREHOLDERS OF DOMINANT COMPANY**

The structure of the shareholders of PKN ORLEN S.A. as at 30 June 2002.

Shareholder	Number of shares	Number of votes	Par value of shares	% of the capital stock
Nafta Polska S.A	74 076 299	74 076 299	92 595 374	17.63%
State Treasury	43 633 897	43 633 897	54 542 371	10.38%
The Bank of New York	75 795 320	75 795 320	94 744 150	18.04%
Others	226 671 621	226 671 621	283 339 526	53.95%
<b>Total</b>	<b>420 177 137</b>	<b>420 177 137</b>	<b>525 221 421</b>	<b>100.00%</b>

According to current report no 56/2002 issued on 20 June 2002, Warsaw based Kulczyk Holding S.A. and its affiliates, possessed 23,911,206 shares of PKN ORLEN S.A., constituting 5.69% of total number of votes on the General Meeting of Shareholders.

No contracts are known, as a result of which changes in the stake of shareholders might in future occur.

**Management Board Commentary on Business Operations  
of Polski Koncern Naftowy ORLEN Spolka Akcyjna Capital Group  
for the 6 month period ended 30 June 2002  
submitted by the Management Board composed of:**

.....  
**President of the Management  
Board - Zbigniew Wrobel**

.....  
**Vice - President of the Management  
Board - Jacek Strzelecki**

.....  
**Vice - President of the Management  
Board - Andrzej Macenowicz**

.....  
**Vice - President of the Management  
Board - Slawomir Golonka**

.....  
**Vice - President of the Management  
Board - Janusz Wisniewski**

Plock, 17 September 2002