MANAGEMENT BOARD REPORT
ON OPERATIONS OF
THE POLSKI KONCERN NAFTOWY ORLEN
SPÓŁKA AKCYJNA
CAPITAL GROUP
FOR THE FIRST HALF OF 2005

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INTRODUCTION

This report has been prepared in accordance with the Council of Ministers' Decree dated 21 March 2005 concerning current and periodical information published by issuers of securities (Journal of Laws 05.49.463).

I. CHARACTERISTICS AND CHANGES IN STRUCTURE OF THE POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA CAPITAL GROUP

1.1 STRUCTURE OF THE CAPITAL GROUP AS AT 30 JUNE 2005

Polski Koncern Naftowy ORLEN S.A. (PKN ORLEN S.A., Parent Company, Concern, Company) as at 30 June 2005 possessed directly shares and stakes in 76 commercial law companies, including:

- 43 subsidiaries in which PKN ORLEN S.A. holds above 50% shares,
- 2 jointly controlled companies with share in the capital equalling 50%,
- 3 associate companies with share in capital between 20% to 50%,
- 28 other minority interest companies with share in capital below 20%.

Capital engagement of PKN ORLEN S.A. as at the end of June 2005 amounted to PLN 3,960.724 thousand and increased by PLN 1,549,225 thousand in comparison to the end of the first half of 2005.

The subject to consolidation were 35 entities (33 direct subsidiaries, 1 jointly controlled company and 1 associate) of the PKN ORLEN S.A. Group:

1. Most important companies in terms of sales and equity:

- Rafineria Trzebinia S.A. located in Trzebinia (with its Capital Group),
- Rafineria Nafty Jedlicze S.A. located in Jedlicze (with its Capital Group),
- Inowrocławskie Kopalnie Soli "Solino" S.A. located in Inowrocław,
- Anwil S.A. located in Włocławek (with its Capital Group),
- ORLEN-Oil Sp. z o.o. located in Kraków (with its Capital Group),
- Basell Orlen Polyolefins Sp. z o.o. located in Płock,
- ORLEN Asfalt Sp. z o.o. located in Płock,
- Unipetrol a.s. located in Prague (with its Capital Group).

2. Liquid fuel trading companies:

- ORLEN PetroTank Sp. z o.o. located in Widełka near Kolbuszowa,
- ORLEN PetroProfit Sp. z o.o. located in Niemce near Lublin (with its Capital Group),
- ORLEN PetroCentrum Sp. z o.o. located in Płock,
- Petrolot Sp. z o.o. located in Warszawa,
- ORLEN PetroZachód Sp. z o.o. located in Poznań,
- ORLEN Morena Sp. z o.o. located in Gdańsk,
- Ship-Service S.A. located in Warszawa (with its Capital Group),
- ORLEN Gaz Sp. z o.o. located in Płock (with its Capital Group),
- ORLEN Deutschland AG located in Elmshorn. (Germany)

3. Companies established as a result of restructuring of the Parent Company:

- Zakład Budowy Aparatury S.A. located in Płock,
- Petrotel Sp. z o.o. located in Płock,
- ORLEN Projekt S.A. located in Płock,
- ORLEN Medica Sp. z o.o. located in Płock (with its Capital Group),
- ORLEN Laboratorium Sp. z o.o. located in Płock.

4. Maintenance companies:

- ORLEN Automatyka Sp. z o.o. located in Płock,
- ORLEN Wir Sp. z o.o. located in Płock.

5. Transportation companies:

- ORLEN Transport Płock Sp. z o.o. located in Płock,
- ORLEN Transport Szczecin Sp. z o.o. located in Szczecin,
- ORLEN Transport Kraków Sp. z o.o. located in Kraków,
- ORLEN Transport Nowa Sól Sp. z o.o. located in Nowa Sól,
- ORLEN Transport Słupsk Sp. z o.o. located in Słupsk,
- ORLEN Transport Olsztyn Sp. z o.o. located in Olsztyn,
- ORLEN Transport Kędzierzyn-Koźle Sp. z o.o. located in Kędzierzyn-Koźle,
- ORLEN KolTrans Sp. z o.o. located in Płock.

6. Other companies:

- Chemiepetrol GmbH located in Hamburg,
- ORLEN Powiernik Sp. z o.o. located in Płock,
- ORLEN Budonaft Sp. z o.o. located in Kraków.

Additionally, this report includes comments on Polkomtel S.A., not consolidated, due to its great importance for the PKN ORLEN Group.

1.2 CHANGES IN THE CAPITAL GROUP IN THE FIRST HALF OF 2005

The key changes in structural and capital relations in the PKN ORLEN Group during the first half of 2005 until the date of preparation of this report include the following:

- On 3 January 2005 the District Court in Opole, VIII Economic Department of the National Court Register, registered a business combination of Zakład Urządzeń Dystrybucyjnych Sp. z o.o. located in Opole (bidder) with the following companies (targets):
  - Serwis Katowice Sp. z o.o. located in Katowice,
  - Serwis Kędzierzyn - Koźle Sp. z o.o. located in Kędzierzyn - Koźle,
  - Serwis Kielce Sp. z o.o. located in Kielce,
  - Serwis Łódź Sp. z o.o. located in Łódź, and
  - Serwis Rzeszów Sp. z o.o. located in Rzeszów,

  due to the take over of the total assets of the target companies by Zakład Urządzeń Dystrybucyjnych Sp. z o.o. (combination by incorporation). Consequently, amendments were introduced to the company's deed of Zakład Urządzeń Dystrybucyjnych Sp. z o.o., concerning increase of its share capital from PLN 6,536,500 to PLN 6,759,200, i.e. by PLN 222,700. Shares in the increased capital of the nominal value of PLN 50 each were taken by the existing shareholders of the target companies. As a result of the increase in the share capital of Zakład Urządzeń Dystrybucyjnych Sp. z o.o., PKN ORLEN S.A. stake decreased from 99.94 % to 96.65%.
- On 28 January 2005 the District Court in Kraków - Śródmieście, XII Economic Department of the National Court Register, registered a change of the amount and structure of the share capital of Rafineria Trzebinia S.A. located in Trzebinia. The share capital was reduced from PLN 43,041,890 to PLN 42,995,350 and is divided into 4,299,535 shares of the nominal value of PLN 10 each as a result of write off of 4,654 own shares of Rafineria Trzebinia S.A. After the decrease of share capital of Rafineria Trzebinia SA, PKN ORLEN S.A. stake in the share capital of the company amounts to 77.15%.
- On 25 March 2005, based on a shares sale agreement, PKN ORLEN S.A. sold all owned shares in Dom Wczasowy "Mazowsze" Sp. z o.o. located in Ustroń for the total amount of PLN 1,332,574.
- On 7 April 2005, under shares sale agreements, PKN ORLEN S.A. sold shares in two maintenance companies for the total amount of PLN 1,980,000, including:

- 6,974 shares in Serwis Mazowsze Sp. z o.o. for the total amount of PLN 700,000;
- 12,608 shares in Serwis Nowa Wieś Wielka Sp. z o.o. for the total amount of PLN 1,280,000.

ORLEN Centrum Serwisowe Sp. z o.o. acquired both companies.

As a result of the sale of shares in the above two companies, PKN ORLEN S.A. will not have any shares in those entities. We also wish to inform that PKN ORLEN S.A. holds 99.94% in the share capital of ORLEN Centrum Serwisowe Sp. z o.o. The above transaction is another stage of the disposal process carried out by PKN ORLEN S.A. with respect to companies of supporting activities. The scope of those companies' operations includes service activities.

- On 14 April 2005 an agreement was concluded between PKN ORLEN, the seller, and PERN "Przyjaźń" S.A., the buyer, for the sale of 24 shares with a nominal value of PLN 589,000 each and the total nominal value of PLN 14,136,000, which, as at the agreement date accounted for 30.77% of the share capital of Przedsiębiorstwo Przeładunku Paliw Płynnych "Naftoport" Sp. z o.o. The key provisions of the sale agreement were:

  The selling price of one share amounts to PLN 2,820,512.82,

  Total selling cost of 24 shares is PLN 67,692,307.68,

  The payment will be pledged by a collateral on the disposed shares.

- On 1 February 2005 the Extraordinary Shareholders Meeting of Naftoport adopted amendments to the Deed of Naftoport. The amended Deed of the company secures PKN ORLEN S.A. and other Naftoport shareholders' interest in terms of deliveries.

  PKN ORLEN concluded also with Naftoport and PERN long-term trade contracts, which secure the safety of oil deliveries by land and sea. The contracts enable PKN ORLEN to maintain deliveries through Naftoport on terms which are not less advantageous than before the above transaction.

- On 20 April 2005 the European Commission adopted a decision with respect to approval for PKN ORLEN SA to take over control over Unipetrol a.s. by way of acquisition form the Czech National Property Fund of 114,224,038 bearer shares in UNIPETROL, which approximate 62.99% of all issued and existing shares of UNIPETROL.

- On 24 May 2005 PKN ORLEN S.A. purchased:

  - 114,224,038 bearer shares in Unipetrol a.s., of the nominal value CZK 100 each, which approximates 62.99% of all issued and existing Unipetrol a.s. shares. The initial price for the acquired Unipetrol shares was CZK 11,303,886,660 (about PLN 1,562,197,136 as at 23 May 2005).

  - 745,000 bearer shares in Spolana a.s. of the nominal value CZK 655 each, which is 9.76% of the share capital of Spolana a.s. The total price for the acquired Spolana shares amounted to CZK 1 million (about PLN 138,200 as at 23 May 2005).

  - receivables from some of the Unipetrol Group entities, with a nominal value as at 1 April 2004 of approximately CZK 3.1 billion, EUR 9.5 million and USD 4.9 million. The total acquisition cost of the receivables was CZK 1.7 billion (about PLN 234,940,000 as at 23 May 2005).

  The acquisition of Unipertol shares was made under an agreement concluded by PKN ORLEN S.A. on 4 June

2004 with the Czech National Property Fund. The acquisition of Spolana's shares and receivables was performed under agreements concluded by PKN ORLEN S.A. on 4 June 2004 with Ceska Konsolidacni Agentura.

The acquisition of Unipetrol shares, and Spolana shares and receivables was covered in 90% from PKN ORLEN S.A. own resources and 10% from available credit limits.

After acquisition of Unipetrol shares, under the Czech law, PKN ORLEN was required to announce mandatory calls for minority shares of Unipetrol a.s. and its listed subsidiaries (Spolana a.s. and Paramo a.s.). PKN ORLEN authorised Patria Finance, a.s. to make the mandatory calls.

In accordance with the Czech regulations, conditions for mandatory calls are subject to approval from the Czech Securities and Exchange Commission, the respective application was filed at the CSEC within the required period on 30 June 2005.

On 18 July 2005 the Company was notified by the Czech Securities and Exchange Commission ("CSEC") that it had rejected PKN ORLEN's 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 103 for one share of UNIPETROL, a.s., CZK 701 for one share of PARAMO, a.s. and CZK 100 for one share of SPOLANA, a.s.; the pricing was based on the discounted cash flow method performed by an independent Czech expert, NS Group.

On 12 August 2005 the PKN ORLEN SA reapplied to the Czech Securities and Exchange Commission for a permit to make mandatory calls for shares issued by UNIPETROL, PARAMO, a.s. and SPOLANA, a.s. The prices offered by PKN ORLEN are: CZK 135 for one UNIPETROL share, CZK 978 for one share of PARAMO, a.s. and CZK 155 for one share of SPOLANA, a.s. On 26 August 2005 PKN ORLEN obtained from the Czech Securities and Exchange Commission the permit for mandatory public calls for shares issued by UNIPETROL, a.s., PARAMO, a.s. and SPOLANA, a.s. The accepted prices for one share offered for Unipetrol, Paramo and Spolana shares were adjusted and amount to CZK 139, CZK 978 and CZK 155 respectively.

The acquisition of UNIPETROL is one of the next significant steps in PKN's strategy, as it represents a perfect opportunity for PKN ORLEN to: expand its geographic presence, enter the attractive Czech market and to strengthen its position in the southern Poland.

1. On 26 April 2005 the received a judgment of the Arbitration Court in Warsaw. The judgment sattes that the agrement for acquisition by Polskie Sieci Elektroenergetyczne S.A. in Warsaw of 168,000 shares in the capital of Niezależny Operator Międzystrefowy Sp. z o.o. from Polski Koncern Naftowy ORLEN S.A. was not legally binding due to lack of compliance with the suspending condition, i.e. lack of approval of the PSE corporate bodies for the transaction. The counter claim of PKN ORLEN SA for payment for the shares was rejected. Consequently, PKN ORLEN S.A. still holds 168,000 shares in NOM of the total nominal value of PLN 84,000,000, which is 35 % of NOM's share capital.
2. On 20 April 2005, based on the shares sale agreement, PKN ORLEN S.A. sold 3,932 shares in Zespół Wypoczynkowy "Mazowsze" Sp. z o.o. located in Łeba representing 100% of its share capital. The shareholders of Przedsiębiorstwo Turystyczne "MAZOWSZE" Sp. z o.o. are managing personnel and staff of ZW Mazowsze.

3. On 2 June 2005, based on the shares sale agreement PKN ORLEN S.A. sold 8,219 shares in ZAWITAJ Świnoujście Sp. z o.o. located in Świnoujście.

1.3 DESCRIPTION OF CONSOLIDATED COMPANIES OF THE CAPITAL GROUP

1.3.1 Consolidated subsidiaries

- **Rafineria Trzebinia S.A.**

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

On 30 June 2005 the share capital of Rafineria Trzebinia SA. amounted to PLN 42.995 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 77.15%
- State Treasury 9.19%
- Other 13.65%.

As at 30 June 2005 the shareholders equity of the company amounted to PLN 442,690 thousand.

The Rafineria Trzebinia Capital Group's business activities include:

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

Rafineria Trzebinia's S.A. Capital Group business activities are focused on the manufacturing of specialist high-value products and in particular: a full range of lubricants, industrial oils (hydraulic and tempering oils) and a range of paraffin products.

At 30 June 2005 the company employed 187 people (Capital Group of Rafineria Trzebinia S.A. employed 717 people).

The net loss of Rafineria Trzebinia S.A. as at 30 June 2005 amounted to PLN 5,144 thousand, whereas sales amounted to PLN 405,398 thousand.

Rafineria Trzebinia S.A. holds shares in 6 subsidiaries (5 subsidiaries and 1 jointly controlled entity).

Rafineria Nafty Jedlicze S.A.

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

On 30 June 2005 the company's share capital amounted to PLN 78,000 thousand.

Shareholders of the company are:

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

The Company's business activities include:

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

The refinery also manufactures limited quantities of gasoline and heating oils. The company is the second largest lubricants producer in Poland (in terms of volume). Additionally, Rafineria Nafty Jedlicze S.A. regenerates used oil in its regeneration facilities, which have a processing capacity of 80 thousand tons a year. The collection of used oils is carried out through the network of companies associated with Rafineria Nafty Jedlicze S.A.

As at 30 June 2005 Rafineria Jedlicze S.A. employed 417 people (Capital Group of Rafineria Jedlicze SA employed 798 people).

The net profit of the company as at 30 June 2005 amounted to PLN 11,991 thousand, whereas sales amounted to PLN 221,614 thousand.

In the analysed period, the company focused on improving its profitability. The effects of increased efforts in this respect are noticeable within optimisation of operating costs.

- **Inowrocławskie Kopalnie Soli "Solino" S.A.**

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

As at 30 June 2005 the share capital of Inowroclawskie Kopalnie Soli "Solino" S.A. amounted to PLN 19,146 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 70.54%
- State Treasury 25.20%
- Other 4.26%.

As at 30 June 2005, the shareholders equity of the company amounted to PLN 78,587 thousand.

The Company's business activities include:

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

The company is involved in mining and processing of salt, production of salt and industrial brine. The brine is supplied to such companies as Anwil S.A., a member of the PKN ORLEN S.A. Group.
As at 30 June 2005 the company employed 307 people.
For the first half of 2005 the company's sales amounted to PLN 55,651 thousand, whereas the net profit amounted to PLN 5,332 thousand.
The company's development plans focus on the same area as before i.e. salt oproduction and sales as well as on realisation of second stage of the second stage of construction of fuel and crude oil underground storage tanks.

- **Zakłady Azotowe Anwil S.A.**

Zaklady Azotowe Anwil S.A was entered in the Commercial Register on 14 April 1993. As at 30 June 2005 the share capital of the company amounted to PLN 135,415 thousand. PKN ORLEN acquired first Anwil shares as a result of conciliatory proceedings in 1995.
The company's shareholders are:

- PKN ORLEN S.A. 84.49 %
- Zaklad Energetyczny Torun S.A. 5.84%
- State Treasury 5.54%
- Other 4.13%.

As at 30 June 2005, the shareholders equity of the company amounted to PLN 1,107,018 thousand.
The Company's business activities include:

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

Anwil is principally involved in the production of nitrogen fertilisers and PVC. The company is the largest PKN ORLEN's customer for ethylene (the main raw material for the manufacture of PVC).
As at 30 June 2005 the company employed 1,473 people. (Anwil Capital Group employed 2,462 people).

For the first half of 2005 Anwil achieved sales amounted to PLN 730.533 thousand, whereas net profit for the first half of 2005 amounted to PLN 66,706 thousand. .
Anwil helds shares in 4 subsidiaries and 5 assiotiates.

- **Unipetrol a.s.**

Persuant to the agremeent dated 4 June 2004 between PKN ORLEN S.A. and Czech National Property Fund, the latter acquiered on 24 Mai 2005 of 62.99% of the share capital of Unipetrol a.s.. Remaining share of Unipetrol a.s. are hold by minority shareholders.

The Unipetrol business activities include processing of crude oil, sals of products resulting from processing of crude oil, - chemicals, petrochemicals and fuel in Czech Republic and outside the Czech Republic.

Unipetrol a.s. helds the shares of the followings subsidiaries:

- Chemopetrol a.s. 100,00%
- Kaucuk a.s. 100,00%
- Spolana a.s 81,78% .
- Ceska Rafinerska a.s 51,00% .
- Unipetrol Rafinerie a.s. 100,00%
- Paramo a.s. 73,52%
- Benzina a.s. 100,00%
- Unipetrol Trade a.s. 100,00%

The number of employees as at 30 June 2005 amounted to 6.945 people.
The consolidated financial statements included the financial results of Unipetrol for the period beginning with acquisition day. For the first half year of 2005 Unipetrol achieved net profit amounted to PLN 22.541 thousand, whereas sales amounted to PLN 1.607.411 thousand.

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

ORLEN Oil Sp. z o.o. was established by four refineries. ORLEN Oil Sp. z o.o. was entered in the Commercial Register on 27 August 1998.

As at 30 June 2005 the company's share capital amounted to PLN 75,093 thousand.

The structure of shareholders as at 30 June 2005 is as follows:

- PKN ORLEN S.A. 47.22%
- Rafineria Trzebinia S.A. 43.84%
- Rafineria Nafty Jedlicze S.A. 4.47%
- Rafineria Czechowice S.A. 4.47%

At the end of the first half of 2005 the shareholders equity amounted to PLN 141,548 thousand.

The business activities of ORLEN Oil Sp. z o.o. include:

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

Trade activities are focused on high and low class motor oil, industrial oils, technological oils, lubricants, industrial fluids, exploitation fluids (hydraulic and tempering oils), automotive chemistry and cosmetics, basic oils.

As at 30 June 2005 the company employed 367 people.

The net profit at the end of the first half of 2005 amounted to PLN 16,555 thousand, whereas sales amounted to PLN 280,669 thousand.

Olren Oil Sp. z o.o. has shares in 2 subsidiaries and 10 associates.

- **ORLEN Asfalt Sp. z o.o.**

On 31 May 2003 PKN ORLEN signed sale agreement of assets in its Zaklad Asfaltow to Bitrex Sp. z o.o. located in Trzebinia. Following the resolution of Ordinary Shareholders'Meeting of Bitrex PKN ORLEN contributed cash in exchange for shares in the increased share capital. The share capital increase was registered on 15 July 2003 along with the change of the company's name to ORLEN Asfalt Sp. z o.o.

As at 30 June 2005 the share capital of the company amounts to PLN 60,635 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 82.46%
- Rafineria Trzebinia S.A. 17.54%.

As at the end of the first half of 2005 the shareholders' equity of the company amounted to PLN 95,956 thousand.

The company's business activities include production and processing of crude oil. Primary products are road and industrial asphalt as well as other asphalt products. The company intends to develop activity in area of modified and special asphalts, simultaneously keeping its share in road asphalt market.

The number of employees as at 30 June 2005 amounted to 138.

At the end of the first half of 2005 the company incurred net loss of PLN 7,427 thousand. The sales amounted to PLN 137,165 thousand.

- **ORLEN GAZ Sp. z o.o.**

ORLEN Petrogaz Plock Sp. z o.o. was entered in the Commercial Register on 15 December 1995. Since 16 April 1998 PKN ORLEN S.A. has been the company's sole shareholder. As at 30 June 2005 the share capital of the company amounted to PLN 24,823 thousand, and shareholders' equity amounted to PLN 50,495 thousand.

The Company's business activities include:

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

The company's trade activity focuses on following products: propane and propane-butane gas in steel cylinders (11, 30 and 33 kg), 11 kg FP gas for industrial vehicles, automotive gas sold in retail and wholesale, gas (propane and butane) for domestic, industrial and heating installations (so called Maly Luz and Duzy Luz). Moreover, the company offers domestic, industrial and automotive gas installations. Additionally, the company leases such installations, cylinders and containers, etc.

The number of employees as at 30 June 2005 amounted to 203 people.

In the first half of 2005 the company earned net profit of PLN 5,085 thousand. The sales amounted to PLN 230,746 thousand.

ORLEN GAZ Sp. z o.o. has sahers in two subsidiaries.

- **ORLEN PetroTank Sp. z o.o.**

ORLEN PetroTank Sp. z o. was registered on 9 April 1996. On 23 December 2002 the company signed agreement with the second shareholder (Tankpol Sp. z o.o.) for cession of 470 shares in ORLEN PetroTank Sp. z o.o., as a result PKN ORLEN S.A. holds 100% in the company's share capital. The ceded shares pledged ORLEN PetroTank Sp. z o.o. receivables due from Tankpol Sp. z o.o.

As at 30 June 2005 the share capital amounted to PLN 11,750 thousand, and the shareholders' equity amounted to PLN 44,313 thousand.

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

The number of employees as at 30 June 2005 was 148.

As at 30 June 2005 the company incurred net loss of PLN 626thousand, whereas sales amounted to PLN 357,655 thousand.

- **ORLEN PetroProfit Sp. z o.o.**

ORLEN Petroprofit Sp. z o.o. located in Niemce near Lublin was registered on 14 September 1995. As at 30 June 2005 share capital of the company amounted to PLN 11,500 thousand. The only shareholder of ORLEN PetroProfit Sp. z o.o. is PKN ORLEN S.A.

The company's shareholders equity as at the end of the first half of 2005 amounted to PLN 33,678 thousand.

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

The number of employees as at 30 June 2005 was 60 people. The ORLEN PetroProfit Capital Group employed 116 people.

The net loss for the first half of 2005 amounted to PLN 583 thousand, whereas sales amounted to PLN 237,751 thousand.

- **ORLEN PetroCentrum Sp. z o.o.**

ORLEN PetroCentrum Sp. z o.o. was entered in the Commercial Register on 25 September 1996. The share capital as at 30 June 2005 amounted to PLN 21,000 thousand and was wholly owned by PKN ORLEN S.A. As at the end of the first half of 2005, the shareholders equity amounted to PLN 32,656 thousand.

The company's business activities include wholesale and retail trading of fuels. The main source of income for PetroCentrum Sp. z o.o. is retail of liquid fuels in its own chain and in petrol stations managed by the company.

The number of employees as at 30 June 2005 was 35.

In the first half of 2005 the company earned net profit of PLN 1,817 thousand, whereas sales amounted to PLN 811,087 thousand.

- **Petrolot Sp. z o.o.**

Petrolot Sp. z o.o. was entered in the Commercial Register on 7 January 1997. As at 30 June 2005 the share capital of the company was PLN 20,039 thousand.

