POLSKI KONCERN NAFTOWY ORLEN S.A.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999
PREPARED IN ACCORDANCE WITH INTERNATIONAL ACCOUNTING STANDARDS
TOGETHER WITH AUDITOR'S REPORT

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONSOLIDATED BALANCE SHEETS
as of 31 December 2000 and 31 December 1999

	Note	31 December 2000	31 December 1999
		(in PLN millions)	
ASSETS			
Non-current assets			
Property, plant and equipment	5	8,147	7,519
Goodwill	6	89	105
Intangible assets	7	80	60
Financial assets	8	426	393
Investments accounted for on an equity basis	9	363	284
Other non-current assets		2	7
Total non-current assets		**9,107**	**8,368**
Deferred tax assets	24	**18**	**22**
Current assets			
Inventories	10	2,705	2,039
Trade and other receivables	11	2,013	1,421
Short-term investments	12	14	2
Deferred costs	13	54	30
Cash and cash equivalents	14	176	177
Total current assets		**4,962**	**3,669**
Total assets		**14,087**	**12,059**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity	20		
Common stock		525	525
Capital reserve		1,174	1,174
Revaluation reserve		859	859
Retained earnings		5,038	4,157
Total shareholders' equity		**7,596**	**6,715**
Minority interest	15	**170**	**147**
Non-current liabilities			
Interest bearing borrowings	16	1,236	925
Provisions for liabilities and charges	17	714	715
Total non-current liabilities		**1,950**	**1,640**
Deferred tax liabilities	24	**282**	**208**
Current liabilities			
Trade, other payables and accrued expenses	18	2,590	2,247
Interest bearing borrowings	16	1,496	1,091
Deferred income	19	3	11
Total current liabilities		**4,089**	**3,349**
Total liabilities and shareholders' equity		**14,087**	**12,059**

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONSOLIDATED PROFIT AND LOSS STATEMENTS
for the years ended 31 December 2000 and 1999

	Note	For the year ended 31 December 2000	For the year ended 31 December 1999
		(in PLN millions)	
Revenue	21	18,602	13,279
Cost of sales	22	(15,042)	(10,375)
Gross profit		**3,560**	**2,904**
Distribution costs	22	(1,458)	(1,018)
Administrative expenses	22	(619)	(595)
Other operating, net	22	(58)	(65)
Profit from operations		**1,425**	**1,226**
Financial income	23	255	124
Financial costs	23	(441)	(141)
Equity income/loss, net		48	36
Profit before income tax		**1,287**	**1,245**
Income tax	24	(362)	(263)
Minority interests		(23)	(38)
Net profit for the period		**902**	**944**
Basic earnings per share (PLN)			
Weighted average common stock outstanding		420,177,137	410,026,452
For the period		2.15	2.30
Diluted earnings per share (PLN)			
Weighted average common stock outstanding and potential common stock outstanding		420,177,137	410,026,452
For the period		2.15	2.30

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONSOLIDATED CASH FLOW STATEMENTS
For the years ended 31 December 2000 and 1999

