

POLSKI KONCERN NAFTOWY ORLEN SPOLKA AKCYJNA

**MANAGEMENT BOARD COMMENTARY ON
PKN ORLEN S.A. CAPITAL GROUP
BUSINESS OPERATIONS
FOR THE YEAR 2000
(DIRECTORS' REPORT)**

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INTRODUCTION

This report was prepared in compliance with the Directive of the Council of Ministers on the type, form and scope of current and periodical information, as well as on dates for the delivery thereof by issuers of publicly traded securities, of December 22, 1998 (Dz. U. No. 163, pos. 1160).

I. INFORMATION ON PKN ORLEN S.A. CAPITAL GROUP

As at December 31, 2000 PKN ORLEN S.A. Capital Group comprised 145 subsidiary companies, associated companies and minority entities:

- 102 subsidiary companies in which PKN ORLEN S.A. holds, directly or indirectly, majority interests (over 50%),
- 18 associated companies (with interests from 20% to 50%),
- 25 other companies (with minority interests below 20%).

The value of the shares (at purchase prices) held by Polski Koncern Naftowy ORLEN S.A. as at December 31, 2000 was PLN 1,011,718 thousands and marked an increase in comparison with the previous year of PLN 229,158 thousands that is by 29%.

Thirty-eight entities (subsidiary companies and associated companies) in the PKN ORLEN S.A. Capital Group are consolidated and are categorised according to the following criteria:

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

- Rafineria Trzebinia S.A. located in Trzebinia,
- Rafineria Nafty Jedlicze S.A. located in Jedlicze,
- Inowrocławskie Kopalnie Soli "Solino" S.A. located in Inowrocław,
- Zakłady Azotowe Anwil S.A. located in Włocławek,
- Naftoport Sp. z o.o. located in Gdansk,
- Petro-Oil Sp. z o.o. located in Krakow.

2. Fuel trading companies:

- ORLEN Petro-Tank Sp. z o.o. located in Widelka n/Kolbuszowa,
- ORLEN PetroProfit Sp. z o.o. located in Niemcy n/Lublin,
- Petrocentrum Sp. z o.o. located in Plock,
- Petrolot Sp. z o.o. located in Warsaw,
- PetroZachod Sp. z o.o. located in Poznan.

3. LPG trading companies:

- Petrogaz Plock Sp. z o.o. located in Plock,
- Petrogaz Redaki Sp. z o.o. located in Redaki*,
- Petrogaz Hrubieszow Sp. z o.o. located in Hrubieszow,
- Petrogaz Jaworzno Sp. z o.o. located in Jaworzno,
- Petrogaz Nowa Brzeznicza Sp. z o.o. located in Nowa Brzeznicza,
- Petrogaz Inowroclaw Sp. z o.o. located in Inowroclaw,
- ORLEN Petrogaz Wroclaw Sp. z o.o. located in Wroclaw,
- Petrogaz Lapy Sp. z o.o. located in Lapy.

*) As at the end of 2000 these companies were contributed to Petrogaz Plock Sp. z o.o.

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

- Zaklad Budowy Aparatury S.A. located in Plock,
- Petrotel Sp. z o.o. located in Plock,
- Petroprojekt S.A. located in Plock,
- ORLEN Medica Sp. z o.o. located in Plock.

5. Transportation companies of PKN ORLEN S.A.:

- ORLEN Transport Plock Sp. z o.o. located in Plock,
- PKN Transport Szczecin Sp. z o.o. located in Szczecin,
- ORLEN Transport Krakow Sp. z o.o. located in Krakow,
- ORLEN Transport Lublin Sp. z o.o. located in Lublin,
- PKN Transport Nowa Sol Sp. z o.o. located in Nowa Sol,
- ORLEN Transport Poznan Sp. z o.o. located in Poznan,
- PKN Transport Slupsk Sp. z o.o. located in Slupsk,
- ORLEN Transport Warszawa Sp. z o.o. located in Warsaw,
- ORLEN Transport Olsztyn Sp. z o.o. located in Olsztyn,
- ORLEN Transport Kedzierzyn-Kozle Sp. z o.o. located in Kedzierzyn-Kozle,
- ORLEN KolTrans Sp. z o.o. located in Plock.

6. Other companies:

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

In the case of Rafineria Trzebinia S.A., Rafineria Nafty Jedlicze S.A. and ORLEN PetroProfit Sp. z o.o., the report covered 11 subsidiary companies included in their capital groups. The report also covers Polkomtel S.A. as a company that is excluded from consolidation but is of significant importance to the PKN ORLEN S.A. Capital Group.

1.1 Changes in the Capital Group in 2000.

In 2000, the fuel companies continued the process of expanding the distribution channels through their own fuel stations. By the end of this period the fuel companies group owned 78 stations. As at December 31, 2000 the balance-sheet value of the fuel companies in the PKN ORLEN S.A. portfolio was PLN 61,006 thousand. In 2000, PLN 1,367.6 thousand was invested in the fuel companies by way of an increase in the capital stock of Petrolot Sp. z o.o. of Warsaw, proportionate to the stake of PKN ORLEN S.A. in this company.

The Capital Group continued the process of developing the network of LPG companies, which operate under the joint name of Petrogaz. These businesses have expanded their presence in the marketplace through the introduction of branded gas containers and by developing gas distribution capabilities at service stations. The LPG companies network sold in 2000 approximately 220 thousand tonnes of liquid gas. In 2000, a consolidation process of gas assets commenced. The entity responsible for the LPG distribution will be Petrogaz Plock Sp. z o.o. The consolidation will expand the market share and cost optimisation for the entire network. As at December 31, 2000 the balance-sheet value of the LPG companies in the PKN ORLEN S.A. portfolio was PLN 24,729 thousand. In the fourth quarter of 2000 the Extraordinary General Shareholders Meetings of the LPG companies, in which PKN ORLEN S.A. possessed 100% of capital, i.e. Petrogaz Plock Sp. z o.o., Petrogaz Jaworzno Sp. z o.o., Petrogaz Redaki Sp. z o.o. and Petrogaz Hrubieszow Sp. z o.o., adopted a resolution on the merger of the companies with Petrogaz Plock Sp. z o.o. acting as the company which took over the other entities.

In addition, the main capital investments and significant organisational relationships in 2000 included:

1. At the end of 1999 and at the beginning of 2000, as a result of the restructuring of the assets of the former CPN S.A., four servicing companies were established with their activity focused mainly on overhaul services performed on service stations and a company involved in the sale and servicing of passenger cars:
 - Petromot Sp. z o.o., of Kedzierzyn-Kozle, with capital stock of PLN 475 thousand. The contribution of PKN ORLEN S.A. was PLN 251 thousand in cash and PLN 200 thousand as a contribution in kind. The Notary Deed was signed on December 6, 1999 and the company was registered on December 15, 1999. The shares in its capital were acquired by PKN ORLEN S.A. (94.86%) and the company's employees (5.14%). The company began to operate on January 1, 2000 and engaged 27 employees from PKN ORLEN S.A. On February 3, 2000, the capital stock was increased to PLN 1,000 thousand. PKN ORLEN S.A. acquired 97,56 % of the shares for the total amount of PLN 976 thousand.

- CPN – Serwis Podlasie Sp. z o.o. of Bialystok, with capital stock of PLN 266 thousand. The contribution of PKN ORLEN S.A. was PLN 60 thousand in cash and PLN 176 thousand as a contribution in kind. The Notary Deed was signed on December 1, 1999 and the company was registered on December 31, 1999. The shares in its capital were acquired by PKN ORLEN S.A. (89.67%) and the company's employees (10.33%). The company engaged 29 employees from PKN ORLEN S.A. It began to operate on February 1, 2000.
- CPN – Serwis Nowa Wies Wielka Sp. z o.o., with capital stock of PLN 1,269 thousand. The contribution of PKN ORLEN S.A. was PLN 623 thousand in cash and PLN 638 thousand as a contribution in kind. The Notary Deed was signed on December 8, 1999 and the company was registered on February 11, 2000. The shares in its capital were acquired by PKN ORLEN S.A. (99.3%) and the company's employees (0.7%). The company engaged 42 employees from PKN ORLEN S.A.
- CPN – Serwis Gdansk Sp. z o.o., with capital stock of PLN 223 thousand. The contribution of PKN ORLEN S.A. was PLN 30 thousand in cash and PLN 193 thousand as a contribution in kind. The Notary Deed was signed on December 9, 1999 and the company was registered on December 30, 1999. The shares in its capital were acquired by PKN ORLEN S.A. (100.00%). The company is to engage 17 employees from PKN ORLEN S.A. It began to operate on February 1, 2000.
- CPN – Serwis Zachod Sp. z o.o. of Nowa Sol, with capital stock of PLN 874 thousand. The contribution of PKN ORLEN S.A. was PLN 134 thousand in cash and PLN 604 thousand as a contribution in kind. The Notary Deed was signed on December 3, 1999 and the company was registered on January 6, 2000. The shares in its capital were acquired by PKN ORLEN S.A. (84.44%) and the company's employees (15.57%). The company engaged 20 employees from PKN ORLEN S.A. It began to operate on January 15, 2000.

In addition, in 2000 the capital of CPN Serwis Mazowsze Sp. z o.o. of Warsaw was increased by PLN 100 thousand. PKN ORLEN S.A. now holds 89.91% of shares of this company having invested PLN 708 thousand in it. The employees of CPN Serwis Zachod Sp. z o.o. of Nowa Sol purchased from PKN ORLEN S.A. their company's shares for the combined amount of PLN 88.5 thousand.

2. As a continuation of the restructuring processes, in November 2000 a new company - ORLEN KolTrans Sp. z o.o. (100% shares held by PKN ORLEN S.A.) was established on the basis of the assets of Zaklad Ekspedycji PKN ORLEN S.A. of Plock. The company's capital stock amounts to PLN 38,498.6 thousand out of which PLN 2,518.3 thousand is in cash and PLN 35,980.3 thousand is a contribution in kind. Zaklad Urzadzen Dystrybucyjnych Sp. z o.o. located in Opole – the company was established on the basis of the assets of the Kedzierzyn-Kozle Branch. The company's capital stock amounts to PLN 3,125,100, out of which PLN 1,500,900 is in cash and PLN 1,615,400 is a contribution in kind. The company concentrates on the production, assembly and servicing of installations and equipment for the distribution of liquid fuels and gas.

3. In the first half of 2000, on the basis of the assets of Zakłady Transportu Samochodowego of PKN ORLEN S.A. Branches, nine companies organised according to commercial law were established:

- PKN Transport Kedzierzyn-Kozle Sp. z o.o.

The company was registered on May 29, 2000. PKN ORLEN S.A. acquired 87.88% of its shares. The company's capital stock is PLN 5,267 thousand out of which: PLN 2,107 thousand is in cash and PLN 3,160 thousand is a contribution in kind.

- PKN Transport Krakow Sp. z o.o.

The company was registered on June 5, 2000. PKN ORLEN S.A. acquired 98.31% of its shares. The company's capital stock is PLN 11,342 thousand out of which PLN 4,682 thousand is in cash and PLN 6,660 thousand is a contribution in kind.

- PKN Transport Lublin Sp. z o.o.

The company was registered on June 9, 2000. PKN ORLEN S.A. acquired 97.61 % of its shares. The company's capital stock is PLN 10,139 thousand out of which PLN 4,414 thousand is in cash and PLN 5,725 thousand is a contribution in kind.

- PKN Transport Nowa Sol Sp. z o.o.

The company was registered on June 9, 2000. PKN ORLEN S.A. acquired 97.38 % of its shares. The company's capital stock is PLN 10,090 thousand out of which PLN 5,970 thousand is in cash and PLN 4,120 thousand is in a contribution in kind.

- PKN Transport Olsztyn Sp. z o.o.

The company was registered on May 29, 2000. PKN ORLEN S.A. acquired 93.05 % of its shares. The company's capital stock is PLN 6,140 thousand out of which PLN 2,660 thousand is in cash and PLN 3,480 thousand is a contribution in kind.

- PKN Transport Poznan Sp. z o.o.

The company was registered on June 1, 2000. PKN ORLEN S.A. acquired 96.38 % of its shares. The company's capital stock is PLN 11,273 thousand out of which PLN 5,205 thousand is in cash and PLN 6,068 thousand is a contribution in kind.

- PKN Transport Slupsk Sp. z o.o.

The company was registered on June 23, 2000. PKN ORLEN S.A. acquired 96.18 % of its shares. The company's capital stock is PLN 6,774 thousand out of which PLN 3,143 thousand is in cash and PLN 3,631 thousand is a contribution in kind.

- PKN Transport Szczecin Sp. z o.o.

The company was registered on June 15, 2000. PKN ORLEN S.A. acquired 99.55 % of its shares. The company's capital stock is PLN 3,424 thousand out of which PLN 1,476 thousand is in cash and PLN 1,948 thousand is a contribution in kind.

- PKN Transport Warszawa Sp. z o.o.

The company was registered on June 7, 2000. PKN ORLEN S.A. acquired 95.28 % of its shares. The company's capital stock is PLN 6,291 thousand out of which PLN 1,720 thousand is in cash and PLN 4,571 thousand is a contribution in kind.

4. Petrotransport Plock Sp. z o.o. – an increase in the capital stock by PLN 7,420 thousand to PLN 26,420 thousand.
5. Wodkan S.A. - In accordance with PKN ORLEN S.A. obligations arising out of a Tripartite Agreement concluded between PKN ORLEN S.A., the Municipality of Ostrow Wielkopolski and Wodkan, PKN ORLEN S.A. acquired Wodkan S.A. shares for PLN 355 thousand. The value of shares was equal to the costs of construction and installation of a water line and a forcing pipeline in Ostrow Wielkopolski, which are a part of the infrastructure of PKN ORLEN S.A.'s fuel base.
6. The capital of Motell Sp. z o.o. was increased by PLN 1,000 thousand out of which PKN ORLEN S.A. acquired shares worth PLN 350 thousand. PKN ORLEN S.A. has in total invested PLN 700 thousand in the company.
7. PKN ORLEN S.A. increased by PLN 96,643,500 to PLN 708.587 thousand its investments in the following companies from the product and commercial diversification portfolio:
 - IKS "Solino" S.A – PKN ORLEN S.A. increased its involvement from 51% at the end of 1999 to 70.54% by means of a capital increase (registered in 2000) and the purchase of a part of the shares from the IKS employees.
 - Zakłady Azotowe Anwil S.A - increase of involvement in the company by 2.95%, by purchasing the company's shares from the Wloclawek Municipality for the amount of PLN 5,319 thousand. The PKN ORLEN S.A.'s share in the company's share capital increased to 38.35%.
 - Rafineria Trzebinia S.A. - PKN ORLEN S.A.'s involvement increased from 76.96 % at the end of 1999 to 77.07%; in accordance with the provisions of the relevant agreement PKN ORLEN S.A. received the last block certificate of 4,800 shares of Rafineria Trzebinia S.A. from Nafta Polska S.A.,
 - Polkomtel S.A. – an increase of PKN ORLEN S.A. holding from 19.58% to 19.61% through a purchase of shares for PLN 2,906 thousand
 - LG Petro S.A. – an increase of the share in the company's share capital from 18.7% to 19.99% through a purchase of shares for PLN 4,247 thousand
 - Telewizja Familijna S.A. – share capital of PLN 1,840 thousand out of which PKN ORLEN S.A. holds 11.96%. The value of the share purchase amounted to PLN 26,000 thousand. The acquisition of shares by PKN ORLEN S.A. took place in May 2000. The court registration occurred in July 2000.
 - Niezalezny Operator Miedzystrefowy Sp. z o.o. – a purchase of shares in the telecommunications company for PLN 350 thousand which gives a 35% share in its share capital. In June the company's share capital was increased to PLN 140,000 thousand with PKN ORLEN S.A. taking a share proportionate to its shareholding. The total value of PKN ORLEN S.A.'s shares in the company amounts to PLN 49,000 thousand.
8. In 2000 the employees of the following companies: PetroEnergoRem Sp. z o.o., PetroRemont Sp. z o.o., PetroAutomatyka Sp. z o.o., PetroMechanika Sp. z o.o., PetroWir Sp. z o.o. purchased respectively from PKN

ORLEN S.A. parts of shares in their companies for the total amount of PLN 1,275 thousand. As a result, the share of PKN ORLEN S.A. in the capital stocks of these companies fell below 55%, with the exception of PetroMechanika Sp. z o.o. where this share still amounts to 68%.