The company's shareholders are:

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

As at 30 June 2005 the shareholders' equity amounted to PLN 54,717 thousand.

The company's basic line of business is sales and distribution of aviation fuel (JET A-1) and aviation petrol. The company's main customer is PLL LOT S.A. The company secures sales of about 60% of JET A-1 fuel produced by the company. Other company's key customers are the following foreign airlines: Lufthansa, British Airways, Air France, SAS, KLM, Swiss, Alitalia and Polish airlines: White Eagle and Air Polonia. The Poland's accession to the European Union, opening of the Polish market for foreign airlines and gaining new customers such as cheap airlines contributed substantially to an increase in sales.

As at 30 June 2005 the company employed 192 people. In the first half of 2005 net profit amounted to PLN 6,448 thousand.

As at 30 June 2005 the sales amounted to PLN 236,482 thousand.

- **ORLEN PetroZachód Sp. z o.o.**

ORLEN PetroZachod Sp. z o.o. located in Poznań was entered in the Commercial Register on 19 January 1998. As at 30 June 2005 the share capital of ORLEN PetroZachod Sp. z o.o. amounted to PLN 17,749 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 51.83%
- BGW Wielobranzowe Przedsiebiorstwo Handlowe Sp. z o.o. 48.17%

As at 30 June 2005, the shareholders' equity amounted to PLN 22,459 thousand.

The Company's business activities include wholesale and retail trading in fuels and plastics.

The number of employees as at 30 June 2005 was 184.

In the first half of 2005 net profit amounted to PLN 154 thousand, whereas sales reached the level of PLN 264,471 thousand.

- **ORLEN Morena Sp. z o.o.**

ORLEN Morena Sp. z o.o. located in Gdańsk was entered in the Commercial Register on 10 September 2001. As at 30 June 2005 the share capital of the company was PLN 10,500 thousand. PKN ORLEN holds 100% in the share capital of the company.

As at 30 June 2005, the shareholders equity amounted to PLN 12,824 thousand.

The company's business activities include wholesale and retail trading in fuels, and logistic services provided by own warehouse base in Sławno for PKN ORLEN.

The number of employees as at 30 June 2005 was 39.

As at 30 June 2005, the company earned net profit of PLN 1,162 thousand. The sales amounted to PLN 172,184 thousand.

- **Ship - Service S.A.**

Ship-Service S.A. was established in 1991 as a result of privatisation of state owned company SPUP Ship-Service S.A.

In 2002 PKN ORLEN S.A. acquired 24,000 shares of nominal value of PLN 100 each.

As at 30 June 2005 the share capital of the company was PLN 3,943 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 60.86%
- Malgorzata Bubilek 7.61%
- Porta Baltic Service S.A. (official receiver) 4.95%
- Brends Sp. z o.o. 4.35%
- Other 22.23%

As at 30 June 2005, the shareholders' equity amounted to PLN 14,314 thousand.

The company's business activities include distribution of ship fuels within Polish harbours as well as at international market. Additionally, the company offers ship maintenance services in harbours, reloading services, land and sea freight services as well as water environment protection services.

The number of employees as at 30 June 2005 was 183. Ship Service Capital Group employed 204 people.

The company incurred net loss of PLN 2,175 thousand for the end of the first half of 2005. The company's sales amounted to PLN 127,162 thousand.

Ship-Service has shares in two subsidiaries.

- **ORLEN Deutschland AG**

ORLEN Deutschland AG, the company which operates under the German law, was established as a result of a merger of ORLEN Deutschland GmbH and ORLEN Deutschland Immobilien GmbH, through which PKN ORLEN realized on 28 February 2003 the purchase of 494 petrol stations in Germany. Thanks to the purchase of petrol stations with logo of BP, Aral and EM Eggert for EUR 140 million, 3% of the German market was gained. In the northern Germany the company holds 7% share of the fuel market. PKN ORLEN SA Management Board perceives the transactions as an important step towards the strategy of regional expansion. In the first half of 2004, 6 companies of ORLEN Deutschland were merged into one joint stock company, ORLEN Deutschland AG. At the same time the share capital was increased from EUR 30 million to the amount of EUR 60 million. PKN ORLEN S.A. holds 100% of share capital in this entity.

As at the end of the first half of 2005 the share capital of the company amounted EUR 283,020 thousand. The shareholders' equity as at 30 June 2005 amounted to PLN 464,576 thousand.

The company as at the end of the first half of 2005 employed 116 persons.

For the first half of 2005 ORLEN Deutschland AG incurred net loss of PLN 14,919 thousand, whereas sales amounted to PLN 4,084,167 thousand.

- **ORLEN Wir Sp. z o.o.**

ORLEN Wir Sp. z o.o. was registered on 1 October 1999. The share capital of the company as at 30 June 2005 amounted to PLN 1,600 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 51.00%
- Employees 49.00%

As at 30 June 2005, the shareholders' equity amounted to PLN 4,545 thousand.

The company's business activity includes repair services. The company provides very specific services i.e.: repairs of rotors related to flow and displacement compressors, steam turbines, transmission devices and all kinds of pumps. The company safeguards the continuous work of compressors, turbines and raw material pumps of production installations of Production Plant in Płock.

The number of employees as at the end of June 2005 was 96 people.

The company earned net profit of PLN 945 thousand, whereas sales amounted to PLN 6,819 thousand.

- **ORLEN Automatyka Sp. z o.o.**

ORLEN Automatyka Sp. z o.o. was registered on 30 April 1999. The share capital of the company as at 30 June 2005 amounted to PLN 2,400 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 52.42%
- Employees 47.58%

As at 30 June 2005, the shareholders' equity amounted to PLN 8,206 thousand.

The company specializes in repair services.

The number of employees as at 30 June 2005 was 239.

The net profit for the first half of 2005 amounted to PLN 1,387 thousand, whereas sales amounted to PLN 12,471 thousand.

- **ORLEN Transport Płock Sp. z o.o.**

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

As at 30 June 2005 the share capital of the company amounted to PLN 26,430 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 97.59%
- Employees 2.41%

As at 30 June 2005, the shareholders equity amounted to PLN 30,323 thousand.

The Company's business activities include:

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

The company provides wide range of services: road transport of liquid fuels, glycols and alcohols, road transport of passengers and freight, international freight transport, freight of unusual goods, wheeled cranes services, domestic and international forwarding, sale of heating oil Ekoterm Plus and engine oils (on petrol stations as well), Petrygo and Qal cooling liquids, preparation and sale, as well as a full range of repair, maintenance and other services for cars, construction vehicles and equipment with its own workshop together with washing stand and service station.

The number of employees as at the end of the first half of 2005 was 435.

The net profit for the first half of 2005 amounted to PLN 743 thousand, whereas sales amounted to PLN 43,356 thousand.

- **ORLEN Transport Kędzierzyn Koźle Sp. z o.o.**

ORLEN Transport Kędzierzyn-Koźle Sp. z o.o. was entered in the Commercial Register on 29 May 2000 and commenced its operations as a subsidiary of the PKN ORLEN Group on 1 July 2000. The company was established from the assets of the former Zakład Transportu Samochodowego.

On 24 January 2003 a merger was registered of: Petromot Sp. z o.o. to ORLEN Transport Kędzierzyn Koźle Sp. z o.o. by transfer of the total assets of Petromot Sp. z o.o. to ORLEN Transport Kędzierzyn-Koźle Sp. z o.o. (business combination).

As at 30 June 2005 the share capital of the company amounted to PLN 10,009 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 94.28%
- Employees 5.72%.

As at 30 June 2005, the shareholders' equity amounted to PLN 9,998 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sale, service and repair of motor vehicles,
- sale of solid, liquid and gas fuels and derived products
- sale and service of FIAT car models.

The employment of the company at the end of the first half of 2005 was 106 people.

The net loss for the first half of 2005 amounted to PLN 502 thousand, whereas sales amounted to PLN 9,477 thousand.

- **ORLEN Transport Kraków Sp. z o.o.**

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

As at 30 June 2005 the share capital of the company amounted to PLN 12,465 thousand.

The company's shareholders are:

- PKN ORLEN S.A. ____98.41%
- Employees _____1.59%

As at 30 June 2005, the shareholders' equity amounted to PLN 8,424 thousand.

The Company's business activities include:

- domestic and international road transport and freight services,
- passenger transport services,
- sale, service and repair of motor vehicles,
- sale of solid, liquid and gas fuels and derived products.

The number of employees at the end of the first half of 2005 was 104. The sales for the first half of 2005 amounted to PLN 14,101 thousand, whereas net profit PLN 76 thousand.

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

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

As at 30 June 2005 the share capital of the company amounted to PLN 8,464 thousand. The company's shareholders are:

- PKN ORLEN S.A. 94.88%
- Employees 5.12%.

As at 30 June 2005, the shareholders' equity amounted to PLN 9,669 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sales, service and repair of motor vehicles,
- sale of solid, liquid and gas fuels and derived products.

The number of employees at the end of the first half of 2005 was 70. The net loss for the first half of 2005 amounted to PLN 56 thousand, whereas sales amounted to PLN 8,283 thousand.

- **ORLEN Transport Nowa Sól Sp. z o.o.**

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

As at 30 June 2005 the share capital of the company amounted to PLN 10,091 thousand. The company's shareholders are:

- PKN ORLEN S.A. 96.79%
- Employees 3.21%

As at 30 June 2005, the shareholders' equity amounted to PLN 17,892 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sale, service and repair of motor vehicles,
- sale of solid, liquid and gas fuels and derived products.

The number of employees at the end of the first half of 2005 was 127. The net profit for the first half of 2005 amounted to PLN 79 thousand, whereas sales amounted to PLN 15,226 thousand.

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

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

As at 30 June 2005 the share capital of the company amounted to PLN 8,644 thousand. The company's shareholders are:

- PKN ORLEN S.A. 97.10%
- Employees 2.90%.

As at the end of the first half of 2005, the shareholders' equity of the company amounted to PLN 11,548 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sale, service and repair of motor vehicles,
- sale of solid, liquid and gas fuels and derived products.

The number of regular posts as at 30 June 2005 was 81 people. The net profit for the first half of 2005 amounted to PLN 227 thousand, whereas sales amounted to PLN 11,872 thousand.

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

ORLEN Transport Szczecin Sp. z o.o. was entered in the Commercial Register on 15 June 2000 and commenced its operations as a subsidiary within the PKN ORLEN S.A. Group on 1 July 2000.The company was established from the assets of the former Zakład Transportu Samochodowego. As at 30 June 2005 the share capital of the company amounted to PLN 3,424 thousand. The company's shareholders are:

- PKN ORLEN S.A. 99.56%
- Employees 0.44%.

As at 30 June 2005 the shareholders' equity amounted to PLN 3,523 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sale, service and repair of motor vehicles,
- sale of solid, liquid and gas fuels and derived products.

The number of employees as at the end of June 2005 was 40. The net loss for the first half of 2005 amounted to PLN 114 thousand, whereas sales amounted to PLN 2,200 thousand.

- **ORLEN KolTrans Sp. z o.o.**

ORLEN KolTrans Sp. z o.o. was entered in the Commercial Register on 13 December 2000 and commenced operations as a subsidiary company within the PKN ORLEN S.A Group at the beginning of 2001. The company took over from PKN ORLEN full range of activities conducted by department of tankers expedition unit of the Parent Company, i.e. operations relating to tanker exploitation, as well as a sewage plant and workshop.

As at 30 June 2005 the share capital of the company amounted to PLN 40,859 thousand.
The company's shareholders are:
 PKN ORLEN S.A. 99.85%
 Employees 0.15%
The company's business activities include the railroad servicing of loading and reloading points as well as transport of the Parent Company's products.
At the end of the first half of 2005, the shareholders' equity amounted to PLN 44,257 thousand.
The number of employees as at 30 June 2005 was 48.
The net profit for the first half of 2005 amounted to PLN 2,568 thousand, whereas sales amounted to PLN 22,417 thousand.

- **ORLEN Medica Sp. z o.o.**

ORLEN Medica Sp. z o.o. was registered on 24 November 1997. On 30 June 2005 the share capital amounted to PLN 13,273 thousand. PKN ORLEN is the sole shareholder of the company.
The company provides health-care services on domestic market. The services are provided to the employees of PKN ORLEN S.A. and employees of other companies of the Capital Group (labour medicine) as well as to their families in relation to both basic and specialist health care, based on the agreements concluded with the National Health Fund.
As at 30 June 2005, the shareholders' equity amounted to PLN 9,826 thousand.
The number of employees at the end of the first half of 2005 was 107.
In the first half of 2005 the company earned net profit of PLN 184 thousand, whereas sales amounted to PLN 6,545 thousand.

- **ORLEN Projekt S.A.**

ORLEN Projekt S.A. was registered on 28 May 1998. As at 30 June 2005 the share capital amounted to PLN 1,500 thousand. The company's shareholders are:

- PKN ORLEN S.A. 51.00%
- Employees 49.00%.

The company is involved in the providing design services in refining and petrochemical sector.
As at 30 June 2005 the shareholders' equity amounted to PLN 12,796 thousand.

The number of employees at the end of the first half of 2005 was 177.

The net profit for the first half of 2005 amounted to PLN 450 thousand, whereas sales amounted to PLN 12,392 thousand.

- **Petrotel Sp. z o.o.**

Petrotel Sp. z o.o. was entered in the Commercial Register on 14 August 1997. As at 30 June 2005 the company's share capital amounted to PLN 8,200 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 80.65%
- Employees 19.35%

The company provides telecommunications services.

As at 30 June 2005 the shareholders' equity amounted to PLN 29,636 thousand.

The number of employees at the end of the first half of 2005 was 112.

The net profit for the first half of 2005 amounted to PLN 2,522 thousand, whereas sales amounted to PLN 16,518 thousand.

- **Zakład Budowy Aparatury S.A.**

Zaklad Budowy Aparatury S.A. was entered in the Commercial Register on 27 October 1998. As at 30 June 2005, the company's share capital amounted to PLN 18 million.

The company's shareholders are:

- PKN ORLEN S.A. 96.57%
- Employees 3.43%

The Company's business activities include:

- production of chemical equipment (e.g. compressors) and similar products,
- renovation and repair of instrumentation,
- design of construction documentation for instrumentation and appliances.

As at the end of the first half of 2005 the shareholders' equity amounted to PLN 16,563 thousand.

The number of employees at the end of the first half of 2005 was 232.

The net loss as at 30 June 2005 amounted to PLN 1,419 thousand, whereas sales amounted to PLN 11,010 thousand.

- **ORLEN Powiernik Sp. z o.o.**

ORLEN Powiernik Sp. z o.o. was registered on 19 July 2000. As at the end of June 2005 the company's share capital amounted to PLN 25 thousand. PKN ORLEN S.A. is the company's sole shareholder.

The company is involved in providing trust services for PKN ORLEN S.A. in relation with the implementation of the Management Motivation Program.

As at 30 June 2005 the shareholders' equity amounted to PLN 87 thousand. The number of employees at the end of the year remained unchanged and amounted to 2 people. The net loss for the first half of 2005 amounted to PLN 8 thousand.

- **ORLEN Budonaft Sp. z o.o.**

ORLEN Budonaft Sp. z o.o was registered on 2 January 1997. PKN ORLEN S.A. is the sole shareholder in the company.
As at 30 June 2005 the share capital amounted to PLN 3,795 thousand.
The company is involved in providing construction and modernization services for petrol stations.
As at 30 June 2005 the shareholders' equity amounted to PLN 205 thousand. The number of employees as at the end of the first half of 2005 was 181.
The net profit for the first half of 2005 amounted to PLN 82 thousand, whereas sales amounted to PLN 21,702 thousand.

- **ORLEN Laboratorium Sp. z o.o.**

ORLEN Laboratorium Sp. z o.o. was registered on 13 February 2003.
The company's shareholders are:

- PKN ORLEN S.A. ___94.94%
- Employees _____ 5.06%

As at 30 June 2005 the share capital amounted to PLN 9,915 thousand. The company specializes in providing laboratory and research services, as well as expertise and analyses. As at 30 June 2005 the shareholders' equity amounted to PLN 12,442 thousand. The number of employees as at 30 June 2005 was 309. The net profit in 2004 amounted to PLN 2,513 thousand, whereas sales amounted to PLN 18,405 thousand.

1.3.2 Conslidated jointly controlled entities

- **Basell Orlen Polyolefins Sp. z o.o.**

On 30 September 2002 PKN ORLEN SA and Basell Europe Holdings B.V. signed the joint venture agreement with Basell Orlen Polyolefins Sp. z o.o.
The company's shareholders are:

- PKN ORLEN S.A. _____50%
- Basell Europe Holdings B.V. ___50%.

As at 30 June 2005 the share capital amounted to PLN 907,398 thousand.
At the end of the first half of 2005 the shareholders equity was PLN 1,065,289 thousand.
The company is engaged in production of plastics and the wholesale of chemical products.
Initially the company used the installations contributed by PKN ORLEN SA (polyethylene production plant of capacity of 150,000 tons/year and the polypropylene production plant of capacity 140,000 tons/year). Currently the extensive construction work is in progress on a polypropylene production plant of capacity of 400,000 tons/year and a polyethylene

production plant of capacity of 300,000 tons/year. Launching of commercial production in new plants is planned for the end of 2005.

The number of employees as at 30 June 2005 was 396.

The net profit as at 30 June 2005 amounted to PLN 19,877 thousand, whereas sales amounted to PLN 507,603 thousand.

Until the completion of construction of new installation (NPP), there will be two production lines LDPE and two PP production lines in motion, which were contributed by PKN ORLEN S.A. After setting in motion of NPP three of the four installations will be closed and new capacities will allow the company to increase production from 290 thousand tons to 830 thousand tons.

It is assumed that the NPP project will be financed from two sources: internal (cash from operating activity) and external (bank loan – BOP concluded a loan agreement with the bank consortium supervised by Societe Generale).

NPP was granted a prize "European Transaction of the Year in Petrochemical Industry" by Project Finance Magazine. The event proves the significance, scope and complexity of the project and the level of engagement of the people involved.

1.3.3 Consolidated associated companies

Consolidated directly associates of the Parent Company within PKN ORLEN SA Capital Group are:

- **Chemiepetrol GmbH**

Chemiepetrol GmbH was established on 1 January 1984. PKN ORLEN S.A. purchased shares in the company on 28 April 1993. As at 30 June 2005 the share capital of the company amounted to EUR 51,1 thousand (PLN 207 thousand).

The company's shareholders are:

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

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

As at 30 June 2005 the shareholders equity amounted to PLN 3,683 thousand.

The number of employees at the end of the first half of 2005 was 8 people.

The net profit for the first half of 2005 amounted to PLN 474 thousand, whereas sales amounted to PLN 17,605 thousand.

1.3.4 Unconsolidated company of considerable importance for the Capital Group – Polkomtel S.A.

The company was established on 19 December 1995. The company's share capital as at 30 June 2005 amounted to PLN 2,050 million and PKN ORLEN capital envolvement in the company PLN 436,495 thousand. PKN ORLEN SA holds 19.61% of shares and voting rights on the General Shareholders' Meeting.

Since 23 February 1996 Polkomtel S.A. has been one of the three entities which have a license for the development of a GSM mobile telephony network (Systems GSM 900 and DCS 1800). On 1 October 1996 the company commenced its commercial activity in Warsaw under the trade mark of "Plus GSM". Since 20 December 2000 the company has a license for UMTS mobile communications services.
The company's shareholders are:

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

The company's business activities include:

- design, installation, operation and management of a GSM system,
- mobile telecommunications services,
- sale of GSM systems-related products and services.

II. CHANGES IN ORGANISATION AND MANAGEMENT OF THE PARENT COMPANY AND PKN ORLEN SA GROUP COMPANIES AND IMPACT OF EXTERNAL AND INTERNAL FACTORS ON OPERATIONS OF THE CAPITAL GROUP

In the first half of 2005 the Framework Organizational Rules and Regulations of PKN ORLEN S.A. approved by the Management Board on 6 December 2004 was in force. According to the Regulations, the organisational structure of the Parent Company consists of Head Offices in Płock and Warszawa, Production Plant in Płock and 12 Regional Organizational Offices in Białystok, Gdańsk, Katowice, Kraków, Lublin, Nowa Wieś Wielka, Płock, Poznań, Rzeszów, Szczecin, Warszawa and Wrocław, having the status of an employer under the wording of Art. 3 of the Labour Code. Regional Organizational Offices are composed of Regional Wholesale and Logistics Offices, Regional Retail Trade Offices, Regional Investment and Maintenance Offices, Regional Financial Offices and Financial Offices.

The Supervisory Board of PKN ORLEN S.A. decided on 18 October 2004 to extend the number of the Members of the Management Board from 6 to 7. In accordance with the decision of the Framework Organizational Rules and Regulations of the Company the responsibilities of Members of the Management Board is as follows:

- President of the Management Board, General Executive Officer,
- Member of the Management Board, Chief Financial Officer,
- Vice-President of the Management Board, Human Resources Management and Administration,
- Vice-President of the Management Board, Cost Management and Information Technology,
- Vice-President of the Management Board, Operational Activities,
- Vice-President of the Management Board, Retail and Commercial Sales,
- Vice-President of the Management Board, Chief Investment Officer,

The structure of President of the Board Group consisted of: Audit Department, Control and Security Department, Legal Department, Public Relations Department, Investor Relations Department, Business Strategy Department, Management Board Department and Proxy for Protection of Confidential Information.

The Group of Vice-President of the Board for strategy and capital Investments comprised: Capital Group Department, UNIPETROL Holding Integration Department, Capital Investments Department.

The new Group established as of 1 December 2004, supervised by Vice-President of the Board for Cost Management and Information Technology comprised: IT Department, Crude Oil Trading Department and newly created Purchase Department and Cost Management Department. The departments of the newly created group supervised realization of the raw material supply of the Parent Company (with exclusion of energy, fuels for resale, and non-fuel products), they are responsible for turnover of natural gas, purchases of fuel raw materials, cost management, optimization of IT solutions and IT standards implementations, and for activities within sector of crude oil and natural gas searching and mining.

The structure of Vice-president for Human Resources and Administration Group was formed of: Administrative Department, Organization and Restructuring Department, Personnel Department and Human Resource Management Department.

The structure of Vice-President of the Board for Retail Sales Group comprised: the structures of Director for Investments in Retail Sales and Director of Sales Management, Department of Planning and Retail Sales Analysis, Department for Purchase of Non-Fuel Products and Category Management, and Marketing Department.

Within the process of integration of PKN ORLEN SA and UNIPETROL Holding, particular Reporting Directors commenced analytical research concerning the integration process with respect to aspects of their competencies in order to achieve the synergy effect.

In the first half of 2005, the Company continued work on the initiated last year project of a new concept of segment management, based on standards adopted in the international oil concerns. The drafts of procedures necessary for the operation of the segment management were prepared and the Company assigned particular companies of the Group to appropriate segments. A new organizational structure was also suggested, adapted to development strategy and increase of PKN ORLEN SA goodwill.

In the first half of 2005 the Company conducted work within the restructuring project for regional offices in the area of retail sales, investments and maintenance of petrol stations and finance, which was aimed at design of trade effective structures ensuring maximum sales and economic result. The new regional structures in retail sales, investments and maintenance of petrol stations and finance were implemented on 1 July 2005.

Apart from the above organizational and legal changes in the Company, significant changes in two companies of the Capital Group were noticed:

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

In the first half of 2005 there were further changes in the work organization in the company aiming at improving its functioning and optimization of activity costs, and effectiveness of task performance. The most important of those changes are as follows:

- liquidation of the Trade unit and replacing it with Sales unit, directly supervised by the Trade Director; the number of posts of the sales unit was increased, while decreasing the number of posts in the former Supplies Team;
- establishment of Purchases and Logistics unit, supervised by Trade Director thus replacing the Supplies Team; the unit supervises Supplies Warehouse;
- separation of Oil and Lubricants Warehouse from the former Trade unit, which is currently supervised directly by the Director of the Oil and Lubricants production unit;
-establishment of an independent post of Coordinator for production and sales, supervised directly by the Director of the Oil and Lubricants production unit;
- liquidation of the technology and Production Development Team in the Optimization and Settlement of Production unit, and formation of the optimizations and settlement of production team; moreover, expert engineers were assigned to particular production units;
- widening of scope of professional duties of up to now Representative of Bonded Warehouse with simultaneous change of the name of this position to Representative to Excise Tax Products.

