POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR PERIODS
ENDED 30 JUNE 2005 AND 30 JUNE 2004
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

TOGETHER WITH AN INDEPENDENT AUDITOR'S REVIEW REPORT

SECURITIES AND EXCHANGE COMMISSION
Consolidated half-year report PSr/ 2005

(in accordance with § 93 section 2 and § 94 section 1 of the Council of Ministers' Decree of 21 March 2005, Journal of Laws No. 49, item 463)

(for issuers of securities whose business activity embraces manufacture, construction, trade and services)

for the first half of the reporting year 2005, that is for the period from 1 January 2005 to 30 June 2005
and for the first half of the reporting year 2004, that is for the period from 1 January 2004 to 30 June 2004

which includes consolidated financial statements prepared in accordance with International Financial Reporting Standards with amounts stated in the Polish functional currency (PLN)
and condensed financial statements prepared in accordance with International Financial Reporting Standards with amounts stated in the Polish functional currency (PLN)

on 29 September 2005
(submission date)

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
(full name of the issuer)

PKN ORLEN S.A.
(abbreviated name of the issuer)

CHEMICAL
(industrial sector in line with classification of Warsaw Stock Exchange)

09-411
(zip code)

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(location)

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KPMG AUDYT SP. Z O.O.
(entity authorized to conduct audit)

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POLSKI KONCERN NAFTOWY ORLEN SA
SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA	thousand PLN		thousand EUR	
	2005 - I half	2004 - I half	2005 - I half	2004 - I half
Data in respect of MSSF consolidated financial statement				
I. Net revenues from sale of finished goods, merchandise and raw materials	16 760 956	13 813 152	4 107 574	3 385 162
II. Profit / (Loss) on operations	3 499 979	1 070 470	857 733	262 338
III. Gross profit	3 744 262	1 142 012	917 599	279 871
IV. Net profit	3 336 098	880 240	817 571	215 719
V. Net cash provided by operating activities	1 648 153	1 738 442	403 910	426 037
VI. Net cash used in investing activities	(1 313 475)	(949 341)	(321 891)	(232 653)
VII. Net cash provided by / (used in) financing activities	314 024	(500 570)	76 957	(122 674)
VIII. Net change in cash and cash equivalents	648 702	288 531	158 976	70 710
IX. Profit (loss) per ordinary share for 6 months (in PLN/EUR)	7,80	2,06	1,91	0,50
	as of 30.06.2005	**as of 30.06.2004**	**as of 30.06.2005**	**as of 30.06.2004**
X. Non-current assets	20 386 470	11 855 621	5 046 031	2 934 487
XI. Current assets	12 567 398	7 610 656	3 110 665	1 883 779
XII. Total assets	32 976 560	19 466 277	8 162 313	4 818 266
XIII. Long-term liabilities	5 274 805	3 031 115	1 305 612	750 257
XIV. Short-term liabilities	10 118 581	4 898 263	2 504 537	1 212 411
XV. Equity	17 583 174	11 536 899	4 352 163	2 855 597
XVI. Share capital *	1 057 635	1 057 635	261 784	261 784
XVII. Number of issued ordinary shares	427 709 061	427 709 061	427 709 061	427 709 061
XVIII. Book value per share (in PLN/EUR)	41,11	26,97	10,18	6,68

* The share capital was revalued in accordance with IAS 29.

The above data have been translated into EUR by the following exchange rates:

- specific positions of assets, equity and liabilities - by the average exchange rate published by the National Bank of Poland as of 30 June 2005 - 4.0401 PLN/EUR

- specific items in profit and loss and cash flows - by the arithmetic average of average exchange rates published by the National Bank of Poland as of every last day of month during the period (1 January - 30 June 2005) - 4.0805 PLN/EUR

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONSOLIDATED BALANCE SHEETS
as of 30 June 2005, 31 December 2004 and 30 June 2004
(all amounts in PLN thousand)

	Notes	30 June 2005 (unaudited)	31 December 2004 (unaudited)	30 June 2004 (unaudited)
			(in thousand PLN)	
ASSETS				
Non-current assets				
Property, plant and equipment	5	18 287 460	11 063 238	10 754 636
Goodwill	7	20 501	20 501	20 133
Intangible assets	8	767 424	344 431	353 956
Long-term financial investments	9	624 886	511 564	515 041
Investments in associates	10	511 043	118 014	131 550
Deferred tax assets		60 811	27 138	8 860
Other non-current assets		31 791	8 794	10 532
Perpetual usufruct of land		64 901	40 023	42 782
Investment property	6	17 653	17 893	18 131
Total non-current assets		**20 386 470**	**12 151 596**	**11 855 621**
Current assets				
Inventory	11	5 632 763	3 224 890	3 318 227
Trade and other receivables	12	5 005 488	2 598 800	2 829 027
Income tax receivable		8 152	23 309	1 644
Short-term investments	13	240 137	1 124 155	297 571
Short-term prepayments	14	164 026	102 091	152 341
Cash and cash equivalents	15	1 384 234	735 813	921 307
Other financial assets		132 598	154 217	90 539
Total current assets		**12 567 398**	**7 963 275**	**7 610 656**
Long-term financial assets available for sale		22 692	-	-
Total assets		**32 976 560**	**20 114 871**	**19 466 277**
LIABILITIES AND SHAREHOLDER'S EQUITY				
Equity	20			
Share capital		534 636	534 636	534 636
Share capital revaluation adjustment		522 999	522 999	522 999
Share premium		1 058 450	1 058 450	1 058 450
Share premium revaluation adjustment		168 803	168 803	168 803
Hedging reserve		30 016	59 195	12 111
Foreign exchange differences on subsidiaries from consolidation		(43 532)	(9 444)	42 032
Retained earnings		12 681 600	10 258 950	8 754 150
Total equity (attributed to shareholders of the parent company)		**14 952 972**	**12 593 589**	**11 093 181**
Minority interest	21	2 630 202	384 013	443 718
Total equity		**17 583 174**	**12 977 602**	**11 536 899**
Non-current liabilities				
Interest-bearing loans and borrowings	16	3 263 449	2 083 536	1 969 151
Provisions	17	773 269	637 689	600 990
Deferred tax liabilities		1 087 016	378 248	425 173
Other non-current liabilities		151 071	34 255	35 801
Total non-current liabilities		**5 274 805**	**3 133 728**	**3 031 115**
Current liabilities				
Trade and other liabilities and accrued expenses	18	7 742 774	3 417 916	4 059 883
Provisions	17	700 717	283 442	110 133
Income tax liability		102 542	1 680	30 722
Interest-bearing loans and borrowings	16	1 515 463	241 599	665 282
Deferred income	19	52 634	16 911	23 373
Other current financial liabilities		4 451	41 993	8 870
Total current liabilities		**10 118 581**	**4 003 541**	**4 898 263**
Total equity and liabilities		**32 976 560**	**20 114 871**	**19 466 277**

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONSOLIDATED PROFIT AND LOSS STATEMENTS
for the period of 6 months ended 30 June 2005 and 30 June 2004
(all amounts in PLN thousand)

	Notes	for 6 months ended 30 June 2005 (unaudited)	for 6 months ended 30 June 2004 (unaudited)
		(in thousand PLN)	
Operating activities			
Net sale revenues			
Sales of finished goods		16 160 344	13 479 918
Excise tax and other charges		(5 121 406)	(4 898 872)
Revenues from sale of finished goods		11 038 938	8 581 046
Revenues from sale of merchandise and raw materials		5 722 018	5 232 106
Total sales revenues		**16 760 956**	**13 813 152**
Cost of finished goods sold	25	(8 306 379)	(6 162 616)
Cost of merchandise and raw materials sold	25	(5 105 129)	(4 911 240)
Gross profit on sales		**3 349 448**	**2 739 296**
Other operating income *		2 176 539	109 632
Distribution expenses	25	(1 036 387)	(1 063 396)
General and administrative expenses	25	(422 805)	(422 269)
Other operating expenses	25	(566 816)	(292 793)
Profit from operations		**3 499 979**	**1 070 470**
Financial income	26	452 050	157 101
Financial expenses	26	(244 869)	(98 259)
Net financial revenues and expenses		**207 181**	**58 842**
Share in profit from investments accounted for under equity method		7 707	8 905
Profit on the sale of all or part of shares of related parties		29 395	3 795
Profit before tax		**3 744 262**	**1 142 012**
Income tax expense	27	(394 198)	(238 196)
Profit after tax		**3 350 064**	**903 816**
Minority interest		(13 966)	(23 576)
Net profit		**3 336 098**	**880 240**
Basic and diluted earnings per share in Polish Zloty		**7,80**	**2,06**

* Including in the first half of 2005 the excess of the share in the net identifiable assets, liabilities and contingent liabilities of Unipetrol over the acquisition cost.

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONSOLIDATED CASH FLOW STATEMENTS
for the period of 6 months ended 30 June 2005 and 30 June 2004
(all amounts in PLN thousand)

	for the period of 6 months ended 30 June 2005	for the period of 6 months ended 30 June 2004
	(unaudited)	(unaudited)
	(in thousand PLN)	
Cash flows - operating activities		
Net profit	**3 336 098**	**880 240**
Adjustments for:		
Minority interest	13 966	23 576
Share in profit from investments accounted for under equity method	(7 707)	(8 905)
Depreciation	624 145	667 445
Interest and dividend income, net	(62 712)	(23 158)
Income tax expense	394 198	238 196
(Profit) / loss on investing activities	(46 671)	128 867
(Increase) in receivables	(336 399)	(654 998)
(Increase) in inventories	(1 299 286)	(310 404)
Increase in liabilities and accruals	1 196 151	763 329
Increase in provisions	420 810	78 541
Other*	(2 240 153)	110 490
Income tax paid	(344 287)	(154 777)
Net cash provided by operating activities	**1 648 153**	**1 738 442**
Cash flows - investing activities		
Acquisition of property, plant and equipment and intangible assets	(889 194)	(806 979)
Proceeds from the sale of property, plant and equipment	19 559	14 910
Proceeds from the sale of shares	76 305	-
Acquisition of shares**	(1 347 186)	(27 107)
Acquisition of short-term securities	(81 818)	(293 447)
Proceeds from the sale of short-term securities	963 547	65 286
Interest and dividends received	124 135	84 356
Loans (granted) / repaid	558	(2 072)
Other***	(179 381)	15 712
Net cash used in investing activities	**(1 313 475)**	**(949 341)**
Cash flow - financing activities		
Proceeds from long and short-term borrowings	929 876	748 575
Repayment of long and short-term borrowings	(540 482)	(1 189 056)
Interest paid	(59 261)	(54 921)
Other	(16 109)	(5 168)
Net cash provided by / (used in) financing activities	**314 024**	**(500 570)**
Net change in cash and cash equivalents	**648 702**	**288 531**
Effect of exchange rate changes	(281)	(1 483)
Cash and cash equivalents, beginning of the period	**735 813**	**634 259**
Cash and cash equivalents, end of period, incl.	**1 384 234**	**921 307**
Cash and cash equivalents not available for use	109 467	120 346

* Incl. in 2005 the excess of share in the net consolidated assets of the Unipetrol Group over the acquisition price - PLN 2,005,028 thousand.

** Incl. in 2005 the acquisition of the Unipetrol Group for PLN 1,562,335 thousand, decreased by acquired cash of PLN 220,107 thousand.

*** Incl. in 2005 the acquisition of liabilities of the Unipetrol Group of PLN 178,804 thousand.

POLSKI KONCERN NAFTOWY ORLEN S.A.
STATEMENTS OF CHANGES IN CONSOLIDATED EQUITY
as of 30 June 2005, 31 December 2004 and 30 June 2004
(all amounts in PLN thousand)

	Share capital	Share premium	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Retained earnings	Minority interest	Total equity
1 January 2004	**1 057 635**	**1 227 253**	**-**	**62 366**	**8 148 515**	**433 859**	**10 929 628**
(unaudited)							
Foreign exchange differences on consolidation	-	-	-	(20 334)	-	-	(20 334)
Dividend	-	-	-	-	(278 011)	-	(278 011)
Net profit	-	-	-	-	880 240	-	880 240
Impairment of non-current assets	-	-	-	-	3 406	-	3 406
Hedge accounting - cash flow hedges	-	-	12 111	-	-	-	12 111
Shares issued	-	-	-	-	-	-	-
Share premium	-	-	-	-	-	-	-
Minority interest	-	-	-	-	-	23 576	23 576
Change in shareholders structure	-	-	-	-	-	(13 717)	(13 717)
30 June 2004	**1 057 635**	**1 227 253**	**12 111**	**42 032**	**8 754 150**	**443 718**	**11 536 899**
(unaudited)							

	Share capital	Share premium	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Retained earnings	Minority interest	Total equity
1 January 2005	**1 057 635**	**1 227 253**	**59 195**	**(9 444)**	**10 258 950**	**384 013**	**12 977 602**
(unaudited)							
Foreign exchange differences on consolidation	-	-	-	(34 088)	-	-	(34 088)
Dividend	-	-	-	-	(911 020)	-	(911 020)
Net profit	-	-	-	-	3 336 098	-	3 336 098
Impairment of non-current assets	-	-	-	-	(2 428)	-	(2 428)
Hedge accounting - cash flow hedges	-	-	(29 179)	-	-	-	(29 179)
Share premium	-	-	-	-	-	-	-
Minority interest	-	-	-	-	-	13 967	13 967
Change in shareholders structure	-	-	-	-	-	2 232 222	2 232 222
Other	-	-	-	-	-	-	-
30 June 2005	**1 057 635**	**1 227 253**	**30 016**	**(43 532)**	**12 681 600**	**2 630 202**	**17 583 174**
(unaudited)							

	Share capital	Share premium	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Retained earnings	Minority interest	Total equity
1 January 2004	**1 057 635**	**1 227 253**	**-**	**62 366**	**8 148 515**	**433 859**	**10 929 628**
(unaudited)							
Foreign exchange differences on consolidation	-	-	-	(71 810)	-	-	(71 810)
Dividend	-	-	-	-	(278 011)	-	(278 011)
Net profit	-	-	-	-	2 384 983	-	2 384 983
Impairment of non-current assets	-	-	-	-	3 463	-	3 463
Hedge accounting - cash flow hedges	-	-	59 195	-	-	-	59 195
Share premium	-	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-	-
Change in shareholders structure	-	-	-	-	-	53 950	53 950
Change in the share structure	-	-	-	-	-	(103 796)	(103 796)
31 December 2004	**1 057 635**	**1 227 253**	**59 195**	**(9 444)**	**10 258 950**	**384 013**	**12 977 602**
(unaudited)							

1. Principal activities of the Group

The Parent Company of the Polski Koncern Naftowy ORLEN Group ("Group") is Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN", "Company", "Parent"), seated in Płock, Poland, 7 Chemikow Street.
The Company was established under the notarial deed of 29 June 1993 as a result of the transformation of a state owned enterprise into a joint-stock company registered as Mazowieckie Zakłady Rafineryjne i Petrochemiczne "Petrochemia Płock" S.A. in the District Court of Płock. Effective 20 May 1999, the Company changed its business name to Polski Koncern Naftowy Spółka Akcyjna.
On 7 September 1999, Centrala Produktów Naftowych "CPN" Spółka Akcyjna was incorporated and thus CPN was removed from the commercial register. Effective 12 April 2000, the Company changed its business name to Polski Koncern Naftowy ORLEN Spółka Akcyjna.

The Group's operations comprise of refining of petroleum and manufacture of a wide range of petroleum products, chemical and petrochemical products, delivery as well as wholesale and retail sale of those products.

Before the date of the second public offering completed in July 2000, the Group had been directly and indirectly owned by the Polish State Treasury, the minority shares being held by employees and other parties. The State Treasury supervised the Group by executing control over the ultimate Parent Company, Nafta Polska S.A. As at 16 September 2005, Nafta Polska S.A. held directly or indirectly 17.32% shares in PKN ORLEN SA, the Polish State Treasury 10.2%, Bank of New York (as a depositor) 12.29%, and other shareholders 60.19% of the Company's shares.
On 4 July 2003, the Company announced that Commercial Union OFE BPH CU WBK held 21,533,539 of PKN ORLEN shares, which accounted for 5.035% of votes at the General Shareholders' Meeting. On 2 March 2005 the stake of PKN ORLEN's shares held by Commercial Union OFE BPH CU WBK decreased and amounted to 21,040,915 shares, which constituted 4.92 % of voting rights at the General Shareholders' Meeting.
FMR Corp. with its direct and indirect subsidiaries, seated in Boston and Fidelity International Limited with its direct and indirect subsidiaries, seated in Bermuda, held 21,436,944 PKN ORLEN shares as at 24 May 2005, which is 5.01% of the share capital and gives title to 21,436,944 votes at the General Shareholders' Meeting and 5.01% of the total votes at the General Meeting of PKN ORLEN.

2. Basis of presentation

Principles adopted for preparation of consolidated financial statements for the first half of 2005

As of 1 January 2005, the amended Polish Accounting Act imposed a requirement on the Group to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") adopted by the European Union. The information disclosed in these consolidated financial statements is compliant with IAS 34 'Interim Financial Reporting'. As at the day of preparation of these consolidated financial statements the scope of standards adopted by the International Accounting Standards Board and the standards adopted by the European Union differ with respect to some issues of IAS 39 "Financial Instruments: Recognition and Measurement". The above differences do not concern these consolidated financial statements.
The International Accounting Standards Board issued International Financial Reporting Standard No. 1 ("IFRS 1") "First-time Adoption of International Financial Reporting Standards" which is applicable for the preparation of financial statements for periods beginning on or after 1 January 2004. In addition to entities preparing their first financial statements in accordance with IFRSs, IFRS 1 is also applicable to entities such as the PKN ORLEN Group, which have already applied IFRSs yet their statements contained a comment on non-compliance with particular standards. In particular, IFRS 1 requires that an entity would disclose in its IFRS financial statements all assets and liabilities which are to be recognized under IFRSs. In accordance with IFRS 1, an entity may state its tangible fixed assets at fair value as of IFRSs adoption date and recognize the fair value as the cost of the fixed assets as at that date.
From 1 January 2005 the Group has prepared its consolidated financial statements first time in compliance with IFRS 1 as it complies with conditions defined in that standard.
From 1 January 2005, PKN ORLEN, acting under Resolution No. 3 of the Extraordinary General Shareholders' Meeting of Polski Koncern Naftowy ORLEN S.A. of 30 December 2004 (adopted in compliance with Art. 45 1c of the Accounting Act, wording effective from 1 January 2005), has prepared its statutory stand-alone financial statements in accordance with IFRSs approved by the European Commission for 2005.

The consolidated financial statements have been prepared based on historic cost, except for: derivatives, financial instruments at fair value, which change is recognised in the profit and loss, financial assets available for sale, and investments property stated at fair value.

(a) Statement of compliance

Under the Council of Ministers' Decree of 21 March 2005 on current and periodical information provided by issuers of securities, § 100 section 1 para. 4, PKN ORLEN Management Board hereby honestly and sincerely declares that the half-year financial statements and comparative data have been prepared in accordance with the Group accounting principles in force (excluding exceptions discussed below) and that they reflect the true and fair view of PKN ORLEN's financial status and its financial result, and that the half-year report of the Board provides the true overview of PKN ORLEN's development, achievements, and its business situation, including basic risks and exposures.

The consolidated half-year financial statements presented in this consolidated half-year report and condensed standalone half-year financial statements attached to the report were prepared in accordance with the International Financial Reporting Standards and in the scope required under the Council of Ministers' Decree of 21 March 2005 on current and periodical information provided by issuers of securities (Journal of Laws No. 49, item 463) and they embrace the period from 1 January to 30 June 2005 and the comparative period of from 1 January to 30 June 2004.