9. ERG Klobuck S.A. – sale of shares owned by PKN ORLEN S.A. to Dispomed S.A. of Lublin for an amount equivalent to the par value of the shares – PLN 203 thousand (the book value of the shares in the financial assets of PKN ORLEN S.A. was PLN 1,122 thousand).
10. ORLEN Powiernik Sp. z o.o. – the company with a capital stock of PLN 4 thousand was established on July 19, 2000. The company will participate in the execution of PKN ORLEN S.A.'s Management Stock Option Scheme. In 2000 PKN ORLEN S.A. made a refundable contribution to capital of PLN 230,299 thousand.
11. BHT Dromech S.A. – purchase of 40.57% of the company's shares from Dromex S.A. for the total amount of PLN 1,600 thousand. PKN ORLEN S.A. became the owner of 81.14 % of the company's shares. The book value of these shares amounts to PLN 2,111 thousand.
12. Flexpol Sp. z o.o. – incorporation of a company with a capital stock of PLN 12,000 thousand on January 3, 2001. The share of PKN ORLEN S.A. in the company's capital stock is 40%. The company deals with foil production.

1.2 Description of the Capital Group consolidated members.

1.2.1 Parent Company – Polski Koncern Naftowy ORLEN Spolka Akcyjna.

Petrochemia Plock S.A. was established by way of a notary deed dated June 29, 1993, as a result of the conversion of a state-owned enterprise into a joint stock company. On May 19, 1999 the General Meetings of Shareholders of Petrochemia Plock S.A. and CPN S.A. adopted a resolution to merge Petrochemia Plock S.A. and CPN S.A. The merger was conducted by way of the transfer of the entire assets of CPN S.A. to Petrochemia Plock S.A. in exchange for shares which the company gave to the shareholders of the taken over CPN S.A. Registration of the increase in the Company's share capital to PLN 525,221 thousand and its change of name into Polski Koncern Naftowy S.A. took place on May 20, 1999.

On May 25, 1999 the Court issued a decision concerning the deletion of CPN S.A. from the Commercial Register and this decision was executed by virtue of the Order of the Judge of September 7, 1999. After September 7, 1999 the operations of the former Petrochemia Plock S.A. and the former CPN S.A. have been run as one legal entity – Polski Koncern Naftowy S.A. On April 12, 2000, pursuant to the Resolution No. 2 of the General Shareholders Meeting of PKN S.A. of April 3, 2000, the District Court issued a decision on the change in the Commercial Register with regard to the entry of a new company – Polski Koncern Naftowy ORLEN Spolka Akcyjna.

The Company's main shareholders as at the end of 2000 are:

Nafta Polska S.A.	18.06%
State Treasury	10.38%
Bank of New York (as GDR depository bank)	27.07%

The Company's capital as at December 31, 2000 was PLN 6,635,075 thousand.

The Company's business activities include:

- Processing of crude oil and production of oil-derived products and semi-products.
- Trading activities on domestic and foreign markets.
- Research, design, development, construction and production activities.
- Road, rail, water and pipeline transportation.
- Warehousing and storage of crude oil and liquid fuels.
- Generation, transmission and trade in thermal and electrical power.
- Manufacturing of metal products and plastics processing.

As at December 31, 2000 the number of employees was 7,646 staff.

In 2000, PKN ORLEN S.A. generated a net profit of PLN 700,830 thousand which represents 94.1% of the profit for the previous year.

1.2.2. Consolidated subsidiary companies.

- **Rafineria Trzebinia S.A.**

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

The share capital of Rafineria Trzebinia S.A. was PLN 43,042 thousand.

The company's shareholders are:

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

As at December 31, 2000, the capital stood at PLN 191,581 thousand.

The Company's business activities include:

- Processing of crude oil.
- Production and sale of fuels (including leaded and unleaded gasoline, diesel fuels and oil heating fuel).
- Blending and preparation of lubricants.
- Processing of paraffin slack waxes.
- Manufacture of asphalt and asphalt products.

Rafineria Trzebinia's business activities are focused on the manufacture of specialist high-value products, chiefly a

full range of lubricants, industrial oils (hydraulic and tempering oils) and a range of paraffin products.

The number of employees as at December 31, 2000 was 245.

The Refinery closed the year with a net profit of PLN 28,587,100, i.e. a decrease of 27.3% as compared with the result in 1999.

Rafineria Trzebinia holds shares in ten subsidiary companies and associated companies.

• **Rafineria Nafty Jedlicze S.A.**

Pursuant to the relevant provisions of a share purchase agreement and a shareholders' agreement of November 19, 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 January 1, 1999. The company's share capital was PLN 78,000 thousand.

The company's shareholders are as follows:

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

The Company's capital as at the end of 2000 was PLN 145,723 thousand.

The Company's business activities include:

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

The company holds second place in Poland in terms of the production of lubricants. The refinery also manufactures limited quantities of engine fuels and heating fuel oils. Moreover, Rafineria Nafty Jedlicze S.A. regenerates used oil in its regeneration facilities, which have a processing capacity of 80 thousand tonnes a year. The collection of used oils is carried out through a network of companies associated with Rafineria Nafty Jedlicze S.A.

The number of employees as at December 31, 2000 was 679.

The refinery closed the year 2000 with a net profit of PLN 8,594 thousand while the profit in the previous year amounted only to PLN 46 thousand.

Rafineria Nafty Jedlicze S.A. is implementing a wide-ranging investment programme, the largest project of which is the construction of a used oil hydrotreating installation.

Rafineria Nafty Jedlicze S.A. holds shares in 25 subsidiary companies and associated companies.

• **Inowroclawskie Kopalnie Soli "Solino" S.A.**

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

The share capital of Inowroclawskie Kopalnie Soli "Solino" S.A. stood at PLN 19,145.6 thousand.

The company's shareholders are:

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

The company's capital as at the end of 2000 was PLN 66,290 thousand.

The company's business activities include:

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

The company mines and processes salt, and produces industrial brine and salt. The brine is supplied to such companies as Zakłady Azotowe Anwil S.A., a member of the PKN ORLEN S.A. Capital Group.

As at December 31, 2000 the company employed 394 staff.

Sales increased as compared to the previous year by 6% and attained a figure of PLN 62,130 thousand. The net profit was PLN 7,050 thousand and is by 8.4% higher than in the previous year.

The company's development plans focus on salt production and sales as well as on the construction of crude oil and fuel tank plants in disused mine workings.

• **Petro-Oil Sp. z o.o.**

Petro-Oil Sp. z o.o. was entered in the Commercial Register on August 31, 1998. The company's capital stock equalled PLN 14,000 thousand.

The shareholders include:

PKN ORLEN S.A.	28%
Rafineria Trzebinia S.A.	24%
Rafineria Nafty Jedlicze S.A.	24%
Rafineria Czechowice S.A.	24%

As at the end of 2000 the company's capital was PLN 21,541 thousand. The PKN ORLEN S.A. Capital Group's interest in Petro-Oil Sp. z o.o. stood at 76%.

The company's business activities include:

- Production and sales of chemicals, lubricating oils, oil bases, and liquid fuels.
- Trade in chemicals, refinery products and petrochemicals in Poland and abroad.
- Services, including warehousing, transportation and R&D services.
- Technical advisory services.

As at December 31, 2000 the company employed 93 staff.

Petro-Oil Sp. z o.o. achieved net profit of PLN 7,316 thousand while the first financial year was closed with a profit of PLN 225 thousand.

Petro-Oil Sp. z o.o. holds shares in nine subsidiary companies and associated companies.

- **ORLEN Petro-Tank Sp. z o.o.**

The company was entered in the Commercial Register on April 9, 1996.

The capital stock is PLN 11,750 thousand and is held by the following companies:

PKN ORLEN S.A.	60%
Tankpol Sp. z o.o.	40%

The company's capital as at the end of 2000 was PLN 30,308 thousand.

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

As at December 31, 2000 ORLEN Petro-Tank Sp. z o.o. employed 104 staff.

The company closed the year with a net profit of PLN 4,463 thousand which is a decrease of 45.4% as compared with the profit achieved in 1999.

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

ORLEN Petroprofit Sp. z o.o. of Niemce near Lublin was entered in the Commercial Register on September 14, 1995. The capital stock of ORLEN Petroprofit Sp. z o.o. is PLN 11,500 thousand.

Shares in Petroprofit Sp. z o.o. are held by the following companies:

- PKN ORLEN S.A.	85%
- Profit Sp. z o.o.	15%

The company's capital is PLN 30,381 thousand.

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

As at December 31, 2000, the company employed 85 staff.

The sales in 2000 amounted to PLN 435,166 thousand and the company achieved a net profit of PLN 1,993 thousand which was by 61.6% lower than in 1999.

- **Petrocentrum Sp. z o.o.**

Petrocentrum Sp. z o.o. was entered in the Commercial Register on September 25, 1996. The capital stock is PLN 21,000 thousand of which the entire 100% was contributed by PKN ORLEN S.A. The company's capital as at the end of 2000 was PLN 40,702 thousand.

The company's business activities include:

- Wholesale trading in solid, liquid and gas fuels.
- Retail sales of fuel for motor vehicles.
- Automotive, catering, hotel and transport services.

As at December 31, 2000 the company employed 33 staff.

The main source of income for Petrocentrum Sp. z o.o. is the sale of liquid fuels. Sales amounted to PLN 152,076 thousand which represented a 13% increase. The company generated a net profit of PLN 103 thousand. The result was a decrease on the previous year of 97.4%. The worse financial result, as in the case of other fuel companies, was a result of changes made in logistical structures and wholesale and retail trading in fuels distributed by PKN ORLEN S.A.

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

Petrolot Sp. z o.o. was entered in the Commercial Register on January 7, 1997.

The company's capital stock stands at PLN 20,039 thousand.

The company's shareholders are:

PKN ORLEN S.A.	51%
PLL LOT S.A.	49 %.

The company's capital as at the end of 2000 was PLN 36,164 thousand.

The company's basic line of business is sales and distribution of aviation fuel and other oil derived products.

As at the end of the year the company employed 145 staff.

The company's main customer was PLL LOT S.A. The company's net sales amounted to PLN 53,316 thousand and was 61% higher than in the previous year. The company's net profit equalled PLN 5,516 thousand and was 8.6% higher than in the previous year.

- **PetroZachod Sp. z o.o.**

PetroZachod Sp. z o.o. of Poznan was entered in the Commercial Register on January 19, 1998. The capital stock of PetroZachod Sp. z o.o. is PLN 17,749 thousand.

The company's shareholders are:

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

The company's capital was PLN 23,823 thousand.

The company's business activities are:

- Wholesale trading in solid, liquid and gas fuels.
- Retail sales of fuel for motor vehicles.
- Transport services.
- Storage and dispatch of liquid, solid and gas fuels and oil derived, and chemical products.
- Blending of liquid, solid and gas fuels and oil derived and chemical products.
- Commercial activity, including the import and export of products related to the purchase of raw materials, additives and semi-products and sales of finished products.

As at December 31, 2000 the company employed 176 staff.

The sales in 2000 amounted to PLN 454,630 thousand that is 32% more than in 1999, whereas net profit decreased by 60.0% and stood at PLN 1,374 thousand.

• **Petrogaz Plock Sp. z o.o.**

Petrogaz Plock was entered in the Commercial Register on December 15, 1995. The company's capital stock is PLN 13,891 thousand. Since April 16, 1998 PKN ORLEN S.A. has been the company's sole shareholder.

As at December 31, 2000 the company's capital was PLN 31,869 thousand.

The company's business activities include:

- Wholesale trading in LPG, in bulk or in steel cylinders.
- Retail sales of gas in containers.
- Installation of ductless gas devices.
- Supply of LPG to customers.
- Design, maintenance and repair of gas installations; organisational and legal supervision over the construction of distribution plants and their subsequent use.

The number of employees as at December 31, 2000 was 170 staff.

As compared to the previous year, a significant growth in the employment level was recorded, which resulted from the taking over of the employees of the three leased distribution plants.

In 2000 the company sold 219,035.58 tonnes of LPG, of which 129,809.61 tonnes to the companies of the Petrogaz network. The company closed the year with a net profit of PLN 3,687 thousand which was by 27.0 % lower than in 1999.

As at the end of 2000 an increase of the company's stock capital was made by way of a contribution in kind of the assets of the companies: Petrogaz Redaki Sp. z o.o. and Petrogaz Hrubieszow Sp. z o.o.

• **Petrogaz Redaki Sp. z o.o. ***

Petrogaz Redaki Sp. z o.o. was entered in the Commercial Register on June 16, 1993. The company's capital stock is PLN 781 thousand. Since October 30, 1997 PKN ORLEN S.A. has held 100% of the shares in the company. The company's capital as at December 31, 2000 was PLN 3,532 thousand.

The company's business is wholesale and retail trade in LPG.

As at December 31, 2000 the company employed 38 staff.

In 2000, the company sold approximately 12,500 tonnes of LPG and recorded sales of PLN 19,002 thousand i.e. by 86% more than in 1999. The company closed the year with a net profit of PLN 45,400, which is by 80.8% lower than the profit generated in 1999.

*) A company contributed as at the end of 2000 to Petrogaz Plock Sp. z o.o.

- **Petrogaz Hrubieszow Sp. z o.o. ***

Petrogaz Hrubieszow Sp. z o.o. was entered in the Commercial Register on May 16, 1996. The company's capital stock is PLN 7,470 thousand. The company's capital as at December 31, 2000 was PLN 7,723 thousand. PKN ORLEN is the company's sole shareholder.