The most important external factors having an impact on the results of Capital Group are the following:

- **Economic growth**

An increase in GDP in the first half of 2005 amounted to 2.4% whereas in the first half of 2004 to 6.5%. The domestic demand in the first half of 2005 increased by 0.4%. The projections for the year 2005 assume an increase in GDP by 4%. Rapid race of the economic growth in Poland and the deomestic demand may have a positive impact on rise in the consumption of liquid fuels.

- **Unemployment rate**

At the end of the first half of 2005 the unemployment rate was lower compared to the end of the first half of 2004 and amounted for 18% compared to 19.40% at the end of the first half of 2004. There was a smaller number of the newly registered unemployed and at the same time there was an increase in number of the unemployed deregistered from the employment agency evidence. The high unemployment rate in Poland is still one of the factors, which limits internal demand and adversely influences the level of sales of the Capital Group products.

- **Inflation**

According to data published by the Central Statistics Office, the average annual increase in prices of consumer goods and services in the first half of 2005 was higher than in the first half of 2004 (2.9% compared to 2.5% respectively).

- **Prices of crude oil, refinery products and margins**

Changes in crude oil prices as well as significant fluctuations in finished goods prices on world markets, cause significant variations in margins generated by the Capital Group. In the first half of 2005 there were large fluctuations in crude oil prices. The average annual price of Brent barrel from quotations increased in comparison to the first half of 2004 by 47.4% to the level of USD 49.67/bbl. Additionally, during the first half of 2005 there were considerables increases in product margins (crack), which positively influenced the results of PKN ORLEN S.A. and the Capital Group companies producing and trading in fuels. Margins on petrol increased by 78.3% to the level of USD 128.92/ton, on Ekoterm by 94.1% to the level of USD 90.33/ton, and on Jet A-1 by 65.2% to the level of USD 146.62/ton. An insignificant decrease was recorded for margins on petrol (decrease by 13.4% to the level of USD 106.12/ton). The margins on petrochemical products recorded significant increases, among others, on ethylene by 20.9% to the level of USD 576.28/ton and on propylene by 41.7% to USD 515.72/ton.

- **Fluctuation of exchange rates**

The exchange rate fluctuations have significant impact on sales revenue and results of the PKN ORLEN Capital Group (by means of adjusting the fuel prices on the basis of import parity), costs of crude oil and other raw materials as well as financial costs related to debt denominated in foreign currencies. Purchases of crude oil and other raw materials realised by PKN ORLEN S.A. are denominated in USD and EUR, although the majority of revenues are realized in PLN. As a result of the above trends, changes in the exchange rate of PLN to foreign currencies have a significant impact on the results

achieved by the Parent Company. The average annual USD exchange rate decreased by 17.6% to the level of PLN 3.18 (calculated as arithmetical average of daily NBP exchange rates within period from 1 January to 30 June 2005). Simultaneously, the EUR exchange rate increased by 13.7% to the level of PLN 4.08.

- **Changes in fiscal policy and current legal regulations**

Any changes in VAT regulations and excise tax will also be of great importance for the economic situation of the Capital Group. Fiscal policy is characterized by enlarging its subject range and increasing of excise tax rates for crude oil products. While prices of products are on high level, it is an additional barrier preventing form full transfer of operational costs on products selling prices.

The year 2005 is another period of changes in the structure of demand for engine fules due to increase demand for automotive liquid gas and diesel oil, while the petrol market remained on the comparable level. Since 1 January 2005 the quality requirements have been more restrictive for petrol and diesel oil. In case of petrol, the sulphur content was limited to 50 ppm (from 150 ppm) and the content of fragrances to 32% of the capacity (from 42% of the capacity). In case of diesel oil, the content of sulphur was limited to 50 ppm (from 350 ppm), and the excise tax allowance was introduced for sulphur-free diesel oil (sulphur content <10 ppm).

The above changes had an impact on limitation of flexibility in the motor fuels production and increased the unit cost of production. The excise tax allowance for sulphur-free diesel oil enabled PKN ORLEN SA to optimise its production in his area. Some investment decisions has been also made aiming at improvement of production flexibility and lowering of production costs of low-sulphur motor fuels.

- **Mandatory reserves**

Owing to obligations resulting from the Polish accession to the European Union, Poland is compelled to reach the level of 90-days mandatory reserves of liquid fuels, constituting the assurance of the energy safety for the country. Thus, the producers and importers of fuels operating in Poland are obliged to make mandatory reserves. Effective 1 July 2005 an Amendement of the Act on State Reserves and Mandatory Reserves (Journal of Laws No. 143, item 1201) came into force, which provides for the issues related to the Poland's accession to the European Union. The current schedule of making liquid fuels reserves is based on the production volume, intracommunity purchases and imports, carried out by an entrepreneur in the prior year, less intracommunity supplies and exports. Starting from 1999 the required level of mandatory reserves has increased by 7 days yearly, to reach the number of 76 days at the end of 2008. Moreover, the the Ministry Material Reserves Agency is responsible for state reserves of liquid fuels in the amount equal 14-day consumption of fuels in a given year. PKN ORLEN SA makes and maintains mandatory reserves of fuels, semi-products and crude oil. For storing the reserves the Parent Company uses mainly the underground warehouses of crude oil and fuels of storage tanks in IKS "Solino" S.A., its own warehouses located around the country and warehouses belonging to Naftobazy Sp. z o.o. The cost of underground storage of crude oil and fuels is much lower than the cost of ground warehouses.

- **Decrease in car sales**

During the first half of 2005 lower demand on the domestic market of newly produced cars was observed. According to companies analysing the automobile market, car sales in the first half of 2005 decreased by about 33% as compared to the first half of 2004, i.e. to the level of over 129 thousand cars. The decrease of sales was influenced considerably by the increased import of second-hand cars. The number of cars imported to Poland was over three times higher than sales od brand new cars. The level of sales of new cars influences fuel consumption.

- **Domestic fuel consumption**

In the first half of 2005 the total estimated domestic fuel consumption in Poland, based on data from Nafta Polska S.A., amounted to 6,245 thousand tons, that is was at the level comparable with the respective period of 2004. In the first half of 2005 pertol consumption decreased by 5% with regards to the level of 2004. The basic factor caused the decrease is a dymamic development of the automotive gas market. In accordance with the data provided by the Polish Organisation for Liquid Gas (POLG), in 2004 the LPG consumption increased compared with 2003 by about 35% and amounted to 1, 440 thousand tons (i.e. 34% of the consumption volume of pertol in 2004). In compliance with POLG estimates, the Polish liquid gas market is the first in Europe considering the number of vehicles powered with LPG, and the second in the world (after the South Korea). The number of vehicles powered with this type of fuel is currently estimated at almost 2 million.

The consumption of the diesel oil in the first half of 2005 increased only by 1% with respect to the first half of 2004, which is mainly due to very ineffective second quarter (2% decrease in consumption). The reason for such a situation is considerable, of about 16%, increase of retail DO prices in the first half of 2005 and the related possible rise in light heating oil usage for illegal powering of Diesel engine vehicles (this may be evidenced also by 5% increase in LHO consumption).

In accordance with Nafta Polska S.A. data, in the first half of 2005 the consumption of light heating oil increased by 5% with reference to the comparable period of 2004. The main factor which generated rise in LHO consumption was the Decree of the Ministry of Finance under which the excise tax rate on this fuel was increased to the level of DO. Consequently, in May 2005 LHO consumption was over 40% higher than in May of the prior year. Finally, the Decree was withdrawn yet it definitely influenced significantly the medium distillate market and the whole situation proved how strongly the government's fiscal policy influences the Polish fuel market.

In the first half of 2005 the demand for fuels was satisfied mainly from domestic refineries, which due to increasing imports recorded 5% fall of the total fuel sales in Poland.

- **Imports of fuels**

The estimated total import sof fuels to pOland in the first half of 2005 increased with respekt to the comparable period of 2004 by about 285 thousand tons.

In the first half of 2005 pertrol imports remained at the volume level of the first half of 2004 (decrease only by 12 thousand tons), while imports of medium distillates considerably increased: diesel oil (by 210 thousand tons) and light heating oil (by 87 thousand tons).

A high level of imports of diesel oil to Poland was due mainly attributable to very high crack margins in the first half of 2005 for this product – on average USD 129/ton compared with USD 76 /ton in the first half of 2004.

Due to dynamic rise of imports of medium distillates, it is estimated that in the first half of 2005, as in the comparable period of 2004, PKN ORLEN S.A. reached 55% share in the fuels market, including approximate 2 percentage points gained on the petrol market and the same amount given up on the diesel oil market.

Still high fuel prices and the related high crack margins justify the assumption that imports of fuels will continue to be profitable and its high volume will in the near future decrease the share in sales of Polish refineries on the domestic market.

- **Interest rates**

At the end of the first half of 2005, pawn loan interest rates reached the level of 6.5%, whereas bill of exchange discount rate 5.5% (at the end of the first half of 2004 6.75% and 5.75% respectively).

The average LIBOR 3M rate for United States Dollar increased by 1.9 pp in comparison to the end of June 2004, whereas the average EURIBOR 3M rate for Euro decreased by 0.1 pp. The level of interest rates influences cost of the Capital Group debt.

- **The situation on the Polish retail market**

Considerable increase of the number of Neste and shopping centers stations which are aimed at low prices and high volume of sales (due to localization and pricing policy) impacts the fuel retail market in Poland and currently, using “volume factor” constitutes the significant portion of that market.

Despite increase in PKN ORLEN S.A. franchising stations and the nominal rise in the number of petrol stations, PKN ORLEN S.A.’s share in the total number of petrol stations decreases (by 1.2%).

The following internal factors influenced the results achieved by of the PKN ORLEN S.A. Group in the first half of 2005:

- **Loyalty programs developed in the Parent Company**

VITAY program is a loyalty scheme aimed at individual customers visiting ORLEN petrol stations on a regular basis. VITAY was launched on 14 February 2001.Customers making purchases within the program gain VITAY points, which may be subsequently exchanged for fuel or gifts.

Flota Polska Program is designed for institutional customers operating their own means of transport. The most numerous participants of the program include: shipping companies, production and service companies, banks, offices of central and local administration and foreign branch offices. We offer two kinds of Flota cards for our clients: K-type cards, issued to the driver's name and S-type cards issued for a specific vehicle registration number. Each card can be loaded with individual limit for fuel volume as well as products and services value and frequency of transactions. Additionally, Flota managers can visit a personalized web-page, which provides tools assisting in Flota management.

In 2004, owing to cooperation of two strong partners and brands a new co-branded card was introduced. ORLEN/DKV card is the first one in Europe, which unites a microchip technology of Polish FLOTA card with magnetic strip of DKV network.

In 2004, owing to cooperation of two strong partners and brands, there is a new co-branded Flota card on offer. ORLEN/DKV is the first fuel card in Europe which combines microprocessor technology of the Polish FLOTA card with the DKV magnetic card.

In the first half of 2005, the share of Flota sales in the total fuel sales in the own petrol stations increased to 10.4% from 8.6% in the first half of 2004.

- **PKN ORLEN S.A. investment program**

In the first half of 2005, the Parent Company's Management Board approved of the following investment projects:

- adaptation of HON VI installation for production of diesel oil of sulphur content below 10 ppm. The completion deadline is: October 2006. Objective: to adaptat of the instrumentation of HON VI to the new catalyst necessary for production of diesel oil of sulphur content up to 10 ppm.
- modernization of the Warehouse No. 94 in Świnoujście. Completion deadline: September 2007. Objective: to maintain reloading capacity of the warehouse by modernization of the existing infrastructure and to adapt the warehouse to the requirements resulting from the binding regulations.
- modernization of the Warehouse No. 81 in Kraków – Olszanica. Completion deadline: September 2007. Objective: to maintain distribution capacity of the warehouse by reconstruction of the obsolete technical utilities and to adapt the warehouse to the requirements resulting from the binding regulations.
- modernization of the Warehouse No. 82 in Żurawica. Completion deadline: August 2007. Objective: to maintain reloading capacity of the warehouse by modernization of the existing infrastructure and to adapt the warehouse to the requirements resulting from the binding regulations.
- modernization of the Warehouse No. 112 in Bolesławiec. Completion deadline: July 2007. Objective: to adapt the existing technical utilities of the building to the technical safety, fire, ecological and work safety requirements resulting from the binding regulations and to improve the operations of the warehouse.
- PKN ORLEN SA engagement in construction of a complex of fragrances extraction installation of capacity of 395 thousand tons/year for paraxylene PX and 600 thousand tons/year for PTA terephthalate acid. The projected deadline of completion: September 2009. Objective: to launch from 2009 the PX + PTA installation of capacity of 600 thousand tons/year as components for production of polyterephthalate ethylene (PET).

In the first half of 2005, in accordance with Investment Operations Plan the following projects were accepted, transferred for use and settled within the projected budgets:

- Construction of three feeding units for auto tanks for toluene, pharbasole and xylene in Production Plant in Płock. The investment was accepted on 20 January 2005. Objective: to move production of the above solvents from Warehouse No. 13 to PKN ORLEN S. A. Vehicle Terminal.
- Adaptation of technological furnaces F201 at installations HON II and HON III for their UDT supervision. The project was accepted on 28 January 2005. Objective: to modernize furnaces in order to subject them to UDT supervision, to ensure further exploitation of the furnaces and installations HON II and HON III, to increase technical safety and decrease a negative impact on environment by limitation of gas emission.
- A unit for feeding auto tanks with heating fuel. The project was accepted on 9 March 2005. Objective: to improve technical, fire and ecological safety at loading of heavy heating oil to auto tanks.
- Improvement of separation of liquids from wet gas from 1-V-06 at installation DRW VI. The project was accepted on 10 March 2005. Objective: to improve separation of liquids from we gas at installation DRW VI, to reduce the amount of desalted crude oil, to limit the number of breaks in the process.
- Development of the warehouse network for antifreezeing liquids. The project was accepted on 25 March 2005. Objective: to meet the trade needs by increase of the range of produced antifreezing liquids: PETRYGO liquid and concentrate, QAL liquid and concentrate.
- Modification of the soft asphalt cooling unit. The project was accepted on 30 March 2005. Objective: to ensure safety of installation HOG during its rest.
- Infrastructure of Polyethylene III and Polypropylene III. The date of acceptance: 31 March 2005. Objective: to secure supplies of raw materials, support products and electric power to the basic installations of Poliolefin III constructed by JV.
- Optimisation of the sulphur content in the diesel fuel and Ekoterm light heating oil. The project was accepted on 31 March 2005. Objective: to opitimise the sulphur content in accordance with the European Union requirements, to reduce the amount of reblendings and to eliminate control analyses.
- Installation for petrol feeding to raiway tanks in the Warehouse No. 74 in Ostrów Wielkopolski. The project was accepted on 24 May 2005. Objective: to decrease transportation costs of fuels on the route Płock – warehouses located in the south-western Poland, using the existing product pipeline Płock - Ostrów Wielkopolski.
- Modernisation of H101 and H102 furnaces at Paraxylene Installation. The project was accepted on 30 May 2005. Objective: to modernise furnaces in order to subject them for UDT supervision; to allow firther use of the furnaces and paraxylene installation; to increase technical safety and reduce a negative impact on environment by limitation of gas emission.
- Revamping Infrastructure at Olefin II. The project was accepted on 28 June 2005. Objective: to ensure supplies of raw materials, support products and electric power to Olefin II after revamping, and to ensure expedition of all product lines.

- Intensification of Fragrances Extraction Installation with facilities. The project was accepted on 13 June 2005. Objective: to increase capacity of the installation from 480 thousand tons/year to 550 tons/year, to manage the BT fraction line from II after revamping, to remove bezene from reformate which will make it possible to decrease the benzene content in fuels (the required petrol quality in the EU in 2005); to increase the quality of the produced benzene and toluene in compliance with ASTM standards, which will increase sale capacity.
- Revamping at Olefin II, intensification of IFP, pyrotol and butadiene emission – installations of I category. The scope of the project accepted on 29 June 2005. Objective: to complete the necessary stages in order to launch the installation with capacity of 360 thousand tons/year and to gradually launch technological units increasing ethylene production volume to 700 thousand tons/year.

- **BONUS Project in the Parent Company**

In April 2005 the Company launched BONUS project. Its objective is mainly to significantly reduce costs related to external purchases and to make the purchases more effective. The Project is carried out with advisory support from A.T. Kearney, which provides similar services to the largest global companies. In June the Company completed the first stage of the project consisting of review of all external expanses of the Parent Company and selected companies of the Capital Group. Currently, the project embraces the operating implementation of savings in particular purchase areas. Within the first stage the project projects even PLN 100 milion of savings per year.

- **OPTIMA - Programme of operating cost reduction**

OPTIMA, a programme of operating cost reduction is follower of the previous programme launched in 2004, called KPRKO. OPTIMA is to embrace the whole Capital Group. By the end of 2005 PKN ORLEN SA will have finished KPRKO. Under this programme, before the end of 2004, 340 savings initiatives were implemented. OPTIMA is a more extensive programme than KPRKO as it embraces the Group companies and refers to many more issues. OPTIMA does not comprise the parallel programme of Total Margin Optimisation. Implementation of OPTIMA will result in reduction of operating costs by minimum PLN 600 million in 2009, i.e. above the final result of KPRKO with respect to 2005. It will also help to reduce e investment expenditure by minimum PLN 600 million in the years 2006-2009 at unchanged investment schedule included in the development strategy of PKN ORLEN SA. The savings will result from more rational expenditures and not from reduction of investments.

- **Risk Management System in PKN ORLEN S.A.**

Financial results of the Parent Company may be subject to fluctuations in relation to market factors, particularly to quotations of products, exchange rates and interest rates. PKN ORLEN S.A. manages the risk, to which it is exposed, limits variability of the future cash flows and limits potential economic losses arising as a consequence of the events that may have a negative impact on the result of the Company. The policy and the strategy of using derivatives is determined and supervised by the Management Board.

In case of the exposition USD/PLN related to operating activity there is a natural hedging, i.e. the exchange rate risk from purchase of crude oil is offset against the revenues from the sale of products, which prices depend on the USD/PLN exchange rate.

Moreover, swap transactions concluded in the year 2003 stabilizing cash flows in EUR generated by sales of petrochemical products were realized in 2005. Maturity date of the mentioned hedging transactions is 2006.

The Parent Company applies the cash flow hedge accounting for the swap transactions using a system supporting management of hedge transactions. In order to formalize the risk management process relevant procedures were implemented and the Risk Committee was set up to control the Parent Company exposure to risk and to make decisions on concluding hedging transactions.

- **Implementation of efficiency plans in the Parent Company**

At the end of 2002, the Parent Company's Management Board decided to implement two significant efficiency systems during the period 2003-2005 – value based management system and a comprehensive operational cost cutting programme. The first plan will allow the Company to introduce modern management methods, take optimal decisions and improve managers' competency, which will help to increase Company's value and improve the shareholders' perception of the Company. The latter plan will ensure a decrease in a significant part of operating expenses in all areas of the PKN ORLEN S.A. activities. The detailed description of those programs is included in the part V of the statement.

- **Investment programme in ANWIL S.A.**

Investment projects carried out in last years improved to a significant extent competitiveness of Anwil S.A. The company timely discounted the effects of investment undertakings from prior years thus settling all its financial liabilities, particularly rapid special loan instalments. This way it achieved a liabilities structure which makes it possible to launch other development projects. The scope of investment carried out in this period concerned continued investments related with environment protection and improvement of business effectiveness and cost competitiveness of the company:

- the company continued the task the commenced in 2004 "Change of technology of producing chlorine from diaphragm to membrane" at Chlorine and Sodium Wax Production Plant. This investment is supplementary to the earlier realized projects in PCV production chain, necessary to reach production capacity at the level of about 330 thousand tons/year. The closing budget amounts to PLN 247 million.
- to reduce impact on the environment ANWIL SA modernised the waste disposal system by constructing and acceptance for use of Biological Sewage Treatment Plant (BSTP)
- the company continued the following main projects:
    - modernisation of cracking installation – heat retrieval,
    - construction of CANWIL warehouse (the trade name),
    - modernization of CV and PCV installations.

III. CURRENT AND PROJECTED FINANCIAL POSITION OF THE CAPITAL GROUP

3.1 PRODUCTION

In the first half of 2005 crude oil processing in the PKN ORLEN SA Group companies amounted to 6,548 thousand tons and was by 9.9% higher in comparison to the comparable period of the previous year (2005 includes Unipetrol – June). There was an increase of the processing of crude oil by 6.0% to the level of 6,047 thousand tons in the Dominant Company. The proceeds on refined products amounted to 81.37% and was higher by 0.2 pp than in the first half of 2004.

The most important events in the first half of 2005 in the area of production were:

1. Production of lead-free fuels in compliance with the requirements EN 228:2004 for motor fuels effective from 1 January 2005. The acceptable levels were restricted in two parameters: fragrances content is lowered from 42% (of the volume) to 35% (of the volume) and sulphur content from 150 mg/kg to 50 mg/kg.

2. Production of diesel oil Ekodiesel Ultra of the sulphur content below 10 mg/kg in accordance with ZN/ITN-ORLEN/NF-229/2004, which was included in PKN ORLEN S.A. offer from 1 January 2005. The oil meets the highest quality and ecological standards for high-pressure engine fuels in the EU. The low level of sulphur in the diesel oil will be adopted in the EU states as obligatory in 2009.

3. Agreement with AXENS (basic design, license and catalyst delivery) for diesel fuel stabilising installation in Desulphurisation of Cracking Fuel concluded in January 2005. The launching of the installation is planned for the end of 2007.

4. The necessity to process the mixture of Rebco crude oil and low-sulphur oil in order to produce low-sulphur fuel for Power Plant due to the planned rest of HOG installation (29.04-12.06). The share of low-sulphur oil in the total processed raw material amounted to 1.6%.

5. Due to conducted modernisation of petrochemical installations (Olefin II, Butadiene II, Hydrogenetion of Petrol, Pyrotol) and maintenance rests at other installations: Ethylene Oxide I and II, Glycol I and II and Phenol, the production of petrochemical products was limited.

6. In May and June the major modernisation work at installation in Olefin II, which allowed launching of new units without excluding the existing part of the installation. The completion of the project is planned for September. The production capacity of the modernised installation is 702 thousand tons of ethylene/year.

7. By the end of June 2005, launching of the modernised Fragrances Extraction Installation producing benzene and toluene based on raw materials from Reforming V and Olefin II. The production capacity of the modernised installation is 27.4 t /h for toluene and 22.4 t/h benzene.

3.2 INFORMATION CONCERNING BASIC PRODUCTS AND SERVICES, SALES MARKET AND SUPPLY SOURCES FOR COMPANIES OF THE CAPITAL GROUP

Information concerning the basic products and services as well as sales market and supply sources for the Capital Group companies are presented further in the Additional Information.

3.3 FINANCIAL RESPURCES MANAGEMENT

At the end of the first half of 2005 the level of net financial indebtedness of the Parent Company with respect to 31 December 2004 increased by PLN 1,385. Capital investments, in this period reaching PLN 1,995 million, were financed with an excess from the current operating activity (PLN 718 million), with liquid assets and deposits (PLN 757 million), assets obtained from repayment of the loan granted by the Company in 2004 to its subsidiary ORLEN Deutschland AG (PLN 244 million) and with increased external indebtedness (PLN 280 million).

The most significant investment expense item at the Parent Company in the first half of 2005 was acquisition of 62.99% shares in Unipetrol, 9.76% of shares in Spolana and purchase of receivables of some of the Unipetrol Group companies for the total amount of PLN 1,797 million.

Increase in external indebtedness of the Company was a result of signing of two loan agreements in CZK of the total amount of PLN 207 million and increase by PLN 134 million, compared to the state at 31 December 2004, of available credit lines at current accounts. In accordance with consortium agreement concerning the optional currency (dollar), a portion of the dollar drawings (PLN 61 million) of the consortium loan was repaid, yet the carrying amount of the loan denominated in PLN increased due to changes in exchange rates.