When preparing these consolidated financial statements the Group applied International Financial Reporting Standards effective as of 30 June 2005. In accordance with IFRS 3, these consolidated financial statements include an initial impact of acquisition of UNIPETROL financial assets, due to the conducted valuation process of the acquired assets (the discussed transaction was recognised based on initial impact of valuation of the net acquired assets except for the assets of Česka Rafinerska) and the ongoing process of determining the final acquisition cost.
The carrying value of property, plant and equipment was remeasured as of 1 January 2004 by an independent expert. The Group recognised the effect of the measurement. 90% of net property, plant and equipment assigned to valuation was measured in accordance with the principles discussed under section A, Accounting Principles "Property, plant and equipment" due to the ongoing process aiming at full compliance with the International Accounting Standard 29 'Financial Reporting in Hyperinflationary Economies' (IAS 29) and the International Accounting Standard 16 'Property, Plant and Equipment' (IAS 16). The Group recognized the revalued amount as the deemed cost as at the date of measurement.
The Management Board of the Company expects to complete the process yet in 2005, which will ensure application of all IFRSs required for 2005 statutory reporting before the year end. According to the Board, the projected effect of potential adjustments related to compliance with the above requirements will not impact significantly the assets, equity or the Group results for the first half of 2005.
In accordance with IAS 16, the Group has commenced a process aiming to ensure that all significant items of plant, property and equipment with different economic useful lives or depreciation methods, be identified in order to calculate relevant depreciation rates. The Group plans to conclude the process before the end of 2005.

As at the date of preparation of consolidated financial statements, the Group applied transitional provisions of IFRS 3 'Business Combinations' for conversion of comparative data as at 1 January 2004 (required by IFRS 1), as discussed below. The Group applied also an exemption contained in IFRS 1 for business combinations despite the fact that it did not fully comply with IFRS 1 requirements as at the date of preparation of these financial statements. In accordance with IFRS 3, if IFRS 1 requirements are not complied with in 2005, the Group should apply transitional provisions of IFRS 3 from 1 January 2005. Consequently, if IFRS 1 requirements are not met before the end of 2005, the Group will make relevant adjustments to its opening balance sheet of 1 January 2005.
Goodwill resulting from business combinations which were conducted before 1 January 2004 is stated at the amount defined under the previous generally accepted accounting principles effective as at the IFRSs adoption date, i.e. on 1 January 2004.

These consolidated financial statements are compliant with all IFRS requirements adopted by the EU and present a true and fair view of the Group's financial position as at 30 June 2005, 31 December 2004 and 30 June 2004, results of its operations and cash flows for the periods of 6 months ended 30 June 2005 and 30 June 2004.

The consolidated financial statements were prepared assuming that the Group will continue to operate as going concerns in the foreseeable future. As at the approval date of these financial statements there is no evidence indicating that the Group will not be able to continue its operations as going concerns.

(b) Appointment of an independent auditor

PKN ORLEN SA Board hereby announces that an entity authorised to audit financial statements, conducting a review of the half-year consolidated financial statements and the half-year condensed financial statements was appointed in compliance with legal requirements and that the entity and the chartered accountants conducting the review comply

with the conditions for issuing an independent and impartial review report, as provided for in the respective local regulations.

In accordance with corporate governance adopted by PKN ORLEN S.A. Management Board, an independent auditor was appointed by the Supervisory Board under Resolution No. 485/2005 of 21 January 2005 to appoint the independent auditor. The Supervisory Board made the above decision ensuring full independence and impartiality of the appointment and work to be performed by the independent auditor.

(c) Restructuring of the Group

As a result of the Polish Government's Restructuring and Privatization Programme for the oil sector, the State Treasury, by its holding in Nafta Polska S.A., restructured the Polish oil sector in the years 1997 – 1999. The existing Group is a result of that restructuring of several significant companies which operated under a joint control of Nafta Polska S.A. and the State Treasury. In particular the restructuring of the Polish oil sector comprised the following transactions:

- before the merger of Centrala Produktów Naftowych "CPN" S.A. ("CPN") and Petrochemia Płock:

- separation of Dyrekcja Eksploatacji Cystern Sp. z o.o. from CPN – an entity dealing with exploitation of railway tanks used for transportation of crude oil products,
- CPN's sale of shares in Naftobazy Sp. z o.o. – an operator of large warehouse facilities used for storage of crude oil products.

- acquisition of rafineries: Rafineria Trzebinia S.A. and Rafineria Nafty Jedlicze S.A.,

- merger of Petrochemia Płock S.A. and Centrala Produktów Naftowych "CPN" S.A. – the main retailer of fuels in Poland.

To the extent reflecting the Polish State Treasury's interest in the restructured companies of the oil sector, the transactions were recognised as transactions under joint control using the united interest method of accounting by analogy to International Accounting Standard 22 "Business Combinations" (IAS 22).

(d) Entities included in consolidated financial statements

These consolidated financial statements for the periods ended 30 June 2005 and 31 December 2004 include the following Group entities located in Poland, Germany and the Czech Republic:

	Share in total voting rights[1)]	
	30 June 2005	31 December 2004
	(full %)	
PKN ORLEN	Parent company	
ORLEN Deutschland AG	100%	100%
ORLEN Gaz Sp. z o.o.	100%	100%
ORLEN PetroCentrum Sp. z o.o.	100%	100%
ORLEN Medica Sp. z o.o.	100%	100%
ORLEN Budonaft Sp. z o.o.	100%	100%
ORLEN Powiernik Sp. z o.o.	100%	100%
ORLEN KolTrans Sp. z o.o.	100%	100%
ORLEN Transport Szczecin Sp. z o.o.	100%	100%
ORLEN ASFALT Sp. z o.o. (former Bitrex Sp. z o.o.)	100%	100%
ORLEN Petroprofit Sp. z o.o. Group	100%	100%
including:		
Petro-oil LCS Sp. z o.o.	100%	100%
Petrooktan Sp z o.o.	51%	51%
ORLEN Morena Sp. z o.o.	100%	100%
Raf Trans Sp. z o.o.	99%	99%
ORLEN Transport Kraków Sp. z o.o.	98%	98%
ORLEN Transport Płock Sp. z o.o.	98%	98%
ORLEN Transport Nowa Sól Sp. z o.o.	97%	97%
Zakład Budowy Aparatury S.A.	97%	97%
ORLEN Transport Słupsk Sp. z o.o.	97%	97%

ORLEN Transport Poznań Sp. z o.o. [2)]	-	96%
ORLEN Laboratorium Sp. z o.o.	95%	95%
ORLEN Transport Olsztyn Sp. z o.o.	95%	95%
ORLEN Transport Warszawa Sp. z o.o. [2)]	-	94%
ORLEN– Oil Sp. z o.o. Group	92%	92%
ORLEN Petro – Tank Sp. z o.o.	90%	90%
ORLEN Transport Kędzierzyn-Koźle Sp. z o.o.	94%	94%
Petrotel Sp. z o.o.	81%	89%
Anwil S.A. Group	84%	76%
Including:		
Przedsiębiorstwo Inwestycyjno – Remontowe Remwil Sp. z o.o.	100%	100%
Przedsiębiorstwo Produkcyjno – Handlowo – Usługowe Pro – Lab Sp. z o.o.	99%	99%
Przedsiębiorstwo Usług Specjalistycznych i Projektowych Chemeko Sp. z o.o.	56%	56%
Rafineria Trzebinia S.A. Group	77%	77%
including:		
Energomedia Sp. z o.o.	100%	100%
Euronaft Sp. z o.o.	100%	100%
Nafto Wax Sp. z o.o.	100%	100%
Ekonaft Sp. z o.o.	99%	99%
Rafineria Nafty Jedlicze S.A. Group	75%	75%
including:		
RAF – LAB Sp. z o.o.	100%	100%
RAF – ENERGIA Sp. z o.o.	100%	100%
RAF – KOLTRANS Sp. z o.o.	100%	100%
RAF – REMAT Sp. z o.o.	96%	96%
RAF – EKOLOGIA Sp. z o.o.	93%	93%
Konsorcjum Olejów Przepracowanych – Organizacja Odzysku S.A.	81%	81%
Inowrocławskie Kopalnie Soli "Solino" S.A.	71%	71%
Unipetrol a.s. Group [3)]	63%	-
including:		
CHEMOPETROL a.s.	100%	-
KAUČUK a.s.	100%	-
BENZINA a.s.	100%	-
UNIPETROL TRADE a.s.	100%	-
UNIPETROL RAFINERIE a.s.	100%	-
UNIPETROL - DOBRAVA a.s.	100%	-
B.U.T. s.r.o.	100%	-
CHEMOPETROL BM a.s.	100%	-
POLYMER INSTITUT BRNO spol. s.r.o.	100%	-
UNIPETROL CHEMICALS IBERICA S.A.	100%	-
CHEMAPOL (SCHWEIZ) AG	100%	-
UNIPETROL AUSTRIA HmbH	100%	-
ALIACHEM VERWALTUNGS GmbH	100%	-
UNIPETROL DEUTSCHLAND GmbH	100%	
ALIAPHARM GmbH	100%	-
BENZINA Trade a.s.	100%	-
PETROTRANS a.s.	100%	-
Paramo Trysk a.s.	100%	-
SPOLANA a.s.	92%	-
PARAMO a.s.	74%	-
HC CHEMOPETROL a.s.	71%	-
Česka Rafinerska[4)]	51%	-

Ship-Service S.A. Group	56%	56%
including:		
Bor – Farm Sp. z o.o.	100%	100%
ORLEN Automatyka Sp. z o.o.	52%	52%
ORLEN PetroZachód Sp. z o.o.	52%	52%
Petrogaz Wrocław Sp. z o.o.	52%	52%
Petrolot Sp. z o.o.	51%	51%
ORLEN Projekt Sp. z o.o.	51%	51%
ORLEN Wir Sp. z o.o.	51%	51%
Basell Orlen Polyolefins Sp z o. o. [4)]	50%	50%

[1)] Share in the total voting rights equals the participation in the share capital, except for the Ship Service S.A. Group, where the share amounts to 61%;
[2)] Entities taken over by ORLEN Transport Płock Sp. z o.o. in the 2nd quarter 2005;
[3)] The Group acquired in 2nd quarter 2005;
[4)] Entities consolidated using the proportionate method.

3. Measurement and reporting currency

The measurement currency of the Parent Company and the reporting currency of these consolidated financial statements is Polish New Zloty. For assets and liabilities expressed in foreign currencies as at the balance sheet date, the same average National Bank of Poland exchange rate is applied as announced on the balance sheet date.
The financial statements of foreign entities are translated into the Polish currency in the following way:

- balance sheet items at the average National Bank of Poland rate announced on the balance sheet date;
- profit and loss items at the arithmetic average of average rates announced by the National Bank of Poland for each day ending a reporting month.

Exchange rate gains/losses resulting from such calculations are presented directly in equity as a separate item.

4. Accounting principles and policy

The consolidated financial statements have been prepared based on historic cost, except for: derivatives, financial instruments at fair value through profit and loss, financial assets available for sale, and investment properties stated at fair value.

(a) Principles of consolidation

- Subsidiaries

The Group consolidated financial statements include Polski Koncern Naftowy ORLEN S.A. and entities under its control. The control is normally evidenced when the Group holds directly or indirectly more than 50% of the voting rights in a company or is able to govern the financial and operating policies of a company so as to benefit from the results of its activity. The minority shareholders' interest is recognised in equity. Net profit attributable to minority shareholders is shown in the profit and loss.
The purchase method is applied at acquisition of shares of business entities. Entities acquired or disposed of over the year are included in the consolidated financial statements from the acquisition date or to the disposal date, respectively.

- Investments in associates

Investments in associated companies (overall investments ranging from 20% to 50% in a company's equity) where the Group exercises significant financial and operating influence, yet does not have control over them, are accounted for by the equity method. Assessment of the recovering value of investments in associates is performed when there are indications that the asset has been impaired or the impairment losses recognised in prior years are no longer required.

- Investments in jointly controlled entities

Investments in jointly controlled entities where the Group exercises joint control are accounted for using the proportionate method whereby a proportional share in a jointly controlled entity's assets, liabilities, revenues and expenses, having deducted an impact of mutual transactions and settlements, is presented position by position with similar items in the consolidated financial statements.

(b) Property, plant and equipment

Property, plant and equipment, excluding investment property, are stated at cost which consists of the acquisition cost and direct costs related to bringing the fixed asset into use as well as estimated costs of dismantling and removal of the asset and the cost of restoration of the site/land to the initial state regardless of whether the obligation exists at acceptance of the asset for use or arises during its use.

After initial recognition, fixed assets are depreciated and subject to impairment write-offs.

Tangible fixed asset items acquired after 31 December 1996 are stated at acquisition cost less accumulated depreciation and impairment write-offs.

Fixed assets acquired before 1 January 1997 are stated at fair value determined as at 1 January 2004 in accordance with deemed cost less accumulated depreciation and impairment losses. In order to comply with the above requirements, in accordance with IFRS 1, the Group commissioned an independent expert to perform a preliminary revaluation of fixed assets to fair value as at the date of application of IFRS 1 and recognized the value as deemed cost as at that date. The Parent Company's Management Board expects that the revaluation process will be concluded in 2005, which will ensure application of all IFRS principles required in 2005 for statutory reporting by the end of that year. According to the Board, the estimated result of recognition of potential adjustments resulting from the above requirements will not impact significantly the Group assets, equity or financial results for the first half of 2005.

The cost of significant repairs and regular maintenance programmes are regarded as tangible fixed assets and depreciated in accordance with their economic useful life.

The cost of significant repairs and regular maintenance programmes is recognised as tangible fixed assets and depreciated in accordance with their economic useful lives.

Fixed assets are depreciated on a straight line basis over the period reflecting their estimated economic useful life, considering the residual value. Appropriateness of the applied periods and depreciation rates is verified once a year, and respective adjustments are made to the subsequent periods of depreciation. Components of fixed assets which are material for the whole fixed asset are depreciated separately in accordance with their economic useful life.

In the first half of 2005, the Company has not implemented the component accounting. The Company commenced the process to ensure that all material components of tangible fixed assets with different useful lives or depreciation methods would be identified in order to calculate relevant depreciation. The Company expects that this process will be concluded by the end of 2005.

The Group estimates the residual value of fixed assets. The residual value is the net amount which the Group would currently obtain from the disposal of the assets, having deducted the estimated cost of disposal, if the assets were already of the age and in the condition expected at the end of their useful life.
The residual value is not subject to depreciation and is reviewed once a year.

The following useful lives are used for property, plant and equipment:

Buildings and constructions	10-70 years
Machines and equipment	3-25 years
Vehicles and other	4-17 years

Assets with an estimated useful life not exceeding one year and with an initial cost not exceeding PLN 3.5 thousand are expensed when accepted for use.

If there have been events or changes which indicate that the carrying amount of property, plant and equipment may not be recoverable, the assets are analysed for potential impairment. If there are indications of impairment, and the carrying amount exceeds the estimated recoverable amount, the value of those assets or cash-generating units is decreased to the recoverable amount. The recoverable amount of fixed assets reflects the higher of net selling cost and value in use.
Impairment write-offs are recognised as operating costs in the profit and loss.

(c) Finance lease

A lease contract, under IAS 17, is regarded as a finance lease if it transfers substantially all risks and rewards incidental to ownership of the leased asset.
Assets used under lease, tenancy, rental or similar contracts which meet the above defined criteria are regarded as fixed assets and recognised at the lower of fair value of the leased asset at the commencement of the lease term and the present value of the minimum lease payments.

Depreciation methods for leased assets being depreciated are consistent with normal depreciation policies applied for similar owned assets and depreciation is calculated in accordance with IAS 16 and IAS 38. If it is not certain that the lessee will obtain title to the asset before the end of the lease term, the asset is depreciated over the shorter of the lease term and the asset's economic useful life.

Assets leased out based on lease, tenancy, rental or similar contracts meeting the above finance lease criteria are treated as long-term receivables and stated at the net lease investment value.

(d) Goodwill

Goodwill resulting from a business combination is stated at the acquisition date at the excess of the cost of the business combination over the acquirer's share in the fair value of the net identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is decreased by impairment losses.

Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that it might be impaired. Goodwill is not amortised.

(e) Excess of net fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost

If the acquirer's share resulting from a business combination in the net fair value of identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination the acquirer:

- reassesses the identification and measurement of the identifiable assets, liabilities and contingent liabilities and the cost of the business combination;
- recognises immediately in the profit and loss any excess remaining after the reassessment in the period in which the business combination was carried out.

(f) Intangible assets

Intangible assets are recognised if it is probable that expected future economic benefits that are directly attributable to the assets will flow to the entity. Initially intangible assets are stated at acquisition or construction cost. The intangible assets acquired in a business combination are initially recognised at fair value as defined at the business combination date.

After initial recognition, intangible assets are measured at acquisition or construction cost less amortisation and impairment losses. Intangible assets are amortised using the straight line method over their estimated economic useful life. Appropriateness of the applied amortisation periods and rates is regularly reviewed, at least at the end of the reporting year, and potential adjustments to amortisation rates are made in the subsequent periods.

Intangible assets with an indefinite useful life are not amortised. Their value is decreased by impairment losses.

The residual value of intangible assets is usually assumed to be zero, unless:

- there is a commitment by a third party to purchase the asset at the end of its useful life – the residual value is then defined by the contract for disposal of the title to the asset; or
- there is an active market for the asset, its value may be reliably estimated and it is highly probable that such a market will exist at the end of the asset's useful life.

The adopted economic standard useful lives for amortisation of intangible assets are:

Acquired licenses, patents, and similar intangible assets	2-15 years
Acquired computer software	2-10 years

Except for development costs, all intangible assets generated by the Group are not recognised as assets and are recorded in the profit and loss for the period when the related cost has been incurred.

Intangible assets with indefinite useful lives and intangible assets which are not yet in use are tested for impairment once a year.

Other intangible assets are tested for impairment only if there are indications that their carrying amount may not be recoverable. If there are indications of impairment, and the carrying amount exceeds the estimated recoverable amount, the value of those assets or the related cash-generating units is decreased to the recoverable amount. The recoverable amount of those assets is the higher of the assets' net selling price and their value in use.

(g) Investment property

Investment property is initially recognised at acquisition cost including transaction costs. After initial recognition investment property is presented at fair value. Gains and losses resulting from changes in fair value of investment property are presented in the profit and loss in the period when incurred.

Investment property is derecognised when the property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses arising from derecognition of the investment property are recognised in the profit and loss in the period of derecognition.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value, considering any inventory allowances. The net realisable value is the selling price estimated in the ordinary course of business activity less the estimated costs of completion and the estimated selling costs.

Cost is determined based on the weighted average costs formula. For finished goods, costs comprise of related fixed and variable indirect costs for ordinary production levels, excluding cost of external financing.

(i) Receivables

Trade receivables are recognised when they arise at the present value of the expected proceeds and are stated in subsequent periods at amortised cost using the effective interest method less allowances for doubtful receivables.
Bad debts are stated in the profit and loss when it is determined that they are not collectable.

(j) Cash and cash equivalents

Cash comprises cash on hand and in a bank account. Cash equivalents are short-term highly liquid investments (of initial maturity up to three months), that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.
The cash flows balance of cash and cash equivalents consists of the above defined monetary assets and their equivalents less bank overdrafts, if they form an integral part of an entity's cash management.