	For the year ended	
	31 December 2000	**31 December 1999**
	(in PLN millions)	
Cash flows from operating activities		
Net profit	902	944
Adjustments for:		
Minority interests	23	38
Net income from investments accounted for on an equity basis	(48)	(36)
Depreciation and amortisation	910	660
Interest and dividend charges, net	203	27
Result on investing activities	9	4
Income tax on current period profit	362	263
Net income tax paid	(313)	(284)
Increase in receivables	(520)	(522)
Increase in inventories	(663)	(760)
Increase in accrued expenses and payables	264	824
Increase / (decrease) in provisions	(1)	86
Increase / (decrease) in deferred income	(8)	6
Other	(47)	20
	-------	-------
Net cash flows from operating activities	**1,073**	**1,270**
	-------	-------
Cash flows from investing activities		
Acquisition of property, plant and equipment	(1,423)	(1,742)
Acquisition of intangible assets	(36)	(37)
Proceeds from sales of property, plant and equipment	9	23
Acquisition of investments in other companies	(155)	(179)
Acquisition of marketable securities	(99)	(128)
Proceeds from sales of marketable securities	83	155
Dividends and interest received	10	9
Other	5	56
	-----	-----
Net cash flows used in investing activities	**(1,606)**	**(1,843)**
	-------	-------
Cash flows from financing activities		
Proceeds from long-term loans and other borrowings	1,188	474
Proceeds from short-term loans and other borrowings	1,946	1,465
Repayment of long-term loans and other borrowings	(862)	(210)
Repayment of short-term loans and other borrowings	(1,466)	(1,038)
Interest paid	(199)	(131)
Dividends paid to shareholders	(21)	(15)
Other	(54)	(35)
	-------	-------
Net cash flows from financing activities	**532**	**510**
	-------	-------
Effect of exchange rate changes on cash and cash equivalents	**-**	**(1)**
Net decrease in cash and cash equivalents	**(1)**	**(64)**
Cash and cash equivalents at beginning of period	**177**	**241**
	-------	-------
Cash and cash equivalents at end of period	**176**	**177**
	====	====

POLSKI KONCERN NAFTOWY ORLEN S.A.
STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY
For the years ended 31 December 2000 and 1999
(in PLN millions)

	Common stock	Capital reserve	Revaluation reserve	Retained earnings	Total shareholders' equity
1 January 1999	**506**	**958**	**859**	**3,228**	**5,551**
	--------	--------	--------	--------	--------
Distribution to shareholders resulting from reorganisations	-	(60)	-	-	(60)
Cash dividends (PLN 0.04 per share)	-	-	-	(15)	(15)
Net income for 1999	-	-	-	944	944
Share issue – shares purchase from former CPN employees (Note 20)	19	276	-	-	295
	--------	--------	--------	--------	--------
31 December 1999	**525**	**1,174**	**859**	**4,157**	**6,715**
	=====	=====	=====	=====	=====
1 January 2000	**525**	**1,174**	**859**	**4,157**	**6,715**
	--------	--------	--------	--------	--------
Cash dividends (PLN 0.05 per share)	-	-	-	(21)	(21)
Net income for 2000	-	-	-	902	902
	--------	--------	--------	--------	--------
31 December 2000	**525**	**1,174**	**859**	**5,038**	**7,596**
	=====	=====	=====	=====	=====

1. Principal activities

The principal company of the capital group of Polski Koncern Naftowy ORLEN (further referred to as "the PKN Group") is Polski Koncern Naftowy ORLEN S.A. (further referred to as "the Company" or "PKN") located in Plock, Poland on ul. Chemikow 7.

The Company was established by the Public Notary Act of 29 June 1993 as Mazowieckie Zaklady Rafineryjne i Petrochemiczne "Petrochemia Plock" S.A. as a State Treasury owned Joint Stock Company, and registered in the Companies Register in Plock on 1 July 1993.

In accordance with the resolution of the General Meeting of Shareholders dated 19 May 1999, which became effective on registration in the District Court of Plock on 20 May 1999, the Company changed its name to Polski Koncern Naftowy S.A. Further, following to the General Meeting of Shareholders resolution dated 3 April 2000, registered in the Plock District Court on 12 April 2000 the Company changed its name to Polski Koncern Naftowy ORLEN S.A.

The Company is engaged in the processing of crude oil into a broad range of petroleum products, plastics and petrochemicals and in the transportation and wholesale and retail distribution of such products. The other companies in the Group operate primarily in related downstream activities including further production and distribution.

On 7 September 1999 PKN completed its merger with Centrala Produktow Naftowych "CPN" S.A. ("CPN") as further discussed in Note 2b.

Until the second public offering completed in July 2000, the Company was primarily owned, directly and indirectly, by the Polish State Treasury. The employees and others had a minority shareholding. The State Treasury supervised the Company through its control of the Company's majority shareholder, Nafta Polska S.A.