The Parent Company is a party to 8 loan agreements, of which 7 are of a short-term type and one is a long-term loan agreement. All short-term loans were granted to the Company under bilateral agreements. The long-term loan is a currency loan granted by the consortium of 19 banks, both Polish and international. The maturity date for four of the short-term loans with statistical interest accumulated as at 30 June 2005 falls in 2005 (in line with the balance as at 30 June 2005: PLN 338 million), for three loans in 2006 (in line with the balance as at 30 June 2005: PLN 5 million), and for the long-term loan in 2008 (in line with the balance as at 30 June 2005: PLN 1,423 million).

Detailed information on maturity dates for the loans were presented in Note 16 of the consolidated financial statements of the PKN ORLEN Group for the first half of 2005.

In the first half of 2005, the Parent Company did not grant any loan within the Capital Group.

The amount and structure of financial liabilities, both in terms of their maturity and currency in which they are denominated, are as follows:

Share of loans in the Company:	31 December 2004		30 June 2005	
	in PLN million	%	in PLN million	%
Long-term	1,408	100%	1,423	81%
Short-term	6	0%	343	19%
in USD	709	50%	732	41%
in EUR	702	50%	695	39%
in CZK	0	0%	202	12%
in PLN	3	0%	137	8%

The Company's liquidity as at the end of the first half of 2005 remains at the secure level. The available current financial assets amount to PLN 520 million, the Company takes advantage of unused credit lines and the Programme of Bond Issue. As at 30 June 2005, under short-term loan agreements the Company may use PLN 272 million, under the long-term agreement PLN 606 million (i.e. in the loan currency EUR 150 million) and PLN 700 million within the Programme of Bond Issue (moreover after the balance sheet date, in July 2005, the Company signed another renewable loan agreement for PLN 100 million with a year maturity).

The financial safety of the Company is positively influenced also by a large lending capacity which allows obtaining additional external resources in a relatively quick and inexpensive way.

Currently, the Company intends to continue optimization of its financing within the PKN ORLEN SA Group.

In the first half of 2005 the Group companies (excluding the Parent Company) drew and were granted the following significant loans:

- **Anwil S.A.**

ANWIL SA in the first half of 2005 signed 2 new loan agreements:

– preferential loan agreement related to environment protection; amount due: PLN 3,500,000; maturity date: 30 December 2010;
– preferential loan agreement related to environment protection; amount due: PLN 63,000,000; maturity date: 30 March 2011.

- **IKS SOLINO S.A.**

– investment loan; amount due: PLN 121,651 thousand; maturity date: June 2017;

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

– loan in Bank PEKAO S.A. Warsaw; of PLN 10,000 thousand for financing of current operations; amount due PLN 10,000 thousand; maturity date: May 2008
– loan in ING Bank Śląski S.A. of PLN 29,688.7 thousand for the investment project "Hydrorefining Installation"; amount due: PLN 10,391 thousand; maturity date: December 2006,
– loan in Bank PEKAO S.A. Warsaw of PLN 30,000 thousand for financing of current operations; amount due: PLN 17,329 thousand; maturity date: May 2007,
– loan in BPH S.A. of PLN 20,000 thousand for financing of current operations; amount due: PLN 150 thousand; maturity date: November 2007,
– loan in BRE Bank S.A. of PLN 5,000 thousand for financing of current operations, amount due: PLN 39 thousand; maturity date: December 2006,
– loan in PKO Bank Polski S.A. of PLN 20,000 thousand for financing of current operations, amount due: 5.242; maturity date: December 2006,
– loan in the National Fund for Environment Protection and Water Management of PLN 50,000 thousand for subsidising the investment project "Hydrorefining Installation"; amount due: PLN 15,000 thousand; maturity date: December 2006.

- **Rafineria Trzebinia S.A.**

– investment loan in BOŚ Warsaw, amount due: PLN 1,500 thousand; maturity date: April 2006,
– investment loan in BOŚ Warsaw, amount due: PLN 1,950 thousand; maturity date: July 2006,
– investment loan in PEKAO Warsaw, amount due: PLN 30,000 thousand; maturity date: October 2007,
– short-term loan in BPH PBK S.A., amount due: PLN 29,016 thousand; maturity date: May 2006,
– short-term loan in CITIBANK, amount due: PLN 18,589.4 thousand; maturity date: November 2005,
– short-term loan in PEKAO Warsaw, amount due: PLN 18,788.4 thousand; maturity date: December 2005,
– short-term loan in PEKAO Warsaw, amount due: PLN 20,000 thousand; maturity date: February 2007,
– short-term loan in BH Warsaw, amount due: PLN 3,735 thousand; maturity date: January 2006,
– short-term loan in PEKAO Kraków, amount due: PLN 11,311 thousand; maturity date: January-April 2006,

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

– current account loan in Bank Handlowy in Warsaw, amount due: PLN 17,087 thousand; maturity date: November 2005;

- **Basell Orlen Polyolefins Sp. z o.o.**

– Before 19 December 2004 Basell Orlen Polyolefins was granted a loan for Project Implementation (EUR 350

million) and a short-term loan (EUR 20 million). The first is an investment loan and is devoted to finance new polypropylene and plyethylene installations; the latter is used to cover deficiencies in the operating capital. The first instalment of the Project Implementation loan was partially used in January 2005 to repay the auxiliary loan drawn in 2003 (EUR 30 million). The loan repayment will start in July 2006, and the maturity date will fall in the half of 2015. Financial assumptions of creditors project an earlier repayment of the loan (half of 2012). In order to finance NPP investment and repay the accumulated interest the company continues to draw from the loan. The withdrawals within a given drawings are possible before the end of 2005. After that date the repayment of the loan will be commenced. As at the end of June 2005 the amount of the loan used for the project amounted to EUR 190.6 million (PLN 840.7 million), and the renewable short-term loan was not used.

- **ORLEN PetroTank Sp. z o.o.**

– medium-term loan in Bank BPH S.A., amount due: PLN 14,482.5 thousand; maturity date: May 2006,
– short-term loan in Bank Handlowy S.A., of PLN 20,000 thousand, amount due: PLN 19,728 thousand; maturity date: December 2005,
– investment loan, in Bank BPH S.A. (in CHF) amount due: PLN 9,906 thousand (CHF 3,799.5 thousand); maturity date: December 2006,

- **ORLEN PetroProfit sp. z o.o.**

– short-term loan in Bank Handlowy O/Lublin, of PLN 5,000 thousand, amount due: PLN 4,034 thousand; maturity date: undefined, renewable every 7 days no longer than to 28 September 2005
– short-term loan in PKO S.A. V O/Lublin, of PLN 5,000 thousand, amount due: PLN 4,331 thousand; maturity date: December 2005,
– short-term loan in Kredyt Bank S.A. O/Lublin, of PLN 4,200 thousand; amount due: 2.975 thousand; maturity date: June 2006,
– short-term loan in Bank Handlowy S.A. O/Lublin of PLN 3,500 thousand; amount due: PLN 3,500 thousand; maturity date: January 2006,

- **ORLEN PetroZachód Sp. z o.o.**

– short-term loan in, PEKAO S.A. Poznań, of PLN 9,000 thousand, amount due: 7.552,5 thousand; maturity date: June 2006,
– short-term loan in PKO BP S.A. Poznań, of PLN 2,200 thousand, amount due: PLN 394 thousand; maturity date: December 2005,
– short-term loan in Bank Handlowy Warsaw, of PLN 5,000 thousand, amount due: PLN 3,324 thounsand; maturity date: December 2005,
– short-term loan in Bank BWE, of PLN 4,000 thousand, amount due: PLN 4,000 thousand; maturity date:

September 2005,

- short-term loan in Bank BWE, of PLN 2,000 thousand, amount due: 269 thousand; maturity date: September 2005,
- long-term investment loan in Bank Handlowy Warsaw, of PLN 6,500 thousand, amount due: PLN 977 thousand; maturity date: March 2006.

- **Ship Service S.A.**

- loan of PLN 8,000 thousand, in Bank PEKAO S.A., amount due: PLN 7,458 thousand; maturity date: March 2006,
- loan of PLN 6,700 thousand, BNP PARIBAS, amount due: PLN 1,614 thousand; maturity date: June 2005.
- loan of PLN 3,000 thousand, BRE Bank S.A., amount due: PLN 2,128 thousand; maturity date: September 2009,
- loan of USD 4,000 thousand, Bank PEKAO S.A., amount due: PLN 10,553 thousand; maturity date: August 2006,
- loan of USD 1,450 thousand, BRE Bank S.A., amount due: PLN 4,544 thousand; maturity date: November 2006,
- loan of USD 400 thousand, BRE Bank S.A., amount due: PLN 1,156 thousand; maturity date: September 2008,

- **Petrolot Sp. z o.o.**

- current account loan in BRE Bank S.A. up to PLN 10,000 thousand; as at 30 June 2005 amount due: PLN 1,445 thousand,
- current account loan in Bank Handlowy in Warsaw; amount due as at 30 June 2005 PLN 18 thousand, maturity date: July 2005,
- current account loan in BPH S.A. in Warsaw up to PLN 15,000 thousand; as at 30 June 2005 the loan was not used,
- investment loan in ING Bank Śląski S.A. of PLN 11,200 thousand, amount due as at 30 June 2005 PLN 5,058 thousand; maturity date: December 2009.

- **Petrotel Sp. z o.o.**

- investment loan in BGZ S.A. of PLN 6,000 thousand, amount due as at 30 June 2005 PLN 4,500 thousand, maturity date: June 2008,
- loan in PKO BP S.A. of PLN 5,400 thousand, amount due as at 30 June 2005 PLN 5,400 thousand, maturity date: 2008-2010,

- **ORLEN Gaz Sp. z o.o.**

– short-term current account loan in Bank Pekao S.A. of PLN 4,400 thousand; amount due as at 30 June 2005: PLN 1,497 thousand; maturity date: September 2005.
– short-term current account loan in Bank Handlowy in Warsaw CITIBANK of PLN 5,500 thousand; amount due as at 30 June 2005: PLN 1,700 thousand; maturity date: January 2006.

- **Unipetrol a.s.**

– loan in Ceska sporitelna a.s. of CZK 2,069 million, amount due as at 30 June 2005 PLN 2,069 million; maturity date: July 2011,
– loan in Ceska sporitelna a.s. of CZK 832 million, amount due as at 30 June 2005 PLN 832 million; maturity date: July 2011,

- **ORLEN Deutschland GmbH**

– loan of EUR 15,834 thousand in HSH,
– other loans of EUR 9,183 thousand.

- **ORLEN KolTrans Sp. z o.o.**

– investment loan in Bank Pekao S.A. of PLN 672 thousand; amount due as at 30 June 2005: PLN 420 thousand; maturity date: April 2007
– investment loan in Bank BPH S.A. of PLN 1,522 thousand; amount due as at 30 June 2005: PLN 1,208 thousand; maturity date: June 2008.
– investment loan in PKO BP S.A. of PLN 2,705 thousand; amount due as at 30 June 2005: PLN 2,181 thousand; maturity date: June 2008.
– loan in Bank Pekao S.A. of PLN 1,504 thousand; amount due as at 30 June 2005: PLN 504 thousand; maturity date: December 2005
– loan in Bank BPH S.A. of PLN 2,100 thousand; amount due as at 30 June 2005: PLN 630 thousand; maturity date: December 2005.
– loan in PKO BP S.A. of PLN 3,490 thousand; amount due as at 30 June 2005: PLN 1,047 thousand; maturity date: January 2006.

- **ORLEN Transport Nowa Sól Sp. z o.o.**

– loan of PLN 2,000 thousand, in Bank Przemysłowo Handlowy; amount due: PLN 909 thousand; maturitydate: September 2005.

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

In the first half of 2005 the Prent Company did not grant any loans within the Capital Group, therefore as at 30 June 2005 the Company was not a party to any loan agreement within the Group. In the discussed period the loan was rapid granted in 2004 to ORLEN Deutschland, a subsidiary, for EUR 60 million with accumulated interest.

The closing balance of borrowings granted from the Company's Social Fund to employees and pensioners of PKN ORLEN S.A. as at 30 June 2005 amounted to PLN 13,500 thousand, and the closing balance of borrowings granted to employees of the consolidated Group companies, which signed an agreement with PKN ORLEN SA for conducting common social activity, amounted to PLN 5,973 thousand.

As at 30 June 2005 the Parent Company' total off-balance sheet liabilities resulting from guarantees, sureties and other forms of hedges for other entities' liabilities amounted to PLN 997,224 thousand. Those liabilities include guarantees and sureties for liabilities of subsidiaries of the amount of PLN 690,720 thousand, for liabilities a jointly controlled entity PLN 151,504 thousand, and for third party liabilities PLN 155,000 thousand.

The key item of off-balance sheet pledges (74%) are the sureties granted to the banks in the form of guarantee letters and corporate warrantees with aim to hedge liabilities of ORLEN Deutschland AG resulting from its fuel trade activity.

A considerable portion of the off-balance sheet items will expire before the end of 2005 (41%), the largest portion will expire in the fist half of 2006 (53%), and other insignificant liabilities (6%) will expire in 2008. The above structure proves the short-term nature of the off-balance sheet liabilities.

Moreover, the Company has an effective pledge established in 2003 on stakes held in Basell Orlen Polyolefins Sp. z o.o. of PLN 453,699 thousand in order to secure financial liabilities of that company.

The other companies of the PKN ORLEN Group in the first half of 2005 granted the following borrowings, sureties and guarantees:

- **Anwil S.A.**

– Anwil S.A. in the first half of 2005 kept the surety for its subsidiary AGRO-AZOTY II WŁOCŁAWEK in Łąka due to current account loan agreement and investment loan (October and September 2005). The total amount of the surety as at 30 June 2005 was PLN 83 thousand.
– Bank Handlowy w Warszawie SA at the beginning of February 2004 granted guarantees (EUR 17,505,000) upon ANWIL SA application for Uhde GmbH due to the conducted investment in change of the production technology of chlorine from diaphragm to membrane, the value of the guarantee is decreased by the invoices settled by the company and as at 30 June amounted to EUR 9,294,746.

- **Rafineria Trzebinia S.A.**

– BH Warsaw – surety of a loan for Energomedia Sp. z o.o., of PLN 1,100 thousand, expiration date: June 2006,
– PEKAO Kraków – surety of a loan for Spółki Naftowax Sp. z o.o., PLN 12,000 thousand, expiration date: March 2009,
– BPH Chrzanów – surety of a loan for Spółki Naftowax Sp. z o.o., PLN 12,000 thousand, expiration date: May 2008,
– BH Warsaw – surety of a loan for Spółki Euronaft Trzebinia Sp. z o.o., PLN 4,800 thousand; expiration date: July 2006.
– PEKAO Kraków – surety of a loan for Spółki Euronaft Trzebinia Sp. z o.o., PLN 13,500 thousand; expiration date: January 2009.
– PEKAO Kraków – surety of a loan for Spółki Euronaft Trzebinia Sp. z o.o., PLN 5,250 thousand, expiration date: April 2009.
– ORLEN Asfalt Sp. z o.o. – surety of a loan in current account, PLN 7,200 thousand, expiration date: July 2005.
– Kompania Węglowa S.A. – surety of a loan for receivables resulting from purchase–sale agreement before 31 December 2005, PLN 500 thousand, expiration date: until repayment of liabilities.

- **Ship-Service S.A.**

Granted sureties:

– beneficiary: Bor-Farm Sp. z o.o., amount of the surety: PLN 100 thousand, the amount of secured loan PLN 100 thousand; expiring date: September 2005,
– beneficiary: Ship-Service Agro Sp. z o.o. amount of the surety: PLN 800 thousand, the amount of secured loan PLN 400 thousand; expiring date: March 2006,
– beneficiary: Ship-Service Agro Sp. z o.o. amount of the surety: PLN 1,000 thousand, the amount of secured loan PLN 500 thousand; expiring date: March 2007,

Granted guaranties:

– beneficiary: Customs Office in Gdynia, amount of the guarantee: PLN 1,000 thousand, expiring date: 20 February 2006,
– beneficiary: Customs Office in Warsaw, amount of the guarantee: PLN 5,500 thousand, expiring date: 20 February 2006,
– beneficiary: Customs Office in Warsaw, amount of the guarantee: PLN 5,000 thousand, expiring date: 24 May 2006,
– beneficiary: Customs Office in Warsaw, amount of the guarantee: PLN 3,000 thousand, expiring date: 3 May 2006,

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

– The company granted a bill of exchange guarantee and the statement on self-enforcement of debt recovery up to the amount of PLN 40,000 thousand to Bank Przemysłowo-Handlowy in exchange for guaranties for excise tax liabilities on bonded warehouses of ORLEN OIL. The validity of those guarantees: 30 September 2005.

- **ZBA S.A.**

– Guarantee of proper accomplishment of a task for ALSTOM POWER for PLN 2,160 thousand, valid before July 2007.

- **ORLEN PetroTank Sp. z o.o.**

– BRE S.A. – pledge on sale and lease back for LOCUM., PLN 24,299 thousand, repayment date: June 2012,

- **Unipetrol a.s.**

– Kreditanstalt fur Wiederaufbau – bank guaranties for the total amount of CZK 2,016 million, expiring date: August 2012,
– Citibank N.A. – bank guarantees of total amount of CZK 653 million, expiring date: August 2012,
– Societe Generale Bank – bank guarantees of total amount of CZK 752 million, expiring date: June 2006,
– COMERZBANK AG – bank guarantees of total amount of CZK 820 million, expiring date: until rejection.

3.3.2 Bond issuance

Bonds issuance is a flexible and effective instrument of gathering financial funds used for payment of current liabilities and repayment of matured securities. The Company takes advantage of the Bond Issue Programme concluded in May 2001 with Bank Handlowy w Warszawie SA, Bank Pekao S.A. and BRE Bank S.A. A bank which offers the most favorable profitability of issued securities conducts the issuance.

Under the Bond Issue Program the Company is able to issue debenture bonds up to the total indebtedness amount not exceeding PLN 700 million before May 2006.

In the first half of 2005, the Parent Company did not issue any bonds and as at 30 June 2005 did not record any active issues. Within the PKN ORLEN Group companies, only the Unipetrol Group entities benefited form the programme. The resulting indebtedness at the end of June 2005 amounted to PLN 476.473 thousand.

3.4 PROFIT AND LOSS STATEMENT

3.4.1 Revenues

In the first half of 2005 the PKN ORLEN SA Group sales of finished products, goods for resale and materials (without excise tax) amounted to PLN 16,760,956 thousand, which is by 21.3% more than in the first half of 2004. The rise in the Group sales was accomplished due to favorable macroeconomic factors as well as the consolidation of the Unipetrol Group from June 2005, which contributed to Group sales with PLN 1,607,411.3. In the first half of 2005 the level of fuel prices quotations on the world stock exchanges (an increase of quotation of petrol by 27.9%, diesel by 54%, Ekoterm by 55% and air fuel Jet A-1 by 52.1%) remained on a high level compared to the first half of 2004. The share of the Parent Company sales in the total Capital Group sales amounted to 58.2% in the first half of 2005.

3.4.2 EBIT

Gross Profit on sales of the PKN ORLEN Group for the first half of 2005 amounted to PLN 3,349,448 thousand and it was higher by 22.3% in comparison to the profit on sales in the first half of 2004. The high profit growth was influenced by the financial result of the Parent Company, which generated gross profit on sales higher by 29.7% as compared to the first half of 2004. Such level of an increase of profit on sales was achieved by taking advantage of favourable circumstances on the market. The positive financial result was achieved thanks to intensification of trade activities and favorable trends in the macroeconomic factors (crack margin from quotations) and due to consolidation in June of the Czech Unipetrol Group companies. In the first half of 2005, very good results were recorded by Anwil S.A. whose gross for the first half of 2005 amounted to PLN 143,481 and ORLEN Oil of PLN 41,795 thousand and Rafineria Jedlicze of PLN 24,839 thousand. In the first half of 2005 the Parent Company realised 7.7% increase of the total sales with respect to the comparable period of of the prior year. The total Group sales increased by 10.8%.

In the first half of 2005 the profit on other operating activity amounted to PLN 1,609,723 thousand as compared to the first half of 2004 loss of PLN 183,161 thousand.

The consolidated financial statements of PKN ORLEN S.A.Group present the difference was between the fair value of the consolidated net assets of Unipetrol and the acquisition cost (PLN 2,005,027 thousand), which considerably increases other operating revenues and thus impacts the profit on other operating activity.

In the first half of 2005, profit on other operating activity amounted to PLN 3,499,979 thousand and was higher by PLN 2,429,509 thousand than the other operating profit generated in the first half of 2004.

3.4.3 Financial activity

In the first half of 2005 gain on financial activities amounted to PLN 207,181 thousand, as compared to the PLN 58,842 thousand in the first half of 2004. The increase in gain on financial activity was caused by higher than in the first half of 2004 increase of financial revenues in comparison with increase of financial costs. Financial revenues in the first half of 2005 amounted to PLN 452,050 thousand and increased in comparison to the respective period of 2004 by PLN 294,949 thousand. The main factor impacting the increase in the revenues is the unrealized discount effect for the acquired Unipetrol receivables of PLN 204,532 thousand and payment of the dividend by Polkomtel SA of PLN 83,290 thousand. Also in the first half of 2005 the Group recorded increase in financial costs by PLN 146,610 thousand, compared to the first half of 2004, which was due to unrealized negative tendencies in negative foreign exchange differences (increase of financial costs by PLN 120,787) and increase of interest rate costs by PLN 6,777 thousand.

3.4.4 Gross profit, income tax and net result

The PKN ORLEN SA Group in the first half of 2005 generated gross profit of PLN 3,744,262 (increase by 227.9% in comparison with the first half of 2004) on all segments of activities. Increase in gross profit was accompanied by increase in income tax charge by 65.5%.

In the first half of 2005 the Group generated net profit in amount of PLN 3,336,098 thousand and was higher by 279.0% compared with the result of the first half of 2004.

3.5 BALANCE SHEET

3.5.1 Total assets

As at 30 June 2005 total assets of the Capital Group PKN ORLEN S.A. amounted to PLN 32,976,560 thousand and increased by PLN 12,861,689 thousand (by 63.9%) in comparison to 31 December 2004. Conserning assets, the fixed assets constitute the main caption amounting to 61.8% of total assets (60.4% as at 31 December 2004). In equity and liabilities, the major part is shareholders equity constituting 53.3% of total liabilities as at 30 June 2005 (64.5% as at 31 December 2004). Comparing certain balance sheet captions as at 30 June 2005 and 31 December 2004 the following can be noted:

- significant increase in non-current assets by 67.8% to PLN 20,386,470 thousand as a result of an increase in tangible fixed assets by PLN 7,206,329 thousand and in share in subordinated companies accounted for using the equity method by PLN 393,029 thousand
- increase in current assets by PLN 4,604,123 thousand, i.e. by 57,8% to PLN 12,567,398 thousand resulted mainly from significant growth of inventories by PLN 2,407,873 thousand and trade receivables and other receivables by PLN 2,406,688 thousand. The increase of those balance sheet items was related to revealing of Unipetrol in the consolidated financial statement. Comparing to 31 December 2004 cash and cash equivalents increased as well by 88,1%.
- increase in shareholders equity by PLN 4,605,572 thousand to PLN 17,583,174 was related mainly due to the growth of retained earnings – by PLN 2,422,650 thousand in comparison with 31 December 2004. Increase in retained earnings lower than increase in net profit for the first half of 2005 results from distribution of profit for 2004 (PKN ORLEN S.A. dividend amounting to PLN 911,020 thousand)
- increase of long-term liabilities by PLN 2,141,077 thousand to the level of PLN 5,274,805 thousand, mainly due to the growth of loans by PLN 1,179,913 thousand to the level of PLN 3,263,449 thousand (high level of external financing of Unipetrol)
- increase of short-term liabilities by PLN 6,115,040 thousand resulting mainly from significant growth of trade liabilities and other liabilities and accruals by 4,324,858 thousand (among other things due to increase of crude oil prices). At the same period loans and short-term borrowings grew by PLN 1,273,846 thousand to the level of PLN 1,515,463 thousand.