(k) Revenue from sale

Revenue from sales is recognised when it is probable that the economic benefits associated with the sale transaction will flow to the Group and the amount of revenue can be measured reliably. The revenue from the sale of finished goods and merchandise is recognised after deducting value added tax (VAT), excise tax (finished goods), fuel charges (finished goods) and discounts.

Revenue from the sale of goods and merchandise is recognised when the goods are issued and related risks and rewards have been transferred. Revenue from settlement of cash flow hedge instruments adjust the sales revenue.

The revenue is measured at the fair value of the received or due payment.

(l) Revenue from dividends

Dividends are recognised when the shareholder's right to receive payment is established.

(m) Equity

Equity is stated in the accounting books by type, in accordance with legal regulations and the Company's Articles of Association.
The share capital is stated at nominal value in accordance with the Company's Articles of Association and the entry in the Commercial Register, except for shares issued before 1996. Those shares were adjusted using a general price index in line with IAS 29.

The stated outstanding share capital contributions are recognised as outstanding share capital contributions. Own shares and outstanding contributions to the share capital decrease the Company's equity.
Share premium is created by the surplus of the issuance value in excess of the nominal value decreased by issuance costs.
Issuance costs incurred by setting up a joint stock company or increasing the share capital decrease the share premium to the amount of the surplus of the issuance value in excess of the nominal value, and the remaining portion is presented in other capital reserves.

Changes in the fair value of cash flows hedges related to the portion regarded as an effective hedge are included in equity as hedge accounting reserve.

Equity resulting from the conversion of convertible bonds, liabilities and loans into shares is stated at the nominal value of those financial instruments, liabilities and loans, considering non-amortised discounts or premiums, interest accrued and unsettled before the conversion date, which will not be paid out, unrealized foreign exchange differences and capitalized cost of issue.

The amounts arising at profit distribution, transfer from revaluation reserve capital, the undistributed income from prior periods and the current period net income are presented in the financial statements as retained earnings.

(n) Loans and borrowings

Loans are initially stated at the fair value of proceeds received, net of transaction costs. They are subsequently recognised at amortised cost in line with the effective interest rate method. The difference between the net proceeds and the buyout amount is recognised as financial revenue or cost over the term of the loan or borrowing.

(o) External financing costs

Cost of loans and borrowings, including foreign exchange differences related to loans and borrowings drawn in foreign currencies, are expensed in accordance with the benchmark treatment of IAS 23 in the profit and loss in the period to which they refer.

(p) Retirement benefits and jubilee bonuses

Under the Group companies' remuneration plans, their employees are entitled to jubilee bonuses and retirement benefits. The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement benefits are paid once at retirement. The amount of retirement benefits and jubilee bonuses depends on the number of years of service and an employee's average remuneration. The Group does not assign assets which would be used for future retirement or jubilee liabilities. The Group makes a provision for future retirement benefits and jubilee bonuses in order to allocate costs to relevant periods. In accordance with IAS 19, jubilee bonuses are long-term employee benefits and retirement benefits are classified as post-employment benefit plans. The present amount of those liabilities at each balance sheet date is estimated by an independent actuary. The accumulated liabilities equal discounted future payments, considering employee rotation, and relate to the period before the balance sheet date. Demographic data and information on employee rotation are based on historical records. Actuarial gains and losses are recognised in the profit and loss.

(q) Foreign currency transactions

Transactions denominated in foreign currencies are recognised after their translation to the functional currency, i.e. Polish New Zloty, at the exchange rate effective on the transaction date. Monetary assets and liabilities expressed in foreign currencies are stated at the National Bank of Poland average foreign exchange rates announced at the balance sheet date. Any gains or losses resulting from changes in foreign exchange rates after the transaction date are recognised as financial income or cost in the profit and loss statement. The exchange differences are stated in the profit and loss at their net amount.

(r) Financial instruments

Financial assets are classified in the following categories: financial assets held to maturity, financial assets at fair value through profit and loss, loans and receivables and financial assets classified as available for sale. Financial assets held to maturity are investments with determined or determinable payments and a fixed maturity date, which the Company intends and has the ability to hold to the maturity date. Financial assets acquired in order to generate profits on short-term price fluctuations are classified as financial assets at fair value through profit and loss.

All other financial assets, which are not borrowings or receivables of the Company, are classified as financial assets available for sale.

Financial investments held to maturity are part of long-term assets if their maturity dates exceed twelve months from the balance sheet date. Financial assets at fair value, the change in which is recognised in the profit and loss, are classified as current assets if the Management Board intends to realize them within twelve months from the balance sheet date.

Purchases and sales of financial assets are recognised at the transaction date. At the moment of the original recognition those assets are measured at acquisition cost, i.e. at fair value, including transaction costs.

Financial assets at fair value through profit and loss, are measured at fair value without deduction of the transaction costs and considering their market price as at the balance sheet date. The change in fair value of those financial assets is recognised as financial income or costs.
Financial assets held to maturity are measured at the amortised cost using the effective interest rate.

Financial assets available for sale are recognised at fair value, without deduction of the transaction costs, and considering their market price at the balance sheet date. If the financial instruments are not traded on an active market and it is impossible to estimate reliably their fair value by alternative methods, financial assets available for sale are measured at acquisition cost adjusted by impairment losses.

Positive and negative differences between fair value and acquisition cost, net of deferred tax, of financial assets available for sale are reflected in the revaluation reserve if their market price is determinable on a regulated active market or fair value may be estimated by some other reliable method. Decreases in the value of financial assets available for sale due to impairment losses is charged to financial costs in the profit and loss.

Granted loans are presented at amortised cost.

Derivatives which are not designated as hedging instruments and are classified as financial assets or liabilities at fair value are stated at fair value through profit and loss.

Derivatives treated as cash flow hedge instruments are carried at fair value with changes in value accounted for in the following way:
- the portion determined to be an effective hedge is recognised directly in equity through the statement of changes in equity;
- the portion determined to be an ineffective hedge is recognised in the profit and loss;
- revenues or expenses on settlement of cash flow hedging instruments adjust sales revenues when recognised in the profit and loss.

Embedded derivatives are separated from the host contracts and accounted for as derivatives if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same realization terms as the embedded derivative would meet the definition of a derivative;
- is not the hybrid (combined) instrument

The hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the net profit and loss.

Embedded derivatives are accounted for in a similar way as other derivatives which are not designated as hedging instruments.

Financial instruments are not presented in the financial statements if the title and control resulting from the underlying contract is lost which usually takes place on disposal of the financial instrument or when all related cash flows are transferred to a third party.

Derivatives used by the Company in order to hedge against foreign exchange risks comprise mainly of currency forwards. Such instruments are measured at fair value.
The fair value of currency forwards is estimated with reference to current futures rates for contracts of similar maturity.

When applying hedge accounting, hedges are classified as cash flow hedges against cash flow changes attributable to a particular type of risk related to a recognised asset, liability, or a forecast transaction. They may also be regarded as fair value hedges which are attributable to a particular type of risk related to a recognised asset or liability.
If the specific criteria for hedge accounting are met, a portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion of the gain or loss is recognised in the profit and loss.
The gain or loss from the re-measurement of the derivative hedging instruments at fair value that do not comply with the hedge accounting criteria are recognised directly in the profit and loss.

The Company discontinues hedge accounting when the underlying instrument expires or is sold, terminated or realized, or when the hedge no longer meets the criteria for hedge accounting. In such case, total gain or loss on the hedging instrument, previously recognised in equity, is recognised in equity until the forecast transaction takes place. If the Company no longer expects the forecast transaction to take place, the total net gain or loss recognised in equity is presented in the financial result of the current period.

(s) Corporate income tax

Income tax is measured on gross profit considering deferred tax. The deferred tax is measured using the balance sheet liability method. The deferred tax reflects the net tax effect of temporary differences between the carrying amount of a given asset or liability and its tax base. The deferred tax assets and liabilities are measured at the effective tax rates enacted for subsequent years when the temporary differences are expected to be realized at tax rates enacted or substantially enacted as at the balance sheet date.

Deferred tax assets are recognised for negative temporary differences and unrealized tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be realized.

Deferred tax liabilities are recognised for all temporary tax differences.

Deferred tax assets and liabilities are recognised regardless of when the timing difference is likely to be realised.
Deferred tax assets and liabilities are not discounted and they are accounted for as non-current assets or long-term liabilities in the balance sheet.

(t) Non-current assets classified for disposal/sale

Non-current assets classified for sale are those which comply with the following criteria:

- a decision was made by the Company's Management Board for the disposal;
- the assets are available for an immediate sale in their present condition;
- an active search for a potential buyer has been initiated;
- the sale transaction is highly probable and could be settled within 12 months following the sale decision;
- the selling price is reasonable in relation to its current fair value;
- it is unlikely that significant changes to the sales plan of these assets will be introduced.

If the criteria are met after the balance sheet date, the asset is not reclassified at the end of the reporting year prior to the designation for sale. The reclassification is reflected in the reporting period when the criteria are met. Depreciation is discontinued for the asset when it is designated for sale.

Assets designated for sale are measured at the lower of the net carrying amount and the fair value less selling costs.

(u) Earnings per share

Basic earnings per share for each period are calculated by dividing the net profit for a given period by the weighted average number of shares outstanding during that period.

Diluted earnings per share for each period is calculated by dividing the net profit for a given period adjusted by changes of the net profit resulting from conversion of the dilutive potential ordinary shares by the weighted average number of shares.

(v) Provisions and liabilities

The Group makes provisions if it has such a legal or constructive obligation as a result of past events and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a

reliable estimate may be made of the amount of the obligation. The provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

When the effect of the time value of money is material, the amount of the provision and liability is the present value of the expenditure expected to be required to settle the obligation. If the discounting method is applied, the increase of provisions with time is recognised as financing costs.

(w) Environmental provisions

The Group makes provisions for future liabilities for reclamation of contaminated land or elimination of harmful substances if there is such a legal or constructive obligation. Environmental provisions for reclamation are periodically reviewed based on reports prepared by independent experts. The Group conducts regular reclamation of contaminated land that decreases the provision by its utilization.

The created provision reflects potential future expenses predicted to be incurred, estimated and verified periodically according to current prices.

(x) Government grants and assistance

The government grants are recognised at fair value if there is reasonable assurance that the grant will be obtained and the entity will comply with the conditions attached to it. If the grant relates to an expenditure, it is recognised as income over the period necessary to match it with the related costs which the grant is intended to compensate. If the grant concerns assets, its fair value is recognised as deferred income and on a systematic basis recorded in the profit and loss over the estimated useful life of the underlying asset.

(y) Contingent liabilities and receivables

Contingent liabilities are defined as obligations that arise from past events and which are dependent on occurrence or non-occurrence of some uncertain future events. Contingent liabilities are not recognised in the balance sheet however the information on contingent liabilities is disclosed unless the probability of outflow of resources relating to economic benefits is remote.

Contingent liabilities acquired as the result of a business combination are recognised as provisions in the balance sheet .

Contingent receivables are not recognised in the balance sheet, however the respective information on the contingent receivable is disclosed if the inflow of assets relating to economic benefits is probable.

(z) Company's Board estimates

The preparation of financial statements in accordance with IFRSs requires that the Company's Board makes relevant estimates and assumptions that affect the amounts reported in the financial statements and the notes thereto. Actual results may differ from those estimations.

In the matters of considerable weight, the Company's Board bases its estimates on opinions of independent experts.

(ź) Business segments

The Group's activities are divided into two major operating divisions: Refining Segment and Chemical Segment.

- The Refining Segment includes processing of crude oil, wholesale and retail trading in refinery products.

- The Chemical Segment includes production and sale of petrochemical products by PKN ORLEN and fertilizers and PCW by Anwil S.A.

Other operations embrace among others support activities in PKN ORLEN, transportation, repair and maintenance and construction activities performed by other PKN ORLEN's subsidiaries.

Segment profit and assets have been determined before making intersegment adjustments as appropriate. Selling prices between business segments are similar to market values. Segment operating costs have been allocated as appropriate.

Other costs which cannot be reliably determined have been included as unallocated Group expenses, reconciling total segment results to profit from operations.

Adjustments from consolidation

Internal balances between the Group companies, transactions concluded within the Group and any related unrealized gains or losses as well as the Group income and expenses are eliminated at preparation of the consolidated financial statements. Unrealized gains resulting from transactions with associates and jointly controlled entities are excluded from the consolidated financial statements depending on the Group's share in those entities. Unrealized losses are excluded from the consolidated financial statements based on the same rationale as in case of unrealized gains, until there are indications of impairment.

Application of the accounting principles

The above principles are applicable for comparative data, except principles concerning treatment of assets designated for sale, which have been applied since 1 January 2005.

Composition of the Company's Management Board

As at 30 June 2005, the Company's Management Board consisted of:

Igor Chalupec – President of the Board, General Executive Officer
Wojciech Heydel – Vice-President of the Board, Retail and Commercial Sales
Jan Maciejewicz – Vice-President of the Board, Cost Management and Information Technology
Cezary Smorszczewski – Vice-President of the Board, Chief Investment Officer
Paweł Szymański – Member of the Board, Chief Finance Officer

Upon the motion of the Polish Minister of State Treasury, PKN ORLEN Supervisory Board at the sitting on 19 July 2005, appointed Dariusz Witkowski as PKN ORLEN Board Member responsible for Organisation, effective 1 August 2005.

5. Property, plant and equipment

	30 June 2005 (unaudited)	31 December 2004 (unaudited)	30 June 2004 (unaudited)
Land	789 050	349 077	355 212
Buildings and constructions	7 456 974	5 349 691	5 401 646
Machinery and equipment	7 231 931	3 015 940	3 205 991
Vehicles and other	581 888	401 282	395 997
Construction in progress	2 227 617	1 947 248	1 395 790
Total property, plant and equipment	**18 287 460**	**11 063 238**	**10 754 636**
incl. impairment allowances*	416 911	282 351	293 006

The movements by type in each year were as follows:

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Cost						
1 January 2004	388 833	7 595 218	6 806 520	729 355	1 001 760	16 521 686
Increase	14 824	167 162	151 293	48 687	715 131	1 097 097
Reclassification	9	(331)	(17)	339	-	-
Decrease	(8 046)	(81 088)	(91 572)	(30 869)	(321 101)	(532 676)
30 June 2004	**395 620**	**7 680 961**	**6 866 224**	**747 512**	**1 395 790**	**17 086 107**
1 January 2005	390 412	7 792 557	6 906 196	575 645	1 947 248	17 612 058
Increase	22 307	269 132	325 658	276 079	748 211	1 641 387
Reclassification	-	3 522	(4 012)	490	-	-
Decrease	(2 131)	(38 649)	(37 341)	(35 368)	(623 998)	(737 487)
Increases related to acquisition of Unipetrol **	424 458	3 474 114	7 773 234	324 282	156 156	12 152 244
30 June 2005	**835 046**	**11 500 676**	**14 963 735**	**1 141 128**	**2 227 617**	**30 668 202**
Accumulated depreciation and impairment allowances						
1 January 2004	488	2 027 137	3 362 058	316 955	-	5 706 638
Depreciation	34	243 454	354 902	43 455	-	641 845
Other increases	-	894	115	3 442	-	4 451
Impairment allowances	39 904	53 357	5 753	1 058	-	100 072
Reclassification	9	(94)	(13)	98	-	-
Decrease	(27)	(45 433)	(62 582)	(13 493)	-	(121 535)
30 June 2004	**40 408**	**2 279 315**	**3 660 233**	**351 515**	**-**	**6 331 471**
1 January 2005	41 335	2 442 866	3 890 256	174 363	-	6 548 820
Depreciation	277	242 531	305 825	49 028	-	597 661
Other increases	-	16 934	19 915	176 182	-	213 031
Impairment allowances	4 389	98 621	32 128	(99)	-	135 039
Reclassification	-	2 096	(2 698)	602	-	-
Decrease	(5)	(33 994)	(32 166)	(24 262)	-	(90 427)
Increases related to acquisition of Unipetrol	-	1 274 648	3 518 544	183 426		4 976 618
30 June 2005	**45 996**	**4 043 702**	**7 731 804**	**559 240**	**-**	**12 380 742**
Net book value						
1 January 2004	**388 345**	**5 568 081**	**3 444 462**	**412 400**	**1 001 760**	**10 815 048**
30 June 2004	**355 212**	**5 401 646**	**3 205 991**	**395 997**	**1 395 790**	**10 754 636**
1 January 2005	**349 077**	**5 349 691**	**3 015 940**	**401 282**	**1 947 248**	**11 063 238**
30 June 2005	**789 050**	**7 456 974**	**7 231 931**	**581 888**	**2 227 617**	**18 287 460**

* including PLN 166,906 thousand of impairment allowances relating to Unipetrol as at acquisition date
** including increase of PLN 1,170,644 thousand relating to valuation as at aqcuisition date of Unipetrol, details see Note 35b

Transfers from construction in progress to other groups of Property, plant and equipment are presented in additions at cost.

The Group recognises perpetual usufruct of land granted by virtue of law at fair value which is the deemed cost at recognition less impairment losses. The revaluation process initiated at the Company enabled to determine a fair value of those rights, i.e. PLN 904,467 thousand. The Company recognises the above rights in the off-balance items.

The property, plant and equipment items of the carrying amount of PLN 100,048 thousand pledged the Group liabilities as at 30 June 2005, those of PLN 167,327 thousand as at 31 December 2004, and PLN 313,875 thousand as at 30 June 2004.

Impairment losses presented in the movements of property, plant and equipment are the amounts by which the net carrying amounts of the assets exceeded their estimated recoverable amounts. The impairment losses are charged to other operating expenses. Impairment losses recognised during 2004 result from the restructuring process of the Company (integration with former CPN units) and mainly relate to gasoline warehouses and retail outlets.

As at 30 June 2005 and 31 December 2004 construction in progress included:

	30 June 2005 (unaudited)	31 December 2004 (unaudited)
Revamping of Olefin II production unit	839,152	864,226
Installation of Polipropylen HD - HOSTALEN	262,246	235,000
Installation of Polipropylen III - Spheripol	242,522	205,403
Change in production technology of chlorine from diaphragme to membrane	108,477	27,638
Financial expenses in the intangible assets group and undividable expenses and preparatory work	72,750	67,785
Construction of Craking petrol desulphurization installation	59,179	15,834
Construction of installation for hydrofining of paraffins	48,821	24,413
Construction of Logistics Platform at BOP	46,829	42,944
Intensification of Aromatics Extraction Installation	41,941	45,597
New technology of sulphur reduction from fuels	39,722	-
Intensification of IFP, Pyrotol, Butadiene	35,273	79,797
Infrastructure of Olefin II	27,784	94,071
Construction of an underground crude oil and petrol storage	22,118	17,367
Installation of Polymeroasphalts	16,577	799
Construction of 41D and 43 A,B,C,D tanks	15,249	1,484
Construction of installation for production of biodiesel	14,138	8,431
Non-current assets from purchases	13,060	-
Infrastructure of PP III and PE III	8,957	40,984
Other construction in progress	312,821	175,476
Total	**2,227,617**	**1,947,248**

The Group companies record all maintenance and repairs costs as expenses when incurred.

6. Investment property

Investment property relates to a social and office building valued at PLN 17,653 thousand, totally designated for rental, which constitutes investment property as defined by IAS 40.