The company's business is wholesale and retail trading in fuels and LPG. The number of employees as at December 31, 2000 was 34. Sales were PLN 29,163 thousand i.e. by 43% higher than in 1999, whereas net profit was PLN 180 thousand which is as much as 246.1% higher than in the analogous period of 1999.

*) The company was contributed at the end of 2000 to Petrogaz Plock Sp. z o.o.

- **Petrogaz Jaworzno Sp. z o.o.**

Petrogaz Jaworzno Sp. z o.o. was entered in the Commercial Register on September 30, 1994. The company's capital stock is PLN 3,124 thousand. PKN ORLEN S.A. holds 100% of the company shares. The company's capital as at December 31, 2000 was PLN 5,911 thousand.

The company's business is wholesale and retail trading in LPG.

As at the end of 2000 the company employed 41 staff.

In 2000, the company sold approximately 24,500 tonnes of LPG. The sales amounted to PLN 38,182 thousand whereas the net profit was PLN 244 thousand. The result is by 28.4% lower than the profit generated in the previous year.

- **Petrogaz Nowa Brzeznica Sp. z o.o.**

The company was entered in the Commercial Register on February 19, 1997. The company's capital stock is PLN 4,400 thousand. The founding shareholders were:

PKN ORLEN S.A.	52%
Gmina Nowa Brzeznica Sp. z o.o.	48%

The company's capital as at December 31, 2000 was PLN 4,132 thousand.

The company's business activities include:

- Wholesale and retail trading in LPG.
- Transport services.
- Installation of gas devices.

As at December 31, 2000 the company employed 79 staff.

In 2000, gas sales reached the level of 38,600 tonnes. Sales were over twice as high as in 1999 and amounted to PLN 56,437 thousand. Petrogaz Nowa Brzeznica Sp. z o. o. closed the period under discussion with a loss of PLN 491 thousand whereas in the previous year it generated a net profit of PLN 156 thousand.

- **Petrogaz Inowroclaw Sp. z o.o.**

Petrogaz Inowroclaw Sp. z o.o. was entered in the Commercial Register on May 8, 1997. The company's capital stock is PLN 3,750 thousand. PKN ORLEN S.A. holds 51% of shares in the company (49% is held by IKS "SOLINO" S.A., a PKN ORLEN S.A. subsidiary company). The company's capital as at December 31, 2000 was PLN 4,998 thousand.

The company's business activities include wholesale and retail trading in LPG.

As at December 31, 2000, the company employed 19 staff.

In the 2000, 13 thousand tonnes of LPG were sold. The company's net profit equalled PLN 18 thousand which is by 86.6% lower than the result of 1999.

- **ORLEN Petrogaz Wroclaw Sp. z o.o.**

Petrogaz Wroclaw Sp. z o.o. was entered in the Commercial Register on July 25, 1997. The company's capital stock is PLN 3,100 thousand. PKN ORLEN S.A. holds 51.61% of shares in the company. As at December 31, 2000 the company's capital was PLN 3,883 thousand.

Petrogaz Wroclaw Sp. z o.o. business activities include wholesale and retail trading in LPG.

As at December 31, 2000 the company employed 20 staff.

In 2000, 20,500 tonnes of LPG were sold. Sales amounted to PLN 32,439 thousand whereas a net profit to PLN 81 thousand. The result is by 84.5% lower than the profit generated in the previous year.

- **Petrogaz Lapy Sp. z o.o.**

Petrogaz Lapy Sp. z o.o. was entered in the Commercial Register on June 19, 1997. Capital stock is PLN 3,540 thousand. As at December 31, 2000, the company's capital was PLN 2,730 thousand.

Petrogaz Lapy Sp. z o.o. business activities include wholesale and retail trading in LPG.

As at December 31, 2000 the company employed 9 staff. The company sold 3,800 tonnes of LPG with the sales at PLN 5,798 thousand and a net loss of PLN 331 thousand. In 1999 the company also recorded a loss in the amount of PLN 387 thousand.

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

The company was entered in the Commercial Register on November 24, 1997. The capital stock is PLN 11,027 thousand. The entire capital stock was acquired by PKN ORLEN S.A.

The company's capital as at December 31, 2000 was PLN 11,421 thousand.

The company provides health-care services.

As at December 31, 2000 the company employed 115 staff.

In 2000, the company's sales amounted to PLN 9,714 thousand whereas net profit to PLN 360 thousand. In 1999, the company recorded a loss of PLN 153 thousand.

- **Petroprojekt Sp. z o.o.**

The company was entered in the Commercial Register on May 28, 1998. The company's capital stock amounts to PLN 1,500 thousand.

The company's shareholders are:

PKN ORLEN S.A.	51%
Employees	49%

The company's capital as at December 31, 2000 was PLN 13,886 thousand.

The company is involved in the provision of design services.

As at December 31, 2000 it employed 223 staff.

In 2000 sales stood at PLN 27,832 thousand and was lower by 22% than in 1999, whereas the net profit was PLN 3,493 thousand which is a decrease of 55.5% as compared to 1999.

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

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

The company's capital as at December 31, 2000 was PLN 7,225 thousand.

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

As at December 31, 2000 the company employed 312 staff.

In 2000 the company recorded sales of PLN 64,771 thousand and net profit of PLN 1,135 thousand that is by 21.4% lower than in 1999.

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

The company was entered in the Commercial Register on July 19, 2000. The company's capital stock is PLN 4 thousand. PKN ORLEN S.A. is the company's sole shareholder.

As at December 31, 2000 the company's capital was PLN 203,318 thousand.

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

As at December 31, 2000 the company employed two persons. The company closed the first period of its operations with a net profit of PLN 15 thousand.

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

The company was registered on August 14, 1997. Its capital stock amounts to PLN 3,200 thousand.

The company's shareholders are:

- PKN ORLEN S.A.	- 93.07%
- Employees	- 6.93%

The company's capital as at December 31, 2000 was PLN 11,800 thousand.

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

As at December 31, 2000 the company employed 100 staff.

In 2000 Petrotel Sp. z o.o. achieved sales of PLN 21,947 thousand (an increase of 21%) and generated a net profit of PLN 3,138 thousand i.e. by 11.0% lower than in 1999.

- **Zakład Budowy Aparatury S.A.**

Zakład Budowy Aparatury S.A. was entered in the Commercial Register on October 27, 1998. The company's share capital was PLN 18,000 thousand.

The company's shareholders are:

PKN ORLEN S.A.	96.56%
Employees	3.44%

The company's capital was PLN 27,499 thousand.

The main business activities of ZBA S.A. include:

- the manufacture of investment goods with respect to chemical instrumentation and similar products, as well as the services of their design, renovation and repair.

As at December 31, 2000 the company employed 295 staff.

ZBA S.A. achieved sales of PLN 35,598 thousand which is a decrease of 44% as compared to 1999, whereas a net profit went down by 88.3% to PLN 1,273 thousand.

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

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

The company's capital stock is PLN 26,420 thousand.

The company's shareholders are:

PKN ORLEN S.A.	97.86%
Employees	2.14%

The company's capital was PLN 29,894 thousand.

The company's business activities include:

- Sales, service and repair of motor vehicles.
- Road transport of passengers and freight.
- Wholesale and retail sale of solid, liquid and gas fuels and service fluids for motor vehicles.
- Machinery and plant hire together with maintenance services.

As at December 31, 2000 the company employed 292 staff. In 2000, sales amounted to PLN 38,430 thousand whereas net profit to PLN 936 thousand. The result is by 63.1% lower than in 1999.

- **Other transportation companies**

All the other transportation companies commenced their operational activities in the second half of 2000. The majority shareholder in these companies is PKN ORLEN S.A. Detailed data are included in the table below.

No.	Company	PKN ORLEN S.A. share	Capital stock in PLN '000	Number of employees	Sales in PLN '000	Net profit in PLN '000
1	PKN Transport Szczecin Sp. z o.o.	99.56%	3,424	45	3,107	275
2	PKN Transport Slupsk Sp. z o.o.	96.18%	6,774	101	11,540	1,460
3	ORLEN Transport Olsztyn Sp. Z o.o.	93.05%	6,140	79	6,383	956
4	PKN Transport Nowa Sol Sp. z o.o.	97.38%	10,090	156	11,376	2,311
5	ORLEN Transport Lublin Sp. z o.o.	97.61%	10,139	118	9,293	1,752
6	ORLEN Transport Krakow Sp. Z o.o.	98.31%	11,342	157	9,469	349
7	ORLEN Transport Kedzierzyn Kozle Sp. z o.o.	87.88%	5,267	118	6,205	521
8	ORLEN Transport Poznan Sp. z o.o.	96.39%	11,273	187	12,190	1,341

9	ORLEN Transport Warszawa Sp. z o.o.	95.28%	6,291	102	5,056	318
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- **ORLEN KolTrans Sp. z o.o.**

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

The company's capital stock amounts to PLN 38,499 thousand. PKN ORLEN S.A. is the company's sole shareholder.

The company's business activities include the railroad servicing of loading and reloading points as well as the transport of the Parent Company's products. The net profit in the first accounting period was PLN 103 thousand.

1.2.3. Consolidated associated companies.

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

- **Zakłady Azotowe Anwil S.A.**

Zakłady Azotowe Anwil S.A. (Anwil) was entered in the Commercial Register on April 14, 1993. As at December 31, 2000 the company's share capital was PLN 150,000 thousand.

As at December 31, 2000 the company's shareholders were:

PKN ORLEN S.A.	38.35 %
State Treasury	19.00%
Employees	15.00 %
Polskie Gornictwo Naftowe i Gazownictwo S.A.	12.47%
Bank Gdanski S.A	10.15%
Zakład Energetyczny Torun S.A.	3.73%
Elektrim Kable S.A.	1.30%

The company's capital as at the end of 2000 was PLN 755,342 thousand.

The company's business activities include:

- Manufacture of nitrogen fertilisers and semi-products and other associated products.
- Manufacture of polyvinyl chloride and other associated products.
- Manufacture of polyethylene packaging.

- Trading activities in the above areas
- Service activities in the above areas, based on the company's productive capabilities.

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

As at December 31, 2000, the company employed 1,682 staff.

The following products have the largest share in the sales generated by Zakłady Azotowe Anwil S.A.: polyvinyl chloride - 47% and ammonium nitrate - 22%. The net profit in 2000 amounted to PLN 70,513 thousand and exceeded by 169.1% the result recorded in 1999 when the sales stood at PLN 1,178,494 thousand.

As at the end of 2000 Zakłady Azotowe Anwil S.A. held shares in 16 subsidiary and associated companies. The company is a member of the Capital Group and prepares consolidated financial statements.

On November 9, 2000 PKN ORLEN S.A. purchased from the Wloclawek Municipality 443,257 registered shares of Z.A. Anwil S.A. which constitute 2.95% of the company's share capital and confer the right to 2.95% of votes at the General Shareholders Meeting of Z.A. Anwil S.A. Following the purchase of the shares, PKN ORLEN S.A. acquired a total share of 38.35% in the share capital.

In addition, after the end of the reporting period, on February 19, 2001, the Parent Company concluded agreements with:

1. Towarzystwo Finansowe Silesia Sp. z o.o. on the purchase of 2,100,000 registered shares of Z.A. Anwil S.A., representing in total 14% of the company's share capital and conferring the right to 14% of votes at the General Shareholders Meeting.
2. Polskie Gornictwo Naftowe i Gazowe S.A., head office in Warsaw, on the purchase of 1,869,879 registered shares of Z.A. Anwil S.A., representing in total 12.47% of the company's share capital and conferring the right to 12.47% of votes at the General Shareholders Meeting.

The transfer of the majority of shares by way of the execution of the abovementioned agreements resulted in PKN ORLEN S.A. trespassing of the 50% threshold of share in the share capital of Z.A. Anwil S.A.

• **Naftoport Sp. z o.o.**

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

As at December 31, 2000 the shares were held by:

PKN ORLEN S.A.	43.59%
Rafineria Gdanska S.A.	25.64%
PERN S.A.	12.82%
Ciech Warszawa S.A.	10.25%
PORT POLNOCNY Sp. z o.o.	3.85%
J&S SERVICE AND INVESTMENT Ltd.	3.85%

The company's capital at the end of 2000 was PLN 101,887 thousand.

The company's main business is the reloading of crude oil and oil products for Polish refineries. Naftoport's reloading capacity is 23m tonnes of crude oil a year.

As at the end of 2000 the company employed 19 staff. In 2000, the company generated a net profit of PLN 18,301 thousand i.e. a decrease of 4.3% as compared with 1999.

- **Chemiepetrol Sp. z o.o.**

Chemiepetrol Sp. z o.o. was established on January 1, 1984. PKN ORLEN S.A. purchased shares in the company on April 28, 1993. The company's capital stock is DM 100 thousand.

Shares in the company are held by:

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

The company's capital as at December 31, 2000 was DM 2,239 thousand.

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

As at December 31, 2000 the company employed 11 staff.

Chemiepetrol Sp. z o.o. closed the year 2000 with a net profit of DM 699. This result is nearly five-times higher than the one achieved in the previous year.

- **Flexpol Sp. z o.o.**

Flexpol Sp. z o.o. was entered in the Commercial Register on January 3, 2000. The company's capital stock as at December 31, 2000 was PLN 12 thousand. The company's shareholders are: PKN ORLEN S.A. – 40% and ZML Kety S.A. – 60%.

As at the end of 2000 the company's capital amounted to PLN 14,714 thousand.

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

As at December 31, 2000 the company employed 102 staff.

As at the end of 2000 the company generated sales in the amount of PLN 59,247 thousand and net profit of PLN 3,087 thousand.

1.2.4. Company of significant importance to the PKN ORLEN S.A. Capital Group, excluded from consolidation – Polkomtel S.A.

Polkomtel S.A. is one of Poland's GSM mobile telephony operators in the GSM 900 and DCS 1800 systems. The company was established on December 19, 1995. As at December 31, 2000, its share capital was PLN 1,500,000 thousand. As at the same date, the Parent Company's interest in the company stood at 19.61% of the share capital.

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

The company's business activities include:

- Design, installation, operation, and management of a GSM system.
- Provision of mobile telephony services.
- Sales of GSM-related products and services.

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

In 2000, Polkomtel S.A. generated sales of PLN 3,518,243 thousand and a net profit of PLN 205.9 million. At present, approximately 2.6 million residents of Poland use the services of Plus GSM. The network covers 97% of the country's population inhabiting 94% of its area.

II. ANTICIPATED DIRECTIONS OF DEVELOPMENT OF THE CAPITAL GROUP

The strategy of PKN ORLEN S.A. provides for the following operations related to the development of the Capital Group:

- In the gas distribution companies – further consolidation of operational functions is planned with the target model comprised of one or two subsidiary companies.
- In the companies established following the restructuring of PKN ORLEN S.A. – the possibility of a change in the ownership structure taking into account external investors will be analysed.
- In the fuel companies – establishment of another two companies, Regional Market Operators and the transfer of assets to the company involved in ship bunkering.