3.5.2 Net financial indebtedness

At at 30 June 2005 the level of long-term and short-term loans, borrowings and debt securities issued by the Capital Group PKN Orlen amounted to PLN 4,778,912 thousand and was higher by PLN 2,453,777 thousand in comparison to the level at the end of the year 2004. The net financial indebtedness of the Dominant Company as at 30 June 2005 (calculated as loans, borrowings and debt securities less cash and cash equivalents) decreased by PLN 1,384,799 thousand in comparison to 31 December 2004. The net financial indebtedness of the Capital Group as at 30 June 2005 increased by PLN 2,689,374 thousand, in comparison to the end of 2004, to PLN 3,154,541 thousand. Increase in net financial indebtedness and in equity led to growth of financial debt to equity ratio (loans, borrowings and debt securities less cash and cash equivalents to equity) from the level of 3.6% as at 31 December 2004 to 17.9% as at 30 June 2005. Such level of net financial indebtedness of equity remains at safe level.

3.6 STATEMENT OF CASH FLOWS

As at 30 June 2005 the net working capital (current assets less short-term liabilities) amounted to PLN 2,448,817 thousand and decreased by 38,2% as compared to the level as at 31 December 2004. This resulted from the larger rise in short-term liabilities than in current assets in the Group during the I half of 2005.

3.6.1 Operating activity

In first half of 2005 net cash flows from operating activities amounted to PLN 1,648,153 thousand and were lower by 5.2% than cash flows from operating activities in first half of 2004.

The most important factors influencing cash flows from operating activities in first half of 2005 were:

− net profit increasing level of cash by PLN 3,336,098 thousand,

− increase of inventories by PLN 1,299,286 thousand, whereas there was a increase in first half of 2004 by PLN 310,404 thousand,

− increase in the level of liabilities and accruals by PLN 1,196,151 thousand, whereas there was a increase in first half of 2004 by PLN 763,329 thousand,

− recognition in net profit significant items which do not generate cash – difference between value of consolidated net assets of Unipetrol, and purchase price paid (PLN 2,005,027 thousand).

3.6.2 Investing activity

The net cash flow from the investing activity in first half of 2005 amounted to PLN (-) 1,313,475 thousand, whereas in first half of 2004 achieved the level of PLN (-) 949,341 thousand. Such high level of the net cash flow from the investing activity in first half of 2005 results mainly from purchase of share of Unipetrol and high expenditure for tangible assets. Increased net cash flow from the investing activity were balanced by cash inflows from sale of short-term securities.

3.6.3 Financial activity

In the first half of 2005 the net cash flow from the financing activity amounted to PLN 314,024 thousand whereas in the first half of 2004 amounted to PLN (-) 500,570 thousand. A positive result on this activity in 2005 was the consequence of a significant increase of inflows from obtained loans and borrowings.

Due to the described cash flows the cash level increased as at 30 June 2005 in comparison to 30 June 2004 by PLN 462,927 thousand to PLN 1,384,234 thousand.

3.7 EMPLOYEMENT

The average employment in the first falf of 2005 in the PKN ORLEN Capital Group (Dominant Company and consolidated subsidiaries) amounted to 21,413 persons compared to 14,621 persons in first half of 2004. As at 30 June 2005 the employment totaled 21,338 in Group, which constitute an increase by 6,940 employees compared with the level as at 30 June 2004. Increase in level of employment resulted from acquisition of Czech holding – Unipetrol.

3.8 SEGMENTS

3.8.1 Refining Segment

Refining Segment (in PLN thousand)	1st half of 2005	1st half of 2004	%
External sales	13 834 418	11 588 786	19,4%
Intersegment sales	2 342 322	1 911 235	22,6%
Total revenues	16 176 740	13 500 021	19,8%
Segment result	2 296 076	954 351	140,6%
EBITDA*	2 646 142	1 368 585	93,3%
Total cost incurred to acquire property, plant and equipment and intangible assets	338 616	260 613	29,9%
Share of the segment in the results of the Group	**65,6%**	**89,2%**	-26,4%
Share of the segment in EBITDA of the Group	64,2%	78,7%	-18,5%
Sale profitability	14,2%	7,1%	100,8%
Segment result / segment's assets	13,2%	8,4%	57,3%
Segment result /segment's equity **	20,4%	11,9%	71,9%
Debt ratio (debts /assets)	35,2%	29,2%	20,5%
Assets turnover ration	1,9	2,4	-21,7%
CAPEX/EBITDA	12,8%	19,0%	-32,8%

*) segment Results + depreciation
**) segment's assets – segment's liabilities

In the first half of the 2005 refining segment achieved sale income of PLN 16.176.740 thousand, which is by 19,8% more than in the first half of the 2004. External sales customers increased by 19,4%, while sale to other segments increased by 22,6%. Increase in sale revenues of the segment resulted mainly from increase in prices for petrol on international markets (increase by 27,9% in quotations of engine petrol, by 54,5% in quotations of diesel oil, by 55% for Ekoterm and by 52,1% for aircraft fuel Jet A-1), as well as from consolidation of entities within Unipetrol Holding , which in June 2005 made a sale income of PLN 1.169.949 thousand.

In first half of the 2005 result of the refining segment amounted to PLN 2.296.076 thousand and was by 140,6% higher than result of the comparable period in prior year. Such a significant increase in results was achieved due to effective utilization of favorable macro-economic factors, such as increase in margins in quotation for diesel oil, Eksterm and aviation fuel Jet A-1, as well as increase by approximately 43% in Ural/Brent diferential.

The result of the segment was also considerably influenced by the purchase of Unipetrol. Following that transaction, goodwill of PLN 823.930 thousand was recognized and financial results of Unipetrol in the amount of PLN 51.428 thousand were incorporated into refining segment (Unipetrol Group's companies are consolidated in chemical and in other segments).

In the first half of the 2005 there has been significant increase in sale volume of petrol (engine petrol, diesel oil, Ekoterm, Jet A-1 i LPG) in wholesale and retail segments by 9,9% up to 5.287.507 tones. At the same time domestic consumption was almost unchanged as compared to prior year (engine petrol, diesel oil, Ekoterm).

In the first half of the 2005 share of the refining segment in results of the Group decreased to the level of 65,6% which resulted from increase in share of other segments (impacted by results of consolidated entities from Czech Republic incorporated to chemical segment and to other activity).

In the retail segment the Group has been undertaking the activities aiming in wining new customers and increasing its market share. What is more, due to product lines' management, centralized purchases and control over prices, in the first half of the 2005 the segment achieved significant increase in margins on non-petrol goods. As mentioned above, also margins realized on sale of petrol products were higher than in those realized in the first half of 2004.

Realization of Complex Costs Cutting Program resulted in savings for the refining segment in the first half of the 2005 in the amount of PLN 252.785 thousand, which is by PLN 57.246 thousand more than in comparable period in prior year.

3.8.2 Chemical Segment

Chemical Segment (in PLN thousand)	I half of 2005	I half of 2004	Change %
External sales	2 569 516	1 882 567	36,5%
Intersegments sales	832 692	667 441	24,8%
Settlement of hedging transactions	49 330	21 241	132,2%
Total revenues	3 451 538	2 571 249	34,2%
Segment result	1 614 086	342 143	371,8%
EBITDA*	1 765 534	469 540	276,0%
Total cost incurred to acquire property, plant and equipment and intangible assets	437 246	439 415	-0,5%
Share of the segment in the results of the Group	**46,1%**	**32,0%**	44,3%
Share of the segment in EBITDA of the Group	42,8%	27,0%	58,5%
Sale profitability	46,8%	13,3%	251,4%
Segment result / segment's assets	14,5%	8,4%	72,7%
Segment result /segment's equity **	16,9%	9,7%	74,2%
Debt ratio (debts /assets)	14,3%	13,5%	5,8%
Assets turnover ration	0,6	1,3	-50,9%
CAPEX/EBITDA	24,8%	93,6%	-73,5%

*) segment Results + depreciation
**) segment's assets – segment's liabilities

In the first half of the 2005 chemical segment achieved sale revenues of PLN 3.451.538 thousand, which is by 34,2% more than in first half of the 2004. External sales increased by 36,5%, while intersegments sales increased by 24,8%. Sale volume of petrochemicals increased by 12,9% as compared to June 2004 and amounted to 1.191.813 tones. Lower dynamics in volumes than in values is attributable to repair break of the main installation used in the manufacturing process of ethylene and propylene in PKN ORLEN S.A. – Olefin II.

In June 2005, entities from Unipetrol a.s. from Czech Republic achieved sale revenues incorporated to his segment of PLN 139.792 thousand.

In the first half of 2005 the result of chemical segment amounted to PLN 1.614.086 thousand and was by 371,8% higher than result in the first half of 2004. Result of that segment was considerably influenced by the goodwill of PLN 1.076.642 thousand recognized following purchase of Unipetrol as well as incorporation of Unipetrol Holding results of PLN 14.349 thousand.

Results of the segment were also influenced by good slump on the petrochemicals market, especially on products sold by PKN ORLEN S.A. and ANWIL S.A. (increase by 20,9% in margins on ethylene up to the level of USD 576,28 /tonne or increase by 41,7% in margins on propylene up to the level of USD 515,72/tonne). Favorable market situation enabled Anwil S.A to generate an opearating profit as of end of June 2005 of PLN 78.592 thousand. Realization of Complex Costs Cutting Program resulted in savings for the refining segment in the first half of the 2005 in the amount of PLN 18.371 thousand (PLN 21.872 thousand in the first half of the 2004).

3.8.3 Other activity

Other activity (in thousand PLN)	1st half of the year 2005	1st half of the year 2004	Change %
External sales	307 692	320 558	-4,0%
Intersegments sales	410 041	397 389	3,2%
Total revenues	717 733	717 947	0,0%
Segment result	308 512	29 749	937,0%
EBITDA*	415 365	134 970	207,7%
Cost incurred to acquire segment property, plant and equipment and intangible assets	53 909	29 496	82,8%
Share of the segment in the results of the Group	**8,8%**	**2,8%**	217,2%
Share of segment in the Group EBITDA	10,1%	7,8%	29,7%
Profitability of sales	43,0%	4,1%	937,4%
Segment result / segment's assets	7,6%	1,5%	412,9%
Segment result /segment's equity **	9,0%	1,8%	402,9%
Debt ratio (debts /assets)	15,4%	17,1%	-9,6%
Assets turnover ratio	0,4	0,7	-50,6%
CAPEX/EBITDA	13,0%	21,9%	-40,6%

*) segment result plus depreciation
**) segment assets – segment liabilities

In the first half of 2005 in the other activity segment sales revenue amounted to PLN 717.733 thousand, which was almost identical to sales revenue realised in the first half of 2004. External sales decreased by 4,0% and the value of intersegments sales increased by 3,2%. Segment revenues increased by PLN 27.863 thousand as a result of including companies of Unipetrol a.s. holding in consolidaton in June 2005.

Despite almost identical revenues, the segment result for the first half of 2005 was of PLN 308.512 thousand, while the result for the same period of 2004 was of PLN 29.749 thousand. The segment share in the Group results increased to 8,8%. The significant increase of the segment result was mainly attributable to disclosure in segment's other operating revenues a position resulting from takeover of Unipetrol (that is the excess of fair value of purchased net assets over their purchase price of PLN 274.541 thousand). Companies operating in the Unipetrol holding incurred loss in this segment in the amount of PLN 2.164 thousand.

The group of companies that constitute the segment „Other activity", apart from entities producing energy and rendering services for Dominant Company, consists also of entities that emerged in the restructuring process. These entities render transportation services, maintenance and construction services.

Realization of the Comprehensive Program of Operating Cost Reduction brought savings for this segment in the first half of 2005 in the amount of PLN 155.121 thousand (PLN 88.589 thousand in the first half of 2004).

3.9 DESCRIPTION OF SIGNIFICANT OFF-BALANCE SHEET POSITIONS OF THE CAPITAL GROUP

As at 30 June 2005 the total value of guarantees granted for related entities amounted to PLN 1.462.776 thousand (increase by PLN 837.353 thousand) and guarantees granted for other entities amounted to PLN 102.040 thousand (increase by PLN 16.594 thousand). Additionally, off-balance sheet liabilities to other entities resulting from transfer of receivables and other restrictions on fixed assets amounted to PLN 42.560 thousand, whereas as at 30 June 2004 they amounted to PLN 45.723 thousand. Other off-balance sheet liabilities amounted to PLN 273.461 thousand and increased in comparison to 30 June 2004 by PLN 258.521 thousand.

3.10 SIGNIFICANT EVENTS WHICH HAVE CONSIDERABLE INFLUENCE ON THE GROUP'S ACTIVITIES, AND FINANCIAL RESULTS IN THE FIRST HALF OF THE 2005 OR IN THE FUTURE

The following factors may have significant influence on financial situation of the Capital Group PKN ORLEN in the future:

- fluctuations in prices of petroleum which influence costs incurred by the Parent Company and cause fluctuations in margins realized on particular products,;
- fluctuations in prices of finished products on international markets, which influenced through import parity on prices for petrol products and margins ;
- tendency of petrol consumption in Poland resulting among other from economic growth and unemployment ratio,

- fluctuations of foreign exchange rates which influence costs of external financing, costs of purchases of petroleum and other raw materials purchased in foreign currencies as well as fluctuations in prices, margins and inland premium;
- realization of the announced strategy of PKN ORLEN S.A. and the retail sector development;
- economic benefits achieved due to implemented and newly introduced optimization programs and benefits from implementing of cost cutting programmes (Complex Cost Cutting Program, System of Margin Optimization, Risk Management System, Value Based Management, Capex Optimization System);
- effectiveness of operation on petrol stations in Germany,
- synergy resulting from taking control over UNIPETROL's assets;
- activity of JV - company from Basell Europe Holdings BV – which produces petrochemicals (effective beginning of 2005 based on new installations) ;
- putting into use Olefin II after re-wamping;
- expected change in fiscal policy as far as corporate income tax and excise is concerned;
- weak situation in agriculture and construction market which negatively influence operating activities of those entities within the Group, which offer products related to those two sectors, i.e fertilizers, PCV products ect.

IV. MAJOR ACHIEVEMENTS IN RESEARCH AND DEVELOPMENT IN THE CAPITAL GROUP

Polski Koncern Naftowy S.A. has implemented certified Management Systems:

- Quality Management System compliant with ISO 9001;
- Environment Management System compliant with ISO 14001;
- Quality Management System compliant with AQAP 2120 (for NATO suppliers) applicable for fuel market;
- Industrial Safety Management System compliant with PN-N-18001;
- Qualioty Management System compliant with PN-EN ISO/IEC17025:2001/Ap1.2003, implemented in PKN ORLEN SA Envitronmental Tests Laboratory.

In March 2005 Polish centre of Certifications and Polski Koncern Naftowy ORLEN S.A. concluded an agreement defining terms of cooperation and supervision as well as the parties' rights and obligations resulting from the certificate obtained in accordance with the above standard. The certificate was granted in March 2005. The certificate obtained for the laboratory is a necessary condition for conducting environmental tests.

In the first half of 2005 the following audits were conducted by the certifying entities, which positive results were the basis for keeping and development of the areas subject to the management systems:

- Supervision audit of the Environment Management System conducted by auditors of Bureeau Veritas Quality International in February and March 2005, which concerned organisational units of the Production Plant and the Company's Head Offices in Płock as well as Warehouses in Szczecin, Świnoujście, Kraków-Olszanica and Warsaw-Mościska.
- Supervision audit conducetd in March and April 2005 by the auditors of the Central Institute of Labour connected with extansion of the system to four further units of the Production Plant (Hydrocracking Unit, Fuels Unit, Ethylene Oxide and Glycol Unit, and Dry Gas Unit). As a result of the audit, the Company was granted a certificate of compliance of the implemented Industrial Safety Management System with the requirements of PN-N-18001 in the scope extended to comprise the above organisational units.

Correctness of operation of the Management Systems was verified by internal audits in all the units included in the systems. Indentified incompatibilities were eliminated by corrective actions. Organisational changes in the Company result in the necessity of ongoing updates of the system procedures and documents. The documentation respective for the changes is introduced and made available in the NND information system.

Polski Koncern Naftowy ORLEN S.A., due to the fact that it does not possess its own research laboratories or does not emply scisntists at regular research posts, commissions research and development work to research and development centres and organisations, universities and other institutions, companies asn assoctiations which provide such services.

In the first half of 2005 there was much work done, crucisl for the Company, which were related to elaboration of new products technologies, improvement of quality of manufactured products, improvement of manufacure technology and more efficient use of components for production. The necessity to undertake such work resulted from PKN ORLEN S.A. care for customers interms both of assortment and quality of offered goods. The most important tasks accomplished in the area of production are the following:

1. "Development and implementation of technology for Power Diesel production of increased ecological and functionsl properties." Contractor: Institute of Oil technology in Kraków. Within the framework of that work physical, chemical and functional properties were tested in the Power Diesel base oil. Further, in accordance with the research assumptions, the oil containing a complex of upgrade additives Petropak 50 amd the additive increasing the Nitrocet 50 cetene number, was subjected to complex tests for its functional properties. As a result of the research, a new production technology was designed in PKN ORLEN S.A. in Płock for new Power Diesel oil of the cetene number not lower than 55, which is to replace the currently produced ONM Super fuel. The work embraced also research on compatibility of upgrade additives to fuel with selected motor fuels and design of the plant standard for the new fuel. The commission accepting the work on behalf of PKN ORLEN S.A. motions in the Acceptance Report No. 24/05 of 15 June 2005 for implementation of the technology for production of Super diesel of the minimum cetene number of 55 and increased expoitation parameters.
2. "Comparative analysis of functional and ecological properties of motor fuels produced in PKN ORLEN S.A." Contractors: Cetral Oil Laboratory in Warsaw and Institute of Car Transport in Warsaw. The objective of the work was to determine the impact of petrol produced by PKN ORLEN S.A. on functional parameters of engines with spark ingnition with respect to compliance with the following customers' requirements:
   - differences in acceleration value,
   - changes in power and engine torque,
   - flexibility of engine operation,
   - impact on the environment,
   - fuel consumption.

   Based on the comparison of test results for petrol types ES95, SP98, 100-octane produced by PKN ORLEN S.A. with that produced by Shell V-Power Racing petrol, it was concluded that:
   1. all products comply with quality requirements for fuels contained in the Decree of the Ministry of Economy and Labour of 16 August 2004.
   2. In the tested two samples of Shell V-Power Racing there was no product of the research octane number exceeding 100 units.

3. It was proved that petrol produced by Shell contained the following amounts of admissible chemical compounds:
   - frangrances – almost upper level values (35.0% V/V), yet falling within repeatability measures of the FIA method;
   - MTBE ether exceeding 13% (V/V);
   - even four times higher than PKN petrol content of olefins and sulphur level reflecting the requirements for petrol projected for 1 January 2009.
4. PKN ORELEN SP98 and 100-octane petrol contain a lower amount of sulphur, even below 5 mg/kg.
5. All PKN ORLEN S.A. types of fuel comply with PN-EN-228 form 2005. Shell's petrol types meet the upper admissible levels or do not comply with the requirements of the above standard in terms of volatility index. The value of this parameter was exceeded in one of the samples.
6. All PKN ORLEN S.A. petrol types in categories 1-3 meet the recommendations of the World Fuel Chart, whereas Shell V-Power Racing samples do not comply with any of the petrol classes (it refers to content of compound resins).
7. The amount of upgrade additives applied in production of Shell V-Power Racing fuels exceeds four times the amount of the complex added to PKN ORLEN petrol. Base don the conducted tests, it was concluded that use of the high concentration of additives (about 1600 ppm) and such as is present in Shell V-Power Racing produces apart from positive effects as:
   - increased oxydating and thermic stability – due to presence of an antioxidant,
   - improved lubricating capacity at HFRR test – due to presence of a lubricating additive,
   - reduction of resins – due to an antioxidant,

   also negative consequences like:
   - increased capacity to emulgate in contact with water,
   - extraction of additives from petrol in lower temperatures,
   - increased costs,
   - increase in the amount of deposits in the combustion chamber.
8. Patrol components applied in production of Shell V-Power Racing do not allow production of petrol of the higher heating value, which is a characteristic of SP98 produced by PKN ORLEN. Moreover, the content of H:C is adequate in all petrol types from Płock in terms of dangerous gas emission, compared to Shell V-Power Racing.
9. SP98 produced by PKN ORLEN S.A. for its physical and chemical parameters is a product similar or even exceeding Shell V-Power Racing.

The conducted tests allowed comparative assessment of the quality of our fuels with those of the competition. The obtained results not only proved the high quality of petrol from Płock but also in some analyzed parameters recorded even advantage in terms of quality of PKN ORLEN products. The transparent presentation of the results to customers should be an encouraging factor to purchase PKN ORLEN petrol. The results will be used

on an ongoing basis when introducing changes in the structure of petrol produced by PKN ORLEN S.A. in order to obtain a product of justified high functional standards.

3. "Laboratory and engine quality assessment of the Ekodiesel Ultra oil." – Contractor: Institute of Oil, Technology in Kraków. The objective of the work was to confirm compliance of quality parameters of Ekodiesel Ultra produced by PKN ORLEN S.A. with the Producer's Standard ZN/ITN- ORLEN/NF-229/2004 for Ekodiesel Ultra category B, D and F. Another stage was assessment of the smokiness level and dangerous substance emission in waste gas, in accordance with ECE R49 test for Ekodiesel Ultra B. The conducted tests confirmed that the analyzed fuels comply with all requirements of the above standard. Moreover, it was concluded that Ekodiesel Ultra B recorded good ecological properties. The emission for particular toxic components of emitted gas is much lower than the requirements of ECE R49/2B test. Additionally, results of smokiness measurement of emission in ECE R24 test conducted at fixed rotational speed levels and free acceleration prove that Ekodiesel Ultra B met the requirements of the test.

The discussed scope of research included a number of tests which the Company is required to conduct under regulations and formal requirements. The aim of all work is to limit the risk for environment resulting from the Company's operations, to improve safety of employees working at technological installations and the local community, to shape the Company's reliability in the business environment and among employees. The work in this respect comprises:

1. "The concept of fire alarming and gas detecting for PKN ORLEN S.A. Production Plant in Płock." – continued form 2004. Contractor: NOMA2 form Katowice. Modernisation of the existing fire alarm system in the Production Plant using state-of-the-art systems allowing fire detection in its earliest stage – it will improve safety of both employees and local community and enable avoidance or reduction of losses related to fire.
2. "Analyses of dust, atmospheric fallout and soil in accordance with the Decision of the Voivodeship Office". Contractor: ORLEN Laboratorium Spółka z o.o. in Płock. The decision of the Voivodeship Office, file no. OS.I.7640/4/97 of 23 December 1997, under which the Company is required to monitor environment.
3. "Analyses of requirements for certification of fuels: Light Heating Oil Ekoterm Plus, Diesel Oil Municipal Super, BB Eurosuper 95". Contractor: Military Research and Development Centre MPS in Warsaw. The work is necessary in order to obtain a certificate of compliance with WTWT-MPS document.
4. "Guarantee measurements before and after modernization of the turbine set PR55-33/130/18/7 no. TG-3 in Power Generating Plant at PKN ORLEN S.A." Contractor: Zakład Badawczo-Projektowy "INWAT" Sp. z o.o. in Łódź. Formal requirement – acquaintance with actual indices impacting the operationality of the turbine set will ensure its economic and safe use.
5. "Analysis and assessment of the insulation and securing of TG1,2,3,5 generators. Participation in interoperational and final analysis at the repair contractor and acceptance tests at the site of TG4 generator installation." Contractor: Power Engineering Institute in Warsaw. The objective of the work was to define the projected time scope for safe use of generators and scope and date for repairs. These tests are classified as "not

harmful", performed during operation of the reviewed machines. The scope of the necessary tasks after the repair at the generator's location is defined by PNE.