7. Goodwill

	30 June 2005	31 December 2004	30 June 2004
	(unaudited)	(unaudited)	(unaudited)
Orlen PetroTank	11 298	11 298	11 298
ShipService	6 645	6 645	6 645
PetroProfit	1 175	1 175	1 175
Other	1 383	1 383	1 015
Total	**20 501**	**20 501**	**20 133**

Net changes in goodwill for the period of 6 months ended 30 June 2005, for the period of 12 months ended 31 December 2004 and for the period of 6 months ended 30 June 2004 were as follows:

	30 June 2005	31 December 2004	30 June 2004
	(unaudited)	(unaudited)	(unaudited)
Goodwill, beginnig of period	20 501	20 856	20 856
Additions during the period	-	-	-
Disposals during the period	-	(355)	(723)
End of period	**20 501**	**20 501**	**20 133**

8. Intangible assets

	30 June 2005	31 December 2004	30 June 2004
	(unaudited)	(unaudited)	(unaudited)
Acquired licenses, patents and similar intangible assets	519 836	274 855	53 698
Acquired computer software	30 608	14 603	15 344
Other*	216 980	54 973	284 914
Total intangible assets	**767 424**	**344 431**	**353 956**

* Including development costs, goodwill and other.

The movements in intangible assets in each period were as follows:

	Acquired computer software	Acquired licenses, patents and similar intangible assets	Other	Total
Cost				
1 January 2004	28 140	187 035	311 657	526 832
Increase	5 554	3 680	643	9 877
Decrease	(462)	(6)	(1 120)	(1 588)
30 June 2004	**33 232**	**190 709**	**311 180**	**535 121**
1 January 2005	34 940	440 991	76 930	552 861
Increase	1 928	14 320	10 649	26 897
Decrease	(1 442)	(608)	(2 066)	(4 116)
Increases related to acquisition of Unipetrol *	97 191	300 015	166 052	563 258
30 June 2005	**132 617**	**754 718**	**251 565**	**1 138 900**
1 January 2004	15 791	120 964	21 114	157 869
Depreciation	2 299	16 048	5 614	23 961
Other increases	3	-	-	3
Impairment allowances	-	5	-	5
Decrease	(205)	(6)	(462)	(673)
30 June 2004	**17 888**	**137 011**	**26 266**	**181 165**
1 January 2005	20 337	166 136	21 957	208 430
Depreciation	4 016	17 584	3 096	24 696
Other increases	70	315	4	389
Impairment allowances	(1)	(26)	(480)	(507)
Decrease	(421)	(570)	(86)	(1 077)
Increases related to acquisition of Unipetrol	78 008	51 443	10 094	139 545
30 June 2005	**102 009**	**234 882**	**34 585**	**371 476**
Net book value				
1 January 2004	**12 349**	**66 071**	**290 543**	**368 963**
30 June 2004	**15 344**	**53 698**	**284 914**	**353 956**
1 January 2005	**14 603**	**274 855**	**54 973**	**344 431**
30 June 2005	**30 608**	**519 836**	**216 980**	**767 424**

* including PLN 187,971 thousand increase relating to valuation at at the purchase date of Unipetrol

9. Financial assets

(a) significant shares in other entities

	30 June 2005	31 December 2004	30 June 2004	Group interest in equity as at 31 December 2004	Group voting rights	Principal activity
Polkomtel S.A.	436,495	436,495	436,495	19.61%	19.61%	GSM mobile operator
AWSA Holland II B.V.	61,400	61,400	61,400	9.22%	9.22%	Parent company of Autostrada Wielkopolska S.A.
Telewizja Familijna[1)]	26,004	26,004	26,004	11.96%	9.61%	Radio and television broadcasting activity
Other	145,576	29,201	20,130			
Total	669,475	553,100	544,029			

Impairment	(53,506)	(52,366)	(50,478)
Net value of significant shares in other entities	**615,969**	**500,734**	**493,551**
(b) loans granted			
Other	8,917	10,830	21,490
Total	**8,917**	**10,830**	**21,490**
(b) financial assets held to maturity			
Telewizja Familijna S.A. bonds[1)]	26,004	26,004	26,004
Impairment	(26,004)	(26,004)	(26,004)
Net value of financial assets held to maturity	-	-	-
Total net value of financial assets	**624,886**	**511,564**	**515,041**

[1)] On 8 April 2003 the bankruptcy of Telewizja Familijna S.A. was announced; carrying value of shares and bonds as at 30 June 2005 and 31 December 2004 is subject to impairment for the total amount of assets.

Investments available for sale are carried at purchase cost less impairment charges since they do not have quoted market prices on an active market and their fair value cannot be reliably measured by alternative methods.

Shares of Polkomtel S.A., a Polish GSM mobile operator, are presented at purchase cost of PLN 436,495 thousand (19.61% interest in the share capital) as at 30 June 2005. The Management Board of PKN ORLEN has requested relevant legal analyses in order to determine if, according to IAS 28 'Investments in Associates' and IAS 31 'Interests in Joint Ventures', Polkomtel may be recognised as a jointly controlled entity, consolidated by the proportionate method.
As at 30 June 2005, PKN ORLEN held 9.22% share in AW S.A. Holland II B.V. ("AWSA") share capital at the total purchase price of PLN 61,400 thousand. AWSA is the parent company of Autostrada Wielkopolska S.A., which

possesses a license to construct motorways in Poland. The Company has a put option for AWSA shares, exercisable on each demand of PKN ORLEN SA till 31 December 2006 and a call option valid till 7 January 2038 if Kulczyk Holding S.A. withdraws from the investment. The Company's Management believes that both options are fully exercisable. Additionally, PKN ORLEN S.A. provided Kulczyk Holding S.A. with a call option for AW S.A. Holland II B.V. shares realisable on each demand between 1 January 2005 and 31 December 2006.

Shares of AWSA have no active market and according to the Management Board their fair value cannot be reliably measured. Therefore, both the put option and the call option were not valuated. The shares were presented in the balance sheet at purchase price. The value of the option purchase was charged against the costs of the period in which the option was purchased.

10. Investments in associates

As at 30 June 2005, 31 December 2004 and 30 June 2004 the Group's investments accounted for under the equity method were as follows:

	Recorded value under equity method as at			Group interest in equity as at 30 June 2005	Principal activity
	30 June 2005	31 December 2004	30 June 2004		
Agrobohemie a.s.	257,268	-	-	50%	Wholesale
Allachem a.s.	242,113	-	-	38.90%	Production of chemicals
Naftoport Sp. z o.o.	-	52,017	48,795	48.71%	construction, operation and maintenance of loading stations for liquid fuel
Other	11,662	65,997	82,755		
Total	**511,043**	**118,014**	**131,550**		

11. Inventories

	30 June 2005 (unaudited)	31 December 2004 (unaudited)	30 June 2004 (unaudited)
Raw materials	3 019 008	1 594 284	1 696 613
Work in progress	563 927	322 764	350 819
Finished goods	1 694 950	1 103 408	1 030 644
Merchandise	354 878	204 434	240 151
Total inventory, net	**5 632 763**	**3 224 890**	**3 318 227**

The inventory allowances to net realisable value amounted to PLN 10,654 thousand in the period of 6 months ended 30 June 2005 and PLN 7,359 thousand in the period of 6 months ended 30 June 2004.

As at 30 June 2005, 31 December 2004 and 30 June 2004 the carrying amounts of inventories pledged the Group liabilities were PLN 32,225 thousand, PLN 14,380 thousand and PLN 54,185 thousand respectively.

Beginning from 2002, the level of mandatory reserves is created based on a schedule defined by the Decree of the Ministry of Economy of 14 June 2002 (Journal of Laws 84 item 756) so as to reach the level of 76 days of liquid fuel production or imports of the prior calendar year less exports of the entity as at the end of 2008 (moreover the Ministry respective for economy is responsible for setting economic fuel reserves: for liquid fuel in the quantity equal to 14 fuel consumption days in the current year). As at 30 June 2005, 31 December 2004 and 30 June 2004, the value of

mandatory inventory reserves in the Group amounted to PLN 1,687,074 thousand, PLN 1,304,472 thousand and PLN 1,256,708 thousand, respectively.

12. Trade and other receivables

	30 June 2005 (unaudited)	31 December 2004 (unaudited)	30 June 2004 (unaudited)
Trade receivables	3 966 350	2 155 698	2 226 413
Taxation, duty and social security receivables	307 336	226 064	179 844
Receivables from sale of property, plant and equipment	51 460	3 477	1 900
Prepayments for property, plant and equipment	32 923	27 915	140 074
Other receivables *	1 364 476	659 474	597 955
Total trade and other receivables, gross	5 722 545	3 072 628	3 146 186
Receivables allowances	(717 057)	(473 828)	(317 159)
Total trade and other receivables, net	**5 005 488**	**2 598 800**	**2 829 027**

* The increase in other receivables in the first half of 2005 relates to the purchase of the Unipetrol Group.

Total receivables include PLN 492,034 thousand in foreign currencies as at 30 June 2005, PLN 392,428 thousand as at 31 December 2004 and PLN 444,950 thousand as at 30 June 2004. Trade receivables relate primarily to the sales of finished goods and merchandise.
Concentration of credit risk related to trade receivables is limited due to the large number of customers comprising the Group's customer base belonging to different industries principally in Poland, Germany and the Czech Republic.
The normal repayment periods of receivables related to sales is 14 - 30 days.
Maximum credit risk amounts to PLN 3,896,883 thousand. The Management Board believes that the risk of doubtful receivables is reflected by the allowance set for doubtful accounts.
As at 30 June 2005, 31 December 2004 and 30 June 2004, the carrying amounts of PLN 161,266 thousand, PLN 167,541 thousand and PLN 194,074 thousand were assigned as security for the Group liabilities.

Provisions for receivables and changes therein for the years ended 30 June 2005, 31 December 2004 and 30 June 2004 were as follows:

Receivables allowances	30 June 2005 (unaudited)	31 December 2004 (unaudited)	30 June 2004 (unaudited)
Beginning of period	473 828	317 058	317 058
Allowance made during the period	295 751	264 131	31 329
Allowance reversed during the period	(49 897)	(95 955)	(30 498)
Allowance used during the period	(2 625)	(11 406)	(730)
End of period	**717 057**	**473 828**	**317 159**

13. Short-term investments

Short-term investments as at 30 June 2005, 31 December 2004 and 30 June 2004 included treasury bonds, treasury bills and other short-term securities amounting to PLN 240,137 thousand, PLN 1,124,155 thousand and PLN 297,571 thousand, respectively, including:

	30 June 2005 (unaudited)	31 December 2004 (unaudited)	30 June 2004 (unaudited)
Available for sale	18 637	85 344	287 734
Held to maturity	218 189	1 038 273	9 215
Loans and receivables	3 311	538	622
Total	**240 137**	**1 124 155**	**297 571**

14. Short-term prepayments

	30 June 2005 (unaudited)	31 December 2004 (unaudited)	30 June 2004 (unaudited)
Subscriptions	17 179	15 493	16 430
Insurances	56 693	22 643	56 355
Other*	90 154	63 955	79 556
Total	**164 026**	**102 091**	**152 341**

*Other prepayments include contributions to the Company's Social Fund, tax on vehicles, road charges and other.

15. Cash and cash equivalents

	30 June 2005 (unaudited)	31 December 2004 (unaudited)	30 June 2004 (unaudited)
Cash on hand and in bank	907 374	676 738	807 948
Other cash	100 997	59 027	113 323
Other monetary assets	375 863	48	36
Total	**1 384 234**	**735 813**	**921 307**

Total cash denominated in foreign currencies amount to PLN 992,255 thousand as at 30 June 2005, PLN 482,142 thousand as at 31 December 2004 and PLN 651,398 thousand as at 30 June 2004.

Taking into account cooperation of the Group companies mainly with well-established Polish and international banks, the risk related to depositing cash and cash equivalents is considerably limited.

Beginning from 2001, the Group has concentrated cash and cash equivalents. As at 30 June 2005, the system embraces seventeen of the Group companies. Concentration of local currency cash in the cash pooling system takes place with cooperation with three banks, and concentration of foreign currency cash is performed by one bank. The operation of this system results in the Group's financial benefits.

In accordance with the Polish law, the Group companies registered in Poland manage the Company's Social Fund on behalf of their employees. The contributions paid to the Social Fund are deposited in separate bank accounts of the Group companies and cannot be used for operating activity. As at 30 June 2005, 31 December 2004, and 30 June 2004 cash relating to the Social Fund account amounted to PLN 20,025 thousand, PLN 28,979 thousand and PLN 35,105 thousand respectively. The receivables related to borrowings from the Social Fund drawn by employees as at 30 June 2005, 31 December 2004 and 30 June 2004 amounted to PLN 21,195 thousand, PLN 23,886 thousand and PLN 26,777 thousand respectively. Liabilities related to the Social Fund as at 30 June 2005, 31 December 2004 and 30 June 2004 amounted to PLN 47,464 thousand, PLN 35,245 thousand and PLN 45,195 thousand respectively and are included in deferred liabilities.

Apart from the above presented amounts related to the Social Fund, cash and cash equivalents for which availability is limited as at 30 June 2005, 31 December 2004 and 30 June 2004 amounted to PLN 89,442 thousand, PLN 247,263 thousand and PLN 85,241 thousand respectively.

16. Loans and borrowings

	Note	30 June 2005 (unaudited)	31 December 2004 (unaudited)	30 June 2004 (unaudited)
Bank loans	(a)	4,283,637	2,300,971	2,529,479
Other loans and borrowings	(b)	18,802	24,164	30,212
Debenture bonds	(c)	476,473	-	74,742
Total		**4,778,912**	**2,325,135**	**2,634,433**
including:				
Short-term portion		1,515,463	241,599	665,282
Long-term portion		3,263,449	2,083,536	1,969,151

As at 30 June 2005, 31 December 2004 and 30 June 2004, principal repayments fell due on:

	30 June 2005 (unaudited)	31 December 2004 (unaudited)	30 June 2004 (unaudited)
up to 1 year	1,515,463	241,599	665,282
from 1 to 5 years	2,563,519	1,973,729	1,872,867
above 5 years	699,930	109,807	96,284
Total	**4,778,912**	**2,325,135**	**2,634,433**

The value of loans and borrowings drawn by the Group increased net by PLN 2,453,777 thousand for the 6 months ended 30 June 2005.
The change in indebtedness level results mainly from:

- drawing loans translated to PLN:
  - 103,044 thousand (including EUR 24,590 thousand) in Societe Generale Bank Consortium as the Leading entity
  - 169,081 thousand in Bank Pekao S.A.
  - 143,578 thousand (including CZK 750,000 thousand) in PKO BP S.A.
  - 17,587 thousand in BPH PBK S.A.
  - 149,768 thousand (including CZK 750,000 thousand) in BH w Warszawie S.A.
  - 7,555 thousand in BRE Bank S.A.
  - 3,019 thousand in Kredyt Bank
- loans drawn by the Unipetrol a.s. Group of PLN 1,534,081 thousand (CZK 11,405,808 thousand)
- issue of bonds of PLN 476,473 thousand
- PLN 72,401 thousand resulting from foreign exchange differences at PKN ORLEN S.A.
- repayment of loans translated to PLN:
  - 75,898 thousand (including USD 18,411 thousand) in ING Bank Śląski S.A.
  - 51,835 thousand in PKO BP S.A.
  - 36,716 thousand in BPH PBK S.A.
  - 17,064 thousand in BH SA.
  - 6,746 thousand in BNP PARIBAS POLSKA
  - 9,360 thousand resulting from foreign exchange differences at BOP
- repayment of loans in German entities:
  - EUR 2,640 thousand.

(a) Bank loans by currency

		30 June 2005 (unaudited)	31 December 2004 (unaudited)	30 June 2004 (unaudited)
Polish Zloty	(1)	573,461	426,662	539,758
US Dollar	(2)	747,421	719,535	826,348
Swiss Franc	(3)	9,907	12,978	17,908
EURO	(4)	1,216,864	1,141,796	1,145,465
CZK	(5)	1,735,984	-	-
Total		**4,283,637**	**2,300,971**	**2,529,479**

As at 30 June 2005 and 31 December 2004 the level of fixed rates and margins relating to loans with floating rates was as follows:

Polish Zloty (1)

30 June 2005	**Amount due**	**Lowest margin**	**Highest margin**
Floating rate	573,461		
T/N WIBOR		0.09%	1.00%
1M WIBOR		0.06%	3.20%
3M WIBOR		0.55%	1.50%
Total Polish Zloty	**573,461**		

US Dollar (2)

30 June 2005	**Amount due**	**Lowest margin**	**Highest margin**
Floating rate	747,421		
1M LIBOR		0.45%	1.35%
3M LIBOR		-	0.40%
6M LIBOR		-	0.15%
Total US Dollar	**747,421**		

Swiss Franc (3)

30 June 2005	**Amount due**	**Lowest margin**	**Highest margin**
Floating rate	9,907		
3M LIBOR		1.00%	2.70%
Total Swiss Franc	**9,907**		

EUR (4)

30 June 2005	**Amount due**	**Lowest margin/rate**	**Highest margin/rate**
Fixed rate	101,066	4.17%	6.50%
Floating rate	1,115,798		
1M LIBOR		-	1.00%
1M EURIBOR		0.75%	1.50%
3M EURIBOR		-	0.40%
6M EURIBOR		0.60%	1.13%
Total EUR	**1,216,864**		

Czech Koruna (5)

30 June 2005	**Amount due**	**Lowest margin/rate**	**Highest margin/rate**
Fixed rate	131,957	2.70%	5.90%
Floating rate	1,604,027		
3M LIBOR		-	0.80%
O/N PRIBOR		-	0.30%
1W PRIBOR		0.30%	0.38%
1M PRIBOR		0.45%	1.50%
3M PRIBOR		0.68%	1.50%
Total Czech Koruna	**1,735,984**		
Total	**4,283,637**		

Polish Zloty (1)

31 December 2004	**Amount due**	**Lowest margin**	**Highest margin**
Floating rate	426,662		
T/N WIBOR		0.15%	1.00%
1T WIBOR		0.60%	2.50%
1M WIBOR		0.02%	3.20%
3M WIBOR		0.40%	1.00%
6M WIBOR		-	0.95%
Total Polish Zloty	**426,662**		

US Dollar (2)

31 December 2004	**Amount due**	**Lowest margin**	**Highest margin**
Floating rate	719,535		
1M LIBOR		-	0.45%
3M LIBOR		-	0.40%
Total US Dollar	**719,535**		

Swiss Franc (3)

31 December 2004	**Amount due**	**Lowest margin**	**Highest margin**
Floating rate	12,978		
3M LIBOR		-	1.00%
Total Swiss Franc	**12,978**		

EUR (4)

31 December 2004	**Amount due**	**Lowest margin/rate**	**Highest margin/rate**
Fixed rate	112,812	4.17%	7.90%
Floating rate	1,028,984		

3M LIBOR		0.45%	1.00%
1M EURIBOR		0.16%	0.50%
3M EURIBOR		-	0.45%
6M EURIBOR		-	0.30%
Total EUR	**1,141,796**		
Total	**2,300,971**		

As at 30 June 2005 and 31 December 2004 interest rates for selected bases were as follows:

	30 June 2005	31 December 2004
O/N Wibor	5.11%	6.64%
T/N Wibor	5.12%	6.67%
1W Wibor	5.09%	6.66%
1M Wibor	5.08%	6.66%
3M Wibor	4.90%	6.64%
6M Wibor	4.74%	6.61%
1 M Euribor	2.1040%	2.128%
3 M Euribor	2.1060%	2.155%
6 M Euribor	2.0970%	2.215%
1M Libor (USD)	3.3400%	2.4000%
3M Libor (USD)	3.5163%	2.5644%
1M Libor (EUR)	2.1055%	2.1281%
3M Libor (EUR)	2.1060%	2.1544%
3M Libor (CHF)	0.7483%	0.7167%
NBP discount rate	5.50%	7.00%

In the first half of 2005 the effective interest rate amounted to 6.35% for loans denominated in PLN and 3.02% for loans denominated in other currencies.