III. MAJOR INVESTMENTS WITH A MATERIAL BEARING ON THE CAPITAL GROUP ACTIVITY

3.1 Investments in the Parent Company.

In 2000, PKN ORLEN S.A. investment expenditure in tangible fixed assets amounted to PLN 1,081,872 thousand. The main stream of expenditure was directed to:

- modernisation and development of the refinery part of the Main Plant in Plock as a continuation of the construction of the technologically modern installations which ensure the highest product quality fulfilling the requirements of the European Union of 2000,
- modernisation of the company's market infrastructure in compliance with the prepared strategy of the development of the wholesale and retail distribution network.

3.1.1 Investments in progress concerning production.

The major projects completed in 2000 included:

- Reforming VI
- Hydro-desulphurisation of diesel oil installation VI
- Petrol Isomerisation
- Other infrastructure facilities for Project 8
- Upgrade of boiler No. 7
- Liquid fuels warehouse tanks (4x10.000 m³)

Significant tasks to be continued in 2000 include:

- Modernisation and intensification of Distillation Pipe-Tower III,
- Construction of an extraction-heating-condensation turbine set TG-6,
- Installation of a Desulphurisation of Liquid Gases unit,

3.1.2 Investments in logistics.

In 2000, the Parent Company continued the investments concerning the upgrade of the logistics network, with respect to the following projects:

- Plock-Ostrow Wielkopolski Pipeline construction.
- Fuel Storage Depot in Ostrow Wielkopolski construction.

3.1.3 Investments in the distribution network.

As a result of the investments the following projects were completed:

- 6 new service stations on purchased land were constructed
- 51 service stations which replaced the liquidated old facilities were constructed
- 117 service stations were upgraded
- chosen storage bases were upgraded.

3.2 Investments in the remaining companies of the Capital Group.

- Zakłady Azotowe Anwil S.A.
 - Continuation of the modernisation and reconstruction of the Vinyl Chloride Plant, the total financial expenditures for the above undertaking from 1999-2000 amounted to PLN 147.2m, while in 2000 alone, the expenditures amounted to PLN 99.653m. This facility will increase the production capacity to 300 thousand tonnes per year, simultaneously lowering the unit cost of production,
 - Construction of the Ammonium Nitrate Plant – the costs of the entire investment in the years 1998-2000 was PLN 104,796 thousand whereas in 2000 the expenditure amounted to PLN 26,460 thousand. Making the CANWIL installation available for use took place on June 30, 2000. The last phase of the investment consisted in the construction of the installation for the granulation of fertilisers and production of ammonium nitrate, which facilitated the production of, interchangeably, CANWIL and coarse-grained saltpetre,
 - Since 1999, the implementation of an Integrated System of Enterprise Management, SAP R/3, aimed at reducing and permanently controlling operating costs, has been on-going. Last year the following

modules were implemented: PP (production planning), PM (process management), HR (human resources), TR (treasury) and a continuation of the implementation of the CO (controlling) module, which allows for the integration of the information environment and the possibility of using actual data at all levels of management. In 2000, the financial expenditures for this undertaking amounted to PLN 3.9m.

- Rafineria Nafty Jedlicze S.A.
 - Construction of used oils hydro-refining installation was continued – in 2000 PLN 48,542.6 thousand was spent for this project, of which PLN 42,483 thousand for basic installation and PLN 6,059 thousand for accompanying facilities.
 - Construction of storage tank infrastructure was commenced – last year the amount of PLN 2,267 thousand was spent for this project.
- Rafineria Trzebinia S.A.
 - Modernisation and completion of four storage tanks, each with a storage capacity of 5 thousand m³. Last year, the investment expenditures incurred for this task amounted to PLN 12.015m, while the total expenditures amounted to PLN 18.316m. In December of last year the tanks were turned over for use.
 - Installation of a sealed system for the transfer of fuel to tanker trucks and the installation at service stations of equipment for reclaiming flammable hydrocarbon vapours. In 2000, the investment expenditures for the modernisation of terminals amounted to PLN 6.223m, while the total since 1998 for this purpose amounts to PLN 21.686m. In April, four transfer stations were completed for use, while already in December, the construction of five such stations was completed and were available for use. This completed the intended investment tasks.
 - Construction of a new weighted oil blending system, at a cost of PLN 4.804m. By the end of 2000, the piping was fully complete, together with the installation of the pump and other equipment needed for the facility. The planned completion date is set for April 2001.
 - Construction of T-18 tank with a storage capacity of 10 thousand m³ reserved for the storage of diesel fuel. In 2000, the investment expenditure for this construction amounted to PLN 4.745m, while the total expenditures from the beginning of construction amount to PLN 5.771m. In December of last year, the tank was put into use.
 - Modernisation of the atmospheric furnace on the DRW. In 2000, the expenditures incurred amounted to PLN 3.675m (total expenditures PLN 6.080m). In September of last year the furnace was available for use.
- IKS "Solino" S.A.
 - Construction of Podziemny Magazyn Ropy i Paliw (Underground Oil and Fuel Tank Farm) was continued. In 2000 the expenditure for these projects equalled PLN 29,816 thousand.
 - Construction and commencement of salt palletisation lines – PLN 585 thousand.
 - Adaptation of a part of the building of Warzelnia (Saltworks) into Magazyn Soli (Salt Store-room) – PLN 556 thousand.
- Petro-Oil Sp. z o.o.
 - All investment expenditure incurred in 2000 were related to capital investments aimed at the reshaping of distribution channels through the establishment of companies with the capital share of Petro-Oil Sp. z o.o. The total value of incurred expenditure was PLN 2,112 thousand.

IV. MORE SIGNIFICANT ACHIEVEMENTS IN TECHNICAL RESEARCH AND DEVELOPMENT

The investments undertaken by the Parent Company, as part of the refinery development program, were aimed at not only increasing the production capacity of individual complexes, but also to improve the quality of products towards achieving European standards and reducing the Company's burden on man and the natural environment. As a result of the activities undertaken by the Parent Company, there was a significant decline in the amount of charges for economic use of the environment, which between 1996-2000 fell by 35.9% to PLN 15.7m.

The activities undertaken by the Parent Company have been recognised by domestic and international environment-protection and ISO standards organisations. In 2000, this recognition came in the form of numerous awards and distinctions:

- Certificate verifying that the Environmental Management System complies with the international ISO 14001 standards, presented by the international firm Bureau Veritas Quality International. This Certificate is valid from March 17, 2000 to March 16, 2003 and holds two accreditations, one from the British UKAS and one from the Dutch RvA. This means that all areas which affect, or could affect the natural environment, are identified, and specifically supervised.
- The "Panteon Polskiej Ekologii" Award, presented during the Miedzynarodowe Targi Ekologiczne POLEKO 2000 (The International Ecological Fair POLEKO 2000) in Poznan for the development, implementation and execution of the Environmental Management System and the Certificate verifying the ISO 14001 standards.
- Grand Prix Award presented at the V Miedzynarodowe Targi Przemyslu Naftowego i Gazownictwa (Fifth International Oil and Gas Industry Fair) "Nafta i Gaz 2000" for the production of a new generation of fuels under the name Olej Napedowy Miejski "standard 50". This is the only product of its kind, which, due to the application of the most modern production technologies, and unique enriching additives, which has a higher quality grade than what is required for fuels used in countries of the European Union.
- Silver medal awarded to employees of the parent Company during the III Miedzynarodowa Wystawa Wynalazkow INNOWACJE 2000 (Third International Exhibition of Inventions INNOVATION 2000) in Gdansk for a new method for de-watering diesel fuel.

For the past three years, the Parent Company has also been a participant in the international program "Odpowiedzialnosc i Troska" (Responsible Care) through which the company is permanently responsible for observing environmental protection standards, and conducting activities aimed at protecting the health of employees and members of the surrounding communities. All of the awards and distinctions received during the past year, confirm the fact that environmental protection is permanently included in the strategy of PKN ORLEN S.A. and underlines its successes and efforts related to protecting our natural resources.

Other companies within the Capital Group have achieved the following results in the fields of research and advanced technology:

- Zakłady Azotowe Anwil S.A.

- Start-up and use of the Ammonia Nitrate Plant (CANWIL), which uses technology based on a license bought from Krupp Uhde,
- Conclusion of the implementation of technology patented by the Politechnika Warszawska (Warsaw Politechnical Institute) for the reduction of the emission of nitric oxide using the KNT method,
- Start-up of a new PCV drying line, with a new type of dryer manufactured by Niro,
- Modernisation of boiler no. 1 at the combined heat and power plant by using a new generation of low-emission burners,
- Implementation of successive modules of the Complete IT System SAP R/3.

- Rafineria Nafty Jedlicze S.A.

- Conducted research into the use of oils: Hipol 6, Hipol GL-5 80W/90 and Hydrol HV 32 in the loader L-34 manufactured in Stalowa Wola,
- Start-up of the manufacture of the concentrate used for micro-emulsion production, Hydrokop Mikro HFA
- Obtained a military certificate for oil Superol CB 50 and Autosan and CLN certificates for oil Hipol GL-5 80W/90 and Hipol GL-4 80W/90

- Rafineria Trzebinia S.A.

In 2000, the company incurred financial expenditures for innovation activities in the amount of PLN 262,200. The company is simultaneously a licensee of five licensing agreements, and the licensor of technology to two registered commercial companies.

- IKS "Solino" S.A.

The company was committed to the execution of the investment in Underground Fuel and Oil Storage Tanks, developmental in nature. In 2000, no other research and development work was carried out.

- Petro-Oil Sp. z o.o.

- Initiation of production of a new generation of engine oils (for gasoline and diesel engines in personal and light delivery vehicles, and oils for high revolution diesel engines in trucks, busses, and construction equipment) for which a research program was conducted jointly with the companies Shell-Infineum and Chevron-Oronite in order to verify that the ACEA and API requirements were fulfilled, through the completion of a research programme confirming the compliance with the above agency requirements. These oils were approved by the following automobile manufacturers: DaimlerChrysler, Volvo, MAN, MTU, Volkswagen, Mack, and Porsche, in total, 21 approvals.
- In October 2000, the initiation of production and sale of a wind-shield wiper fluid. The following versions of the fluid, winter -30°C, winter -22°C, and summer, were certified with the safety symbol B, issued by the Instytut Transportu Samochodowego (Institute for Automobile Transportation) and the testing agency PZH,
- In October 2000, the initiation of production and sale of brake fluid, types R-3/205, DOT-3, DOT-4, DOT 5.1 and the simultaneous certification with a safety symbol B, issued by the Instytut Transportu Samochodowego (Institute for Automobile Transportation).

V. FINANCIAL AND ECONOMIC POSITION OF THE CAPITAL GROUP

5.1 Description of financial results.

In 1999, PKN ORLEN S.A. prepared financial statements of two types: statutory and *pro forma*. Figures disclosed in the statutory 1999 financial statements are not comparable with the 2000 results, as they do not take into consideration the effects of the merger prior to September 7, 1999. A true comparison of the Company's economic and financial standing in 1999 and in 2000 is only possible with use of the *pro forma* statements, which assume that the former Petrochemia Plock S.A. and former CPN S.A. operated within a single organisational structure as from the beginning of 1999. Therefore, data for 2000 was compared with estimated *pro-forma* data for 1999.

Revenues

In 2000, the PKN ORLEN S.A. Group sales of finished products, goods for resale and materials amounted to PLN 26,859,907 thousand. In relation to the *pro forma* figures for 1999, the sales increased by PLN 6,383,502 thousand i.e. by 31.2%, which mostly resulted from the increased rates of excise duty (threefold rise throughout the year), increased crude oil prices on the markets world-wide (on average, by 58.5% compared with the previous year's figures), as well as the increased USD/PLN exchange rate (the mid-rate increased by 9.6% from the 1999 level).

Other operating income in 2000 increased by PLN 32,081 thousand in comparison with the previous year's data. The sales of PLN 147,341 thousand in 2000 resulted from the releases of provisions, mainly the environmental provision with respect to the facilities which had undergone a thorough modernisation.

In 2000, financial income in the amount of PLN 197,201 thousand increased by PLN 70,453 thousand i.e. by 55.6% in relation to the 1999 figures (the result of an increase in currency exchange gains and other interest).

Costs

In 2000, the Company incurred costs of finished products, goods for resale and materials sold of PLN 15,004,078 thousand which were higher than recorded in 1999 by PLN 4,654,368 thousand that is by 45.0%, mainly as a result of increased costs of the processed crude oil, incurred by the Group's refineries. Cost of sales at PLN 9,716,522 thousand was by PLN 1,500,196 thousand greater than recorded in 1999, primarily resultant from an increase in the rates of excise duty. General and administration expenses of PLN 616,682 thousand were by PLN 22,007 thousand higher than in 1999 (3.7% growth).

In 2000, operating costs totalled PLN 25,337,282 thousand. The operating costs structure is as follows:

- Finished products, goods for resale and materials sold – 59.2%,
- Selling and distribution costs – 38.4%,
- General and administration expenses – 2.4%.

Costs by type, incurred by the Capital Group companies, amounted to PLN 24,509,403 thousand which was

primarily caused by the increase of crude oil costs and excise duty rates. The average price of Brent crude oil was at USD 28.52 per barrel in 2000, while in 1999 it had been at USD 17.99 per barrel. In 2000 the crude oil costs in the Group's refineries constituted 44.8% of total costs by type. Due to the opening of new installations, the quantity of crude oil processed increased by 4.5%, which together with the increase of the average price of processed oil from PLN 461 per tonne in 1999 to PLN 841 per tonne in 2000, resulted in the increase of the crude oil costs by 90.4% or PLN 5,212,694 thousand. Over the analysed period, the rates of excise duty were raised three times. This primarily caused an increase in the costs of taxes and fees, which constituted 35.0% of the total costs by type.

The structure of other costs by type of the PKN ORLEN S.A. Capital Group was as follows:

- Usage of materials and energy – 7.5%,
- External services – 5.6%,
- Wages and salaries, and payroll-related benefits – 3.2%
- Depreciation/amortisation – 3.2%.

Financial results

In 2000, the PKN ORLEN S.A. Capital Group recorded profit on sales in the amount of PLN 1,522,625 thousand that is by PLN 206,931 thousand higher than the result in 1999. The increase of profit by 15.7% was recorded despite the weakness in customs protection:

- decrease in fuel import tariffs from 5% to 3% in the case of gasoline and from 11% to 4% in the case of Diesel oil as of January 1, 2000,
- the lifting of import tariffs for fuel imported from the countries, with which Poland has signed free trade agreements, i.e. the EU, EFTA and CEFTA countries, Lithuania, Estonia, Faeroe Islands and Turkey,
- suspension of fuel import tariffs from other countries, including the CIS countries, as of September 20, 2000 to the end of 2000.

Major factors for the profit increase included an increase in the volume of crude oil processed by refineries - by 4.5%, i.e. 558,800 tonnes (in PKN ORLEN S.A. by 535 thousand tonnes) as well as higher quality of the products sold.

Result on other operating activity stood at a level of PLN 96,034 thousand (negative value). In comparison with 1999, the loss increased by PLN 12,906 thousand or 12%. The analysis of the dynamics of other operating income and costs shows a larger increase (by 27.8%) of income than costs. The increase of costs as 8.6% resulted mainly from unplanned amortisation/depreciation write-offs and the adjustment of the value of inventories.