6. Other work, which the Company is required to conduct by relevant regulations includes "Chracteristics Cards" for the Company's products, semi-products, waste, and "Written Instructions for Drivers". In accordance with the Decree of the Ministry of Health and Social Care of 21 August 1997 on hazardous substances producing hazard for health or life (as amended in 2005), the producer and supplier of harmful chemical substances has to possess the characteristics cards for those substances, make them available free of charge to customers and inform them of any introduced changes to the characteristics. Overall, the Institute of Organic Industry in Warsaw in the first half of 2005, upon PKN ORLEN SA request designed 6 new characteristics cards for medium vacuous distillate, vacuous distillate, desulphurised vacuous distillate, soft asphalt, waste calcium fluoride and petrol for thermal decomposition, 6 classifying certificates and 6 instructions for drivers. Characteristics card, instructions for drivers and certificates are submitted to Trade, Logistics, Chemical Safety Departments in the Plant and used in their ongoing operations..

In order to secure industrial safety of the employees engaged at work at the installations at the sites particularly hazardous due to exposure to corrosion and erosion, the Company conducts regular monitoring of the sites consisting in:

- Measurement of corrosives and deposits on construction materials of different installations,
- Measurement of hydrogen corrosion (in cooperation with the Institute of Physical Chemistry in Warsaw) on carbon steel, conducted quarterly or more frequently, depending on the corrosion exposure,
- Regular measurement of corrosion on carbon steel (using a probe and corrosion meter of Rohrback Cosasco Systems),
- And intervention activities in cases of failures in the safety ensurance process.

The current monitoring conducted using the above discussed methods allows the Company to obtain reliable information on the occurring exposure, which in turn makes it possible to effectively counteract its development. It ensures full control and assessment of effectiveness of the applied protection methods, including regular control of utilization of chemical products and optimisation of their use. Monitoring provides a source of crucial information on effeciveness of the applied safety products and their potential modification. Owing to work conducted in this respect, there was a decrease in failures of machines, increase in the useful life of the pipeline, condensers, radiators, columns, pumps and other equipment. Consequently, the increased effectiveness of the anti-corrosion process prolonds the inter-repair periods and reduces the scope of maintenance, which results in lowering of repair costs. In the first half of 2005, the following installations were subject to constant control: DRW II, DRW III, DRW IV, DRW VI and vapour generator at DRW II, Slot Distillation Unit, Cracking Installation for Catalyst II, Hydrocracking Installation, Ether Installation, and Isomerisation Installation. The work was conducted under the agreements concluded with the Research and Development Centre in Płock.

Major Capital Group companies recorded following progress in the field of research and technical development:

- **Rafineria Trzebinia S.A.**
    1. Continuation of production of Biodiesel based on the invention "the way of creation of esters of aliphatic acids with monohydroxide alkyl alcohols and their use" P-WO 0075098.
    2. Commencement of production of diesel oil (sulphur content up to 0.1 ppm) with added 20% esters of methyl fat acids.
    3. Optimisation of the glycerin production.
    4. Optymisation of deoiling of paraffins using Sulzer's method.
    5. Completion of the construction of installation for hydrorefining of paraffins.
    6. Launching of production of torches and candles.
    7. Filing of an invention "Proecological diesel oil" P- 376555.
    8. Filing of the Community Trade Mark "BIO 10" – No 004554242.

- **Rafineria Nafty Jedlicze S.A.**
    1. Laboratory design, made upon the company's request by ITN Kraków, of the technology for production of complex lithium lubricant using mineral oil utilised in the temperatures from -30 °C to +150° C and the complex lithium lubricant, produced using synthetic polyalphaolein oil and utilised in temperatures from –50 °C to +70 °C. The technology was verified on industrial scale and the conducted sample production of industrial lubricants confirmed compliance with technological parameters.
    2. Test operation of installation for production of organic solvents using new raw materials.
    3. Extension of the produced range of ecological heating oils.
    4. Improvement of production technology for diesel oil with components form catalyst processing of plastics waste.
    5. Improvement of production technology for diesel oil with FAME components.
    6. Introduction of a new product – petrol for AP varnish.
    7. Utilization of the distillation wastes from oil processed into asphalts (acceptance by ORLEN Asfalt Sp. z o.o.).

- **ORLEN-Oil Sp. z o.o.**
    1. In the first half of 2005 a number of products were introduced to production and sale (diesel oil, hydraulic oil, lubricants and lubricating liquids, car cosmetics).

- **Petrolot Sp. z o.o.**
    1. Superivision audits were carried out with positive results by all certifying entities (Kema Quality B.V.,

Bureau Veritas Quality International and Zakład Systemów Jakości i Zarządzania);

2. Civil Aviation Office prolonged for 2 years a certificate for land service agency.

A modern company is not able to operate without effective support from the information technology. IT secures all necessary sources relating to IT environment systems and architecture required to achieve the strategic goals of PKN ORLEN S.A.

The most important projects initiated and completed in the first half of 2005 in the Parent Company are:

1. VBM – Value Based Management – MBO support application and Strategic Business Score Card were introduced within the second phase of the project.
2. Design work was initiated in order to improve the distribution system for PKN ORLEN fuels. A complex approach to the analysis of the current state and to the recommendations of potential changes in the business and IT systems.
3. Following restructuring of the Retail Sale Group, the main business system, corporate network structure were restructured to adapt them to the changed organization conditions. The new work stations were equipped with capacities of mobile and remote work.
4. Long-term plan was continued to increase safety of the IT systems operation gin the Company (regarded also as business safety) by implementation investments projects.
5. A project of upgrading of the main business system in the company was launched combined with adequate development of equipment.
6. A project for modernization of IT infrastructure was launched at petrol stations. Realization of the first stage: exchange of the obsolete fiscal printers.
7. The main business system and POS systems were prepared for petrol stations in order to introduce new fuels at the Company's stations.
8. E-Learning system implementation was commenced.
9. Optimization of telecommunications costs in cooperation with the mobile communications operator.
10. Modernization of the depository connections system.
11. Design of a standard freight system for the Company's warehouses and the programme for warehouse modernisation was launched.

The most significant IT tasks carried out in the first half of 2005 in the Capital Group include:

- **Anwil S.A.**

1. Migration of SAP R/3 from 4.6 to 4.7.
2. Launching of the application for filtering websites – Symantec Web Security.
3. A new WWW site of the company was activated.

- **ORLEN Gaz Sp. z o.o.**

1. POLPAK PVC and VPN projects were launched.
2. Full realization of 6 installations POLPAK from the first half of 2005.
3. CALLCENTER project launched.
4. SIEMENS switchboard station installed with the registrator.
5. CALLCENTER application implemented.
6. Proposal process initiatied for implementation of ZSZ, class ERP and BPM.
7. Central data storage project launched.

- **IKS Solino S.A.**

1. Work commenced over financial reporting in INFOMEN module.
2. Commenced work on implementation of the safety monitoring system KS and PMRiP "Góra".
3. Work continued on upgrading access to internet and increase of security of the loacal computer network.

- **ORLEN Laboratorium Sp. z o.o.**

Implementation of the logistics application by Exact Software Poland Sp. z o.o.

- **ORLEN Transport Płock Sp. z o.o.**

Due to a business combination of three transportation companies, IT network was created between Płock and the new Company's branches. The accounting and payroll system was made uniform (SAP).

- **ORLEN Projekt Sp. z o.o.**

Implementation of the copyright IT system (designed in 100% by ORLEN Projekt) labeled "Si/Projekty" (application based on the Oracle data base) used for the company's management support and planning, control and settlement of production.

- **ORLEN Deutschland AG**

As at the beginning of 2005 the flota card was introduced for ORLEN and STAR brands.

Under the new act before the end of 2005 all cash terminals at the petrol stations must be exchanged. Since 1 January 2006 all terminals must comply with OPT (Online Personalisierung von Terminals) standards and EMV (European MasterCard Visa). ORLEN Deutschland decided to install the terminals CP600 by ICP. Before 30 June 2005 the process was not started.

Moreover, in order to ensure the company's network security, the company installed a modern firewall protection. In order to lower telecommunications costs and to make the information exchange more efficient between the main office and the regional staff the company implemented VPN network, which allows safe data transfer between local networks.

- **Basell Orlen Polyolefins Sp. z o.o.**

1. Integration of SAP R/3 in PKN with SAP R/3 in Basell in order to facilitate all the logistic processes,
2. Implementation of SAP R/3, for a BOP's subsidiary, currently Agryppa Sp. z o.o., which as a commission agency will conduct sale of polyolefins on the Polish market.
3. Implementation of "EUREKA" system based on the data warehouse structure and used for planning and reporting activities.

V. POLICIES CONCERNING DVELOPMENT OF THE PARENT COMPANY AND THE CAPITAL GROUP

- **Strategy of PKN ORLEN S.A. development**

In February 2005 the Supervisory Board approved a new strategy for PKN ORLEN S.A. determining trends till 2009, called "Value Creation Strategy of PKN ORLEN". It bases on accomplishment of the three basic targets: improvement of an internal efficiency and investments, enhancement of the core business on the domestic markets and searching opportunities for development on new markets and areas of activity.

The increase in internal efficiency and generating maximal return on equity are the priorities of the Company. The investments in the core business of the Company (refining and retail sales), identification of actions in the petrochemical sector and development of the retail sales network are designed for achievement of the priorities. The increase of production potential in refining sector will ensure higher production of diesel, that has good business forecast in the future and will be the basis for strengthening the petrochemical segment. As for the retail sales the strategy is aimed at achieving the position of a regional retail sales leader (at least 30% share in the Polish market till 2009). The restructuring plan of the Capital Group assumes selling the entities of non-core business, simplifying and introducing a clear structure as well as implementing segment management.

Searching for opportunities to develop in new areas will concentrate mainly on regions with a high potential of growth, and all the possible investments will be subject to strict financial analysis to prove whether achieve profitability ensuring long term value growth of the Company.

The strategy determines financial goals to be achieved at the end of 2009:

• EBITDA	over PLN 6 billion
• ROACE	17.5%
• CAPEX between 2005-2009	PLN 1.7 billion (annual average)
• Financial gearing	30-40%
• The rate of dividend paid	30%

- **Development of the retail sates**

On 2 March 2005 PKN ORLEN S.A. announced "PKN ORLEN 2005-2009 Retail Sales Development Plan in Poland". Main elements of the plan are: restructuring of retail network till 2009 and potential acquisitions to strengthen the market position. Capital expenditures are necessary for optimization and restructuring of the chain through building new stations, rebranding and upgrading the stations, and through implementing new product strategies. The Company plans to increase its share of non-fuel products in total margin. There is also a need for reorganization of retail sales department. The prepared program for individual customers assumes segmentation into Premium and Economy brands. Premium under ORLEN brand will be addressed to the value and quality sensitive customers. Economy standard will be orientated for price sensitive customers. In 2009 the planned structure of the network will comprise of around 1,000 Premium stations

(under the ORLEN brand) and around 900 Economy stations.

- **Integration with Unipetrol**

On 4 June 2004 PKN ORLEN entered into an agreement with Czech National Property Fund ("NPF") in order to acquire 62.99% stake in Czech oil and petrochemicals group Unipetrol a.s. ("Unipetrol"). Those shares were offered in the public auction. This transaction will strengthen the position of PKN ORLEN S.A. in refinery and petrochemical sector in Middle-East Europe and also improve the Company's competitiveness as well as will be a strong point in the future consolidation process in the region. This will enable to introduce common better management standards to the acquired structures, and to more efficiently use the possessed assets through proper combining them into business chains, in order to achieve synergy effects.

With respect to future development of the Unipetrol holding, one of the most important issues is optimization of the use of processed crude oil by refineries belonging to the group.

An important factor impacting the future development of the Unipetrol group will be increased effectiveness of production processes and utilization of raw materials in cooperation between Unipetrol and PKN ORLEN SA.

The development in the area of car fuels produced by the holding companies will be focused on increase of the quality of the offered products, so as the quality would be compliant with the environmental requirements of the European Union.

Moreover, development objectives include: launching of a new unit for asphalt production in Paramo a.s., efficient use of raw materials in the ethylene unit. The future plans comprise also increase of capacity of the following units: steam cracker, PE, PP, styrene, PS and construction of new units, BTD and E-SBR.

- **Activities of Basell Orlen Polyolefins Sp. z o.o.**

Basell Orlen Polyolefins Sp. z o.o. started its business in the area of producing and selling polyolefin on 1 March 2003. Realization of the investment program concerning building new polyolefin production installation will set producing capabilities at the level of 400 thousand tons of polypropylene, and 320 thousand tons of polyethylene HPDE annually. The production of new units will help to cover all the needs of the fast developing market.

The company's development comprises:

- Launching of sales from new installations (HDPE – Hostalen and PP – Spheripol);
- Launching of the commission agency activities by a BOP subsidiary (the commission agency – Basell Orlen Polyolefins Sprzedaż Sp. z o.o. is still at the stage of establishment, statutory commercial activity will be started on 1 October 2005);
- Strategy of withdrawal from Malen P market (at the end of 2005 the installations PP1 and PP2, producing Malen P will be closed);
- Replacement of Malen P with Moplen (it will be produced among others at the new installation of polypropylene constructed in line with Spheripol technology);
- Introduction of a new rebate system;
- Continuation of remarketing of Hostalen and Moplen with NPP;

- Innovations, development of new applications for HDPE bimodal and PP copolymer;
- Optimization and rationalization of the product package (NPP: increased production volume and fewer number of product types).

- **Retail activity in Germany**

In 2002 the Parent Company purchased about 500 petrol stations in the area of northern Germany and has been operating using two brands: ORLEN and STAR. As a result of the purchase of petrol stations in Germany, the Parent Company possesses over 2.4 thousand petrol stations. Performance of PKN ORLEN S.A. in Germany allows to achieve more flexibility in the area of sales of its products and creates opportunities to conclude swap transactions with the largest customers in the region, which contributes to further increase in efficiency and competitiveness of PKN ORLEN S.A. On the other hand the competitiveness of the German market revealed among others in narrowing retail margins causes that ORLEN Deutschland AG does not realize assumed business goals with the present scale of activities.

- **Develoment of activities in the ANWIL S.A. Group**

The development plans of the ANWIL Group consist of the two basic tendencies:

- Investments aimed at increase of the exisitng production capacity of ANWIL S.A. In this scope the following undertakings are planned in the subsequent years which obejctives are:
  - increase of production capacity of PCV installations from 260 to 330 thouand tons per year,
  - increase of production capacity of PCV processing (granualtes, mixtures and blocks) to the level of 80 thousand tons per year,
  - modernisation of the production line for production of fertilizers (in particular A Line ammonia) in order to achieve considerable improvement of technological parameters and reach the production capacity level in fertilizers at 880 thousand tons per year,
  - investments in environment protection.
- Developmnet of the Group by acquisitions and mergers with other entities while maintaining the leading share in ANWIL. ANWIL S.A. considers the justification and profitability of purchase of chemical companies, which operations are similar to the principal activity of ANWIL. Potential positive result of the plans will contribute to discount the material and product synergy effect within the whole PKN ORLEN Group.

Achievement of the above objectives will for long increase considerably the ANWIL Group value.

- **Comprehensive Operating Cost Cutting Programme in the Company**

In December 2002 the Management Board of the Parent Company made a decision to implement comprehensive operational cost cutting program in years 2003-2005 within two phases. In the first stage the potential of cost reduction and the detail concept of the plan were identified and estimated, consisting in the definition of key initiatives and monitoring process. The second phase will include implementation of the initiatives and monitoring their results. As a result of the program implementation operating costs in all areas of activities will decrease significantly. In the first half of 2005 the implemented initiatives generated savings of PLN 416 million.

- **Value Based Management**

PKN ORLEN S.A. activities concentrate on realization of the principal strategic aim which consists in creating value for shareholders through building and maintaining competitive and structural advantage and achieving the highest standards of operational activity. The tool for realization of these plans is among other the implementation of the Va1ue Based Management (VBM) program. The main objective of VBM program is to direct the strategy of PKN ORLEN S.A. towards creating value for shareholders. The principal purposes of the project are to establish a sound platform for the performance of strategic goals, to increase the financial potential and operational efficiency, to enhance the Parent Company's competitiveness in Poland and in the region, and to strengthen competence and motivation of the management throughout the Parent Company and the Capital Group. Value Based Management supports realization of the Parent Company's strategy, particularly achieving the leader position in the Central Europe and a constant increase in value for shareholders. VBM orders and facilitates management of numerous programs being realized in PKN ORLEN S.A. (margin optimization, wholesale increase and others). VBM implementation means introducing modern worldwide management methods. The central point of the program is that management systems are based on the Shareholders Value Added (SVA).

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- **Investment programme in PKN ORLEN S.A.**

The Development Proogramme for the production Plant in Płock projects realization of the following significant for its development investments:

- Paraxsylene and PTA complex
- HON VII complex
- Butadien Installation
- Ethylobenzene Installation
- Intensification of installation for HF Alkylation

And a number of minor tasks related to adaptation of the plant infrastructure to new legal and ecological requirements. The programme was presented at the meeting of the Management Board on 18 January 2005, and subsequently incorporated into the "Strategy of own value development", which was presented to the Supervisory Board of PKN ORLEN S.A., inverstors, Company's executive personnel and staff.

The 2005 plan includes the following main development tendencies in the investment activity:

- Technological investments in order to adapt the products to the EU standards and to lower production costs, including tasks related to production installations,
- Electric and power engineering undertakings, investments in environmental protection, in order to ensure safe and compliant with environmental requirements operation of the installations,
- Logistic units comprising tasks related to wholesale distribution of fuels in order to lower costs, and to meet Polish ecological regulations and requirements.

- **Loyalty programmes in the Parent Company**

The loyalty programs FLOTA POLSKA and VITAY (described in details in introduction) proved to be successful on the retail market. One of the targets of the above mentioned programs is to create strong relationships between a client and PKN ORLEN S.A. The FLOTA POLSKA program began expansion on external markets. A significant agreement with the association of Lithuanian land carriers was concluded. Introduction of so-called prepaid cards of "W" type strengthened the position of the Company as the leader in the area of card programs in Poland. Prepaid cards provide high level of security and have advantages of so-called "electronic purse".

In September 2004 PKN ORLEN S.A. and DKV EURO SERNICE GMBH signed an agreement concerning the introduction of new co-branded DKV/ORLEN card which will enable to purchase fuel, other products and services in above 40 countries in Europe without cash.

In the future the card programs of PKN ORLEN S.A. will be focused on both steady gaining of new clients and offering current clients new services and new more attractive forms of sales.

- **Perspects of development of the PKN ORLEN S.A. Group companies**

The mission of PKN ORLEN S.A. towards the Capital Group is „Creation of effective Capital Group generating long-term value added for shareholders of PKN ORLEN S.A. and ensuring the increase of the value of The goal of companies from the Capital Group is to support the core business of PKN ORLEN S.A. in the area of processing, distribution, logistics and sale of refining products.

The policy towards the Group will be realized by:

- Strengthening of the core activities in the companies and control over their activity via segment management;
- Restructuring of the strategic assets and their consolidation in order to continue building of the value of the Group companies;
- Disinvesting of non-core assets;
- Investments in the companies crucial for the Group which activities represent above average perspectives of market growth and bring about increase of the economic value of the Group.

Strategic companies (core business)

Rafineria Trzebinia S.A.

- The Company will remain within the PKN ORLEN S.A. Group, actions are undertaken to increase operational effectiveness of this company;
- The Company makes new investments in order to diversify and modernization of the activities, i.e. installation for hydrorefinig of paraffin and installation for biodiesel production;
- The target business activity is production of biodiesel and paraffin.

Rafineria Nafty Jedlicze S.A.

- The Company faces the necessity to undertake repair and restructuring actions;
- The restructuring project for the southern assets of the Group projects transfer of the fuel production unit to Rafineria Trzebinia S.A. and regenerate processed oils, and the production of lubricants and olis to ORLEN OIL;
- Further steps will be taken to close the remaining operations of Rafineria or merge it with ORLEN OIL.

ORLEN Oil Sp. z o.o.

- The Company carries out a strategy of consolidation of assets related to production of lubricating oils within the ORLEN structure, the aim is to create a uniform centre managing the oil segment of PKN ORLEN S.A.;
- In 2004 the company acquired assets of Oil Department of PKN ORLEN S.A.;
- It is planned to strengthen the company with oil assets of Unipetrol, and then sale of the company may be considered or quotation of its shares on the stock exchange.

Anwil S.A.

- The Company will remian inn the PKN ORLEN Group due to strong relation of its operations with the core business of the Company;
- The projected area of operations includes PCV and plastics production, the company is the largest recipient of ethylene from PKN ORLEN S.A.;
- A modern production chain for CV and PCV, a modern installation for nitro-chalk and other installations of the chain (ammonia, nitric acid, ammonium nitrate) place the company among the world leaders in the chemical sector;
- In the future support activities of the company may sold, in artificial fertilizers production, due to its weak relation with the Company's core business.

IKS Solino S.A.

- The Company will remain in the PKN ORLEN Group due to strong relation of its activities with PKN ORELN core business;
- The company's restructuring is necessary, including sale of the Salt Digester Plant, loosely related to the core business of PKN ORLEN S.A.;
- IKS uses post exploitation areas in salt deposits as unconventional storage sites for crude oil and fuels of PKN ORLEN S.A.;
- The Company participates in investment "Construction of the underground storage for crude oil and fuels", which last stage will be completed in 2006. It will be one of the largest underground warehouses in Europe.

Basell ORLEN Polyolefins Sp. z o.o.

- It is planned to keep the company in the PKN ORLEN group (the company conducts its operations in the area of core business);
- BOP constructs in Płock two world-largest production plants for polypropylene and polyethylene, which will be launched by the end of 2005. The investment cost is EUR 500 million;
- Production capacity of the new plants will be 400 thousand tons for Spheripol and 320 thousand tons for Hostalen.

ORLEN Deutschland AG

- It is planned to keep the company in the PKN ORLEN S.A. Group provided the effectiveness of its operations improves. The final decision on PKN ORLEN S.A. plans with respect to ORLEN Deutschland AG will be made after the analysis of the possibility of the scale effect on the German market;
- Owing to purchase for EUR 140 million of petrol stations with BP, Aral and EM Eggert logos, PKN ORLEN S.A. took over about 3% of the German market and 7% share in fuel market in the northern Germany;
- It is planned that in 2010 ORLEN Deutschland AG will gain 10% share in the northern market in Germany.

Fuel companies (regional market operators)

- The strategy towards fuel companies concerns changes in capital and aims at taking over full control over those entities;
- The actions consist of purchase of shares by the Company from minority shareholders – the shares were purchased in ORLEN Petroprofit and ORLEN Morena. Soon the purchase transaction for shares in ORLEN Petrozachód will be concluded;
- The process of increasing the capital engagement is aimed at identification in the companies of assets related to wholesale activity, retail trade, logistics and their incorporation to PKN ORLEN S.A.

Non-strategic companies (non core business)

Service companies

- The Company sold 8 service companies under staff privatization and management buy out (it was a form of privatization supported by employees of the privatized entities);
- A strong branch group was created at ORLEN Service Centre by purchase of shares in 7 service companies, which secures a strong position of those entities without external investors;
- The process of consolidation was completed successfully in case of the acquired in 2003-2004 by ORLEN Service Centre 5 service companies. Cureently they form one business entity.

Transport companies

- The branch group was formed at ORLEN Transport Płock by purchase of shares in 2 transport companies in Warsaw and Poznań, in 2005 the consolidation process will be continued;
- Transactions of sale of other transport companies are being negotiated with an external investor. In 2005 sale of the following 5 transport companies is projected:
  - ORLEN Transport Kędzierzyn Koźle,
  - ORLEN Transport Nowa Sól,
  - ORLEN Transport Słupsk,
  - ORLEN Transport Olsztyn,
  - ORLEN Transport Szczecin.
- The Company intends to keep in the southern Poland ORLEN Transport Kraków as an integratot of the transport companies in the south of Poland, cooperation with Unipetrol is projected.

Hotel companies

- In 2005 the Company sold 3 hotel and leasure companies: DW Mazowsze Sp. z o.o., ZW Mazowsze Sp. o.o., ZAWITAJ Świnoujście Sp. z o.o. Currently sale transition is being concluded for SAMRELAKS Mąchocice Sp. z o.o.