2. Basis of presentation

a. Accounting Standards

The Group maintains its books of account in accordance with accounting principles and practices employed by enterprises in Poland as required by Polish Accounting Standards ("PAS") as defined by the Accounting Act dated 29 September 1994 (Journal of Law dated 19 November 1994 with further amendments). These financial statements include certain adjustments not reflected in the Company's or other Group entities books to present these statements in accordance with Standards issued by International Accounting Standards Committee ("IAS"), except in respect of accounting for hyperinflation referred to in Note 3.

The Company applied for these financial statements the IAS rules that were operative as of 31 December 2000. In particular, the Company adopted each of the following new standards and applied them throughout all of the periods presented herein:

- IAS 16 (revised 1998) "Property, Plant and Equipment",
- IAS 22 (revised 1998) "Business Combinations",
- IAS 36 "Impairment of Assets",
- IAS 37 "Provisions, Contingent Liabilities and Contingent Assets",
- IAS 38 "Intangible Assets".

2. Basis of presentation (continued)

The above International Accounting Standards were early adopted for the purpose of preparation of the consolidated financial statements for the year ended on 31 December 1999.

The adjustments to the Company's books and their effect on net profit and net assets resulting from adopting International Accounting Standards are presented in Note 34.

b. Reorganisation of the PKN Group

In connection with the Polish Government's restructuring and privatisation program for the Polish oil sector companies, the Polish State Treasury, through its holding in Nafta Polska S.A. reorganised the Polish oil sector in the years 1997 through 1999. The existing PKN ORLEN Group is a result of this reorganisation of several significant operating companies, which were all under the common control of Nafta Polska S.A. and the Polish State Treasury. In particular, this reorganisation included the following transactions performed by the Company:

- incorporation of Centrala Produktów Naftowych "CPN" S.A. – major Polish fuel retailer,
- acquisition of Rafineria Trzebinia S.A. – refinery,
- acquisition of Rafineria Nafty Jedlicze S.A. – refinery,
- disposition of Dyrekcja Eksploatacji Cystern Sp. z o.o. – major Polish rail logistics operator,
- disposition of Naftobazy Sp. z o.o. – major Polish fuel storage farms operator.

To the extent of the Polish State Treasury's common control, this reorganisation was accounted for using the pooling of interests' method of accounting. As a result, the financial statements reflect this reorganisation as if it had taken place prior to 1 January 1999.

(in PLN millions)

2. Basis of presentation (continued)

As a result of these reorganisations under common control, these financial statements for the periods ended 31 December 2000 and 1999 include the following interests:

	31 December 2000	31 December 1999
Polski Koncern Naftowy ORLEN S.A.	100%	100%
Centrala Produktow Naftowych “CPN S.A.” *	100%	100%
Rafineria Trzebinia S.A.	77%	77%
Rafineria Nafty Jedlicze S.A.	75%	75%
Inowroclawskie Kopalnie Soli “Solino” S.A.	71%	51%
Petrogaz Jaworzno Sp. z o.o.	100%	100%
Petrogaz Plock Sp. z o.o.	100%	100%
Petrogaz Redaki Sp. z o.o. **	100%	100%
PetroCentrum Sp. z o.o.	100%	100%
Petrogaz Hrubieszow Sp. z o.o. **	100%	100%
ORLEN PetroProfit Sp. z o.o.	85%	85%
ORLEN PetroTank Sp. z o.o.	60%	60%
Petrogaz Nowa Brzeznica Sp. z o.o.	52%	52%
Petrolot Sp. z o.o.	51%	51%
PetroZachód Sp. z o.o.	52%	52%
ORLEN Transport Plock Sp. z o.o.	98%	97%
Zakład Budowy Aparatury S.A.	97%	97%
Petro – Oil Sp.z o.o.	76%	76%
ORLEN Petrogaz Wrocław Sp. z o.o.	52%	52%
Petrogaz Inowrocław Sp. z o.o.	100%	100%
Petrogaz Lapy Sp. z o.o.	91%	91%
Petrotel Sp. z o.o.	93%	93%
Petroprojekt S.A.	51%	51%
ORLEN Medica Sp. z o.o.	100%	100%
ORLEN Budonaft Sp. z o.o.	100%	100%
ORLEN KolTrans Sp. z o.o. ***	100%	-
ORLEN Powiernik Sp. z o.o. ***	100%	-
PKN Transport Szczecin Sp. z o.o. ***	100%	-
ORLEN Transport Kraków Sp. z o.o. ***	98%	-
ORLEN Transport Lublin Sp. z o.o. ***	98%	-
PKN Transport Nowa Sól Sp. z o.o. ***	97%	-
ORLEN Transport Poznan Sp. z o.o. ***	96%	-
PKN Transport Slupsk Sp. z o.o. ***	96%	-
ORLEN Transport Warszawa Sp. z o.o. ***	95%	-
ORLEN Transport Olsztyn Sp. z o.o. ***	93%	-
ORLEN Transport Kedzierzyn-Kozle Sp. z o.o. ***	88%	-