The loss on financial activity was PLN 344,843 thousand (negative value), and was higher by PLN 172,209 thousand than the loss incurred in 1999. This decrease of the result by 99.8% resulted from an increase in the volume of loans denominated mainly in foreign currencies, which, with the accompanying depreciation of the zloty, caused an increase in debt servicing.

The value of extraordinary profits and costs equalled PLN 34,902 thousand while in 1999 it came to PLN 35,987 thousand. The decrease of the result on extraordinary items by 3% as a result of damages caused by extraordinary events.

Net profit generated in 2000 amounted to PLN 804,850 thousand and was lower as compared to 1999 by PLN 9,468 thousand (1.2%). PKN ORLEN S.A. share in the Group's result is 87.1%.

5.2 Assets and liabilities of the consolidated PKN ORLEN S.A. balance sheet, with regard to the Capital Group liquidity.

Balance sheet

As at December 31, 2000, the Company's balance-sheet total was PLN 13,604,449 thousand which is by PLN 2,026,514 thousand or 17.5% higher than as at December 31, 1999. An analysis of the assets structure as disclosed in the balance sheet reveals that fixed assets prevail in the total, as their share in the total assets was 61.6% on December 31, 2000. The main item of liabilities is the Company's capital, which constituted 52.1% of the balance-sheet total as at the end of 2000, with a significant share of total liabilities, excluding special accounts (38.5% of total liabilities as at the end of 2000).

The dynamics of the Group's major asset and liabilities in 2000 attests to:

- Fixed assets grew by PLN 633,004 thousand and as at the end of 2000 stood at PLN 8,382,280 thousand. The growth of assets resulted from the commissioning buildings and constructions from investments in the amount of PLN 340,189 thousand and the acquisition of plant and equipment for PLN 407,700 thousand. At the same time, the construction in progress and payments on account of construction in progress fell by PLN 259,673 thousand as compared to 1999. Financial fixed assets increased by PLN 115,451 thousand mainly through the growth of capital engagement in the subsidiary companies and associated companies not consolidated.
- Current assets grew by PLN 1,026,063 thousand that is by 29.0%, to PLN 4,562,899 thousand primarily as a consequence of the change in inventories and short-term debtors. The inventories of materials grew by 32.7% as a result of a price increase and the quantity of stored crude oil. The 29.9% increase in trade debtors was directly caused by an increase in the sale prices of the Company's products.
- Liabilities grew by PLN 2,026,514 thousand or 17.5%, primarily as a consequence of the PLN 758,340 thousand increase in capital (augmentation of capital with the current year profit including the 2000 dividend paid out) and the PLN 1,071,134 thousand increase in total liabilities, excluding special funds. An analysis of the liabilities structure reveals that the Company's main sources of external financing are bank loans: long-term loans accounting for 22.2% of total liabilities and short-term loans accounting for 25.0% of total liabilities, as well as trade creditors accounting for 30.6% of total liabilities. As compared with 1999, long-term bank loans increased by 41.0%, that is by PLN 338,985 thousand (financing of investment expenditure), short-term bank loans increased by 35.7% or PLN 344,947 thousand (source of financing of current expenses) and trade creditors by 20.2%, that is by PLN 269,678 thousand (as a result of higher purchase prices of crude oil bought by the Group's Companies).

Financial ratios

During the period under review, the Company was able to settle its short-term creditors on time. The current ratio stood at 1.14 and the quick ratio was 0.46.

The 2.19 ratio of average payment period in days (calculated as average short-term trade creditors/value of goods sold and cost of products sold) to average collection period in days (average short-term trade debtors / sales of finished products and goods) attests to advantageous payment terms for contracted short-term creditors. Trade creditors are collected 20 days earlier than the creditors mature.

As compared to 1999, the demand for current assets increased by 52.4%, that is by PLN 690,080 thousand. The result of the growth in capital demand was the increased prices of raw materials and goods, investment expenditure, mandatory inventories of liquid fuels (annual growth by 2% of the production or import). Consequently, the net debt of the Capital Group's capital increased from 29.0% to 35.9% as at the end of 2000.

Parent Company and other Companies against the background of the Capital Group.

In order to define the role of the Parent Company in the Capital Group, the share of the Issuer's principal economic values in the analogous values of the PKN ORLEN S.A. Capital Group for 1999 and 2000 are presented below:

PLN '000

Items	PKN S.A.		Capital Group		PKN S.A. share in the Capital Group	
	1999	2000	1999	2000	1999	2000
Balance-sheet total	10,623,546	12,542,911	11,577,935	13,604,449	91.8%	92.2%
Sales	19,410,033	25,095,007	20,476,405	26,859,907	94.8%	93.4%
Net profit	744,551	700,830	814,318	804,850	91.4%	87.1%

The values presented indicate that in 2000 the Parent Company maintained a considerable (approximately 90%) share of the basic economic parameters of the PKN ORLEN S.A. Capital Group. The share of the Companies in the sales of goods for resale and finished products and in net profit earned within the Group increased by 1.4% and 4.3%, respectively, as compared to 1999. The lower share of the Parent Company in the Group's profit was brought about by the larger number of consolidated companies in 2000 (mainly as a result of the restructuring process involving the spinning off of servicing and transportation companies from the Parent Company). The fact that the spun-off entities now provide services at prices earning profits is reflected in higher costs and lower profits of the Parent Company, accompanied by higher profits of other Capital Group companies. Another factor contributing to the increased share of profits of the subsidiary companies and associated companies is the improved efficiency of business activities conducted by the key entities of the PKN ORLEN S.A. Capital Group.

5.3 Description of important off-balance sheet items of the Capital Group.

As at December 31, 2000, the total value of guarantees for the remaining entities amounted to PLN 11,021 thousand and was by 78.3% lower as compared to the previous year. Other off-balance sheet liabilities equalled PLN 60,879 thousand which represents an increase of 146.1% as compared to 1999.

VI. ADDITIONAL INFORMATION ON THE CAPITAL GROUP

As at December 31, 2000, the Capital Group comprised of 145 companies organised and existing under commercial law. One can break down the entities into categories depending on their relation to the Parent Company (subsidiary companies and associated companies). Only those companies whose sales and balance-sheet totals are most significant to the Capital Group, 45 subsidiary companies (including 34 subsidiary companies directly held by the Parent Company) and 4 associated companies, have been included in the consolidated financial statements. These companies are listed and characterised in Section I of this report.

6.1 Information on basic products and services, and on markets and sources of supply of the companies comprising the Capital Group.

The following list presents the information on the basic products and services, as well as markets, sources of supply and principal suppliers of the Capital Group members.

Consolidated companies	Basic products	Markets (area of operation)	Dominating suppliers
Parent Company			
PKN ORLEN S.A.	leaded and unleaded gasoline; diesel, heating and special oils; lubricants; bitumen, polyethylene, polypropylene, ethylene, propylene, butadiene, glycols, phenol, acetone;	Poland, Europe	J&S Service&Investment Ltd
Subsidiary companies			
Rafineria Trzebinia S.A.	leaded and unleaded gasoline, Diesel, heating and special oils, paraffin;	Southern Poland	PKN ORLEN S.A.
Rafineria Nafty Jedlicze S.A.	leaded and unleaded gasoline, Diesel, heating and special oils, lubricants;	Southern Poland	PKN ORLEN S.A.
IKS "Solino" S.A.	brine and evaporated salt;	Domestic market and exports	-
Petro-Oil Sp. z o.o.	Chemical, refinery, and petrochemical products sales;	Poland	PKN ORLEN S.A.
ORLEN Petro-Tank Sp. z o.o.	engine gasoline, Diesel and heating oils, Petrygo fluid, plastics;	South-Eastern Poland	PKN ORLEN S.A.
ORLEN PetroProfit Sp. z o.o.	engine gasoline, Diesel and heating oils, preparation and sales of Petrygo and Petro-blysk fluids;	Eastern Poland	PKN ORLEN S.A.

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Petrocentrum Sp. z o.o.	engine gasoline, Diesel and heating oils, LPG;	Central and North-western Poland	PKN ORLEN S.A.
Petrolot Sp. z o.o.	engine gasoline, Diesel fuel, aircraft fuel;	Airports	PKN ORLEN S.A.
PetroZachod Sp. z o.o.	engine gasoline, Diesel and heating oil, Petrygo fluid, plastics;	Wielkopolska Region	PKN ORLEN S.A.
Petrogaz Plock Sp. z o.o.	LPG sales;	Central Poland Olsztyn and Gorzow Wielkopolski Provinces	PKN ORLEN S.A.
Petrogaz Redaki Sp. zo.o.*	LPG sales;	Olsztyn, Bialystok and Bydgoszcz Provinces	Petrogaz Plock Sp. z o.o.
Petrogaz Jaworzno Sp. z o.o.	LPG sales;	Katowice Province	Petrogaz Plock Sp. z o.o.
Petrogaz Hrubieszow Sp. z o.o.*	engine fuels and LPG sales;	Lublin Province	Petrogaz Plock Sp. z o.o.
Petrogaz Nowa Brzeznicza Sp. z o.o.	LPG sales;	North area of Katowice Province	Petrogaz Plock Sp. z o.o.
Petrogaz Inowroclaw Sp. z o.o.	LPG sales;	Bydgoszcz and Poznan Provinces	Petrogaz Plock Sp. z o.o.
ORLEN Petrogaz Wroclaw Sp. z o.o.	LPG sales	Wroclaw Province	Petrogaz Plock Sp. z o.o.
Petrogaz Lapy Sp. z o.o.	LPG sales;	Bialystok Province	Petrogaz Plock Sp. z o.o.
Zaklad Budowy Aparatury S.A.	chemical installation production, sales, and repairs;	PKN ORLEN S.A.	-
Petrotel Sp. z o.o.	telecommunications services;	Plock and surrounding area	-
Petroprojekt S.A.	design and technical documentation mainly for refinery sector;	Poland	-
ORLEN Medica Sp. z o.o.	health-care services	Plock	-
ORLEN Transport Plock Sp. z o.o.	passenger car and cargo transportation, motor vehicle service and repairs;	Poland, Europe	PKN ORLEN S.A.

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PKN Transport Szczecin Sp. z o.o.	transportation services	Poland, Europe	PKN ORLEN S.A.
PKN Transport Slupsk Sp. z o.o.	transportation services	Poland, Europe	PKN ORLEN S.A.
ORLEN Transport Olsztyn Sp. z o.o.	transportation services	Poland, Europe	PKN ORLEN S.A.
PKN Transport Nowa Sol Sp. z o.o.	transportation services	Poland, Europe	PKN ORLEN S.A.
ORLEN Transport Lublin Sp. z o.o.	transportation services	Poland, Europe	PKN ORLEN S.A.
ORLEN Transport Krakow Sp. z o.o.	transportation services	Poland, Europe	PKN ORLEN S.A.
ORLEN Transport Kedzierzyn Kozle Sp. Z o.o.	transportation services	Poland, Europe	PKN ORLEN S.A.
ORLEN Transport Poznan Sp. z o.o.	transportation services	Poland, Europe	PKN ORLEN S.A.
ORLEN Transport Warszawa Sp. Z o.o.	transportation services	Poland, Europe	PKN ORLEN S.A.
ORLEN KolTrans Sp. z o.o.	loading and unloading rail service points, forwarding of products, management of tanker cars, and trade in fuels and oils	Poland, Europe	PKN ORLEN S.A.
ORLEN Budonaft Sp. z o.o.	construction, maintenance and modernisation of service stations	Poland	PKN ORLEN S.A.
ORLEN Powiernik Sp. z o.o.	trust services to PKN ORLEN S.A.	Plock	PKN ORLEN S.A.
Associated Companies			
Zaklady Azotowe Anwil S.A.	polyvinyl chloride, ammonium nitrate, granulated PVC;	Domestic and foreign market	PKN ORLEN S.A., PGNiG S.A.
Naftoport Sp. z o.o.	reloading services;	Domestic and foreign customers	-
Chemiepetrol Sp. z o.o.	petrochemical products agency services;	Germany	Polish chemical plants

Flexpol Sp. z o.o.	production of packaging and labelling materials	domestic and foreign markets	PKN ORLEN S.A.
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*) Company contributed to Petrogaz Plock Sp. z o.o. at the end of 2000

6.2 Information on agreements material to the Capital Group business activities.

Agreements concluded by the Parent Company in 2000 include:

1. On March 13, 2000 the Company entered into an agreement with a consortium comprising CAIB Securities S.A., Lehman Brothers International (Europe) and Wielkopolski Bank Kredytowy S.A., under which the consortium is to act as advisor during the second stage of the Company's privatisation.
2. On March 14, 2000 an agreement was signed with Telewizja Familijna S.A., with head office in Warsaw, KGHM Metale S.A., with head office in Lubin, Polskie Sieci Elektroenergetyczne S.A., with head office in Warsaw, Powszechny Zakład Ubezpieczeń na Życie S.A., with head office in Warsaw, Prokom Investments S.A., with head office in Gdynia, and Prowincja Zakonu Braci Mniejszych Konwentualnych, with head office in Warsaw, under which PKN ORLEN S.A. acquired 220,000 registered shares of Telewizja Familijna S.A., at PLN 118.2 per share. The value of the capital investment is PLN 26m. The acquisition involves an obligation to finance, on market terms, Telewizja Familijna S.A., with a debt of up to PLN 26m, over five years. The shares acquired constitute 11.96% of the stock capital of Telewizja Familijna S.A. and entitle to 9.61% of votes at the General Shareholders Meeting.
3. On April 26, 2000, PKN ORLEN S.A. and Przedsiębiorstwo Poszukiwan i Eksploatacji Złoz Ropy i Gazu PETROBALTIC Sp. z o.o. concluded a term agreement for the delivery of "Rozewie" type crude oil from the B3 deposit on the Polish continental shelf in the Baltic Sea, in the territorial waters of the Republic of Poland. The deliveries will be made in monthly consignments up to the end of 2000 with an option to extend the term of the agreement. The estimated value of the transaction is approximately PLN 200m.
4. In accordance with the premises of the restructuring process, between May 10 and May 16, 2000 PKN ORLEN S.A. signed nine articles of association for subsidiary companies in the form of notary deeds, as a result of which transport companies in Szczecin, Lublin, Krakow, Slupsk, Olsztyn, Kedzierzyn-Kozle, Poznan, Nowa Sol and Warsaw were established. In accordance with the employment policy adopted for the newly formed entities, 1,096 people will be employed in the above mentioned companies.
5. On June 8, 2000 PKN ORLEN S.A., and Polskie Sieci Elektroenergetyczne S.A. of Warsaw and Telekomunikacja Energetyczna Tel-Energo S.A. of Warsaw entered into an agreement to continue with the consolidation and development of their telecommunications investments. The particular subject of the agreement are the rules of co-operation between the parties concerning the consolidation of their telecommunications undertakings, and their participation as partners in Niezalezny Operator Miedzystrefowy Sp. z o.o., whose head office is in Warsaw.
6. On June 10, 2000 the following two agreements came into operation:
 - Acquisition-promotion agreement concluded between PKN ORLEN S.A. and Dyrekcja Kolejowych Przewozow CARGO (Rail Haulage Division) of Przedsiębiorstwo Panstwowe PKP (The Polish State Railways), on the basis of which PKN ORLEN was granted a discount on PKP goods tariffs for the transport of fuels by PKP on its domestic network.
 - Co-operation agreement concluded between PKN ORLEN S.A. and Dyrekcja Eksploatacji Cystern Sp. z o.o., which regulates the dealings between PKN ORLEN S.A. and DEC Sp. z o.o. on a comprehensive and long-term basis, defining the rules and costs relating to the transport of PKN ORLEN S.A. products by DEC Sp. z o.o. rolling stock.
7. On June 30, 2000 the Company, as party acting in conjunction with Nafta Polska S.A. concluded the following two agreements:
 - Underwriting agreement for the purchase of up to 31,350,000 and an additional 14,250,000 common bearer PKN ORLEN S.A. shares with a par value of PLN 1.25 per share in the form of shares or Global Depository Receipts offered for sale in the International Institutional Sub-offering, concluded with Lehman Brothers

International (Europe) and CA-IB Investmentbank Atkiengesellschaft (CA-IB).