As at 30 June 2005 PLN 813,547 thousand of the Group's assets were pledged as a collateral for loans and borrowings, compared with PLN 357,566 thousand as at 31 December 2004.

(b) Other loans and borrowings

	30 June 2005 (unaudited)	31 December 2004 (unaudited)	30 June 2004 (unaudited)
Voivodship Fund for Environment Protection and Water Management	11	34	56
National Fund for Environment Protection	18,791	24,130	30,156
Total	18,802	24,164	30,212

As at 30 June 2005 loans and borrowings were subject to floating interest rates at the level of 1.38% - 9.00% and as at 31 December 2004 at the level of 2.80% -9.00%.

(c) Bonds

Debt securities by kind	Nominal value	Fair value valuation to bonds quoted on Prague Stock Exchange	Discount value	Book value	Interest rate	Expiration date	Collaterals
Flat rate bonds	269 000	325 046		325 046	12,53	2013-12-28	none
Zero coupon bonds	174 850		(23 424)	151 426	-	2007-04-01	none

* Interest calculated on flat rate bonds are recognised in the amount of PLN 34,174 thousand as short-term liabilities.

As at 30 June 2005 there were liabilities in the Group related to issued bonds of PLN 476,473 thousand.

The Group monitors opportunities to obtain loans and borrowings based on more favourable terms due to changes in market conditions.

The Group was granted loans both in PLN and foreign currencies, mainly subject to floating rates.
As at 30 June 2005 in accordance with agreements concluded with banks the Group had unused floating rate loan facilities in the amount of PLN 1,157,140 thousand.

17. Provisions

LONG-TERM PROVISIONS	30 June 2005 (unaudited)	31 December 2004 (unaudited)	30 June 2004 (unaudited)
Land reclamation provision	425 924	368 172	398 818
Retirement benefits and jubilee bonuses	182 529	178 381	150 670
Business risk provision	36 572	38 933	28 670
Shield programmes provision	73 169	25 464	-
Other provisions	55 075	26 739	22 832
Total	**773 269**	**637 689**	**600 990**

SHORT-TERM PROVISIONS	30 June 2005 (unaudited)	31 December 2004 (unaudited)	30 June 2004 (unaudited)
Land reclamation provision	119 560	128 493	44 244
Retirement benefits and jubilee bonuses	23 883	19 065	22 001
Business risk provision	427 831	49 049	25 496
Shield programmes provision	51 018	44 536	-
Other provisions	78 425	42 299	18 392
Total	**700 717**	**283 442**	**110 133**

The Group has a legal or constructive obligation to restore contaminated land of production facilities, petrol stations, and warehouses. In 2000-2004 an assessment of the contaminated objects and estimation of future expenditure on land reclamation were conducted by independent experts. The amount of the environmental provision was assessed by the Management Board on the basis of an analysis prepared by independent experts. The amount of the provision is the best estimate of the Management Board concerning future expenditure, taking into account the average level of costs necessary to remove contamination, by facilities constituting the grounds for creating the provision.

The movements in provisions in particular periods were as follows:

Movements in long-term provisions

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2004	362 258	139 323	3 800	-	23 115	**528 496**
Provision made during the period	36 560	11 784	24 870	-	375	**73 589**
Provision used during the period	-	(206)	-	-	(658)	**(864)**
Provision reversed during the period	-	(231)	-	-	-	**(231)**
30 June 2004	**398 818**	**150 670**	**28 670**	**-**	**22 832**	**600 990**
1 January 2005	368 172	178 381	38 933	25 464	26 739	**637 689**
Provision made during the period	58 992	5 251	41	47 705	40 573	**152 562**
Provision used during the period	-	(780)	(202)	-	(36)	**(1 018)**
Provision reversed during the period	(1 240)	(323)	(2 200)	-	(12 201)	**(15 964)**
30 June 2005	**425 924**	**182 529**	**36 572**	**73 169**	**55 075**	**773 269**

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2004	362 258	139 323	3 800	-	23 115	**528 496**
Provision made during the period	90 394	57 525	35 174	25 464	6 047	**214 604**
Provision used during the period	(2 255)	(10 278)	-	-	(1 558)	**(14 091)**
Provision reversed during the period	(82 225)	(8 189)	(41)	-	(865)	**(91 320)**
31 December 2004	**368 172**	**178 381**	**38 933**	**25 464**	**26 739**	**637 689**

Movements in short-term provisions

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2004	49 590	21 520	18 012	-	18 173	**107 295**
Provision made during the period	14	16 510	7 637	-	7 051	**31 212**
Provision used during the period	(3 960)	(14 701)	(62)	-	(1 319)	**(20 042)**
Provision reversed during the period	(1 400)	(1 328)	(91)	-	(5 513)	**(8 332)**
30 June 2004	**44 244**	**22 001**	**25 496**	**-**	**18 392**	**110 133**
1 January 2005	128 493	19 065	49 049	44 536	42 299	**283 442**
Provision made during the period	2 505	12 097	378 868	6 482	53 690	**453 642**
Provision used during the period	(2 395)	(6 874)	(68)	-	(9 625)	**(18 962)**
Provision reversed during the period	(9 043)	(405)	(18)	-	(7 939)	**(17 405)**
30 June 2005	**119 560**	**23 883**	**427 831**	**51 018**	**78 425**	**700 717**

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2004	49 590	21 520	18 012	-	18 173	**107 295**
Provision made during the period	130 630	15 033	39 271	44 536	35 108	**264 578**
Provision used during the period	(22 360)	(14 673)	(8 139)	-	(5 701)	**(50 873)**
Provision reversed during the period	(29 367)	(2 815)	(95)	-	(5 281)	**(37 558)**
31 December 2004	**128 493**	**19 065**	**49 049**	**44 536**	**42 299**	**283 442**

18. Trade and other liabilities and accrued expenses

Trade and other liabilities and accrued expenses consisted of the following:

	30 June 2005	31 December 2004	30 June 2004
	(unaudited)	(unaudited)	(unaudited)
Trade liabilities	4 245 480	1 994 555	2 507 031
Social Funds	47 464	35 245	45 195
Holiday pay accrual	31 352	24 898	25 316
Payroll liabilities	25 475	14 328	15 977
Loyalty programme VITAY	60 169	54 157	51 024
Dividends liabilities	975 039	-	278 118
Excise tax and fuel charge liabilities	1 213 680	713 329	671 871
Other taxation, duty and social security liabilities	1 013 450	348 850	320 154
Other liabilities and accrued expenses	130 665	232 554	145 197
Total	**7 742 774**	**3 417 916**	**4 059 883**

The Social Fund ("Fund"), classified as short-term employee benefits, is a mandatory fund calculated based on the number of employees and the monthly minimum wage in Poland. The Fund resources must be used only for the benefits of the employees.
The difference between liabilities of the social fund and cash in the Fund stands for receivables from employees (borrowings). Cash on bank accounts of the Fund is restricted and cannot be used by the Group for its own benefit.

Trade and other payables and accrued expenses denominated in foreign currencies amount to PLN 2,275,047 thousand as at 30 June 2005, PLN 1,339,592 thousand as at 31 December 2004 and PLN 2,167,743 thousand as at 30 June 2004. The balance sheet value of short-term trade payables approximates their fair value due to their short-term character.

VITAY programme is a loyalty programme designed for individual customers. VITAY programme has been present on the Polish market since 14 February 2001. Customers making purchases within the programme obtain VITAY points that can be later exchanged for fuel or VITAY gifts.

For unrealised but registered on customers' accounts number of points the provision is charged in the period in which the points are granted. The provision is estimated on the basis of the number of points and current cost of one point in the VITAY programme to the amount of 75% of the value of unrealised points (75% is a rate of realisation of points).

19. Deferred income

	30 June 2005	31 December 2004	30 June 2004
	(unaudited)	(unaudited)	(unaudited)
Subventions	26 722	2 121	2 256
Other	25 912	14 790	21 117
Total	**52 634**	**16 911**	**23 373**

20. Shareholder's equity

The share capital as at 30 June 2005 is represented by Polski Koncern Naftowy ORLEN S.A. share capital and amounts to PLN 534,636 thousand, according to the entry in the Commercial Register. It is divided into 427,709,061 shares of nominal value of PLN 1.25 each.

The share capital as at 30 June 2005 and 31 December 2004 consisted of the following share series:

Share series	Number of shares issued as at 30 June 2005	Number of shares issued as at 31 December 2004	Number of shares authorised as at 30 June 2005	Number of shares authorised as at 31 December 2004
A series	336,000,000	336,000,000	336,000,000	336,000,000
B series	6,971,496	6,971,496	6,971,496	6,971,496
C series	77,205,641	77,205,641	77,205,641	77,205,641
D series	7,531,924	7,531,924	7,531,924	7,531,924
	427,709,061	427,709,061	427,709,061	427,709,061

In Poland each new issuance of capital is labelled as a new series of shares. All the above series have exactly the same rights.

The balance of the hedge accounting cash flow hedges results from valuation of derivatives complying with requirements of hedge accounting hedging cash flows.

The balance of foreign translations is adjusted by differences resulting from recalculation of the financial statements of ORLEN Deutschland AG from EUR to PLN and Unipetrol a.s. from CZK to PLN.

The retained earnings contain the Privatization Fund of Petrochemia Płock S.A. of PLN 53 million.

Accumulated profits subject to distribution in accordance with the Polish law (Commercial Code sets certain restrictions in relation to periods for which dividends can be paid) as at 30 June 2005 amounted to PLN 4,842,940 thousand (for the period 2001-2005), and as at 31 December 2004 PLN 5,112,879 thousand (for the period 2000-2004), including PLN 937,398 thousand resulting from changes in the applied accounting principles. PKN ORLEN has a right to pay dividends to the extent of distributable reserves available under the generally accepted rules on a standalone reporting basis.

The share capital and the share premium as at 31 December 1996, based on IAS 29, point 24 and 25, were revalued in accordance with monthly increase ratios of goods and services by the amount of PLN 691,802 thousand (PLN 522,999 thousand concerns revaluation of the share capital and PLN 168,803 thousand refers to the share premium). Both capitals were presented in the balance sheet as adjustment from revaluation of the share capital and share premium.
In the 6 month period ended 30 June 2004 the Company did not pay a dividend to its shareholders. The Company's General Shareholders' Meeting on 29 June 2005 adopted a resolution to pay a dividend from profit generated in 2004 of PLN 911,020,299.91. The payment was established by two instalments:
- the first instalment of PLN 457,648,695.27, which is PLN 1.07 per share, will be paid on 1 September 2005,
- the second instalment of PLN 453,371,604.64, which is PLN 1.06 per share, will be paid on 1 December 2005.

The calculation of earnings per share and diluted earnings per share is presented below:

	6 months ended 30 June 2005 (unaudited)	6 months ended 30 June 2004 (unaudited)
Weighted average of issued common stock	427,709,061	427,709,061
Net profit and diluted profit per share (in PLN per share)	7,80	2.06

As at 30 June 2005 and 30 June 2004 there was no dilutive effect that could have had impact on the above calculation.

21. Minority interests

The minority interests represent a portion of net assets of subsidiaries that is not owned directly or indirectly by the Group.

Minority interests by subsidiaries:

	30 June 2005	31 December 2004	30 June 2004
	(unaudited)	(unaudited)	(unaudited)
Anwil S.A. Group	171 699	161 064	225 168
Rafineria Trzebinia S.A. Group	86 834	93 482	100 606
Rafineria Nafty Jedlicze S.A. Group	39 641	33 555	30 014
Inowrocławskie Kopalnie Soli "Solino" S.A.	23 152	20 805	20 256
Petrolot Sp. z o.o.	26 811	24 789	25 584
Orlen PetroZachód Sp. z o.o.	10 819	11 152	10 866
Unipetrol a.s Group	1 955 479	-	-
Other	315 767	39 166	31 224
Total	**2 630 202**	**384 013**	**443 718**

22. Basis of differences between changes of some balance sheet items and changes resulting from cash flows statement

Receivables:	I half of 2005	I half of 2004
Balance sheet change of net long- and short-term receivables	(2,429,685)	(608,977)
Change related to the Group structure	1,930,478	(13,673)
Change of the receivables due to Unipetrol acquisition	120,810	-
Other	41,998	(32,348)
Change in receivables in the cash flows statement	(336,399)	(654,998)

Payables:	I half of 2005	I half of 2004
Balance sheet change of long- and short-term liabilities	4,441,674	987,174
Change in liabilities from dividend	(911,020)	(278,011)
Liabilities from acquisition of Unipetrol shares	(221,295)	-
Change related to the Group structure	(1,953,849)	13,550
Other	(159,359)	40,616
Change in long- and short-term liabilities in the cash flows statement	1,196,151	753,329

Inventories:	I half of 2005	I half of 2004
Balance sheet change in inventories	(2,407,873)	(303,119)
Change related to the Group structure	1,138,412	(2,278)
Other	(29,825)	(5,007)
Change in inventories in the cash flows statement	(1,299,286)	(310,404)

Provisions:	I half of 2005	I half of 2004
Balance sheet change in provisions	552,855	301,776
Change related to the Group structure	143,558	(46)
Change in provisions for deferred tax on remeasurement of fixed assets to fair value	(351,151)	(221,258)
Other	75,548	(1,931)
Change in provisions in the cash flows statement	420,810	78,541

23. Segment reporting

Business segments

Revenues, costs and financial result in segments

	Refining Segment				Chemical Segment				Other operations				Adjustments				Total			
	for the period				for the period				for the period				for the period				for the period			
	6 months	3 months	6 months	3 months	6 months	3 months	6 months	3 months	6 months	3 months	6 months	3 months	6 months	3 months	6 months	3 months	6 months	3 months	6 months	3 months
	ended 30 June 2005		ended 30 June 2004		ended 30 June 2005		ended 30 June 2004		ended 30 June 2005		ended 30 June 2004		ended 30 June 2005		ended 30 June 2004		ended 30 June 2005		ended 30 June 2004	
Revenues																				
Sales to external customers	13 834 418	8 265 616	11 588 786	6 391 732	2 569 516	1 538 221	1 882 567	914 655	307 692	144 280	320 558	145 309					16 711 626	9 948 117	13 791 911	7 451 696
Transactions with other segments	2 342 322	1 193 215	1 911 235	1 211 094	832 692	411 446	667 441	350 764	410 041	201 376	397 389	175 166	-3 585 055	-1 806 037	-2 976 065	-1 737 024	0	0	0	0
Settlement of hedging transactions					49 330	6 931	21 241	21 241									49 330	6 931	21 241	21 241
Total revenues	**16 176 740**	**9 458 831**	**13 500 021**	**7 602 826**	**3 451 538**	**1 956 598**	**2 571 249**	**1 286 660**	**717 733**	**345 656**	**717 947**	**320 475**	**-3 585 055**	**-1 806 037**	**-2 976 065**	**-1 737 024**	**16 760 956**	**9 955 048**	**13 813 152**	**7 472 937**
Total operating cost	**-14 642 038**	**-8 488 444**	**-12 381 069**	**-6 874 000**	**-2 902 386**	**-1 725 011**	**-2 229 441**	**-1 143 476**	**-691 793**	**-349 590**	**-670 644**	**-295 763**	**3 584 966**	**1 806 273**	**2 976 011**	**1 737 164**	**-14 651 251**	**-8 756 772**	**-12 305 143**	**-6 576 075**
Other operating income	120 372	55 464	85 509	57 533	16 686	13 835	10 830	6 811	29 922	20 826	11 236	3 674					166 980	90 125	107 575	68 018
Other operating expenses	-182 918	-134 800	-250 110	-234 861	-28 394	-25 742	-10 495	-7 286	-21 891	-12 240	-28 790	-19 920					-233 203	-172 782	-289 395	-262 067
The excess of the fair value of acquired net assets over the acquisition price	823 920	823 920	0	0	1 076 642	1 076 642	0	0	274 541	274 541	0	0	-263 492	-263 492	0	0	1 911 612	1 911 612	0	0
Result																				
Segment result	2 296 076	1 714 971	954 351	551 498	1 614 086	1 296 322	342 143	142 709	308 512	279 193	29 749	8 466	-263 581	-263 256	-54	140	3 955 094	3 027 231	1 326 189	702 813
Unallocated revenues of the Group																	4 532	2 716	2 057	1 212
Unallocated excess of the fair value of acquired net assets over the acquisition price																	93 415	93 415	0	0
Unallocated costs of the Group																	-553 062	-414 708	-257 776	-117 304
Profit from operations																	**3 499 979**	**2 708 654**	**1 070 470**	**586 721**
Financial income																	452 050	405 871	157 101	140 625
Financial expenses																	-244 869	-177 446	-98 259	-40 275
Share in profit from investments accounted for under equity method	7 629	7 758	-64	-128	78	166	887	846	0	0	8 082	1 501					7 707	7 924	8 905	2 219
Profit on the sale of all or part of shares of related parties																	29 395	29 395	3 795	3 795
Gross profit																	**3 744 262**	**2 974 398**	**1 142 012**	**693 085**
Income tax expense																	-394 198	-252 539	-238 196	-136 076
Minority interest																	-13 966	-3 794	-23 576	-6 458
Net profit																	**3 336 098**	**2 718 065**	**880 240**	**550 551**

Other information by business segments

	Refining Segment for the period ended		Chemical Segment for the period ended		Other operations for the period ended		Adjustments for the period ended		Total for the period ended	
	30 June 2005	30 June 2004	30 June 2005	30 June 2004	30 June 2005	30 June 2004	30 June 2005	30 June 2004	30 June 2005	30 June 2004
Other information										
Segment assets employed	17 334 468	11 333 880	11 166 949	4 087 188	4 075 349	2 015 680	-1 857 879	-204 035	30 718 887	17 232 713
Investments in associates	3 105	11 267	506 287	7 177	1 651	113 106			511 043	131 550
Unallocated assets									1 746 630	2 102 014
Total consolidated assets									32 976 560	19 466 277
Segment liabilities	6 098 639	3 307 930	1 591 570	550 666	628 806	344 188	-1 747 230	-203 525	6 571 785	3 999 259
Unallocated liabilities									8 821 601	3 930 119
Total consolidated liabilities									15 393 386	7 929 378

All the Group's assets as at 30 June 2005 and as at 30 June 2004 were located in Poland, Germany, Czech Republic, Switzerland, Austria and Spain, where also all the capital expenditure was incurred in the period of 6 months ended 30 June 2005 and 30 June 2004.

Other information in segments - continued

	Refining Segment				Chemical Segment				Other operations				Total			
	for the period				for the period				for the period				for the period			
	6 months	3 months	6 months	3 months	6 months	3 months	6 months	3 months	6 months	3 months	6 months	3 months	6 months	3 months	6 months	3 months
	ended 30 June 2005		ended 30 June 2004		ended 30 June 2005		ended 30 June 2004		ended 30 June 2005		ended 30 June 2004		ended 30 June 2005		ended 30 June 2004	
Cost incurred to acquire segment property, plant and equipment and intangible assets	338 616	181 432	260 613	165 984	437 246	283 470	439 415	259 416	53 909	32 653	29 496	15 539	829 771	497 555	729 524	440 939
Unallocated cost incurred to acquire property, plant and equipment and intangible assets													24 638	22 380	15 616	11 845
Total cost incurred to acquire property, plant and equipment and intangible assets													854 409	519 935	745 140	452 784
Segment depreciation	350 066	180 080	414 234	201 742	151 448	87 595	127 397	62 752	106 853	55 738	105 221	55 420	608 367	323 413	646 852	319 914
Depreciation of unallocated assets													15 778	5 889	20 593	6 696
Total depreciation													624 145	329 302	667 445	326 610
Non-cash expenses other than depreciation	123 771	87 195	74 301	64 346	2 286	1 630	7 450	6 826	74 542	64 010	13 619	5 825	200 599	152 835	95 370	76 997

Geographical segments

The table presents consolidated sales revenues of the Group by geographical segments for the period of 6 and 3 months ended 30 June 2005 and 30 June 2004.