* Legally merged with PKN following the acquisition of the 19.43% minority interest on 7 September 1999
** Legally merged with Petrogaz Plock as at 31 December 2000
*** Entities established in year 2000

3. Reporting currency

These consolidated financial statements are reported in millions of Polish Zloty ("PLN"). They have not been adjusted for the effects of inflation as is required by International Accounting Standard No. 29 "Financial Reporting in Hyperinflationary Economies".

IAS 29 requires companies that report in the currency of a hyperinflationary economy to restate assets and liabilities in terms of the measurement unit current at the balance sheet date. Given the historic hyperinflationary environment in Poland, reporting the results of operations and financial condition in local currency without restatement may not permit meaningful comparisons of amounts from transactions and other events that have occurred at different times, and even within the same accounting period. Taking into account that the three-year cumulative rate of inflation fell below 100% in late 1996, Poland was no longer considered to be a hyperinflationary economy from the beginning of 1997.

The PKN Group last revalued its fixed assets as of 1 January 1995 to reflect the effects of inflation mainly by applying price indices determined by the Central Statistical Office ("GUS") for individual groups of assets or market values. This revaluation was not performed in accordance with the provisions of IAS 29 since the Company did not use a general price index and did not subsequently revalue its fixed assets as of 31 December 1996. In all other respects the financial statements are prepared under the historical cost convention.

4. Statement of principal accounting policies

(a) Principles of consolidation

Acquisitions are accounted for from the date of acquisition. Accounting for reorganisations is discussed in Note 2b.

(b) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation, except where stated at revalued amounts. Revaluations of property, plant and equipment were performed in Poland as mandated by the Ministry of Finance and were designed to reflect the level of inflation. Revaluations were performed using the price indices determined by Central Statistical Office ("GUS") for individual groups of fixed assets or market values. This is a departure from IAS 29, which requires application of a general price index. The last revaluation took place on 1 January 1995 and was designed to reflect the specific price level as of September 1994.

As a result of this revaluation both the carrying amount and tax base of the assets subject to revaluation have been increased with a resulting increase in the revaluation reserve line item in shareholder's equity. The PKN Group has not revalued its property, plant and equipment as of 31 December 1996 which is a departure from IAS 29 which requires that assets are restated to a measurement unit current as of the end of hyperinflationary period. Since inception of the PKN Group companies, the revaluations increased net book value of property, plant and equipment by a total of PLN 859. Construction-in-progress was not subject to revaluations. Depreciation is based on the revalued amounts. Unless Poland is again subject to a period of further hyperinflation, the PKN Group does not intend to include effects of any further revaluations in its consolidated financial statements prepared under IAS.

4. Statement of principal accounting policies (continued)

Property, plant and equipment are depreciated over their useful lives using a straight-line method. The following depreciation rates are used:

Buildings ……………………………………………………………………….. 1.5-10.0%
Plant and machinery...4.0-30.0%
Transportation vehicles and others 6.0-25.0%

No depreciation is provided on land and construction-in-progress.