- Underwriting agreement for the purchase of up to 19,950,000 common bearer PKN ORLEN S.A. shares with a par value of PLN 1.25 per share offered for sale in the Domestic Institutional Sub-offering, concluded with CAIB Securities S.A., Wielkopolski Bank Kredytowy S.A. Dom Maklerski WBK S.A., Bank Rozwoju Eksportu S.A., Dom Inwestycyjny BRE Banku S.A., Centralny Dom Maklerski PeKaO S.A., Centrum Operacji Kapitałowych Bank Handlowy w Warszawie S.A. and CAIB Investmentbank Atkiengesellschaft.
- 8. On July 13, 2000 a Founders' Meeting of ORLEN Powiernik Sp. z o.o. was convened. The company, whose capital stock equals PLN 4 thousand will participate in the execution of the of PKN ORLEN S.A.'s Management Stock Option Scheme.
- 9. On October 31, 2000 the Management Board of PKN ORLEN S.A. signed a loan agreement for the amount of USD 200m with a consortium of Polish and foreign banks. The consortium was headed by ABN AMRO Bank N.V. The loan will be repaid in three years. The loan may be used in US dollars and in euro. The interest on the loan is based on the appropriate LIBOR rate plus a margin of 0.35% per year. The repayment of the loan is not secured with any encumbrance of PKN ORLEN S.A.'s assets. The funds from the loan will be used to finance the Company's operations, which means that they may be used for the settlement of payments in connection with commercial, investment and financial transactions as well as tax liabilities.
- 10. On November 9, 2000 PKN ORLEN S.A. purchased from the Wloclawek Municipality 443,257 registered shares of Z.A. Anwil S.A. which constitute 2.95% of the company's share capital and confer the right to 2.95% of votes at the General Shareholders Meeting of Z.A. Anwil S.A. The purchase price was PLN 12.00 per share. Following the purchase of the shares, PKN ORLEN S.A. acquired a total interest of 38.35% in the Z.A. Anwil S.A.'s share capital. Z.A. Anwil S.A. is a leading chemical company in Poland with a 65% share in the Polish polyvinyl chloride market and is the chief receiver of the ethylene produced in the refining and petrochemical complex in Plock.
- 11. On December 19, 2000 PKN ORLEN S.A. purchased from DROMEX S.A. 4,950 shares of BHT DROMECH S.A. with head office in Warsaw, for PLN 1,600 thousand (these shares confer the right to 40.6% of votes at the General Shareholders Meeting). As a result of this transaction PKN ORLEN S.A. acquired 81.2% of votes at the company's General Shareholders Meeting. BHT DROMECH S.A. engages in industrial activity which consists of the production of specialised vehicles, and, in particular, vehicle tankers for transport of dangerous substances such as fuels, gases, acids and other chemical material.
- 12. During the fourth quarter of 2000, PKN ORLEN S.A. concluded the following contracts for the supply of crude oil in 2001:
 - with BMP Trading GmbH & Co. KG, for the supply of 2,000 thousand tonnes of Russian REBCO crude oil through the Druzhba pipeline,
 - with Petraco Oil Company Ltd. for the railway supply of 432 thousand tonnes of light crude oil from Lithuania and Russia,
 - with J&S Service and Investment Ltd. for the supply of 720 thousand tonnes of crude oil from Lithuania and Russia via the sea to Gdansk,
 - with VEBA Supply & Trading GmbH for the supply of 1,200 thousand tonnes of Russian REBCO crude oil through the Druzhba pipeline,
 - with Przedsiębiorstwo Poszukiwan i Eksploatacji Złoz Ropy i Gazu "PETROBALTIC" Sp. z o.o. for the supply of approximately 360 thousand tonnes of "Rozewie" type crude oil from the B3 deposit on the Polish continental shelf in the Baltic Sea in the Polish economic zone.The remaining amounts of crude oil will be supplied on the basis of a long-term contract concluded in 1997 with J&S Service and Investment Ltd., and on the basis of spot contracts.
- 13. During the fourth quarter of 2000, PKN ORLEN S.A. executed two deeds of incorporation for subsidiary companies separated from PKN ORLEN S.A.:
 - ORLEN KolTrans Sp. z o.o., head office in Plock – Founders' Meeting on November 14, 2000.
 - Zakład Urządzeń Dystrybucyjnych Sp. z o.o., head office in Opole – Founders' Meeting on November 14, 2000.

Agreement concluded by other companies of the Capital Group:

1. PKN ORLEN S.A. and IKS "Solino" signed a lease agreement for storage capacity which is to be made

available as a result of the "Subterranean oil and fuel storage facility in Gora near Inowroclaw" investment plan.

2. In 2000, Zakłady Azotowe Anwil S.A. concluded an agreement with Elektrim Kable S.A. and Krakowska Fabryka Kabli S.A. for the of sale granulated PVC.
3. On January 18, 2000, Rafineria Trzebinia S.A. entered into an agreement with PGNiG Oddział Zielona Góra for the purchase of crude oil distribution and processing. On January 20, an agreement on crude oil supplies was concluded with BMP from Germany and with Prodeo AB on April 5.
4. On June 8, 2000 Petro-Oil Sp. z o.o. signed an agreement for an unspecified period of time on Petro-Oil Sp. z o.o.'s lubricants and lubricating oils and other industrial fluids to be supplied to the retail network of PKN ORLEN S.A.'s service stations.
5. On December 14, 2000, Rafineria Nafty Jedlicze S.A. signed a loan agreement with Bank Śląski for financing of an investment project, i.e. Hydro-refining Installation for the amount of USD 18m.

6.3 Information on the organisational and capital relations between the Capital Group members.

The format of the organisational and capital relations of the companies comprising the Capital Group is presented in Appendix no. 1.

6.4 Description of transactions of the Parent Company with related entities of the Capital Group, where the value of a single transaction or a series of transactions made by a given associated company in a 12-month period amounted to the PLN equivalent of EUR 500 thousand.

PLN '000

No.	Company's name	PKN ORLEN S.A. sales to the companies	PKN S.A. purchases from the companies
1.	Petrogaz Plock Sp. z o.o.	259,651	20,920
2.	ORLEN Transport Plock Sp. z o.o.	15,699	16,415
3.	Zakład Budowy Aparatury S.A.	3,640	34,015
4.	Petrotel Sp. z o.o.	1,983	10,287
5.	ORLEN PetroProfit Sp. z o.o.	314,608	4,678
6.	Rafineria Trzebinia S.A.	774,332	17,274
7.	Rafineria Nafty Jedlicze S.A.	430,265	3,162
8.	ORLEN PetroTank Sp. z o.o.	573,990	32,116
9.	PetroZachod Sp. z o.o.	332,202	3,158
10.	Petroprojekt S.A.	442	20,983
11.	ORLEN Medica	204	2,558
12.	ORLEN Budonaft Sp. z o.o.	703	49,859
13.	ORLEN Sportowa S.A.	3,004	22,034
14.	Petroochrona Sp. z o.o.	569	11,905
15.	CPN Serwis Slupsk Sp. z o.o.	222	2,292
16.	PKN Transport Szczecin Sp. z o.o.	599	2,690
17.	ORLEN Transport Krakow Sp. z o.o.	3,390	7,862
18.	ORLEN Transport Lublin Sp. z o.o.	1,944	8,720
19.	ORLEN Transport Nowa Sol Sp. z o.o.	2,113	10,169
20.	ORLEN Transport Poznan Sp. z o.o.	2,064	9,175
21.	PKN Transport Slupsk Sp. z o.o.	5,498	6,316
22.	ORLEN Transport Warszawa Sp. z o.o.	938	4,430
23.	ORLEN Transport Olsztyn Sp. z o.o.	1,874	5,815
24.	CPN Serwis Mazowsze Sp. z o.o.	2,669	4,977

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25.	ORLEN Transport Kedzierzyn-Kozle Sp. z o.o.	862	5,578
26.	PetroKan Sp. z o.o.	1,199	11,555
27.	Centrum Edukacji Przemyslu Naftowego Sp. z o.o.	194	4,749
28.	PetroMechanika Sp. z o.o.	767	27,916
29.	Centrum Serwisowe Automatyki Sp. z o.o.	828	23,518
30.	OrlenRemont Sp. z o.o.	1,324	25,632
31.	OrlenEltech Sp. z o.o.	1,069	23,635
32.	OrlenEnergRem Sp. z o.o.	602	16,883
33.	PetroWir Sp. z o.o.	708	12,182
34.	Naftoport Sp. z o.o.	0	10,053
35.	Zakłady Azotowe Anwil S.A.	332,608	2,194
36.	P.U. Zielen Sp. z o.o.	256	4,234
37.	Nafta Polska S.A.	2,041	3,511
38.	Naftobazy Sp. z o.o.	3,109	141,543
39.	Rafineria Gdanska S.A.	13,164	321,657
40.	Rafineria Czechowice S.A.	662,701	4,241
41.	Dyrekcja Eksploatacji Cystern Sp. z o.o.	1,687	58,198
42.	Petrocentrum Sp. z o.o.	132,435	1,144
43.	Petrogaz Hrubieszow Sp. z o.o.	4,562	0
44.	Petrogaz Jaworzno Sp. z o.o.	321	3,061
45.	Petrogaz Inowroclaw Sp. z o.o.	169	1,723
46.	Petro-Oil Sp. z o.o.	147,294	2,711
47.	Petrolot Sp. Z o.o.	382,817	139
48.	Bitrex Sp. z o.o.	43,926	0
49.	Petropolimer Sp. z o.o.	51,387	0
50.	Malnaft Sp. Z o.o. Malbork	18,146	9
51.	Flexpol Sp. Z o.o.	48,940	2
52.	Piast Sp. z o.o.	48,230	0
53.	Rafineria Nafty Glimar S.A.	84,387	549
54.	Rafineria Jaslo S.A.	247,897	231
55.	Total	4,971,343	1,018,658

In the above table, transactions between branches of PKN ORLEN S.A. and related entities are included.

6.5 Information on outstanding credit facilities, loan agreements, sureties and guarantees, and their maturity dates.

Information on credit facilities, loans, sureties and guarantees taken on by the members of the PKN ORLEN S.A. Capital Group, as well as their maturity dates are included in notes 20 and 21 to the 2000 consolidated financial statements.

6.6 Information on loans granted by the Parent Company and the Capital Group members.

In 2000, the Parent Company made additional contributions to the capital of the Capital Group companies. The value of the contribution was PLN 230,299 thousand.

The value of credits granted by PKN ORLEN S.A. in 2000 from the privatisation fund, to be used for the purchase of shares in the companies established as a result of the PKN ORLEN S.A. restructuring, was PLN

10,309 (excluding interest). The credits were granted for five years. As at December 31, 2000, the balance of credits granted to the Company's current and retired employees from the Employee Social Benefit Fund was PLN 28,508,600, while the balance of credits granted to the employees of the Capital Group companies in the process of consolidation, which concluded with PKN ORLEN S.A. agreements on conducting joint activities with respect to social benefits was PLN 1,354,200.

6.7 Issue of securities in the period covered by the report. Use of proceeds.

In 2000 PKN ORLEN S.A. issued short-term debt securities – Commercial papers, which are not securities within the meaning of the Law on Public Trading in Securities. The proceedings from the issue were used to redeem the due tranches and to finance current activities of the Company. As at the end of 2000, the indebtedness of the Company resulting from the issue of the Commercial papers amounted to PLN 191,550 thousand a part of which was purchased by consolidated companies.

On August 4, 2000, PKN ORLEN S.A. issued 11,344,784 Series A convertible bonds with a par value of one bond of PLN 1.25 and an issue price of PLN 20.30. The issued bonds will be converted into Series D shares, which were admitted to public trade on July 14, 2000 to be issued between 2001 and 2003. The issue of the bonds is in accordance with the provisions of the Management Incentive Scheme adopted by the General Shareholders Meeting and the Supervisory Board, under which the bonds will be offered to the Members of the Management Board of the Company and other management staff, which play a key role in the directing of the Company.

Other Capital Group companies did not issue any securities in 2000.

6.8 Explanation of the discrepancies between the financial results disclosed in the semi-annual report and the projections for the period, which were published earlier, if individual differences exceed 10% of the value of individual items in the latest projection delivered by the Company.

The Capital Group PKN ORLEN S.A. did not publish a forecast of results for the 2000 based on Polish Accounting Standards.

6.9 Assessment of financial resources management, with a particular emphasis on the Company's capability to meet liabilities, including indication of possible risks and measures taken, or intended to be taken by the Parent Company to prevent this risk.

The management of financial resources is not conducted on the Capital Group level. Each company within the Capital Group, in the event of any financial surplus, pursues its individual investment policy.

In 2000, following the separation of offices engaged in retail trade and providing financial and accounting services outside of Plock, cash flows between regional branches of PKN ORLEN S.A. were subject to reorganisation. The implemented system enables effective and safe investment of proceeds from cash sales. As a

result of lack of surplus financial resources in the course of the whole year, the Company made practically no short-term financial investments. The funds generated by the current operation activities were chiefly used for repayment of liabilities of current account credit lines or entered onto automatic overnight bank deposits.

The financial position of the Company remains stable and safe despite the increase in the level of financial indebtedness and deterioration of liquidity ratios. The Company continues to have its high credit rating, which allows it to obtain financial resources at premium rates. It has been observed that with the increase of the level of domestic indebtedness and increase in the number and size of subsidiary companies and associated companies, the lending limits of Polish banks engaged in the financing of the PKN ORLEN S.A. Capital Group have been reached. The high level of real interest rates, which we witnessed during 2000, is also negatively affecting financial costs. As a result of obtaining a long-term syndicated loan of USD 200m, an effective venue for obtaining funds from abroad has been opened up for the Company, which also allowed to reduce the size of loans received from Polish banks. The Parent Company plans take a wider-range advantage of possibilities created through the issuing short-term debt securities on the Polish market.