	Revenues from sale by geographical area for the period			
	6 months	**3 months**	**6 months**	**3 months**
	ended 30 June 2005		**ended 30 June 2004**	
Poland	10 214 260	5 827 839	8 719 163	4 736 278
Germany	4 457 298	2 421 109	4 418 350	2 372 747
Czech Republic	1 152 155	1 078 010	288 504	245 319
Other countries	937 243	628 090	387 135	118 593
Total revenues from sale by geographical area	**16 760 956**	**9 955 048**	**13 813 152**	**7 472 937**

24. Financial instruments

Derivative transactions were concluded by two of the Group's entities: PKN ORLEN and Anwil S.A.

(a) Parent Company's transactions within derivatives

According to 'Market risk management policy in PKN ORLEN S.A.' the reduction of the changeability of cash flows and potential losses caused by occurrence of events which might have a negative impact on the Company's results is the Company's major goal in terms of market risk management. Market risk management includes processes of identification, measurement, and definition of risk reduction methods, taking into consideration fluctuations in exchange rates, interest rates and prices of goods.

At the end of the first half of 2005, owing to conclusion of derivative transactions in 2003 hedging revenues from sale of petrochemicals, the Company considerably reduced fluctuations in sales of the above products in the first half of 2005. To hedge revenues from sale of petrochemicals the Company uses currency-interest EUR/PLN swap transactions. For this group of transactions rules of cash flow hedge accounting are applicable. The effective portion of the hedge in the hedge accounting reserve decreased as compared to the end of 2004 by PLN 24,761 thousand and amounted to PLN 68,996 thousand. The ineffective portion of the hedge recognised in the result of the first half of 2005 amounted to PLN 1,847 thousand. Profits from hedge instruments in two first quarters of 2005 amounted to PLN 49,330 thousand.

In June 2004 a conditional purchase-sale agreement for Unipetrol a.s. shares was signed by the Company with the Czech government agencies. Consequently, the Company decided to hedge CZK/PLN exchange rate on the futures market. Forward exchange rate contracts were used to limit foreign exchange rate risk resulting from the future liability corresponding with the execution of the above agreement. The instruments were settled in May 2005 at a loss for the first half of 2005 of PLN 153 thousand. In respect to this group of transactions the rules of hedge accounting were not applied.

The Company values derivatives at fair value using models of the financial instruments valuation taking advantage of widely available data coming from active markets. The transactions may only be concluded with reliable partners, admitted to participate in transactions as a result of procedures obliging in the Company and within allowed limits. According to 'Market risk management policy in PKN ORLEN S.A.' it is not allowed to conclude transactions for speculatory purposes. All the concluded hedge transactions are reflected in the physical transactions and hedge risk resulting directly from relevant real transactions or belong to the group of probable future transactions.

Recognition of derivatives:

	Financial assets - hedge transactions - derivatives	**Financial liabilities - hedge transactions - derivatives**
Fair value as at 31 December 2004	**146,784**	
INCREASES	-	-
- purchase, opening, drawing	-	-
- valuation	-	-
- revaluation	-	-
- reclassification	-	-
DECREASES	22,914	-
- disposal, termination, repayment	-	-
- valuation	-	-
- revaluation	22,914	-
- reclassification	-	-
Fair value as at 30 June 2005	**123,870**	**-**

Derivative transactions - continued

Swap and forward transactions in the Parent Company

Company	Type of transaction	Opening transaction date	Period of transaction	Nominal amount (in PLN thousand)	Interest rate**	Exchange rate**
PKN ORLEN	Currency-interest swap (EUR/PLN) depreciated by straight-line method*	08.10.2003	20.10.2003-29.09.2006	224,136.0	2.4%	4.5
PKN ORLEN	Currency-interest swap (EUR/PLN) depreciated by straight-line method *	10.10.2003	20.10.2003-29.09.2006	224,284.5	2.4%	4.5
PKN ORLEN	Currency-interest swap (EUR/PLN) depreciated by straight-line method*	15.10.2003	20.10.2003-29.09.2006	225,720.0	2.4%	4.6
PKN ORLEN	Currency swap (EUR/PLN) depreciated by straight-line method*	17.12.2003	18.12.2003-30.11.2006	814,968.0	0.0%	5.5

* Derivatives as at the end of the period are valued at fair value whereas each month interest is accrued on unamortised base value of the financial instruments.
** Interest rates and exchange rates are given rounded to one decimal.

Date of payments of the amount bought forward	Date of payments of the interest on the amount sold forward	Amount of interest received by PKN ORLEN in 6 months ended 30 June 2005 (in PLN thousand)	Amount of interest paid by PKN ORLEN in 6 months ended 30 June 2005 (in PLN thousand)	Fair value as at 30 June 2005 (in PLN thousand)	Fair value as at 31 December 2004 (in PLN thousand)
Last working day of the month	-	49,330	-	123,870	146,784

(b) Financial instruments by category

	30 June 2005	31 December 2004	30 June 2004
Financial assets at fair value through profit and loss	28,247	92,313	94,372
Financial assets held to maturity	223,228	1,042,152	210,488
Financial assets	675,835	685,519	526,629
Loans and receivables	8,488	10,420	21,489
Financial liabilities at fair value through profit and loss	3,469	4,212	8,869
Interest-bearing loans and borrowings	4,778,912	2,325,135	2,634,433

Value of long-term financial assets carried at purchase price minus an allowance amount, as at 30 June 2005 amounted to PLN 675,835 thousand, as at 31 December 2004 amounted to PLN 685,519 thousand and as at 30 June 2004 amounted to PLN 526,629 thousand and included mainly shares and stakes with no active market.
The Group presents derivative transaction with positive fair value as financial assets at fair value through profit and loss and derivative transactions with negative fair value as financial liabilities at fair value through profit and loss.

Value of other financial assets available for sale valued at fair value as at 30 June 2005 included hedging instruments of PKN ORLEN.
The value of short-term financial assets held to maturity as at 30 June 2005 amounted to PLN 223,228 thousand, as at 31 December 2004 amounted to PLN 1,042,152 thousand and as at 30 June 2004 amounted to PLN 210,488 thousand and included among others 'buy-sell back' transactions concerning treasury bonds and bills of PLN 200,415 thousand and PLN 1,016,899 thousand respectively.

(c) Information on interest rate risk

Financial liabilities of the Group are held to maturity. The effective interest of financial liabilities is similar to the nominal interest rate (the Group is not charged with commissions on majority of the loans and the loan margins are relatively low). Financial surpluses are invested mainly in treasury instruments, i.e. treasury bills and/or bonds issued by the Polish State Treasury.

The Group uses bank loans for financing. Fluctuations of interest rates impact the amounts of financial expenses incurred by the Group. Increase in interest rates would result in increase in financial expenses incurred by the Group, in particular in costs related to interest on loans and borrowings, which would be relevant to the actually used financial resources; to a large extent that increase would be however balanced by increase in return on the financial instruments of depository character possessed by the Group.

(d) Information on loan risk

According to the Management Board there is no significant credit risk related to receivables from financial instruments or loans granted by the Parent Company.

25. Cost by kind

	30 June 2005	30 June 2004
	(unaudited)	(unaudited)
Materials and energy	7 796 586	5 562 217
Cost of merchandise and materials sold	5 105 129	4 911 240
External services	906 498	860 955
Payroll, social security and other employee benefits	546 178	560 753
Depreciation*	624 145	667 445
Taxes and charges	160 701	125 239
Other	711 881	435 125
Total	**15 851 118**	**13 122 974**
Adjustments:		
Change in inventory and prepayments	(343 238)	(239 510)
Cost of products and services for own use	(70 364)	(31 150)
Operating cost	**15 437 516**	**12 852 314**

* The decrease in depreciation for the 6 months period ended 30 June 2005 in comparison to the respective period of 2004 resulted from lengthening of depreciation periods of property, plant and equipment effective 1 January 2005 due to verification of formerly set depreciation periods.

26. Net financial income and expenses

	30 June 2005	30 June 2004
	(unaudited)	(unaudited)
Interest paid	(68 017)	(61 240)
Negative foreign exchange surplus	(139 861)	(19 074)
Interest received	62 431	15 761
Positive foreign exchange surplus	20 516	55 212
Gains on trade in shares and other securities	3 071	3 916
Dividends received	90 872	68 216
Unrealised discount on the acquisition of liabilities of Unipetrol Group	204 532	-
Other financial expenses	33 637	(3 949)
Total	**207 181**	**58 842**

27. Corporate income tax

	30 June 2005	30 June 2004
	(unaudited)	(unaudited)
Current tax	(384 076)	(261 556)
Deferred tax	(10 122)	23 360
Total	**(394 198)**	**(238 196)**

The difference between the tax amount presented in the profit and loss and the amount calculated in accordance with statutory income tax rates before tax resulted from the following:

	30 June 2005 (unaudited)	30 June 2004 (unaudited)
Profit before tax	**3 744 262**	**1 142 012**
Corporate income tax for 2005 and 2004 by the valid tax rate (19% in Poland)	(711 410)	(216 982)
Difference between Polish and German (40%) tax rates	12 255	743
Difference between Polish and Czech (26%) tax rates	(33 068)	-
Permanent differences (incl. amortisation of goodwill and negative goodwill)	(28 752)	(15 827)
The excess of fair value of the net identifiable assets, liabilities and contingent liabilities over the acquisition cost	380 955	-
Other	(14 178)	(6 130)
Corporate income tax	**(394 198)**	**(238 196)**
Effective tax rate	11%	21%

The Group does not form a tax group under Polish regulations. Therefore, each Group company is a separate taxpayer.

The net deferred tax liability as at 30 June 2005, 31 December 2004 and 30 June 2004 consisted of the following:

	30 June 2005 (unaudited)	31 December 2004 (unaudited)	30 June 2004 (unaudited)
Deferred tax assets			
Land reclamation provision	89 892	89 747	83 409
Other receivables allowances	21 187	-	-
Retirement benefits and jubilee bonuses	25 010	29 266	21 762
Depreciation in excess of tax limits	14 845	7 442	-
Expenses for loyalty programme prizes	11 432	11 869	-
Impairment of long-term investments	(11 036)	623	681
Provision for long-term financial assets	25 835	58 781	8 314
Impairment of property, plant and equipment and intangible assets	11 014	-	17 601
Other	93 159	49 778	(102)
Total deferred tax assets	**281 337**	**247 505**	**131 665**
Deferred tax provision			
Investment relief	173 422	187 672	208 153
Other receivables allowances	27 306	-	-
Capitalisation of loan interest	-	(12 111)	(12 937)
Difference between carrying amount and tax base of property, plant and equipment	942 837	79 884	286 658
Unrealised positive foreign exchange differences	42 841	60 871	12 804
Revaluation of assets to fair value in respect of acquisition of the majority interest in Anwil S.A.	10 673	11 954	14 516
Difference in contribution in kind to Basell Orlen Polyolefins Sp. z o.o.	39 891	39 890	40 353
Impairment of property, plant and equipment and intangible assets	-	187 741	-
Other	70 572	42 714	(1 569)
Total deferred tax provision	**1 307 542**	**598 615**	**547 978**
Deferred tax provision, net	**1 026 205**	**351 110**	**416 313**

As the Group companies are separate taxpayers, the deferred tax assets and deferred tax liabilities must be calculated in individual companies on a stand-alone basis. As a result, the consolidated balance sheets reflect deferred tax assets of PLN 60,811 thousand as at 30 June 2005, PLN 27,138 thousand as at 31 December 2004 and PLN 8,860 thousand as at 30 June 2004 as well as deferred tax liabilities of PLN 1,087,016 thousand as at 30 June 2005, PLN 378,248 thousand as at 31 December 2004 and PLN 425,173 thousand as at 30 June 2004.

According to the Polish tax law, taxpayers could have reduced the taxable income by the costs of purchasing of qualified fixed assets acquired in a given tax year (investment relief). The taxable income could have been additionally reduced in the following year by 50% of the prior year's deduction (investment premium).

Due to amendments in corporate income tax law, the above tax incentives were available only in 2002 for the continued investment projects commenced before 2001. In all other cases, the investment incentives are no longer available. Investment premium earned in 2002 was deducted from tax in the year ended 31 December 2003.

28. Leases

Lease agreements and other operating agreements (tenancy, rental) concern mainly lease of buildings, computer equipment and vehicles. The operating lease expenses in the period of 6 months ended 30 June 2005 amounted to PLN 6,276 thousand and in the period of 6 months ended 30 June 2004 amounted to PLN 1,976 thousand.

Future minimum lease payments under non-cancellable operating lease agreements as at 30 June 2005, 31 December 2004 and 30 June 2004 were as follows:

	30 June 2005	**31 December 2004**	**30 June 2004**
	(unaudited)	**(unaudited)**	**(unaudited)**
up to 1 year	32,974	2,459	2,547
from 1 year to 5 years	272,065	1,172	3,075
above 5 years	1,262	-	-
Total minimum lease payments	**306,301**	**3,631**	**5,622**

29. Future commitments from capital expenditure

As at 30 June 2005 future liabilities resulting from contracts signed before that date amount to PLN 666,918 thousand and accepted by the Management Board yet not contracted investment expenditure in the following years will amount to PLN 4,483,565 thousand.

30. Related party transactions

(a) Transactions with members of the Management Board, Supervisory Board, their spouses, siblings, descendants and ascendants and their other relatives

In the period of 6 months ended 30 June 2005 and as at 30 June 2005 the Group companies did not grant any advances, loans, borrowings, guarantees and sureties or any other agreements obliging to pay in favour of the Company and its related companies, to managing and supervising persons and their relatives.
As at 30 June 2005 the Group companies did not grant any loans to managing and supervising persons and their relatives.
In the periods of 6 months ended 30 June 2005 and 30 June 2004 there were no significant transactions concluded with members of the Management Board, Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

(b) Transactions with the related parties concluded through the supervising persons

In the first half of 2005 the Company obtained statements on transactions with related parties extended in scope in accordance with the amended IAS 24 "Related Party Disclosures".

	Sale	Purchase	Receivables	Liabilities	Dividend paid
Legal persons *	12,598	24,242	-	-	-
Natural persons**	443	-			

* Transactions in the period of performing duties as key management personnel by the persons supervising the Company.
** In the period covered by the financial statements the recorded transactions included those below EUR 500 thousand.

In the period presented in the financial statements 11 persons acted as members of the Supervisory Board. The Company has not received a detailed statement from 1 former member of the Supervisory Board.

(c) Transactions with the related parties concluded through the managing persons

In the first half of 2005 members of the Management Board did not conclude any transactions with related parties in compliance with IAS 24 "Related Party Disclosures".

(d) Transactions with the related parties were concluded on market terms and were as follows:

	Entities consolidated under the equity method
Sales	
6 months ended 30 June 2005	7,087
6 months ended 30 June 2004	30,610
Purchases	
6 months ended 30 June 2005	73,543
6 months ended 30 June 2004	65,885
Short-term receivables	
30 June 2005	9,693
31 December 2004	3,965
Short-term liabilities, gross	
30 June 2005	17,720
31 December 2004	20,861

The above transactions with the related parties include sales and purchases of petrochemical products and purchases of maintenance and repair, transportation and other services. The prices used in the transactions with related entities approximate market levels.

31. Contingencies and risks

The Group companies granted the following guarantees and sureties:

Entity	Type of relation with the issuer	Name of entity (company) to which a guarantee / surety was granted	Subject of guarantee	Amount of guarantee/surety	Period for which the guarantee / surety was granted (expiration of the liability)
Anwil S.A.	other entities	Unb GmbH	guarantee connected with investment in chlorine production technology change	37 552	till 09.08.2006
ORLEN PetroTank Sp z o.o.		"LOCUM"company	3 agreements on return tease guarantee (lease of compartments) (at the moment at notice stage)	24 299	till 26.06.2012
ORLEN Oil Sp z o.o.		Bank Handlowy w Warszawie S.A.	Guarantee for obligations of Clients connected with Paylink Cards Usage Agreement. This amount gives 7.5% of Programme Amount (agreement on financing trade liabilities for Paylink-connected with Regional Sales Center)	2 655	till 31.03.2007
Zakład Budowy Aparatury S.A		ALSTOM POWER	performance bond	2 160	till 15.07.2007
Inowrocławskie Kopalnie Soli "SOLINO" Sp z o.o.		Urząd Miasta w Inowrocławiu (Municipal Office of Inowrocław)	guarantee of loan for waste-water treatment plant for the town	700	till 20.12.2006
Zakład Budowy Aparatury S.A		LURGI BIPRONAFT	warranty	333	till 21.01.2006
Zakład Budowy Aparatury S.A		ALSTOM POWER	guarantee of proper defect removal	78	till 30.05.2007
				67 777	
Anwil S.A.	**unconsolidated subsidiaries**	Agro-Azoty II Sp z o.o.Włocławek	guarantee of overdraft and investment credit repayment	83	till 20.09.2005
				83	
PKN ORLEN S.A.	**consolidated subsidiaries**	ORLEN PetroTank Sp z o.o., Rafineria Jedlicze S.A., Orlen Transport Kędzierzyn-Koźle, Orlen Dautschland, Basell Orlen Polyolefins Sp z o.o.		1 295 923	from 31.12.2005 till 31.12.2013
Rafineria Trzebinia S.A.		EuroNaft Trzebinia Sp z o.o.	guarantee of working capital credit	13 500	till 31.01.2009
Rafineria Trzebinia S.A.		NaftoWax Sp z o.o.	guarantee of overdraft repayment	12 000	till 31.03.2009

Rafineria Trzebinia S.A.		NaftoWax Sp z o.o.	guarantee of overdraft repayment	12 000	till 31.05.2008
Rafineria Trzebinia S.A.		Orlen Asfalt Sp z o.o.	guarantee of overdraft repayment	7 200	till 09.07.2005
Rafineria Trzebinia S.A.		EuroNaft Trzebinia Sp z o.o.	guarantee of overdraft repayment	5 250	till 30.04.2009
Rafineria Trzebinia S.A.		EuroNaft Trzebinia Sp z o.o.	guarantee of overdraft repayment	4 800	till 31.07.2006
Rafineria Trzebinia S.A		Energomedia Sp z o.o.	guarantee of overdraft repayment	1 100	till 30.06.2006
Ship-Service S.A.		SHIP SERVICE AGRO Sp z o.o.	guarantee of credit	1 000	till 31.03.2007
Ship-Service S.A.		SHIP SERVICE AGRO Sp z o.o.	guarantee of credit	800	till 31.03.2006
Rafineria Trzebinia S.A		Energomedia Sp z o.o.	guarantee of trade liabilities	500	till the liabilities repayment date
Ship-Service S.A.		BOR-FARM SP. Z O.O.	guarantee of credit	100	till 30.09.2005
				1 354 173	
Zakład Budowy Aparatury S.A	**parent company**	PKN ORLEN S.A.	performance bond (AROMAS)	854	do 25.11.2006
Zakład Budowy Aparatury S.A		PKN ORLEN S.A.	performance bond (PROPYLENE CISTERN)	460	do 20.12.2007
Zakład Budowy Aparatury S.A		PKN ORLEN S.A.	performance bond (KOLUMNA C 501)	95	do 01.03.2007
				1 409	
				1 423 442	