The PKN Group companies review the net carrying value of property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

(c) Goodwill and negative goodwill

Goodwill / negative goodwill arises from the purchase of an entity. Goodwill represents the excess of the purchase consideration over the Company’s interest in the fair value of the net assets acquired. Negative goodwill represents the excess of the Company’s interest in the fair value of the net assets acquired over the purchase consideration. Goodwill is capitalized at the date of acquisition and amortized on a straight line basis over the expected period of benefit. The PKN Group amortizes CPN goodwill over a period of ten years. The amortisation period reflects the best estimate of the period during which future economic benefits are expected to flow to the enterprise. Negative goodwill is capitalized at the date of acquisition and is written off to income over the remaining average depreciation period of depreciable assets of the acquired entity. The amortization period for the negative goodwill was ten years from the date of purchase of shares.

(d) Intangible assets

Intangible assets are stated at cost less accumulated amortisation provided on a straight-line basis. The amortisation rates applied in relation to intangible fixed assets range from 7% to 50%.

The PKN Group companies review the value of intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable.

(e) Inventories

Inventories are stated at the lower of original purchase price or production cost and net realisable value. The following types of inventory are valued as follows:

Raw materials:	Purchase cost
Semi-finished products and work in progress:	Cost of manufacture
Finished goods:	Cost of manufacture
Goods for resale:	Purchase cost

The closing balances of inventories are recorded using the weighted average method.

4. Statement of principal accounting policies (continued)

(f) Receivables

Receivables are stated at expected net realisable value, after provision for doubtful accounts.

(g) Cash and cash equivalents

Cash and cash equivalents include cash in banks and on hand and all highly liquid deposits with original maturities of three months or less.

(h) Revenue recognition

Revenues, net of value added tax ("VAT"), excise tax and discounts, from sales of goods and services are recognised when goods are shipped to the customer or services are rendered.

(i) Operating expenses

Operating expenses are charged in the period to which they relate. In line with Polish business practice, shareholders are allowed to distribute profits for the benefit of employees to pay additional bonuses or to increase the social fund designed for the welfare of employees. If such distributions were made they would be recharacterised and recognised as an operating expense.

(j) Borrowing costs

Borrowing costs are recognised as expense in the period, in which they are incurred, except to the extent that they are capitalised to construction in progress. Borrowing costs are capitalised up to the date of the commissioning of qualifying assets.

(k) Jubilee and retirement bonuses

Certain of the PKN Group companies provide defined jubilee and retirement benefits plans for their employees. Jubilee bonuses are paid to employees upon completion of a certain number of years in service whereas retirement allowances as a one–off payments paid on retirement, both depending on employee's average remuneration and length of service. The jubilee and retirement benefits are not funded. The jubilee and retirement bonus obligations are accounted for on an accrual basis.

An independent actuary has determined the net present value of these obligations. Accrued obligations are those future discounted payments, adjusted by employee attrition rates, which were earned by the employees prior to the balance sheet dates. Demographic and attrition profiles are based on the historical data. Valuation of obligations was made on the assumption of no effective increase in the salary level and an effective discount rate of 4% per annum. During the years ended 31 December 2000 and 1999 the PKN Group paid, PLN 17 and PLN 15 for jubilee and retirement bonuses combined, respectively.

4. Statement of principal accounting policies (continued)

(l) Foreign exchange transactions

Transactions denominated in foreign currencies are recorded in the Polish currency (Polish Zloty) at actual exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at the end of the period. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the income statement.

(m) Financial instruments

The carrying value of cash, accounts receivable, short-term investments, accounts payable, accruals and borrowings approximate their fair value.

As a result of currency options transactions in the year 2000, the Company introduced the accounting policy that currency options are shown at fair value at the end of the presented period. The difference between the fair value at the end of the period and the costs to purchase the option or the book value at the beginning of the period is classified as financial cost or income in the income statement.

(n) Income tax

The income tax charge is based on profit for the period and takes into account deferred taxation. Deferred taxation is calculated using the liability method. Under the liability method the expected tax effects of temporary differences are determined using enacted tax rates and reported either as liabilities for taxes payable or assets representing advance payment of future taxes. Temporary differences are the differences between the carrying amount of an asset or liability in the balance sheet and its taxable base.