Maintenance companies

- The maintenance companies will remain in the PKN ORLEN Group due to their strong relation to the Company's core business and important role they play in maintenance of technical operationality of the main installations and machines.

VI. IMPORTANT EVENTS THAT WERE SUBJECT OF CURRENT REPORTS IN THE FIRST HALF OF 2005 AND AFTER THAT DATE, UNTIL THE DAY OF FINANCIAL STATEMENTS APPROVAL ("AMENDED FINANCIAL STATEMENTS")

1. On 3 January 2005 the District Court in Opole registered a merger of Zaklad Urzadzen Dystrybucyjnych Sp. z o.o., headquartered in Opole (transferee company), with the following companies (offeree companies):
   -Serwis Katowice Sp. z o.o., headquartered in Katowice,
   -Serwis Kedzierzyn - Kozle Sp. z o.o., headquartered in Kedzierzyn - Kozle,
   -Serwis Kielce Sp. z o.o., headquartered in Kielce,
   -Serwis Lodz Sp. z o.o., headquartered in Lodz,
   -Serwis Rzeszow Sp. z o.o., headquartered in Rzeszow.
   The merger is effected through the take-over of the total assets of the offeree companies by Zaklad Urzadzen Dystrybucyjnych Sp. z o.o. (merger by take-over).

2. On 4 January 2005 PKN ORLEN S.A. issued parent company guarantees to Holborn European Marketing Company Ltd, Deutsche BP Aktiengesellschaft, Shell Deutschland Oil GmbH for the total amounts of EUR 64m and USD 56m and a letter of guarantee to insurance institution Zurich Versicherung AG for the amount of EUR 25m to secure the liabilities of ORLEN Deutschland AG (PKN ORLEN's fuel 100% subsidiary in Germany). The guarantees come into force on 1 February 2005 and extend the period of validity currently binding until 31 January 2005. The guarantees given to Shell Deutschland Oil GmbH are valid till 30 June 2005; the guarantees given to Holborn European Marketing Company Ltd, Deutsche BP Aktiengesellschaft and Zurich Versicherung AG are valid till 31 December 2005. PKN ORLEN holds a 100% stake in ORLEN Deutschland AG.

3. On January 19 2005 PKN ORLEN S.A. received a notice from PETROVAL S.A. stating that PETROVAL was halting the implementation of a forward contract to supply crude oil (dated December 21, 2002) due to a Force Majeure event which impeded the contract's performance. The Management Board of PKN ORLEN declares that the above described situation does not impede crude oil supply continuity thanks to previously undertaken contingencies. Crude oil deliveries are expected to be executed according to plan, thanks to term and supplementary crude oil delivery spot contracts

4. Supervisory Board – authorized body according to § 8 section 11 pkt 5 of the Company Statute in relation to art. 66 section 4 of The Accounting Act, following its meetings on 21 January 2005, has appointed KPMG Audyt Sp. z o.o., ("KPMG Audyt"), based in Warsaw, to review PKN ORLEN's financial statements, and the

Capital Group's consolidated financial statements for 2005, 2006 and 2007, according to the International Accounting Standards. In addition, KPMG will review PKN ORLEN and its Capital Group's unconsolidated and consolidated quarterly and half year financial statements starting from II quarter 2005 till IV quarter 2007.

5. On February 2nd 2005, the Company's Supervisory Board approved a new strategy for PKN ORLEN. PKN ORLEN will build its firm value primarily by harnessing its existing potential to a maximum extent. In line with the new strategy, the Company will continue to implement improvements in efficiency and invest in selective projects offering high returns. As part of focus on its core businesses, PKN ORLEN S.A. wants to strengthen the Company's presence in its key business areas in the relevant markets, while continuing to restructure our asset portfolio.

6. On 1 March 2005 the Company's Supervisory Board approved "PKN ORLEN 2005-2009 Retail Sales Development Plan for Poland". The strategy assumes three fundamental strategic targets:
   1. Strengthening of market position.
   2. Increased operational efficiency.
   3. Creation of an efficient organizational structure

   These targets will be achieved through the segmentation of the network into two standards: Premium and economy, managing of the distribution channels and changing of the stations managing manner. The offering for institutional customers will be adjusted to their individual expectations.

7. On 20 April 2005 PKN ORLEN S.A received notification from the European Commission dated 20 April, 2005 regarding approval for the purchase from the National Property Fund of the Czech Republic ("FNM") 114,224,038 bearer shares in Unipetrol a.s. ("Unipetrol"), representing 62.99% of all bearer, issued and existing, shares in Unipetrol.

8. On 26 April 2005 PKN ORLEN S.A. announced that it has received the decree of the Arbitration Court, based in Warsaw, which states that the agreement for the purchase of 168,000 shares in Niezalezny Operator Miedzystrefowy Sp. z o.o. („NOM") by Polskie Sieci Elektroenergetyczne S.A. („PSE") in Warsaw from Polski Koncern Naftowy ORLEN S.A. did not come into force because the suspending condition was not fulfilled, i.e. the lack of approval from PSE corporate organs for the deal. At the same time the counter action of PKN ORLEN for payment for the shares was declined.

9. On 24 May 2005 PKN ORLEN S.A. purchased:
   a. 114,224,038 bearer shares of Unipetrol a.s ("Unipetrol Shares")., each having a nominal value of CZK 100 and representing approximately 62.99% of all issued and outstanding shares of Unipetrol, a.s ("Unipetrol") for a total of CZK 11,303,886,660 (PLN c.a. 1,562,197,136 as of May 23, 2005).

b. 745,000 bearer shares of Spolana a.s ("Spolana Shares")., each having a nominal value of CZK 655, and representing 9.76% of the share capital of Spolana a.s., for a total of CZK 1.0 million (PLN c.a.138,200 as of May 23, 2005),
c. receivables towards some of the companies of the Unipetrol Group ("Receivables") with a nominal value of approx. CZK 3.1 billion, EUR 9.5 million and USD 4.9 million, as of April 1, 2004, for approx. CZK 1.7 billion (PLN c.a. 234,940,000 as of May 23, 2005).

Following the acquisition of NPF's stake in Unipetrol, and in accordance with Czech law, PKN ORLEN will launch a mandatory tender offer to acquire the interests of minority shareholders in Unipetrol a.s. and its listed subsidiaries (Spolana a.s and Paramo a.s.). The intention of PKN ORLEN is to conduct a restructuring of the Unipetrol Group.

10. On 14 June 2005 PKN ORLEN S.A. issued parent company guarantees to Holborn European Marketing Company Ltd and Shell Deutschland Oil GmbH, for the total amount of EUR 64m, and a letter of guarantee to Bayerische-Hypo und Vereinsbank AG for the amount of EUR 25m to guarantee the liabilities of ORLEN Deutschland AG (PKN ORLEN's 100% fuel subsidiary in Germany). The approximate amount of PLN 359m in liabilities originates from ORLEN Deutschland's fuel trading operations. The guarantees given to Holborn European Marketing Company Ltd., Shell Deutschland Oil GmbH and Bayerische-Hypo und Vereinsbank AG are valid until 31 January 2006.

11. In relation to the purchase of shares representing 62,99% of UNIPETROL a.s. share capital and 9,76% of SPOLANA a.s. share capital, dated 24 May 2005, the Management Board of PKN ORLEN S.A. on 12 August 2005 applied to the Czech Securities Commission (the "SC") with applications for consent to PKN ORLEN's announcements of mandatory tender offers for the shares issued by UNIPETROL, a.s., PARAMO, a.s. and SPOLANA a.s. The prices proposed by PKN ORLEN are: CZK 135 per one UNIPETROL share; CZK 978 per one PARAMO share; and, CZK 155 per one SPOLANA share. On 26 August the Company obtained the SC acceptance. Finally approved tender offers contained the following prices: CZK 139 per one UNIPETROL share; CZK 978 per one PARAMO share; and, CZK 155 per one SPOLANA share.

12. On 6 September 2005 PKN ORLEN S.A. received a note informing it that Mr Piotr Osiecki will resign from his position as a member of the Supervisory Board of PKN ORLEN. The resignation will be valid from the date of the next General Meeting of Shareholders of PKN ORLEN, and follows his appointment to the position of Vice-President of the Management Board of PZU Asset Management S.A. Mr Piotr Osiecki was appointed to the Supervisory Bard of PKN ORLEN on 5 August 2004. He is a member of the Audit Committee and Corporate Governance Committee.

The most important events that took place in other entities constituting the Capital Group of PKN ORLEN and were not mentioned in the standalone financial statements of the Parent Company are as follows:

- **Rafineria Trzebinia S.A.**

1. Sale of the organized part of the company in the form of transportation department to ORLEN Transport Krakow Sp. z o.o., seated in Krakow.

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

Obligation to repay USD 1.122.500 with appropriate interests to Lurgi AG, Frankfurt am Main, Germany, resulting from unfavourable sentence of the Arbitrage Court in Warsaw on improper benefit of Rafineria Nafta Jedlicze S.A. made in April 2003 from so called Performance Bond hold under contract for Hydrorefining installation. Since the Company created partial allowance for this liability in 2003, the sentence will negatively affect the Company's result for the second quarter with the amount of PLN 2,745.4 thousand.

- **ORLEN Deutschland AG**

1. In the first half of 2005 there was a significant decrease in the company's retail margin. Accumulated retail margin for the first half of 2005 was approximately 21% lower than in the first half of 2004. Simultaneously, retail sales on petrol stations grew by almost 5% regardless the downturn of sales on the German petrol stations.
2. On 6 January 2005 ORLEN Deutschland signed the agreement with BP AG for fuel supply to the network of petrol stations in Germany in the period from 1 January 2005 till 31 December 2005. The agreement describes in details the fuel quality, destination and predicted size of deliveries, method of price calculation and other arrangements. Under this contract BP will deliver to ORLEN Deutschland 750 thousand tons of fuel (+/-10%) during the whole 2005. On 3 January 2005 ORLEN Deutschland signed the agreement with Shell Deutschland Oil GmbH for fuel supply to the network of petrol stations. The agreement is valid from 1 January 2005 till 31 December 2005 and also describes in detail destination and size of deliveries, method of price calculation, terms of payment, guarantees of supplies and other arrangements. The size of deliveries in the period covered by this contract amounts to about 615 thousand tons of fuel a year (-10%,+15%).

- **Basell Orlen Polyolefins Sp. z o.o.**

1. Completion of Logistic Platform.
2. Successful performance testing of Logistic Platform facilities.
3. Olefin installation stoppage in PKN ORLEN resulting in lower polyolefin output of BOP.
4. Foundation of tax capital group, involving BOP Sp. z o.o. and BOP Sprzedaż Sp. z o.o.

- **ORLEN Transport Płock Sp. z o.o.**

On 13 April 2005 the District Court in Warsaw, XXI Commercial Department of Commercial Register, registered an incorporation of ORLEN Transport Płock Sp. z o.o (transferee company) with ORLEN Transport Poznań Sp. z o.o., seated in Poznań and ORLEN Transport Warszawa Sp. z o.o., seated in Mościska (offeree companies). In result of this business combination the share capital of ORLEN Transport Płock Sp. z o.o. was increased from PLN 26,420 thousand to PLN 26,429.5 thousand. Consequently, the share hold by PKN ORLEN S.A. in ORLEN Transport Płock Sp. z o.o. increased from 97.55 % to 97.59 %. As at 30 June 2005 PKN ORLEN SA holds 51,566 shares of Transport Płock Sp. z o.o. worth PLN 25,783,000.

- **ORLEN Transport Kraków Sp. z o.o.**

On 1 April 2005 the Company's Management Board signed the agreement for purchase of the organized part of Euronaft Trzebinia Sp. z o.o. The aim of the transaction mentioned above was to rationalize transportation segment of the Group in the south-eastern region in order to optymalize the number of vehicles in use.

ADDITIONAL INFORMATION

INFORMATION ABOUT SIGNIFICANT AGREEMENTS

In the first half of the 2005 PKN Orlen S.A. concluded following important contracts:

1. On 3 January 2005 PKN ORLEN S.A. concluded annual contract with BP Polska Spółka z o.o. The subject of the deal is the sale of gasoline and diesel fuels to BP Polska Sp. z o.o in 2005. An estimated value of the transaction amounts to about PLN 2,377 million (gross).

2. On 3 January 2005 PKN ORLEN S.A. concluded annual contract with SHELL Polska Spółka z o.o. The subject of the deal is the sale of gasoline and diesel fuels to SHELL Polska Sp. z o.o. in 2005. An estimated value of the transaction amounts to PLN 1,905 million (gross).

3. On 3 January 2005 PKN ORLEN S.A. concluded annual contract with ORLEN PetroCentrum Sp. z o.o. The subject of the deal is the sale of of gasoline and diesel fuels oil to ORLEN PetroCentrum Sp. z o.o. in 2005. An estimated value of the trasaction amounts to PLN 1,173 million (gross).

4. On 3 January 2005 ORLEN Deutschland AG concluded an agreement with Shell Deutschland Oil GmbH, Hamburg. The subject of the deal is the supplies of fuel to petrol stations belonging PKN ORLEN S.A. in Germany in the period from 1 January 2005 to 31 December 2005. An estimated value of the transaction is EUR 600 million (approximately PLN 2,443 million).

5. On 6 January 2005 ORLEN Deutschland AG concluded an annual agreement with Deutsche BP Aktiengesellschaft. The subject of the deal is the sale of gasoline and diesel fuels oil to ORLEN Deutschland AG in 2005. An estimated value of the transaction is EUR 700 million approximately PLN 2,852.5 million).

6. On 14 April 2005 PKN ORLEN S.A concluded a sale agreement relating to 24 stakes at the nominal value of 589,000 each and at a total nominal value of PLN 14,136,000 constituting as at the date of the signature of the agreement, 30.77% of the share capital Przedsiębiorstwo Przeładunku Paliw Płynnych „Naftoport" Sp. z o.o. („Naftoport") between PKN Orlen as a seller and PERN Przyjaźń S.A. ("PERN") as a bayer. As a result of transaction PKN ORLEN S.A. holds 17,95% in share capital of Naftoport. Remaining shares are hold by following:
   a. PERN „Przyjaźń" S.A. – 67,95%
   b. Grupa LOTOS S.A. – 8,97%
   c. Port Północny – 3,85%
   d. J & S Services Ltd. – 1,28%

Significant agreements signed by other entities within the Capital Group in the first half of the 2005 and not listed above:

- **Rafineria Trzebinia S.A.**

1. On 12 January 2005 PKN ORLEN S.A. concluded an annual agreement with Rafineria Trzebinia S.A. The subject of the deal is the sale of gasoline and diesel fuel to Rafineria Trzebinia S.A. in 2005. An estimated value of the transaction is PLN 343 million (gross).
2. PKN ORLEN S.A. concluded an agreement with Rafineria Trzebinia S.A. The subject of the deal is the sale of gasoline to Rafineria Trzebinia S.A. in the period from 11 January 2005 to 31 January 2005. An estimated value of the transaction is USD 1,084,257 USD (approximately PLN 3,369,763).

- **ORLEN Transport Kraków Sp. z o.o.**

1. On 24 August 2005 PKN ORLEN S.A. granted a long-term loan of PLN 2,7 million to its subsidiary - ORLEN Transport Kraków Sp z o.o. The loan is to finance liabilities of ORLEN Transport Kraków Sp. z o.o. towards other entities within the Capital Group as well as to finance the subsidiary's working capital. The loan is to be repaid until 31 July 2009 in 48 monthly and fixed instilments. Interest is calculated at flexible interest rate established at market level. PKN ORLEN S.A. holds 98,41 % of the shares in share capital of ORLEN Transport Kraków Sp z o.o.

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

Consolidated companies	Basic Products and services	Markets (area of operation)	Dominating suppliers	Sale Income (in PLN thousand)
Parent Company				
PKN ORLEN S.A.	petrol, unleaded petrol, diesel, heating and special oils, lubricants, bitumen, polyethylene, polypropylene ethylene, propylene, butadiene, glycols, phenol, acetone	domestic market and export	J&S Service&Investment Ltd	9 748 797
Subsidiaries				
Rafineria Trzebinia S.A.*	engine petrol, heating oils, biodiesel FAME, base oils. lubricants, crude oil products, other products, paraffin for candles and torches, paraffin oil and mass for wood, paraffin specifics, candle products.	Domestic market and export	PKN ORLEN S.A., BMP Trading GmbH, EWICO Sp.z o.o. Cheman Ciech Sp. z o.o., Siarkopol S.A. Tarnobrzeg, J&S Energy S.A., Fabryka Parafin Naftowax Sp. z o.o., Orlen Gaz Płock Sp. z o.o, PGNiG, ENION, RPWiK, PHU „ZOF-STAL", T.P. S.A., Orlen Oil, Dostawcy gaczów z TNK, Jukos, Kremienczug, Uzbekistan	405 398
Rafineria Nafty Jedlicze S.A.*	engine petrol, diesel and heating oils, lubricants and special, greases	domestic market and export	PKN ORLEN S.A.; ORLEN OIL; J&S Energy,Rafineria Jasło, PGNiG S.A. (Warszawa), ORLEN PetroTank Sp. z o.o., Baltex S.A. (Warszawa), Konsorcjum Olejów Przepracowanych (Jedlicze), Unimot Express (Warszawa); Rafineria Trzebinia S.A.; SWS Handelsges (Niemcy); C.H.Erbsloh (Warszawa); Lubrizol (Francja); RohMax, (Niemcy); MOL (Węgry); Lotos Oil (Gdańsk)	221 614
IKS Solino S.A.	brine, evaporated, iodinated salts, salt tablets, pickling salt, compact salt, fuel storage	Domestic market and export	Janikowskie Zakłady Sodowe Janikosoda S.A., Anwil S.A. (Włocławek), IZCH (Inowrocław)	55 651

Consolidated companies	Basic Products and services	Markets (area of operation)	Dominating suppliers	Sale Income (in PLN thousand)
	service in PMRiP			
Anwil S.A.*	polyvinyl chloride, sodium hydrate, ammonium nitrate, CANWIL – nitrochalk, granulated PCV plates	domestic market and export	PKN ORLEN S.A., PGNiG S.A., IKS SOLINO SA	730 533
UNIPETROL a.s.:				1 607 411 **
Chemopetrol a.s.	polyetylen, polypropylen ethylen, propylen fuel, fraction C4, fraction C5, Fraction C9, BTX, ethanol, alkohols OXO, ammonia	Czech Republic and foreign markets	Unipetrol Rafinerie	-
Kaucuk a.s.	E-SBR, EPS, CPS, Butadien, Rafinat II, ABS	Czech Republic and foreign markets	Chemopetrol	-
Spolana a.s.	PCV, Kaprolaktam, NaOH	Czech Republic and foreign markets	Chemopetrol	-
Unipetrol Rafinerie a.s.	diesel oil, petrol, materials to pyrolisys , HCVD, LPG, Jet, aspfalt, propylen, raw materials to POX, oils	Czech Republic and foreign markets		-
Paramo a.s.	materials to pirolisys , diesel oils, LFO, HFO, aspfalt, lubricants, oils	Czech Republic and foreign markets	Unipetrol Rafinerie	-
Benzina a.s.	Petrol, engine oil	Czech Republic	Unipetrol Rafinerie	-
Agrobochemie a.s.	amonia, urea	Czech Republic and foreign markets	Chemopetrol	-

Consolidated companies	Basic Products and services	Markets (area of operation)	Dominating suppliers	Sale Income (in PLN thousand)
Alliachem a.s.	dyes, pigments, organic chemicals, nitrocellulose, plastics, foils LDPE, LLDPE, BO PET	Czech Republic and foreign markets	Chemopetrol	-
ORLEN-Oil Sp. z o.o.*	lubricants, base oils, other oil products, exploiting liquids	domestic market and export	Rafineria Nafty Jedlicze S.A.	280 669
ORLEN Asfalt Sp. z o.o.	road, modificated and industrial asphalt, bitumen, transportation Services, slopes and dump.	domestic market and export (Hungary, Slovakia, Germany, Czech Republik)	PKN ORLEN S.A. ORLEN Oil Sp. z o.o., Kraton Polymers North East Europe Sp. z o.o., Brenntag Polska Sp. z o.o.	137 165
ORLEN PetroTank Sp. z o.o.	engine oils, heating and liquidated gas	Poland	PKN ORLEN S.A., ORLEN Petrocentrum Sp. z o.o.	357 655
ORLEN PetroProfit Sp. z o.o.*	engine petrol,, heating and industrial oils, LPG, preparation and sale of refrigerating oils, polyethylene, polypropylene	eastern Poland	PKN ORLEN S.A., ORLEN Petro Centrum Sp. z o.o., PetroZachód Sp. z o.o., ORLEN Oil Sp. z o.o.	237 751
ORLEN PetroCentrum Sp. z o.o.	engine petrol,, heating oils and liquidated gas	Poland	PKN ORLEN S.A.	811 087
Petrolot Sp. z o.o.	Aircraft fuel, Jet A-1, aircraft petrol 100LL, car fuels	domestic and Foreing airlines, Sale of car fuel in Warsaw	PKN ORLEN S.A. Agencja Rezerw Materiałowych S. A., Grupa Lotos S.A. Ośrodek Badawczo Rozwojowy Przemysłu Rafineryjnego w Płocku	236 482
ORLEN Morena Sp. z o.o.	Engine petrol, diesel, heating oils, propan-butan	northern Polska	PKN ORLEN S.A. ORLEN PetroCentrum Sp. z o.o. ROMGAZ	172 184
Ship - Service S.A. *	IFO-Intermediate Fuel Oil, MDO-Marine Diesel Oil, MGO - Marine Gas Oil,	domestic and Foreing harbours (inland navigation in Poland and abroad, Klajpeda, Lithuania),	PKN ORLEN S.A., Rafineria Trzebinia S.A., UAB Lietkomerc Limited, Nau Shipping,	127 162

Consolidated companies	Basic Products and services	Markets (area of operation)	Dominating suppliers	Sale Income (in PLN thousand)
ORLEN PetroZachód Sp. z o.o.	Engine petrol, diesel, heating oils, gas, petrygo liquid, plastics, goods on petrol stations	Poland, wielkopolskie, lubuskie, dolnośląskie regions	PKN ORLEN S.A. ORLEN PetroCentrum Sp. z o.o., Basell ORLEN Polyolefins Sp. z o.o.	264 471
ORLEN Deutschland AG Activities in Germany	engine petrol, diesel, heating oils	Northern Germany	BP/Aral, Shell, Mabanaft, Holborn, CONOCO,	4 084 167
ORLEN Gaz Sp. z o.o.	propan-butan, propan	Domestic market, export (Slowakia)	PKN ORLEN S.A., BP Polska Sp. z o.o., VOEST-ALPINE INTERTRADING AG, BAŁTYK - GAZ SP. Z O.O., GASPOL S.A.	230 746
Zakład Budowy Aparatury S.A.	shell-and-tube heat exchanger, double pipe heat Exchange, process column, air cooler, power condenser and heater, pressure vessel, stock tanks, value cap shelves for columns, steel stacks, air and exhaust gas ducts, steelworks, spare Parts, for pressure apparatus, maintenance of crane devices under UDT	Poland	OLKAM (Częstochowa), Kuźnia Gdańska, PPHU APIS (St. Wola), SILESIA (Katowice), Rautaruukki Steel (Finlandia), DEMARK Sp. J. (Toruń), Austenit Import (Toruń), Petro-Kor (Płock), Weisstaler GmbH (Niemcy)	11 010
Petrotel Sp. z o.o.	telecommunication services, GSM activation, goods and materials	Płock and commune of Stara Biała	Polkomtel S.A., Exatel, ERA GSM PTC	16 518
ORLEN Projekt S.A.	design and typographical services, start-up investments, realization of investments, investment supervision, printing	Domestic market and export	Dipl.-Ing.Scherzer (Niemcy), Petro Remont (Płock)	12 392