Other contingent liabilities

819 459	Including collateral submitted on behalf of other parties in respect of movement of harmonised excise goods in the excise tax suspension procedure and excise tax liability on goods kept at warehouses in the excise tax suspension procedure
26 040	statement of voluntary submission for execution for Bank Handlowy w Warszawie S.A.
9 200	ORLEN Oil Sp. z o.o. for Bank Handlowo-Przemysłowy PBK S.A.- recourse factoring - bill of exchange together with bill of exchange statement, which are guarantee of recourse factoring credit line on the basis of factoring services agreement (Faktoring Services Agreement, connected with Regional Sales Centres)
4 000	connected with not proper realization of trade agreements (Anwil has been sued by Tras Tychy S.A.)
2 000	Anwil S.A.- limit given by Insurance Company , to which Remwil can obtain coverage in issued insurance policies for particular contracts
2 302	connected with possible land reclamation (ORLEN PetroTank Sp z o.o.)
2 146	connected with tax liabilities (Ship-Service S.A.)
847	blank bills issued by ORLEN PetroCentrum Sp. z o.o. for the benefits of PKN ORLEN, which are guarantee of agreements with petrol stations owners
189	ORLEN Oil Sp z o.o. performance bond
866 183	

	30 June 2005
Guarantees and sureties, granted to:	69,269
- unconsolidated related parties	1,492
- other entities	67,777
Other contingent liabilities:	866,183
- liabilities in respect of excise tax liabilities	819,459
- other	46,724
- Total contingent liabilities of PKN Orlen Group	935,452

(b) Tax investment relief

In accordance with the Decree on Investment Expenditure and in line with article 18a of the Corporate Income Tax Act (in force till 31 December 1999) and article 3.1 of the Amendment of 20 November 1999 to the Corporate Income Tax Act (in force from 1 January 2000), the taxpayer is entitled to deduct investment expenditures from the tax base in a given tax year and in the following tax year a half of the previously deducted amount, i.e. the so-called investment premium. In the years 1998-2003, the Group companies benefited from their entitlement to the following investment relieves and premiums (amounts deducted from income):

PKN Group	Investment relief	Investment premium
2001	98,927	43,750
2002	14,234	49,222
2003	-	6,923
	---	---
Total	113,161	99,895
	=======	======

The tax relieves and premiums are conditional. The Corporate Income Tax regulations assumes loss of the entitlement to investment relieves if any of the following events occurs within three years from the end of the tax year when the relief has been exercised:

1) the taxpayer has outstanding tax liabilities exceeding 3% of particular taxes due for specific tax years, in relation to taxes constituting the state budget's income and social insurance liabilities; in respect to VAT, the arrears may not exceed 3% of the output tax;

2) taxpayers transfer – in any form – ownership title to assets to which income deductions or tax exemptions relate; this does not refer to transfer of ownership resulting from a change in the legal personality, business combinations or separation of business entities carried out in compliance with the Commercial Code's regulations;

3) there are no longer grounds for recognition as the taxpayer's assets those fixed assets which have been adopted for chargeable use under tenancy, lease or similar agreements;

4) the taxpayer is subject to liquidation proceedings or its bankruptcy has been declared;

5) the taxpayer receives any form of reimbursement of investment expenditure;

Tax authorities may also deny a claim to tax allowances if the tax payer has been charged with outstanding tax liabilities at the moment in which the tax incentives deduction were recognized.

In accordance with the Amendment of 20 November 1998 to the Corporate Income Tax Act (Journal of Laws No. 144, item 931) when the title to deductions made under Art.18a of the Corporate Income Tax Act (in force to 31 December 1999) and Art. 3.1 of the Amendment of 20 November 1999 to the Corporate Income Tax Act (in force from 1 January 2000) no longer exists due to circumstances mentioned under paragraph 1) above, it is assumed that the title is not lost if the taxpayer makes adjustments to its tax return and settles the tax arrears with accrued interest or settles the arrears with interest within 14 days from the decision of the first instance authority defining the tax liability.

Regarding purchase of assets in the Czech Republic, PKN Orlen Group is subject to the regulations of Tax Investment Relieves Act and Corporate Income Tax Act binding in the Czech Republic. According to these regulations tax investment relieves of companies belonging to Unipetrol Group are of conditional nature. Non compliance with specified conditions may result in a loss of tax investment relief and an obligation to return received relieves (i.e. the repayment of unpaid tax liability for all the years when tax investment relieves were granted) increased by the relevant penalties and fines.

Effective May 2000, non compliance with the regulations imposed by Corporate Income Tax Act and Tax Investment Relieves Act results in the following:

a) if the condition related to the maximum decrease of tax base is not met, an investing entity is obliged to submit additional tax return (on the basis of which additional tax liability will be imposed) for the period during which the condition was not met;

b) if general conditions are not met (except for the condition mentioned in point a), a taxpayer loses the right to tax investment relief and is obliged to submit additional tax returns for every period during which the tax investment relief was used. It indicates that in such a case the investing entity is obliged to return all of the granted tax investment relieves, to settle all tax liabilities from which it was released over the period of the relief, and the relevant penalties and charges.

Unipetrol Group companies were granted with tax investment relieves in the amount of PLN 282 million in the years 2000–2001; it is planned to utilise PLN 51 million out of that amount until 2007.

(c) Contingent liability in excise tax of Rafineria Trzebinia S.A.

On 15 October 2004, the Head of the Customs Office in Kraków instituted tax proceedings in order to determine the excise tax liability at Rafineria Trzebinia S.A. for May, June, July and August 2004. As a result of the proceedings, on 5 April 2005 Rafineria Trzebinia S.A. received decisions from the Head of the Customs Office in Kraków, where the total excise tax liability was set for the period of May-August 2004 at about PLN 60 million. According to the Management Board of Rafineria Trzebinia S.A., the company possesses all the necessary expert opinions confirming correctness of the applied classification of goods taxable with 0% rate. On 12 April 2005, the Management Board of Rafineria Trzebinia S.A. filed an appeal against the discussed decisions and a motion to suspend execution of the decision until the date of settling the matter in the court of second instance.
On 5 May 2005, in reply to its motion, Rafineria Trzebinia S.A. received a decision from the Head of the Customs Office in Kraków suspending execution of the above decision.
On 9 June 2005 the Director of the Customs Chamber in Kraków, having examined the Company's appeal of 12 April 2005, against the decision of the Head of the Customs Office in Kraków of 31 March 2005, quashed the decision of the first instance authority and submitted it for further examination.
On 28 July 2005, the Head of the Customs Office in Kraków, upon receipt of the Customs Chamber decision, without providing any further evidence in the case determined an excise tax liability for May-September 2004 at total PLN 100 million. The above decisions were issued without any references to claims presented in the appeal of 12 April 2005. The Management Board of Rafineria Trzebinia S.A. still claims that it possesses all the necessary opinions confirming correctness of the applied classification of goods taxable with 0% rate, which according to the Management Board guarantees a positive outcome of the proceedings.
On 9 August 2005, the Management Board of Rafineria Trzebinia S.A. filed an appeal against the above decisions and a motion to suspend execution of the decisions until the case is decided by the second instance authority.

On 11 August 2005, the Head of the Customs Office in Kraków, having examined the Company's appeal of 8 August 2005, suspended the decision in respect of setting the excise tax liability for the period May-August 2004 at about PLN 100 million. As at the date of preparation of these consolidated financial statements, the outcome of the above appeal was not known.

Currently, apart from the aforementioned proceedings initiated by the Customs Office in Kraków, acting under the authorisation from the General Tax Control Inspector of 18 January 2005, the Tax Control Office in Kraków is conducting control proceedings with respect to reliability of the stated tax bases and correctness of calculation and settlement of excise tax and value added tax for 2002 and 2003.
As at the date of preparation of these financial statements, the final outcome of the above control proceedings as well as a potential impact of control extended to other periods were not yet known.

On 25 November 2004, the Supervisory Board of Rafineria Trzebinia S.A. adopted a resolution on performing a tax audit for the period from 2000 to 2004, including a review of correctness of procedures and correctness of tax settlements to be summarised in 'Report on agreed upon procedures concerning review of control procedures at Rafineria Trzebinia S.A.' The 2000-2004 tax audit was completed and its results presented to the Supervisory Board.

On 22 April 2005, having received the first stage report on control procedures, the Supervisory Board of Rafineria Trzebinia ordered the second detailed stage of the 'Report on agreed upon procedures' which would involve an analysis of transactions in the selected areas of the company's activity. As at the date of preparation of these consolidated financial statements the outcome of the second stage control was not yet known.

(d) Power transfer fee in settlements with Zakład Energetyczny Płock S.A.

According to the paragraph 36 of the Decree of Ministry of Economy dated 14 December 2000 relating to detailed methods of determination and computation of tariffs and electricity settlement regulations (Journal of Laws No. 1 dated 15 January 2001), the method of calculation of system fee, constituting an element of a power transfer fee was changed. According to the paragraph 37 of the Decree, a different method of power transfer fee

settlement has been allowed. Following the decision of the Chairman of the Energy Regulatory Office the electricity sale agreement between Zakład Energetyczny Płock S.A. ('ZEP S.A.') and PKN ORLEN S.A. was signed. The agreement did not determine contentious issues concerning transfer fees for the period from 5 July 2001 to 30 June 2002, as it was regarded as a civil case to be settled by an appropriate court. Zakład Energetyczny Plock S.A. called on PKN ORLEN S.A. to compromise agreement, as the District Court in Warsaw called PKN ORLEN as a co-defendant in a court case Polskie Sieci Energetyczne against Zakład Energetyczny Plock S.A. The Company's Management estimated the claim and in 2002 set up an accrual in the amount of PLN 8,272 thousand for liability to ZEP S.A., and created provision for that purpose in the amount of PLN 9,781 thousand.
As a consequence of the negative court decision PKN ORLEN S.A. was obliged to pay a liability connected with the so called system fee to Zakład Energetyczny Plock S.A. in the amount of PLN 46,232 thousand. In relation to that in 2004 the business risk provision was increased by PLN 28,179 thousand to cover the whole claim.
The proceedings were suspended by the ruling of the District Court in Warsaw of 2 June 2005 until the case of PSE S.A. against ZEP S.A., where PKN ORLEN SA is an outside intervener, is decided. On 3 August 2005 a complaint was filed against the above decision of stay of proceedings.

(e) Anti-monopoly proceedings

As at the date of the preparation of the report, the Company was a party in two anti-monopoly proceedings.

Upon to the decision of the Chairman of the Consumer and Competition Protection Office ('CCPO') from 21 March 2005, an anti-trust proceeding was started in connection with a suspicion that PKN ORLEN S.A. in Płock concluded an agreement with the Grupa Lotos S.A. in Gdansk which limited competition on the domestic sale market of petrol Universal 95 through an unanimous decision to give up production and distribution of petrol Universal 95 and eliminating the competition on the domestic sale market of petrol Universal 95 as well as excluding the risk of the market take-over by the competition.
Relating to the received letter PKN ORLEN S.A. released a statement on put charges and gave replies to queries set by CCPO. Replies to the further queries made by CCPO were sent on 5 May 2005.
The proceedings to take evidence are pending. They are prolonged due to motions filed by PKN ORLEN in order to limit access rights to evidence and due to respective decisions which are to be issued in this respect by the Chairman of the CCPO and which may be sued at the Consumer and Competition Court. As the proceedings are at their earliest stage, it is difficult to assess the risk that PKN ORLEN may be fined.

On 21 March 2005, the Company received a letter in which the Chairman of the CCPO requested information on monoethylene glycol and 'Petrygo' radiator liquid market in years 2000-2004. The letter concerns the proceedings in the area of setting prices for antifreeze liquid to radiators 'Petrygo' and prices for monoethylene glycols. In these proceedings OPCC issued a decision imposing penalty in the amount of PLN 40 million. The Company appealed to Anti-Monopoly Court against the negative decision of CCPO. On 13 August 2001 the Anti-Monopoly Court annulled fully the decision of CCPO, which accused PKN ORLEN S.A. of applying monopolistic practice, at the same time annulling the cash penalty. Consequently in 2001 due to this fact the provision was fully reversed. CCPO applied on 4 October 2001 to annul the verdict. On 10 July 2003 the Supreme Court annulled the verdict of the District Court from 13 August 2001.
The case was conducted again by District Court in Warsaw and Consumer and Competition Court (former Anti-Monopoly Court), which on the hearing on 21 July 2004 pronounced the judgment again revoking the complaint decision of CCPO.
Due to the received letter PKN ORLEN S.A. replied to queries of CCPO on 11 April 2005. Simultaneously CCPO approved prolongation of the period for responding to queries up to 6 May 2005 concerning determining the proper geographical market of monoethylene glycol. A response defining adequate geographical markets of monoethylene glycol was sent to CCPO on 6 May 2005. Upon the CCPO's request, additional information was provided on 18 May 2005.

The proceedings to take evidence are still pending. They are prolonged due to motions filed by PKN ORLEN SA and the petitioner in order to limit access rights to evidence and due to respective decisions that need to be issued in this respect by the Chairman of the CCPO and which may be sued at the Consumer and Competition Court.

As the above proceedings are at their initial stage it is difficult to assess the risk of a fine which might again be imposed on PKN ORLEN. Due to elapse of time and considerable changes in the business environment where PKN ORLEN operates, the risk of a fine is insignificant.

In both proceedings PKN ORLEN S.A. is represented by the legal office Kancelaria Adwokacka Prawa i Konkurencji based on the power of attorney granted by the Company's Board.

The financial statements do not include provisions related to the above proceedings as in the view of PKN ORLEN S.A. Management Board, supported by an independent legal opinion, risk that the Company would be charged with a fine is limited.

(f) Employee compensation plan

On 14 June 2005, due to announced Programme of Restructuring of Regional Organization Units, the Regulations for group redundancy dismissals in the Regional Organization Unit were issued.
The regulations embraced all the employees working in the areas covered by the Programme who in the period when the Programme was in operation would file a statement of will on termination of the employment contracts by mutual agreement of the parties or who would be dismissed by the employer for reasons concerning the employer.
The employees are entitled to one-off cash benefits due to termination of the employment contracts by mutual agreement of the parties for reasons not caused by employees in the period when the Regulations are effective. The amount of the benefit is the 12-fold employee's remuneration or PLN 50,000 increased by PLN 4,000 for each commenced year of service at employers within PKN ORLEN S.A. and its legal predecessors.
The above benefits contain benefits and allowances to which employees are entitled under the generally binding law, in particular in accordance with the Act of 13 March 2003 on particular rules for termination of employment contracts for reasons concerning the employer (Journal of Laws No. 90, item 844 as amended), and other benefits and allowances to which employees are entitled on the basis of other internal deeds and agreements.

Additionally, in order to facilitate finding other places of employment or launching business activity, the employees have a right to participate in training selected by the employee, organized by PKN ORLEN S.A., which cost will be fully or partially covered by the employer to the amount of PLN 2,000.

(g) Shield programmes

Due to programmes of employment restructuring carried out in the Company, the shield programmes are being introduced including additional compensations related to redundancy for reasons concerning the employer.
As a result the Company made a provision for 2004 costs of PLN 70 million and a provision for 2005 costs of PLN 54 million.

(h) Claims and disputes before court

In accordance with an agreement of 20 December 2002, Tankpol Sp. z o.o. ('Tankpol') transferred to PKN ORLEN ownership of 40% shares in ORLEN PetroTank Sp. z o.o. ('Petrotank') in exchange for receivables due from Tankpol. On 30 October 2003, a suit was filed at court against PKN ORLEN for compensation of PLN 69,898 thousand or return of the transferred shares. On 26 January 2004 Tankpol modified its claim and demanded PLN 36,383 thousand or return the transferred shares. Tankpol supported the suit with a new valuation of Petrotank for PLN 232,147 thousand. As a result of the proceedings, on 22 March 2005 the Court dismissed Tankpol Sp. z o.o. suit. Tankpol appealed against the verdict. In the view of the Company's Management Board, based on an independent legal opinion, the final result of the dispute should not have a material impact on the presented financial results or settlements' balances.

(i) Polish tax regulations

Poland has currently a number of regulations in force concerning value added tax, excise tax, corporate income tax and social security. The tax law is often amended, which results in lack of clarity and inconsistencies. The frequent discrepancies in tax law interpretations provided within state authorities and between state authorities and taxpayers generate uncertainty and conflicts concerning the interpreted issues. Tax settlements and other regulated areas of activity (for instance customs and foreign exchange control) are controlled by the respective authorities which are entitled by law to impose high fines, penalties and related interest. Due to the above, the tax risk in Poland is substantially higher than typical for countries with better developed taxation systems.

There are no formal procedures in Poland for determining the final taxation charge. Tax settlements may be subject to tax control over five years since the end of the calendar year when the tax liability reached its maturity. There is a risk that respective authorities adopt a different interpretation of the tax law than the Group companies, which could have a significant impact on their tax liabilities.

(j) Fixed assets located on the land with unsettled legal status

The Group possesses and presents in its assets a number of petrol stations and other constructions on the sites with unsettled legal status. The book value of fixed assets attributed to land with unsettled legal status amounted to PLN 19 million as at 31 December 2004 and PLN 17 million as at 30 June 2005.

(k) Disposal of stake in NOM Sp. z o.o.

On 20 May 2003, the Management Board of the Company submitted a put option execution declaration for all Niezalezny Operator Miedzystrefowy Sp. z o.o. ('NOM') shares owned by PKN ORLEN S.A. to Polskie Sieci Energetyczne S.A. ('PSE'). The 'put' price amounted to PLN 111.5 million and was calculated as a sum of nominal value of the shares sold and a cumulative investment premium calculated according to the Agreement dated 8 June 2000 regulating the cooperation between the NOM shareholders.
On 20 October 2003, PSE filed a suit to the Arbitration Court of the Polish Chamber of Commerce in Warsaw, regarding the determination of the invalidity of the shares sales agreement.
On 26 April 2005 the Company received a sentence of the Arbitration Court of the Polish Chamber of Commerce in Warsaw. The sentence of the arbitration court is unfavourable for the Company. As a consequence the estimations of the Management Board in relation to the assessment of the risk of non-collection of the above receivable was changed. The Company provided an allowance for receivable in the amount of PLN 111.5 million presented in the financial statements for the year 2004.
On 20 May 2005 the Company filed a complaint at the District Court in Warsaw for quash the above judgment of the arbitration court and applied for suspending the execution of the court sentence.
On 26 June 2005, the District Court rejected the application for suspending of execution of the arbitration court judgment.
On 29 July 2005, PKN ORLEN demanded that PSE would repay within a week the contractual penalty of PLN 111.5 million.
On 8 August 2005 PKN ORLEN received PSE letter where PSE stated it was not bound to settle the penalty.
On 5 August 2005 PKN ORLEN filed at the Arbitration Court of the Polish Chamber of Commerce in Warsaw a suit for adjudication of the contractual penalty of PLN 111.5 million.
On 15 September 2005 filed at the Arbitration Court of the Polish Chamber of Commerce in Warsaw an amended suit for adjudication of contractual penalty of PLN 33,453 thousand.
The District Court in Warsaw has not arrived at any judgement in respect of the complaint issued by PKN ORLEN until the date of preparation of these consolidated financial statements. After completion of the legal proceedings related to the sale of shares in NOM, the Company would perform appropriate adjustments to its financial statements, should it prove necessary.