6.10 Evaluation of the feasibility of investment objectives, including capital investments, as compared to available funds, subject to possible changes in the financial structure of this type of operation.

Realisation of investment plans of the Parent Company and the companies comprising the Capital Group – Section 3, is real and based on the companies' own funds and funds raised on the financial markets.

6.11 Characteristics of internal and external factors significant to the development of the Capital Group and a description of the prospects for the development of the Capital Group's operations, projected at least until the end of the current financial year, presented with regard to elements of its market strategy.

In the year 2000, as compared to the previous year, the tariffs on liquid fuel imports decreased from 11% to 4% on diesel oil and from 5% to 3% on petrol. In accordance with European Union Association Agreements, all tariffs on imported liquid fuel were to be lifted as of January 1, 2001. The increasing prices of crude oil as well as prices of finished engine fuels caused the Government to lift tariffs on fuel imported from countries with which Poland concluded agreements on free trade, i.e. countries belonging to the EU, EFTA, CEFTA, Lithuania, Estonia, Faeroe Islands and Turkey. On September 20, 2000 another decision was adopted on suspending tariffs by the end of 2000, on fuel imported from other countries, including the CIF countries. The lower tariffs protection, as compared to the previous year, as well as its lifting early on in the year, had an impact on the level of sales and, in turn, on the profit realised by the Group.

Another important factor determining the level of prices set by the Capital Group was the high level of crude oil prices in 2000. An average price for a barrel of Brent crude oil rose from USD 17.99/bbl in 1999 to USD 28.52 /bbl 2000. Relatively high level of prices of crude oil was reached in the third and fourth quarter of 2000, which,

respectively, reached the rates of USD 30.39/bbl and USD 29.70/bbl. The increase in crude oil prices together with high currency exchange rates and excise tax, affect the prices of finished products, which in consequence increases the value of the Group's sales and costs. Similarly, possible lifting the relief in excise tax, due to employment of used oil for production of diesel oil as well the possibility of lifting the transportation tax relief, related with the supplies of crude oil by rail transportation, may result in significant decreases of financial result and financing possibilities of the Group companies with respect to their development.

Additionally, along with the changes in the prices of raw materials used in the production, the need for working capital increases. High prices of products may also lead to a decrease of demand for PKN ORLEN S.A. products, resulting in a decrease of profit on sales.

6.12 Characteristics of internal and external factors significant to the development of the Issuer's enterprise and a description of the prospects for the development of the Issuer's operations, projected at least until the end of the current financial year, presented with regard to elements of the Issuer's market strategy.

6.12.1 External factors

The economic growth rate in Poland has a significant impact on the development of the Capital Group companies. The slow down of this dynamic over the next few years may result in a decrease of liquid fuels consumption on the domestic market. In 2000, according to Nafta Polska estimates, the use of gasolines decreased by 8%, and of the diesel oil by 12%. The prices of crude oil, exchange rates and levels of refinery margins will also determine the operations of the Company in the future. Complete abolition of tariffs protection on liquid fuels imports as of September 2000 may result in increased competition on the Polish market, through the entry of international companies. Production of petrochemicals may become a significant source of income for the Company because of a strong demand for those products existing on the market since mid-1999. It is forecasted that as a result of the development programme of the petrochemical business of the Parent Company, the share of petrochemicals in total sales of the Company will increase.

PKN ORLEN S.A. refineries purchase crude oil and other raw materials mainly in USD, while the major part of sales is in PLN. Additionally, the significant part of loans and credits granted to the Parent Company is denominated in foreign currency. As a result, significant fluctuations of exchange rates bear a substantial impact on the operating results of the Capital Group.

In the case of LPG distribution companies, the development and financial results were affected by the following factors:

- Increased competition and reduced demand, resulting from such circumstances as information on planned increases in the excise tax rate.
- Decrease in trade margins (stronger competition).
- Dynamic development of service stations by competitors (BP, Shell, Gaspol and others),
- Market saturation and significant amounts of gas being imported from the East.

External factors affecting the development of other companies within the Capital Group include:

- IKS "Solino" S.A. – excessive supply of salt. Such situation renders price rises impossible, and low currency exchange rates result in lower export sales.
- Zakłady Azotowe Anwil S.A. – increasing use of plastics in the CEE region and the higher level of fertilisers production resulting from reduced imports (particularly from Russia).

6.12.2 Internal factors

Significant organisational changes carried out in 2000, which were aimed at adapting the structure of two merged companies to market requirements will ensure the achievement of measurable economic results. One of them is the process of logistics optimisation, which will improve wholesale distribution of the Company's products. The changes of the organisational structure of PKN ORLEN S.A., which involved spin-off of Regional Wholesale and Logistics Offices, Regional Retail Trade Offices as well as Regional Financial Offices and Regional Investments and Overhaul Offices from the structure of the Company have rationalised the local operations of the Company. The Company restructuring process has also led to the establishment, out of the structure of PKN ORLEN S.A., of a number of companies providing auxiliary and transport services, leading also to a reduction of employment.

The investment expenditures planned for the development and modernisation of market infrastructure are aimed at acquisition of new customers and improvement of the quality of provided services. The introduction of the Fleet Card offer in March 2000 led to an increase of the number of customers taking advantage of this transaction form. The implementation of this sales style was well received by the companies with own transportation.

In 2000, the Company continued, in cooperation with KBC Process Technology Ltd., the realisation of cost-cutting programmes in the production, wholesale and logistics areas. The continuation of the programme will ensure, as a result of changes in production processes, a further reduction of operating costs and optimisation of the quality of products and semi-products. In 2000, the total cost reduction resulting from the abovementioned agreement exceeded USD 13m.

A build-up of the retail network and good recognition of the steel cylinders are important factors in the development of LPG distribution companies and strengthening their position on the LPG market.

6.12.3 Business development prospects

In evaluating the Company's development perspectives for the upcoming years, the following should be considered:

- Making operational the refinery units of the Parent Company, which will increase the production capacity of the refinery complex and improve the quality of the produced fuels, meeting the stringent requirements of the EU for 2000 and 2005,
- Effects of the Parent Company profit improvement programme, conducted in cooperation with KBC Process Technology Ltd.,
- Commencement of VITAY, a loyalty scheme for the retail customers as well as an improvement of the Fleet Cards offer,

- Construction and modernisation of new service stations as well as an expansion of the warehouse bases and fuel pipelines,
- Projected development of the refinery facility of the Company, i.e. construction of new installations and modernisation of the existing ones,
- Construction of crude oil and fuel tank plants in unused mines in IKS "Solino" S.A., which will be an important element in the reduction of costs of liquid fuels mandatory storage and reserves,
- Investments with respect to production and processing of the polyvinyl chloride, which match the growth trends of plastics consumption and will strengthen the Anwil S.A. position on the plastics market,
- Projected growth of demand for fertilisers used in agricultural production, resulting from reduced imports from Russia and the necessity to improve the quality of soil through fertilising,
- Development Petro-Oil Sp. z o.o.'s own distribution channels, in order to increase the sales, market share and the customer base.

6.13 Changes in the basic principles of the Capital Group companies management and in the level of computerisation supporting the management.

6.13.1 Changes in the principles of management of the companies

As part of optimising of the PKN ORLEN S.A. organisational structure, the Warsaw unit was integrated into the structure of the Main Plant in Plock, and Regional Organisational Units (Regions) were established, having the status of an employer within the meaning of Art. 3 of the Polish Labour Code.

The unit in Plock is the Company's management, production and wholesale trade centre. It is where the Company's head office is located as well as the Divisions, that is functional management centres for various areas of the Company's business and administrative activity.

The unit in Warsaw is the management centre for the retail sale business operations of PKN ORLEN S.A. 's own service stations and for the assets allocated to restructuring. In the unit in Warsaw two Divisions, responsible for retail trade and integration matters.

The main objective of the reorganisation carried out in 2000 was the optimising of the organisational structure and the increasing of the management efficiency of sale in the wholesale and retail sale sector and, in particular, more efficient management of approximately 1,500 own service stations located throughout Poland.

Initially, 17 Branches which remained from the former organisational structure of CPN S.A. were established within the Parent Company. By the end of 1999, the Branches conducted their operations in all the basic business areas from the management of service stations to investment activities. In 2000, 12 Regional Organisational Units of PKN ORLEN S.A. (Regions) were established with the use of the existing human resources and assets which were at the disposal of the Branches of PKN ORLEN S.A.

The first business units within the Regions were Regional Wholesale and Logistics Offices, established on January 1, 2000 (based on the trade offices of the former Petrochemia Plock S.A., its former employees and part of warehouse bases of the Branches), responsible for the wholesale trade and the management of the logistics structure (Plock, Bialystok, Gdansk, Katowice, Lublin, Nowa Wies Wielka, Poznan, Rzeszow, Szczecin, Warsaw and Wroclaw).

The PKN ORLEN S.A. own service stations are under the direct management of Regional Retail Trade Offices, established on July 1, 2000 (located in Bialystok, Gdansk, Katowice, Kielce, Krakow, Lodz, Olsztyn, Poznan, Szczecin, Warsaw and Wroclaw). The next step in reorganising the Company after the merger, was the establishment of the six Regional Investment and Overhaul Offices (their head offices being located in Gdansk, Krakow, Poznan, Szczecin, Warsaw and Wroclaw), entrusted with the organisation and supervision over investments and overhaul works with respect to the assets which are managed by the Regional Wholesale and Logistics Offices and Regional Retail Trade Offices.

In order to ensure the financial and accounting services and for the performance of supplementary functions for the Regional Wholesale and Logistics Offices, Regional Retail Trade Offices and the Regional Investment and Overhaul Offices, on November 1, 2000 in the Regions of PKN ORLEN S.A., 11 Regional Financial Offices, three Financial Offices and other organisational units of the supplementary services were established. The Regional Financial Offices and Financial Offices provide financial and accounting services with respect to the transactions and modernisation and repair services rendered on the service stations and all the financial settlements related to the on-going operations of the Offices in the Regions and of the organisational units of the supplementary services, including the Separated Assets Management and Administration Departments, Legal Teams, Prevention Teams and Personnel Management Teams.

The structural reorganisation was accompanied by the modernisation of the financial and accounting systems used in the Company's Branches. The Company settles the corporate income tax and the value-added tax centrally. The integrated R/3 SAP financial and accounting system facilitates the registration of business events both in Plock and in the Regional Financial Offices and Financial Offices. The financial and accounting centre is located in the Main Unit in Plock where the financial statements for the entire PKN ORLEN S.A. are prepared.

The establishment of the Regions and of the regional organisational structures ended the process of the reorganisation of the Branches of PKN ORLEN S.A. As at December 31, 2000, 17 Branches of the Company ended their operational activity. Meanwhile, the process of the formal and legal deletion of the Branches from the Commercial Registers has been initiated.

In 2000, together with the reorganisation process of the Branches of PKN ORLEN S.A. the processes of restructuring of the assets of the Branches were continued. These processes consisted of the establishing of nine transportation companies as part of the PKN ORLEN S.A. Capital Group and establishing of servicing subsidiary companies which engaged some of the employees of the warehouse bases of PKN ORLEN S.A. In addition, employee-managed subsidiary companies were established, which begun to operate on the assets leased from PKN ORLEN S.A.

6.13.2 IT management supporting system

I. In 2000, the Parent Company conducted efforts associated with the development of the IT system, principally in the following areas of activity:

1. Development of a corporate network.

The development of the main part of the corporate network was completed. It combines all the basic locations of PKN ORLEN S.A. (18 locations on the territory of the whole country). The unification of the solutions in the area of IT infrastructure, including e-mail, was conducted.

2. The implementation of the retail sales management system.

The work comprised of the replacement or modification of the cash and management systems in all the service stations of PKN ORLEN S.A. These systems are compatible with the SAP R/3 central management system. The SAP R/3 system covers retail trade, through the introduction of the following modules: Gospodarka Materialowa, Kontroling, Finansowo-Ksiegowy, Srodki Trwale. The majority of business processes in the area of retail sales is supported by this system. It is also the basic tool used by PKN ORLEN S.A. in the monitoring of business events and in the control of the efficiency of operations in all its areas of operation, such as fuel sales, sales in stores, cleaning services, hotel and catering services. Those solutions enabled the Company to optimise the dispersed in the entire country operations of the Regional Offices.

The implementation of the integrated SAP R/3 "Detal" system facilitated the unification of the solutions and the financial and accounting record-keeping for all the operational units operating throughout the country. In addition, the SAP R/3 system was interfaced and is supplied with information from other, independently operating, systems, including. the employee record and remuneration systems, the Fleet settlement system or the service stations settlement system.

3. The unification of the PKN ORLEN S.A. employee and remuneration system.

With the end of 2000, the implementation of the uniform employee and remuneration system for the whole PKN ORLEN S.A. was concluded. The implementation of the system allowed the aggregation of all the employee personal information into one database, which significantly facilitated the insurance, fiscal and pension processes.

4. In 2000 the Fleet Card system was launched. It is in place in 1,050 service stations and makes possible the non-cash purchase of fuels by transport fleets. The system was interfaced with the SD module of the SAP R/3 system in which the process of Fleet invoicing takes place and the posting of all the financial and accounting operations is made.

5. The system of retail customer card support was configured and put into operation. The system is aimed at promotion of the Parent Company products.

II. A two-phase process of SAP R/3 implementation was completed in Zakłady Azotowe Anwil S.A. in 2000. The implementation of this financial and accounting system gave stable grounds for better management techniques in all areas of the company operations.

III. The most important changes in computerisation introduced in Petro-Oil Sp. z o.o. in 2000 include:

1. Development of the Wide Area Network, connecting the company's head office in Krakow with its

branches in Trzebinia, Czechowice and Jedlicze through Polpak-T and ISDN (backup) connections and access to the Internet through Polpak-T connections.

2. Establishing and development of the company's website.

IV. In 2000, Petrolot Sp. z o.o. developed a new computer system (Baza Paliw), which serves aircraft fuel registration and invoicing purposes. The company commenced work on criteria and selection of the IT system for management and fuel distribution, covering all elements of aircraft fuel supply, storage and distribution processes.

V. In 2000, Flexpol Sp. z o.o. implemented an integrated IT system covering logistics, accounting system, production management and warehouse management.

VI. Other Capital Group companies retained the existing IT systems. The resources were allocated mainly for purchases of new computer hardware to replace the used equipment.