Consolidated companies	Basic Products and services	Markets (area of operation)	Dominating suppliers	Sale Income (in PLN thousand)
ORLEN Medica Sp. z o.o.	medical services	domestic market	CSK WIM; LEWANDPOL; Euromed Sp. z o.o.; Wojewódzka Stacja Pogotowia Ratunkowego i Transportu Sanitarnego; GlaxoSmithKline; Apteka VITA	6 545
ORLEN Automatyka Sp. z o.o.	installation services, repair and maintenance of control and measuring tools and devices	domestic market	Zakłady Automatyki POLNA S.A. ASCO JOUCOMATIC Sp. z o.o. Technopomiar Sp. z o.o. ASE Sp. z o.o. SEMA Sp. z o.o. PPH MAR-JAN S.J. AMPER , PHU ELGAL Emerson Process Management Sp. z o.o. INTROL Sp. z o.o. ABB Sp. z o.o. Honeywell Sp. z o.o. POLYCO PHU KLIMA-THERM Kujawska Fabryka Manometrów S.A. Linde Gaz Polska Sp. z o.o. Okręgowy Urząd Miar	12 471
ORLEN Wir Sp. z o.o.	repair servies of compressors and turbines	Poland	Alfa Płock, P U H Transfer Bis, Biuro Handlowe EWAN s.c., AHW Sp. z o.o., BBT-Polska, Hydrof	6 819
ORLEN Transport Płock Sp. z o.o.	ADR transport, transport of goods and people, sedition, services relating to construction machines, repairs and services, sale of petrygo, ekoterm, fuels	Poland and Europe	PKN ORLEN S.A.,	43 356
ORLEN Transport Szczecin Sp. z o.o.	transportation services	Poland regions: zachodniopomorskie, lubuskie, wielkopolskie, pomorskie	ORLEN Morena Sp. z o.o. ORLEN Transport Płock Sp. z o.o.	2 200
ORLEN Transport Kraków Sp. z o.o.	transportation services	Poland and Europe	PKN ORLEN S.A., ORLEN PetroTank Sp. z o.o., ORLEN Oil Sp. z o., KrakGaz	14 101

Consolidated companies	Basic Products and services	Markets (area of operation)	Dominating suppliers	Sale Income (in PLN thousand)
ORLEN Transport Nowa Sól Sp. z o.o.	transportation service; Sale of fuel,	Poland, regions: lubuskie, dolnośląskie and part of zachodniopom.	ORLEN Morena Sp. z o.o. Opony Serwis Piechnik (Nowa Sól), Raniś & Raniś Sp.Jawna (Świętno)	15 226
ORLEN Transport Słupsk Sp. z o.o.	Transportation and motorisation services, sale of fuel	domestic market and export	PKN ORLEN S.A., ORLEN Morena Sp. z o.o.	11 872
ORLEN Transport Olsztyn Sp. z o.o.	transportation services, sale of fuel	domestic market	PKN ORLEN S.A. ORLEN Morena Sp. z o.o.	8 283
ORLEN Transport Kędzierzyn Koźle Sp. z o.o.	transportation services, servicing, sale of fuel, sale of vehicles and fuel-liked	Poland and Europe	PKN ORLEN S.A., Fiat Auto Poland S.A., Rafineria Trzebinia S.A, Pro-Naft sp. z o.o.	9 477
ORLEN KolTrans Sp. z o.o.	leasing of tankers, and complementary activity, servicing of DEC compartments.	domestic market	PKN ORLEN S.A., Transchem, Transpol, Hagans, Lotos i ZNTK Oława	22 417
ORLEN Budonaft Sp. z o.o.	construction, maintenance and modernisations of fuels stations	Polska	BRUGG GRUDNIK AGROSTAL ONINEN	21 702
ORLEN Laboratorium Sp. z o.o.	laboratory services	domestic market and export (Germany)	PKN ORLEN S.A. Petrotel Sp. z o.o. ORLEN Media Sp. z o.o. Inkom Instruments Co. Perkin Elmer Polska Sp. z o.o. P.U. Zieleń Sp. z o.o. Polskie Odczynniki Chemiczne S.A. BOC Gazy Sp. z o.o.	18 405
ORLEN Powiernik Sp. z o.o.	trust services to PKN ORLEN S.A.	Płock	PKN ORLEN S.A.	0
Joint-venture company				
Basell Orlen Polyolefins Sp. z o.o.	polyethylene, polypropylene, sale of imported products, trust services to Basell Polyolefins Company	domestic market and export	PKN ORLEN S.A.,	507 603

Consolidated companies	Basic Products and services	Markets (area of operation)	Dominating suppliers	Sale Income (in PLN thousand)
Assosiated companies				
Chemiepetrol GmbH	glycolisis, PVC, ksylen, MEG, rubber, soda	Germany	PKN ORLEN S.A., Dwory S.A., Ciech	17 605

*) belongs to Capital Group
**) Sales of Unipetrolu a.s. relate to June 2005 only

TRANSACTIONS WITH RELATED ENTITIES

Transactions with related entities, where value of single transaction or total value of transactions during the the first half of the 2005exceeds a PLN equivalent of EUR 500 thousand:

L.p.	Name of business partners	Sale in PLN thousand	Purchases in PLN thousand
1.	ORLEN Gaz Sp. z o.o.	150 869,8	154 133,1
2.	ORLEN PetroProfit Sp. z o.o.	52 872,5	2 440,2
3.	ORLEN PetroTank Sp. z o.o.	85 874,3	5 350,6
4.	Inowrocławskie Kopalnie Soli "SOLINO" S.A.	495,8	15 590,4
5.	ORLEN PetroCentrum Sp. z o.o.	801 761,4	2 919,2
6.	PETROLOT Sp. z o.o.	169 358,1	885,1
7.	Petrotel Sp. z o.o.	872,7	4 515,5
8.	Wisła Płock Sportowa S.A.	16,7	5 711,4
9.	Rafineria Trzebinia S.A.	156 401,8	3 897,9
10.	ORLEN Medica Sp. z o.o	88,4	2 616,2
11.	ORLEN PetroZachód Sp. z o.o.	73 097,3	10 127,6
12.	ORLEN Projekt S.A.	215,5	10 066,2
13.	ORLEN Ochrona Sp. z o.o.	1 028,2	14 934,4
14.	Zakład Budowy Aparatury S.A.	1 286,2	6 154,6
15.	ORLEN Transport Płock Sp. z o.o. (+ ORLEN Transport Warszawa. ORLEN Transport Poznań)	29 550,5	10 801,0
16.	ORLEN Automatyka Sp.z o.o.	213,5	10 155,2
17.	ORLEN Wir Sp. z o.o.	271,1	3 531,1
18.	ORLEN Budonaft Sp. z o.o.	433,7	21 398,4
19.	Rafineria Nafty Jedlicze S.A.	3 006,1	350,0
20.	SHIP-SERVICE S.A.	55 257,6	34,2
21.	ANWIL S.A.	128 198,3	1 113,7
22.	ORLEN Oil Sp. z o.o.	134 977,5	41 723,1
23.	Serwis Mazowsze Sp. z o.o.	151,2	3 855,1
24.	ORLEN Transport Olsztyn Sp. z o.o.	2 444,0	2 585,6
25.	ORLEN Transport Kędzierzyn-Koźle Sp. z o.o.	2 560,8	2 920,8
26.	ORLEN Transport Słupsk Sp. z o.o.	6 093,9	2 519,4
27.	ORLEN Transport Kraków Sp. z o.o.	3 984,6	3 190,3
28.	ORLEN Transport Nowa Sól Sp. z o.o.	329,2	5 851,4
29.	ORLEN Centrum Serwisowe (dawniej Zakład Urządzeń Dystrybucyjnych)	426,1	8 458,7
30.	ORLEN KolTrans Sp. z o.o.	1 913,4	15 944,8
31.	ORLEN Asfalt Sp.z o.o. (dawniej Bitrex Sp. z o.o.)	114 461,2	1 343,7
32.	ORLEN Morena Sp. z o.o.	52 356,4	148,0
33.	BASELL ORLEN POLYOLEFINS Sp. z o.o.	361 754,6	3 071,1
34.	ORLEN Laboratorium Sp. z o.o.	1 132,0	15 663,2
35.	ORLEN Eko Sp. z o.o.	2 045,2	7 414,1
36.	Unipetrol Rafinerie a.s.	51 967,2	0,0
37.	Petro-Oil Małopolskie Centrum Sprzedaży Sp. z o.o.	153,6	3 136,3

L.p.	Name of business partners	Sale in PLN thousand	Purchases in PLN thousand
38.	Petro-Oil Wielkopolskie Centrum Sprzedaży Sp. z o.o.	260,0	3 792,7
39.	Petro-Oil SEEWAX Sp. z o.o.	136,2	5 656,3
40.	Petro - Oil Śląskie Centrum Sprzedaży Sp. z o.o.	0,5	2 612,5
41.	Petro-Oil Dolnośląskie Centrum Sprzedaży Sp. z o.o.	10,0	4 982,9
42.	Petro-Oil Pomorskie Centrum Sprzedaży Sp. z o.o.	1,2	5 523,2
43.	Petro-Oil Łódzkie Centrum Sprzedaży	0,0	2 104,9
	Total	**2 448 327,7**	**429 224,2**

In the reporting period the Company obtained the statements from the supervising persons on intra-group transactions in enlarged extend as required by amended IAS 24 „Information revealed concerning relating entities".

Transactions with related entities by the persons supervising the Company (in PLN thousand)

	Sales	Purchases	Receivables	Liabilities	Dividend paid
Legal persons *	12.598	24.242	-	-	-
Natural persons **	443	-			

* Transactions for the period of acting member of the key management by persons supervising the Company
** In the reporting we included transactions under EUR 500 thousand.

In the period presented in the financial Statement 11 persons acted as Members of Supervisory Board. The Company did not obtain the relevant extended statement from 1 former Member of the Supervisory Board.
In the first half of the 2005 members of the Management Board did not enter into transactions with related entities as understood under IAS 24 „Information revealed concerning relating entities".

REMUNERATION, INCLUDING PROFIT DISTRIBUTION, PAID TO MANAGEMENT BOARD, SUPERVISORY BOARD AND MEMBERS OF KEY MANAGEMENT ACCORDING TO IAS 24

Remuneration, including profit distribution, paid to Management Board, Supervisory Board and members of key management according to IAS 24 are presented in Note 32 of the consolidated financial statements.

CHANGES IN THE COMPOSITION OF THE DOMINANT COMPANY AND IN THE CONSOLIDATED COMPANIES' MANAGEMENT AND SUPERVISORY BOARDS OF CAPITAL GROUP PKN ORLEN S.A. DURING THE 1st HALF OF THE YEAR 2005

In the period from 1 January 2005 to 30 June 2005 the Management Board of PKN ORLEN S.A. consisted of the following members:

Igor Chalupec	President of the Management Board, General Executive Officer from 1 October 2004.
Wojciech Heydel	Vice-President of the Management Board from 1 November 2004 Vice-President of the Management Board, Retail and Commercial Sales Director from 2 November 2004
Cezary Smorszczewski	Vice-President of the Management Board from 1 November 2004 Vice-President of the Management Board, Strategy and Capital Investments Director from 2 November 2004
Paweł Szymański	Member of the Management Board from 18 October 2004 Member of the Management Board, Chief Financial Officer from 2 November 2004
Jan Maciejewicz	Vice-President of the Management Board, Cost Management and Information Technology Director from 1 December 2004
Andrzej Macenowicz	Member of the Management Board from 8 February 2002 Vice-President of the Management Board from 7 March 2002 to 29 June 2005 Vice-President of the Management Board, Human Resources and Management Systems Director from 12 March 2002 to 1 November 2004 Vice-President of the Management Board, Human Resources Management and Administration Director from 2 November 2004 do 29 June 2005

Janusz Wiśniewski	Vice-President of the Management Board from 7 March 2002 to 29 June 2005 Vice-President of the Management Board, Development and Production Director from 12 March 2002 Vice-President of the Management Board, Production, Wholesale Trade and Logistics Director from 4 May 2004 to 1 November 2004 Acting President of the Management Board and General Director from 16 August 2004 to 30 September 2004 Vice-President of the Management Board, Operating Director from 2 November 2004 to 29 June 2005

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

Jacek Bartkiewicz	Member of the Supervisory Board from 25 March 2003 to 1 March 2004 Chairman of the Supervisory Board from 5 August 2004
Maciej Gierej	Member of the Supervisory Board from 21 February 2002 to 28 June 2002 Chairman of the Supervisory Board from 28 June 2002 to 8 April 2004 r Member of the Supervisory Board from 5 August 2004
Michał Stępniewski	Member of the Supervisory Board from 24 June 2004 Vice-Chairman of the Supervisory Board from 12 April 2005 to 30 June 2005
Raimondo Eggink	Member of the Supervisory Board from 5 August 2004
Krzysztof Lis	Member of the Supervisory Board from 5 August 2004 to 31 January 2005
Małgorzata Okońska - Zaremba	Member of the Supervisory Board from 5 August 2004
Piotr Osiecki	Member of the Supervisory Board from 5 August 2004
Ireneusz Wesołowski	Member of the Supervisory Board from 5 August 2004 Secretary of the Supervisory Board from 16 August 2004

Krzysztof Żyndul	Member of the Supervisory Board from 5 August 2004 Vice-Chairman of the Supervisory Board from 16 August 2004 to 30 March 2005
Andrzej Olechowski	Member of the Supervisory Board from 29 June 2005
Adam Sęk	Member of the Supervisory Board from 29 June 2005

Members of the Management and Supervisory Boards in companies of the Capital Group PKN ORLEN S.A. as at 30 June 2005 (presented below Supervisory Board members include only those representing the Dominant Entity)

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

Rafineria Trzebinia S.A.	*President* *Member of the Management Board* *Supervisory Board*	*Grzegorz Ślak* *Marek Martyniak* *Janusz Wiśniewski – Chairman of the Supervisory Board* *Cezary Smorszczewski,* *Grażyna Tomala,* *Andrzej Łobodziński,* *Krystian Pater*
Rafineria Nafty Jedlicze S.A.	*President* *Member of the Management Board* *Supervisory Board*	*Krzysztof Janas* *Adam Kozak, Ryszard Szyszlak* *Paweł Szymański - Chairman of the Supervisory Board* *Czesław Bugaj,* *Andrzej Stegenta,* *Tomasz Wołoch*
IKS „Solino" S.A.	*President* *Member of the Management Board* *Supervisory Board*	*Czesław Misterski* *Piotr Mroziński, Jolanta Uzarczyk-Gerus,* *Andrzej Macenowicz - Chairman of the Supervisory Board* *Marek Bakuła,* *Elwira Lewtak,* *Mariusz Pawlak,* *Renata Rosiak*
Anwil S.A.	*President* *Member of the Management Board* *Supervisory Board*	*Benedykt Michewicz* *Teresa Szeligowska, Krzysztof Kamiński,* *Janusz Wiśniewski - Chairman of the Supervisory Board* *Cezary Smorszczewski,* *Paweł Szymański,* *Janusz Zieliński*
Unipetrol a.s.	*President* *Member of the Management Board* *Supervisory Board*	*Pavel Svarc* *Marek Mroczkowski, Adam Życzkowski, Vit Subert, Frederik Emmich* *Igor Chalupec - Chairman of the Supervisory Board* *Cezary Smorszczewski,* *Paweł Szymański,* *Joanna Chmielewska,* *Piotr Kearney,* *Dariusz Formela,* *Wojciech Lorenc*

ORLEN -Oil Sp. z o.o.	*President* *Member of the Management Board* *Supervisory Board*	*Marian Andrzej Łyko* *Adam Gembala, Wojciech Głaziewicz* *Wojciech Heydel - Chairman of the Supervisory Board* *Czesław Bugaj*
Basell Orlen Polyolefins Sp. z o.o.	*President* *Member of the Management Board* *Supervisory Board*	*Hartmut Luker* *Karol Marek Sęp, Willem Adolf Eduardus Waelput, Robert Bednarski* *Janusz Wiśniewski - Chairman of the Supervisory Board* *Jan Maciejewicz*
ORLEN Asfalt Sp. z o.o.	*Acting President* *Member of the Management Board* *Supervisory Board*	*Mirosław Wrona* *Andrzej Zdzienicki* *Tomasz Kwiecień - Chairman of the Supervisory Board* *Dariusz Kusiak*

Fuel companies:

ORLEN PetroTank Sp. z o.o.	*President* *Member of the Management Board* *Supervisory Board*	*Jan Serwa* *Roman Lewandowski* *Wiesław Ejdys - Chairman of the Supervisory Board* *Tomasz Wołoch,* *Wojciech Ostrowski*
ORLEN PetroProfit Sp. z o.o.	*President* *Member of the Management Board* Supervisory Board	Jan Serwa Ewa Jośko *Wiesław Ejdys - Chairman of the Supervisory Board* Wojciech Ostrowski, Aneta Pankowska
ORLEN PetroCentrum Sp. z o.o.	*President* *Member of the Management Board* *Supervisory Board*	*Paweł Wysocki* *Aniela Michalik, Józef Janiszewski* *Wiesław Ejdys - Chairman of the Supervisory Board* Wojciech Ostrowski, *Aneta Pankowska*
Petrolot Sp. z o.o.	*President* *Member of the Management Board* *Supervisory Board*	*Jan Kujawa* *Wojciech Weiss, Krzysztof Czujkowski* *Kazimierz Klęk - Chairman of the Supervisory Board* *Tomasz Kwiecień*

ORLEN PetroZachód Sp. z o.o.	*President* *Member of the Management Board* *Supervisory Board*	*Krzysztof Badura* *Przemysław Leśnik, Zenon Gawron* *Wiesław Ejdys - Chairman of the Supervisory Board* *Dariusz Kusiak*
Ship – Service S.A.	*Acting President* *Member of the Management Board* *Supervisory Board*	*Bogdan Zegar* *Edmund Kazimierz Runowicz, Dariusz Sabalski* *Bogdan Zegar - Chairman of the Supervisory Board* *Tomasz Wołoch* *Janusz Girszewski*

ORLEN Morena Sp. z o.o.	*President* *Member of the Management Board* *Supervisory Board*	*Izabella Olszewska* *Wanda Zubrycka* *Wiesław Ejdys - Chairman of the Supervisory Board* Wojciech Ostrowski, *Krzysztof Sobieraj*
Zakład Budowy Aparatury S.A.		
Petrotel Sp. z o.o.		
ORLEN Projekt S.A.		
ORLEN Medica Sp. z o.o.		
ORLEN Laboratorium Sp. z o.o.		

ORLEN Deutschland AG	*Acting President* *Member of the Management Board* *Supervisory Board*	Josef Niedworok Michał Jonczyński *Igor Chalupec - Chairman of the Supervisory Board* *Jan Maciejewicz,* *Wojciech Heydel,* *Przemysław Grabowski,* *Paweł Szymański,* *Paweł Brochocki*

LPG trading companies:

ORLEN Gaz Sp. z o.o.	*President* *Member of the Management Board* Supervisory Board	Andrzej Rokicki Bernard Cichocki *Wojciech Heydel - Chairman of the Supervisory Board* Dariusz Kusiak, Grażyna Tomala, Tomasz Kwiecień

Companies established from restructuring of the Dominant Company:

Maintenance companies of the Dominant Company:

ORLEN Automatyka Sp. z o.o.	*President* *Member of the Management Board* Supervisory Board	Kazimierz Bętlejewski Jerzy Klatte *Zdzisław Nicewicz - Chairman of the Supervisory Board* Monika Łobodzińska
ORLEN Wir Sp. z o.o.	*President* *Member of the Management Board* Supervisory Board	Józef Świątczak Witold Kapela *Zbigniew Belka – Chairman of the Supervisory Board* Monika Łobodzińska

Transportation companies of the Dominant Company:

ORLEN Transport Płock Sp. z o.o.	*President* *Member of the Management Board* Supervisory Board	Jerzy Jasiński Roman Rutecki, Remigiusz Miecznikowski *Marek Bakuła - Chairman of the Supervisory Board* Anna Jasińska

ORLEN Transport Szczecin Sp. z o.o.	*President* *Member of the Management Board* Supervisory Board	Paweł Hapczyk Bogdan Biskupski *Artur Falkiewicz - Chairman of the Supervisory Board* Krzysztof Sobieraj
ORLEN Transport Kraków Sp. z o.o.	*President* *Member of the Management Board* Supervisory Board	Robert Zaklika Piotr Tuniewicz *Krzysztof Gawłowski - Chairman of the Supervisory Board* Anna Jasińska
ORLEN Transport Nowa Sól Sp. z o.o.	*President* Supervisory Board	Leszek Gnitecki *Henryk Jaworski - Chairman of the Supervisory Board* Dagmara Gorzelana
ORLEN Transport Słupsk Sp. z o.o.	*President* *Member of the Management Board* Supervisory Board	Wiesław Idźkowski Edward Klecha, Sławomir Myśliński *Krzysztof Gawłowski - Chairman of the Supervisory Board* Krzysztof Sobieraj
ORLEN Transport Olsztyn Sp. z o.o.	*President* *Member of the Management Board* Supervisory Board	Tadeusz Kowalczyk Stanisław Mastyło *Krzysztof Gawłowski - Chairman of the Supervisory Board* Dagmara Gorzelana
ORLEN Transport Kędzierzyn Koźle Sp. z o.o.	*President* Supervisory Board	Michał Miklas *Krzysztof Gawłowski - Chairman of the Supervisory Board* Dagmara Gorzelana
ORLEN KolTrans Sp. z o.o.	*President* Supervisory Board	Andrzej Dorosz *Marek Bakuła - Chairman of the Supervisory Board* Marcin Jeżewski, Adam Woźniak

Other companies:

Chemiepetrol GmbH	Management Board	Dariusz Dąbrowa, Jurgen Kleiner
ORLEN Powiernik Sp. z o.o.	*President* *Member of the Management Board* Revision Commission	Arkadiusz Lewtak Małgorzata Mioduska *Bogdan Zegar - Chairman of the Revision Commission* Iwona Zawidzka Grażyna Tomala

ORLEN Budonaft Sp. z o.o.	*President* *Member of the Management Board* Supervisory Board	Władysław Teterycz Ewa Czernicka, Marek Truchan *Monika Łobodzińska - Chairman of the Supervisory Board* Rafał Jędrzejewski Walenty Cywiński

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

As at 30 June 2005, 2,950 shares in PKN ORLEN S.A. were held by Raimondo Eggink, Member of the Supervisory Board. Other Members of the Management and Supervisory Board, as at 30 June 2005, did not possess any shares and stakes in PKN ORLEN S.A. and other companies of the Capital Group.

SHAREHOLDERS OF THE DOMINANT COMPANY

Shareholders of PKN ORLEN S.A. as at 30 June 2005:

Shareholders	Number of shares	Number of voting rights	Par value of shares	Share in share capital
Nafta Polska S.A	74 076 299	74 076 299	92 595 374	17,32%
Skarb Państwa	43 633 897	43 633 897	54 542 371	10,20%
The Bank of New York	52 031 578	52 031 578	65 039 473	12,17%
Other *	257 967 287	257 967 287	322 459 109	60,31%
Total	**427 709 061**	**427 709 061**	**534 636 326**	**100,00%**

* According to the current report no 33/2005 issued on 25 May 2005, FMR Corp. with directly and indirectly dependent entities seated in Boston and Fidelity International Limited with directly and indirectly dependent entities seated on Bermuda Islands as at 24 May 2005 possessed 21 436 944 shares of PKN ORLEN, constituting 5,01% of share capital, granting 21 436 944 voting rights at the general shareholders meeting and 5,01% of the total number of voting rights at the general shareholders meeting of PKN ORLEN S.A.

There are no agreements known according to which proportions of shares as possessed by the current shareholders could change in the future.

Management Board Raport on Operations
of Polski Koncern Naftowy ORLEN Spolka Akcyjna Capital Group
for the 1st half of the year 2005
submitted by the Management Board composed of:

.....
Management Board President
Igor Chalupec

.....	.....	.....
Management Board Vice-President	**Management Board Vice-President**	**Management Board Vice-President**
Wojciech Heydel	Jan Maciejewicz	Cezary Smorszczewski

.....	.....
Management Board Member	**Management Board Member**
Paweł Szymański	Dariusz Witkowski

Płock, 26 September 2005