(l) Pledge on Basell ORLEN Polyolefins Sp. z o.o. ("BOP") shares

Pursuant to the registered share pledge agreement dated 19 December 2003 PKN ORLEN S.A. established for the benefit of Kredyt Bank S.A. located in Warsaw acting as the Security Agent ('Security Agent') a registered pledge for all shares held by PKN ORLEN in the share capital of BOP, i.e. 907,398 shares of nominal value of PLN 500 each, representing 50% of BOP share capital entitling to 50% voting rights at the general Shareholders' Meeting of BOP. The condition for the effective establishment of the registered pledge was the entry on 23 January 2004 in the pledge register kept by the applicable court.
The pledge established pursuant to the share pledge agreement of 19 December 2003 secures the repayment by BOP the present and future pecuniary claims to the Security Agent, under the Collateral Agreement concluded between entities financing BOP, to the maximum amount of the pledge of EUR 750 million.

m) Tax review at ORLEN Oil Sp. z o.o.

On 13 December 2004, the Supervisory Board of Orlen Oil Sp. z o.o. adopted a resolution to conduct a tax audit for the period from 2000 to the present date, including the control of correctness of the Company's procedures and controls of settling tax liabilities which would be summarised in 'Report on agreed upon procedures concerning review of control procedures at Orlen Oil Sp. z o.o.' As at the date of preparation of these consolidated financial statements, both the tax and forensic audits did not reveal any significant risks nor discrepancies.

n) Tax review at Rafineria Nafty Jedlicze S.A .

On 17 December 2004 the Supervisory Board of Rafineria Nafty Jedlicze S.A. adopted a resolution to conduct a tax audit for the period from 2000 to the present date, including the control of correctness of the Company's procedures and controls of settling tax liabilities which would be summarised in 'Report on agreed upon procedures concerning review

of control procedures at Rafineria Nafty Jedlicze S.A.' As at the date of preparation of these consolidated financial statements, the tax audit did not disclose risks which estimated value would have a significant impact on the company's operations

o) Court proceedings against Benzyna a.s. ("Firm")

As a part of the court proceedings which have been pending from August 2001, the Anti-Monopoly Office announced a ruling on violation of the Economic Competition Protection Act. As a result, the Firm was punished with a fine of CZK 98 million.

The fine was reimbursed to the Firm on 29 July 2004.
The first instance ruling of the Anti-Monopoly Office was invalidated due to serious failures presented in the Firm's appeal; the Firm's Management believes that the District Court will issue a favourable verdict for the Firm.

However, taking into account repetitive rulings of the Anti-Monopoly Office concerning the fine and the fact that the court has not issued the verdict yet, the Firm recognised a provision for a potential fine of CZK 98 million.

p) Other risks

As described in Note 17 of additional information and explanations the Company recognised in the balance sheet as at 30 June 2005 the balance of the provision for reclamation of land based on the analysis prepared by independent experts, taking into account the effective regulations and current practice in this respect. Potential future changes in regulations and practices concerning environmental protection may influence the amount of the provision in future periods.

32. Remuneration, together with remuneration from profit paid to the Management Board and the Supervisory Board and the key executive personnel in accordance with IAS 24

Management Board remuneration includes salaries, bonuses, annual bonus and equivalent for unused annual holiday.

The remuneration paid to the Management Board, Supervisory Board and key executive personnel amounted to:

	for 6 months ended 30 June 2005 (unaudited)	for 6 months ended 30 June 2004 (unaudited)
Parent's Management Board*	11,490	11,375
Parent's Supervisory Board	400	436
Parent's key executive personnel **	8,680	5,998
Group key management personnel***	18,886	20,337
Total	**39,456**	**38,146**

* In the period of 6 months ended 30 June 2005 the remuneration to former Board members amounted to PLN 7,008 thousand.
** In the period of 6 months ended 30 June 2004 the remuneration was paid to 27 members of key executive personnel and in the period of 6 months ended 30 June 2005 to 34 members.
*** Management Boards, Supervisory Boards and key executive personnel of the Group companies.

33. Employment structure

Average employment by category was as follows:

	for 6 months ended 30 June 2005*	for 6 months ended 30 June 2004
	(unaudited)	(unaudited)
Blue collar workers	11,551	7,638
White collar workers	9,862	6,983
	21,413	**14,621**

The employment level as at 30 June 2005 amounted to 21,338 persons and as at 31 December 2004 14,296 persons.
* The average employment in PKN Orlen Group includes the average employment of the Unipetrol Group for the period from 1 January 2005 to 30 June 2005.

34. Post balance sheet events

1. On 12 August 2005, the Company submitted at the Czech Securities and Exchange Commission (CSEC') applications for obtaining a permit for mandatory public calls for shares issued by UNIPETROL, a.s., PARAMO, a.s. and SPOLANA, a.s.

The prices offered by PKN ORLEN were: CZK 135 for one share of UNIPETROL, a.s., CZK 978 for one share of PARAMO, a.s. and CZK 155 for one share of SPOLANA, a.s.

Prior applications submitted by PKN ORLEN were not approved by the CSEC due to incorrectness of the attached pricing methodology designed by an independent expert, NS Group. PKN ORLEN applied the highest standards of transparency and paid special attention to proper preparation of the new applications and hoped that the prices offered by PKN ORLEN fully reflected the pricing in accordance with the methodology complying with the expectations of CSEC.

2. On 26 August 2005, PKN ORLEN obtained a permit from the Czech Securities and Exchange Commission for mandatory calls for sale of shares held by minority shareholders of UNIPETROL a.s., SPOLANA a.s. oraz PARAMO a.s.

The applications were finally approved and the prices were as follows: CZK 139 per share of UNIPETROL a.s., CZK 155 per share for SPOLANA a.s. and CZK 978 per share for PARAMO a.s.

The calls for shares will be valid at the date of publication in formal public announcements defined in Unipetrol Statutes.

35. Additional information

a) Restructuring of the southern assets

Rafineria Nafty Jedlicze, Rafineria Trzebinia and ORLEN OIL participate in the Project of 'Restructuring of southern assets of the PKN ORLEN S.A. Group'. The Project aims at optimisation and consolidation of manufacture and sale of fuel, motor and lubricating oils and paraffin at the PKN ORLEN S.A. Group.
On 5 July 2005 the Management Board adopted 'Restructuring plan for southern assets' thus accepting the restructuring objectives.

b) Purchase of UNIPETROL shares

On 24 May 2005, the Company acquired 114,224,038 bearer shares in UNIPETROL a.s., which is approximately 62.99% of all issued Unipetrol a.s shares. The acquisition was made under the agreement concluded by PKN ORLEN on 4 June 2004 with the National Property Fund of the Czech Republic.
Unipetrol is a group of companies operating in the chemical sector in the Czech Republic, mainly in activities related to processing of crude oil, fuel distribution, production of fertilizers and petrochemicals. In all those activities Unipetrol is a main representative of the industry sector in the Czech Republic and Central Europe. The Unipetrol Group consists mainly of the following companies:

- Ceska Rafinerska (a joint venture, combined with: AgipPetroli, Conoco and Shell) and Paramo – the largest manufacturer of fuels, bitumin and other products related to refining of the crude oil;
- Chemopetrol, Kaučuk and Spolana – manufacturers of mainly petrochemical products and plastics;
- Benzina – the largest network of petrol stations in the Czech Republic.

The Unipetrol Group has the following associates: Lovochemie – an important manufacturer of industrial fertilizers and other non-organic chemical products, Aliachem – a group of enterprises engaged in organic and non-organic chemical products, plastics production, and a few entities operating in the area of distribution, research and services.

As a result of the transaction of the purchase of Unipetrol the Company acquired the following categories of assets, liabilities and contingent liabilities of the acquired company and settled the transaction as follows using the purchase method:

Initial fair value of assets and liabilities by main categories:	
Cash and cash equivalents	220,107
Property, plant and equipment*	7,008,720
Inventories	1,138,412
Receivables	1,912,516
Other assets	1,096,804
Provisions	(143,558)
Long-term liabilities	(1,266,024)
Short-term liabilities	(3,006,451)
Contingent liabilities	(63,927)
Other liabilities**	(845,436)
Net assets of Unipetrol at fair value	6,051,163
Share of PKN ORLEN in the net assets of Unipetrol	3,811,628
Purchase price	1,562,197
Adjustment of purchase price according to the price formula included in the agreement	221,295
Acquisition costs***	23,108
The excess of the share in the net consolidated assets over the acquisition cost, included in other operating income	2,005,028

Share of PKN ORLEN in the net assets of Unipetrol	3,811,628
The excess of the share in the net consolidated assets over the acquisition cost, included in other operating income	(2,005,028)
Total outflow of cash	1,806,600
Adjustment of purchase price, unpaid as at the balance sheet date	(221,295)
Acquisition costs	(23,108)
Cash outflow relating to purchase of Unipetrol Group until 30 June 2005	1,562,197

* Including initial fair value valuation in the amount of PLN 1,358,615 thousand.
** Including deferred tax on initial fair value valuation in the amount of PLN 353,240 thousand (calculated using the 26% tax rate, valid in the Czech Republic)
*** The acquisition costs comprise advisory services expenses, business travel etc.

PKN ORLEN intends to conduct the restructuring of the UNIPETROL Group.

Due to a large number of the acquired assets and liabilities of Unipetrol Group, PKN ORLEN is currently engaged in the process of their valuation to fair value. The PKN ORLEN Group recognised a preliminary effect of the valuation of the acquired net property, plant and equipment except for the assets of Česka Rafinerska. The lack of Česka Rafinerska valuation resulted from the limitation of access to the relevant data since, according to the Česka Rafinerska's Company

Act, financial data may only be made available to shareholders upon a resolution of General Shareholder's Meeting. PKN Orlen was granted with a limited access to the relevant data which disabled conducting of valuation process according to the schedule set afore.
Simultaneously, the process of defining the final acquisition price is at the final stage. The Management Board of PKN ORLEN and the National Property Fund of the Czech Republic are obliged either to approve the newly established price or announce any reservations to the pricing. Consequently, the initial value of the acquired assets and liabilities, the purchase price and the excess of the share in consolidated net assets over the acquisition cost may diverge from the final valuation. The final settlement of the transaction may also be influenced by the increase in acquisition costs relating to the pending valuation processes aimed at final settlement of the transaction and restructuring of the acquired assets. Upon completion of all the relevant processes, the calculation of the excess of the share in net consolidated assets over the acquisition cost may differ significantly from the one presented above.

According to the Management Board, the final settlement of the transaction should be performed by the end of 2005.

PKN ORLEN has been consolidating the Unipetrol Group using the full method since the acquisition date.

In accordance with IFRS 3 'Business Combinations', the below table presents the consolidated revenues and financial result of the PKN ORLEN Group (including consolidated financial data of Unipetrol for the period from 1 January 2005 to 30 June 2005), as if the acquisition date coincided with the beginning of the period.

	For the first half of 2005
Revenues from sale	22 030 438
Operating revenues	2 257 684
Financial revenues	500 554
Financial result	3 561 787

c) Sale agreement of part of assets and liabilities regarding the purchase of shares of Unipetrol

In 2003-2004, the former Management Board of PKN Orlen concluded agreements with Agrofert Holding a.s. and ConocoPhillips Central and Eastern Europe Holdings B.V. concerning sale of part of assets and liabilities of Unipetrol Group companies. The present Management Board of the Company, having analysed the consequences resulting from the above agreements and having consulted with recognised independent experts, adopted and presented to the Supervisory Board a proceeding strategy, taking into account the best interest of the Company and its shareholders related to execution of the agreements. As a consequence the Management Board is proceeding with formal correspondence with Agrofert Holding a.s., and ConocoPhillips and Unipetrol in respect of the signed agreements. Therefore the Management Board of PKN Orlen cannot disclose detailed information concerning the conducted negotiations.

As a consequence of the above mentioned agreements, PKN ORLEN created provisions to cover the potential negative financial effects related to execution of the agreements.

PKN ORLEN addressed Agrofert Holding with a suggestion of disclosing particulars of the agreements a number of times, yet as at the date of publication of these statements it did not obtain a consent for disclosing their full content.
Agrofert agreed to disclose only portions of the agreements which it also presented at the press conference on 13 September 2005. PKN ORLEN SA still highlights its readiness to publish the agreements in their full wording yet after it obtains the relevant consent from Agrofert.

PKN ORLEN SA Management Board wishes to underline the fact that all actions it has undertaken are transparent and ethical, and the same conduct is expected form other entities. The Management Board is determined to explain the circumstances affecting PKN ORLEN and focus on developing a brand value for UNIPETROL and its shareholders.

d) Agreement with DEZA a.s.

The Management Board of Unipetrol a.s. informed on 2 September 2005, that on 22 August 2005, it received letters from DEZA a.s. (one of Agrobohemie a.s. shareholders) requesting to enable execution of call option for 50% of shares in Agrobohemie a.s., accordingly to the agreements signed between Unipetrol and DEZA on 12 October 2000. Having analysed available documents and received letters, the Management Board concluded, that the agreements contain vital legal faults (and additionally are not compliant with best market practice). Enumerated factors did not allow the Management Board of UNIPETROL a.s. to accept the request of DEZA a.s. As a consequence on 1 September 2005 the

Management Board of Unipertol offered DEZA a.s. to modify those documents in order to ensure complance with the binding Czech law, accepted standards and best market practice.

e) Polkomtel S.A.

On 17 December 2004, an agreement of the Polish shareholders of Polkomtel S.A. was established in respect of intention of public offering of Polkomtel S.A. shares. During the reporting period the afore mentioned shareholders cooperated on the restructuring of share capital of Polkomtel. Having consulted financial and legal advisors, the shareholders examined and evaluated different options for public offering of Polkomtel S.A. shares, in particular by sale of all or a portion of the currently owned shares to Vodafone and TDC.
PKN ORLEN S.A., KGHM Polska Miedź S.A., Polskie Sieci Elektroenergetyczne S.A. and Węglokoks S.A. concluded 'Shareholders' Cooperation Agreement in Restructuring of Polkomtel S.A. Share Capital'. Negotiations and correspondence with foreign shareholders are conducted in order to define conditions for maximising of the value of Polkomtel S.A. shares by the Polish shareholders.

36. Impact on prior period results

Due to the fact that effective 1 January 2005 the Group has been preparing its consolidated financial statements in accordance with IFRSs for statutory purposes, the below table presents the major differences identified and reported by the Group between IFRSs adopted by the European Union and Polish accounting standards (PASs) with respect to changes in the opening balance of equity as at 1 January 2005 and comparative data in respect of the net profit for the period ended 31 December 2004.

	Net profit for 12 months period ended 31 December 2004 (unaudited)	Net profit for 6 months ended 30 June 2004 (unaudited)
Consolidated according to PASs	2,588,981	1,028,855
Reversal of capitalised borrowing costs	8,011	3,667
Deferred tax on capitalised borrowing costs	(1,522)	(697)
Valuation of property, plant and equipment at fair value	(155,004)	(69,078)
Deferred tax on valuation of property, plant and equipment at fair value	30,413	13,549
Alternative treatment of the excess of fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost	(27,758)	(17,728)
Reversal of goodwill amortisation	5,765	2,814
Impairment of property, plant and equipment of ORLEN Deutschland AG	(65,381)	(65,381)
Distribution of profit other than dividends	(4,176)	(4,176)
Other	5,654	(11,585)
Consolidated according to IFRSs	**2,384,983**	**880,240**

	Net assets as at 31 December 2004 (unaudited)	Net assets as at 30 June 2004 (unaudited)	Net assets as at 1 January 2004 (unaudited)
Consolidated in accordance with PASs	11,826,556	10,330,621	9,581,948
Reversal of capitalised borrowing costs	(63,745)	(68,088)	(71,755)
Deferred tax on capitalised borrowing costs	12,111	12,937	13,633
Valuation of property, plant and equipment at fair value	1,122,628	1,208,403	1,278,183
Deferred tax on valuation of property, plant and equipment at fair value	(204,506)	(221,372)	(234,920)
Alternative treatment of the excess of fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost	273,611	283,641	301,369
Reversal of goodwill amortisation	5,765	2,814	-
Impairment of property, plant and equipment of ORLEN Deutschland AG	(65,381)	(65,381)	-
Other	70,563	53,324	61,170
Consolidated according to IFRSs	**12,977,602**	**11,536,899**	**10,929,628**

a. Reversal of capitalised borrowing costs

In accordance with PASs borrowing costs resulting from investment loans were stated as investment expenditure. Other financial expenses were recognised in the profit and loss when incurred. In the financial statements prepared in accordance with IFRSs, the borrowings costs, including foreign exchange differences related to loans and borrowings in foreign currencies, are recognised in the profit and loss statement in the period to which they refer.

b. Alternative treatment of the excess of fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost

In accordance with PASs, the Company settled the excess of fair value of identifiable assets, liabilities and contingent liabilities above acquisition cost to revenues over the period from 2 to 5 years.
Under IFRS 3, the excess of fair value of identifiable assets, liabilities and contingent liabilities above acquisition cost was recognised as retained earnings.

c. Reversal of goodwill amortization

In accordance with PASs goodwill was amortised on a straight line basis over the period not longer than 5 years and presented in the profit and loss as other operating expenses. In the financial statements prepared in accordance IFRSs, goodwill is not amortised yet decreased by impairment allowances.

d. Impairment of property, plant and equipment of ORLEN Deutschland AG

Due to the change in the policy discussed in detail under b) above, ORLEN Deutschland AG recognised an excess of net fair value of identifiable assets, liabilities and contingent liabilities above acquisition cost in equity as at 1 January 2005. Consequently, for the purpose of consolidated annual financial statements the impairment allowance for property, plant and equipment of ORLEN Deutschland AG was increased by the amount reflecting the above change in the accounting principles and recognised in 2004 financial result.

e. Consolidation of BOP by proportionate method

PKN ORLEN S.A. possesses a 50% share in a joint-venture enterprise, Basell ORLEN Polyolefins Sp. z o.o., engaged in manufacture, distribution and sale of polyolefins.

In the records presented for the first half of 2004 and the first half of 2005, Basell ORLEN Polyolefins Sp. z o.o. has been consolidated by proportionate method. In the prior periods BOP was presented by the equity method.
As at 30 June 2005 and 31 December 2004 and for the periods of 6 months ended 30 June 2005 and 30 June 2004, the Group share in assets, liabilities, revenues and costs of BOP was as follows:

	30 June 2005 (unaudited)	**31 December 2004 (unaudited)**
Current assets	152,996	168,681
Non-current assets	929,818	860,901
Short-term liabilities	90,370	152,590
Long-term liabilities	459,799	346,785

	I half ended 30 June 2005 (unaudited)	**I half ended 30 June 2004 (unaudited)**
Revenues	253,802	240,067
Cost of goods, merchandise and materials sold	(223,618)	(209,690)
General and administrative expenses	(4,321)	(3,526)
Financial expenses	(13,925)	(5,936)
Profit before tax	12,032	22,487
Income tax expense	(2,094)	(4,318)
Net profit	9,939	18,170

37. Differences between data disclosed in the consolidated financial statements for the I half of 2005 and the Current Report published on 16 August 2005:

Changes in comparison to data published in current report dated 16 August 2005 having influence on net profit and equity:

	Net profit	Equity
Data presented in condensed consolidated report for two quarters of 2005, published on 16 August 2005	1,316,141	13,357,673
Consolidation of Unipetrol a.s. Group	2,019,957	4,225,501
Data presented in consolidated financial statements for the I half of 2005	3,336,098	17,583,174

38. Other

These consolidated financial statements were authenticated by the Company's Management Board at the Company's premises on 26 September 2005.

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS

President
Igor Chalupec

Vice-President
Wojciech Heydel

Vice-President
Jan Maciejewicz

Vice-President
Cezary Smorszczewski

Member of the Board
Paweł Szymański

Member of the Board
Dariusz Witkowski

Płock, 26th September 2005