6.14 Changes in the composition of the Parent Company Management and Supervisory Boards during the last financial year.

In 2000 the members of the Polski Koncern Naftowy S.A. Management Board of the third term were:

Andrzej Modrzejewski	President of the Management Board General Director
Marek Mroczkowski	Vice-President of the Management Board Economic and Financial Director
Jaroslav Tyc	Vice-President of the Management Board Employee and Restructuring Director (until July 31, 2000) Retail Sale Director (since August 1, 2000)
Czeslaw Bugaj	Member of the Management Board Production Director
Andrzej Dretkiewicz	Member of the Management Board Wholesale and Logistics Director
Wladyslaw Wawak	Member of the Management Board Development and Technology Director
Wojciech Weiss	Member of the Management Board Integration Director (until July 31, 2000) Employee and Restructuring Director (since August 1, 2000)
Krzysztof Cetnar	Member of the Management Board Planning and Ownership Supervision Director
Tadeusz Szczerba	Member of the Management Board Retail Sale Director (until July 31, 2000) Integration Director (since August 1, 2000)

During the period covered by this report the Company's operations were monitored by a Supervisory Board including:

Grzegorz Zarebski	Chairman of the Supervisory Board
Rafal Tomasz Mania	Vice Chairman of the Supervisory Board (until November 10, 2000)
Ludomir Handzel	Member of the Supervisory Board (since November 10, 2000) Vice Chairman of the Supervisory Board (since November 20, 2000)
Andrzej Bankowski	Secretary of the Supervisory Board
Michal Frackowiak	Member of the Supervisory Board
Szczepan Targowski	Member of the Supervisory Board
Kalina Grzeskowiak-Gracz	Member of the Supervisory Board
Adam Wesolowski	Member of the Supervisory Board (until May 15, 2000)
Janusz Wojcik	Member of the Supervisory Board
Marek Wasowicz	Member of the Supervisory Board (since April 3, 2000)
Andrzej Herman	Member of the Supervisory Board (since May 15, 2000)

Members of the management and supervisory boards representing PKN ORLEN S.A. in the consolidated companies of the Capital Group as at December 31, 2000.

The most important companies in terms of sales and capital:

IKS "Solino" S.A.	President Member of the Management Board Supervisory Board	Czeslaw Misterski Piotr Mrozinski, Jolanta Gerus Wladyslaw Wawak - Chairman Jacek Dabrowski Jacek Furmanczyk Andrzej Siwak
Rafineria Trzebinia S.A.	President Member of the Management Board Supervisory Board	Kazimierz Trebacz Kazimierz Wronkowski, Mieczyslaw Rogalski Tadeusz Szczerba – Chairman Andrzej Dretkiewicz Arkadiusz Lewtak Tadeusz Stoklosa
Rafineria Nafty Jedlicze S.A.	President Member of the Management Board Supervisory Board	Mieczyslaw Markiewicz Wojciech Gurgacz, Leon Pikula, Roman Wojtun Grzegorz Szkopek – Chairman Danuta Kowalska

		Andrzej Stegenta Stefan Gurdzinski
Zakłady Azotowe Anwil S.A.	President Member of the Management Board Supervisory Board	Krzysztof Kaczorowski Teresa Szeligowska, Benedykt Michewicz Krzysztof Kaminski Marek Mroczkowski - Chairman Ryszard Siemion Krzysztof Cetnar
Naftoport Sp. z o.o.	President Member of the Management Board Supervisory Board	Roman Binkowski Andrzej Radzikowski Władysław Wawak - Chairman Wojciech Weiss
Petro-Oil Sp. z o.o.	President Member of the Management Board Supervisory Board	Jan Ginalski Andrzej Kowalski, Mariusz Kubera Andrzej Dretkiewicz – Chairman Katarzyna Majchrzak

Fuel companies:

ORLEN PetroProfit Sp. z o.o.	President Member of the Management Board Supervisory Board	Jan Serwa Jacek Stodolkiewicz, Ewa Josko Krzysztof Gawłowski - Chairman Krzysztof Langer Wojciech Ostrowski
ORLEN PetroTank Sp. z o.o.	President Member of the Management Board Supervisory Board	Stanisław Koson Jarosław Wasilek, Stanisław Kulig Tadeusz Szczerba - Chairman Marek Makowski
Petrocentrum Sp. z o.o.	Acting President Member of the Management Board Supervisory Board	Paweł Wysocki Józef Janiszewski Anna Walczowska - Chairman Paweł Wysocki Jacek Piatkowski
Petrolot Sp. z o.o.	President Member of the Management Board Supervisory Board	Jan Kujawa Leszek Sieluk, Ryszard Piekarczyński Kazimierz Klek - Chairman Marzena Borowiec
PetroZachod Sp. z o.o.	President Member of the Management Board Supervisory Board	Krzysztof Badura Ryszard Siwinski, Zenon Gawron Andrzej Kijek - Chairman Renata Stachowicz

LPG companies:

Petrogaz Plock Sp. z o.o.	President Member of the Management Board Supervisory Board	Krzysztof Niemczyk Dariusz Bobko, Mariusz Galusiakowski - Chairman Alicja Kaminska Dariusz Krawczyk
Petrogaz Jaworzno Sp. z o.o.	President Member of the Management Board Supervisory Board	Jan Malicki Zofia Szczepanska Waldemar Tuszewicki - Chairman Eugeniusz Woznikowski, Wojciech Lesniewski
Petrogaz Redaki Sp. z o.o.*	President Member of the Management Board Supervisory Board	Ludwik Lewandowski Piotr Dudzik Andrzej Praxmajer - Chairman Adam Wozniak Malgorzata Krebs
Petrogaz Hrubieszow Sp. z o.o.*	President Member of the Management Board Supervisory Board	Marian Sokol Mariusz Stadnicki Jadwiga Wronowska - Chairman Maria Krysztofik Zofia Kwasnik
Petrogaz Nowa Brzeznicza Sp. z o.o.	President Member of the Management Board Supervisory Board	Adam Morawski Bonifacy Dymek Adam Trojanowski - Chairman Malgorzata Lagodzinska
Petrogaz Inowroclaw Sp. z o.o.	President Member of the Management Board Supervisory Board	Slawomir Goraj Blanka Piechocinska Kazimierz Stasiak - Chairman Remigiusz Miecznikowski
ORLEN Petrogaz Wroclaw Sp. z o.o.	President Member of the Management Board Supervisory Board	Zbigniew Noskowicz Janusz Noskowicz Krzysztof Niemczyk – Chairman Andrzej Bankowski
Petrogaz Lapy Sp. z o.o.	President Member of the Management Board Supervisory Board	Tadeusz Warakomski Boguslaw Masiak Dariusz Bobko - Cahirman Eryk Chrobocinski

*) Company contributed to Petrogaz Plock Sp. z o.o. at the end of 2000

Companies established following the PKN ORLEN S.A. restructuring:

ORLEN Medica Sp. z o.o.	President Member of the Management Board Supervisory Board	Marcin Jezewski Pawel Reszelski Marzena Kucharczyk - Chairman Malgorzata Kowalska Malgorzata Olaszekiewicz
Zaklad Budowy Aparatury S.A.	President Member of the Management Board Supervisory Board	Antoni Jagodzinski Leszek Luniewski Jacek Gajdka – Chairman Grazyna Tomala Jacek Stanik Zbigniew Konstantynowicz
Petrotel Plock Sp. zo.o.	President Member of the Management Board Supervisory Board	Marian Ostrowski Ewa Raczynska Lech Barszczewski – Chairman Urszula Bres
Petroprojekt S.A.	President Member of the Management Board Supervisory Board	Dariusz Nowalinski Celina Olszewska Roman Bak - Chairman Dariusz Kusiak Andrzej Czarzasty

PKN ORLEN S.A. transport companies:

ORLEN Transport Plock Sp. z o.o.	President Member of the Management Board Supervisory Board	Jerzy Jasinski Leon Czerwinski Rafal Jedrzejewski - Chairman Elwira Lewtak Bogdan Bromka
PKN Transport Szczecin Sp. z o.o.	President Supervisory Board	Adam Piorkowski Anna Zdeb - Chairman Malgorzata Malkiewicz Waldemar Kruk
PKN Transport Slupsk Sp. z o.o.	President Supervisory Board	Slawomir Myslinski Teresa Matysek - Chairman Ryszard Laska Miroslaw Czarnowski
ORLEN Transport Olsztyn Sp. z o.o.	President Supervisory Board	Tadeusz Kowalczyk Jerzy Majchrzak - Chairman Anna Byszewska Marek Szczurowski
PKN Transport Nowa Sol Sp. z o.o.	President Supervisory Board	Leszek Gnitecki Eugeniusz Wozniowski - Chairman Jan Bielawny Szymon Skupien

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ORLEN Transport Lublin Sp. z o.o.	President Supervisory Board	Andrzej Czajkowski Eugeniusz Korsak - Chairman Anna Gutowska Ryszard Mazurek
ORLEN Transport Krakow Sp. z o.o.	President Supervisory Board	Pawel Mularz Michal Frankiewicz - Chairman Elzbieta Kwasiborska Edward Dziedzic
ORLEN Transport Kedzierzyn Kozle Sp. z o.o.	President Supervisory Board	Marek Gadowski Krzysztof Falecki - Chairman Piotr Radomski Zdzislaw Goralczyk
ORLEN Transport Poznan Sp. z o.o.	President Supervisory Board	Wlodzimierz Bednarek Anna Szurek - Chairman Dariusz Formela Roman Gotowy
ORLEN Transport Warszawa Sp. z o.o.	President Supervisory Board	Waldemar Drymel Krzysztof Suszek - Chairman Anna Raczkowska Grzegorz Janikowski
ORLEN KolTrans Sp. z o.o.	President Member of the Management Board Supervisory Board	Juliusz Kajkowski Andrzej Dorosz Marcin Jezewski - Chairman Marek Bakula Adam Wozniak
Other companies:		
ORLEN Budonaft Sp. z o.o.	President Member of the Management Board Supervisory Board	Aleksander Musialik Ewa Czernicka, Bogdan Kolpa Wojciech Weiss - Chairman Ewa Jajkowska Janusz Zielinski Adam Kaminski Walenty Cywinski
ORLEN Powiernik Sp. z o.o.	President Member of the Management Board Audit Committee	Arkadiusz Lewtak Malgorzata Kowalska Andrzej Barna – Chairman of the SB Aleksandra Michalik Grazyna Tomala
Chemiepetrol Sp. z o.o.	President	Dariusz Dabrowa
Flexpol Sp. z o.o.	President Supervisory Board	Zdzislaw Nisztor Rafal Lechowicz - Chairman Marek Adamczyk Wieslaw Idzkowski Tomasz Rada Karol Marek Sep

6.15 Total value of remuneration and bonuses (in cash and in kind) received by Management and Supervisory Board members (separately) for the last completed financial year, whether charged to expenses or arising out of the distribution of profits. In the event that the Issuer is the Parent Company – information concerning the value of remuneration and bonuses received for holding positions in the governing bodies of subsidiary and associated companies.

PLN '000

Remuneration	Company Management Board	Supervisory Board
Remuneration including profit-share remuneration paid out in the Parent Company	6,768	262
Remuneration including profit-share remuneration paid out in companies comprising the Capital Group (subsidiary and associated companies)	364	99

6.16 Value of all outstanding credits granted by the companies comprising the Capital Group to the management and supervisory staff and their relatives (individually) and the guarantees and sureties granted to such persons (individually).

PLN '000

Balance of credits as at June 30, 2000.	PKN ORLEN S.A.
Management Board	192
Supervisory Board	14
Total	206

The credits granted by the Parent Company to the relatives of the management and supervisory staff amounted to PLN 11,800, as at December 31, 2000. Other companies of the Capital Group did not grant any loans, sureties or guarantees to the management, nor to supervisory board members or close relatives of the said persons.

6.17 Total number of all the shares of the Parent Company and of the shares in the Capital Group members being held by management staff and supervisory board members.

Management and Supervisory Staff in PKN ORLEN S.A.:	Number of Shares held in:	
	Parent Company	Other Capital Group companies
Management Board:	17,906	-
1. A. Modrzejewski	-	-
2. J. T. Tyc	-	-
3. M. Mroczkowski	464	-
4. C. Bugaj	8,163	-
5. W. Wawak	6,920	-

6. T. Szczerba	1,490	-
7. A. Dretkiewicz	-	-
8. W. Weiss	869	-
9. K. Cetnar	-	-
		-
Supervisory Board:	5,760	-
1. G. Zarebski	-	-
2. L. Handzel	-	-
3. A. Bankowski	4,840	-
4. M. Frackowiak	-	-
5. S. Targowski	920	-
6. K. Grzeskowiak-Gracz	-	-
7. J. Wojcik	-	-
8. M. Wasowicz	-	-
9. A. Herman	-	-

6.18 Shareholders holding at least 5% of the total number of votes at the general meetings of shareholders in the subsidiary and associated companies of the Capital Group.

The structure of particular companies' shareholders holding more than 5% of the total number of votes at the general meetings of shareholders of the Capital Group companies (subsidiary and associated companies) was presented in point 1.2.

6.19 Information concerning agreements known to the Parent Company, which were concluded during the last financial year and which may result in future changes in the proportions of shares held by existing shareholders and bondholders.

On June 8, 2000 PKN ORLEN S.A., and Polskie Sieci Elektroenergetyczne S.A. of Warsaw and Telekomunikacja Energetyczna Tel-Energo S.A. of Warsaw entered into "Agreement to continue with the consolidation and development of their telecommunications investments". The particular subject of the agreement are the rules of cooperation between the parties concerning the consolidation of their telecommunications undertakings, and their participation as partners in Niezalezny Operator Miedzystrefowy Sp. z o.o., with head office in Warsaw, and whose business includes the provision of long-distance telecommunications services and the laying down, operation, modernisation and utilisation of telecommunications systems. On May 29, 2000 Niezalezny Operator Miedzystrefowy Sp. z o.o. was notified by the Minister of Communications of the readiness of the Ministry to grant that company a Licence and Concession for the provision of telecommunications services, and in particular long-distance connections.

The abovementioned agreement provides for an unconditional increase in the capital stock of Niezalezny Operator Miedzystrefowy Sp. z o.o. of Warsaw to a total of PLN 139,000 thousand of which PKN ORLEN S.A. is to acquire PLN 486,500 new shares at PLN 100 per share, and with a total value of PLN 48,650 thousand to be covered by a cash contribution, which will constitute 35% of the capital stock and give the Company the right to the same

proportion of votes at the shareholders meeting.

The agreement provides for, in a short-term perspective, further conditional increases in the capital stock of the company totalling PLN 160,000 thousand (total capital stock of Niezalezny Operator Miedzystrefowy Sp. z o.o. will amount to PLN 300,000 thousand of which PKN ORLEN S.A. will acquire shares in an aggregate amount equal to PLN 56,000 thousand).

**COMMENTARY ON
PKN ORLEN S.A. CAPITAL GROUP BUSINESS OPERATIONS
FOR THE YEAR 2000 WAS PRESENTED BY THE MANAGEMENT BOARD:**

.....
President of the Management Board – Andrzej Modrzejewski

.....
Vice-President of the Management Board – Marek Mroczkowski

.....
Vice-President of the Management Board – Jarosław Tyc

.....
Board Member – Czesław Bugaj

.....
Board Member – Krzysztof Cetnar

.....
Board Member – Andrzej Dretkiewicz

.....
Board Member – Tadeusz Szczerba

.....
Board Member – Władysław Wawak

.....
Board Member – Wojciech Weiss

Płock, April 30, 2001