For the purpose of deferred tax calculation the investment tax allowance bonus is treated as a temporary difference and is recognised as deferred tax asset in the period the investment tax allowance deduction is taken.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

(o) Earnings per share

Basic earnings per share for each period is calculated by dividing the income for the year by the weighted average number of shares outstanding during that period.

Diluted earnings per share for each period is calculated by dividing the income for the year adjusted for any changes in the income resulting from the conversion of the dilutive potential ordinary shares by the weighted average number of shares outstanding during taking into account the conversion of all dilutive potential ordinary shares.

(p) Environmental provisions

The PKN Group companies accrue for environmental clean-up and remediation costs when they have a legal or constructive obligation to do so.

4. Statement of principal accounting policies (continued)

(q) Equity compensation plans

Convertible bonds, issued by the Company as the part of the employee compensation program, are recognised at the moment of granting the employee an option to buy convertible bonds. As of 31 December 2000, the convertible bonds are not recognised as the Company has not granted its employees an option to purchase convertible bonds as of that date.

(r) Reclassifications

Certain reclassifications have been made in relation to the information presented in the financial statements in order to conform the prior year presentation to the current year presentation.

(s) Management use of estimates

The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Actual results could differ from those estimates.

(in PLN millions)

5. Property, plant and equipment

	31 December 2000	31 December 1999
Land	95	88
Buildings and constructions	3,305	2,935
Machinery and equipment	3,508	3,042
Vehicles and other	296	221
Construction in progress	943	1,233
Total	8,147	7,519

The movements in each period were as follows:

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Total
Cost					
1 January 1999	65	4,035	5,871	620	10,591
Additions at cost	18	792	1,299	80	2,189
Newly consolidated companies	5	8	2	3	18
Disposals	-	(63)	(124)	(72)	(259)
31 December 1999	**88**	**4,772**	**7,048**	**631**	**12,539**
1 January 2000	88	4,772	7,048	631	12,539
Additions at cost	11	638	1,045	159	1,853
Newly consolidated companies	-	22	11	6	39
Disposals	(3)	(67)	(105)	(44)	(219)
31 December 2000	**96**	**5,365**	**7,999**	**752**	**14,212**
Accumulated depreciation					
1 January 1999	-	1,728	3,671	421	5,820
Charge	-	149	453	52	654
Impairments and other charges	-	1	-	-	1
Newly consolidated companies	-	1	1	1	3
Disposals	-	(42)	(119)	(64)	(225)
31 December 1999	**-**	**1,837**	**4,006**	**410**	**6,253**
1 January 2000	-	1,837	4,006	410	6,253
Charge	-	201	574	82	857
Impairments and other charges	1	40	6	1	48
Newly consolidated companies	-	7	3	4	14
Disposals	-	(25)	(98)	(41)	(164)
31 December 2000	**1**	**2,060**	**4,491**	**456**	**7,008**
Net book value					
31 December 1999	**88**	**2,935**	**3,042**	**221**	**6,286**
31 December 2000	**95**	**3,305**	**3,508**	**296**	**7,204**

(in PLN millions)

5. Property, plant and equipment (continued)

Transfers between construction in progress and other categories have been eliminated for this presentation.

As at 31 December 2000 and 1999 the value of carrying amounts of property, plant and equipment held for disposal were PLN 7 and PLN 10, respectively.

As at 31 December 2000 and 1999 the carrying amount of property, plant and equipment pledged as security for liabilities were PLN 191 and PLN 768, respectively.

Impairment losses presented in the movements of property, plant and equipment are the amounts by which the carrying amounts of the assets exceeded their recoverable amounts. The impairment losses are charged to the other operating expenses. Impairment losses recognised during the year 2000 resulted from the restructuring process of the Company - the integration process of former CPN branches, and mainly relate to the idle gasoline warehouses.

As of 31 December 2000 and 1999 Construction in progress included:

	31 December 2000	31 December 1999
Reforming VI	14	230
HON VI	3	169
Isomerization	9	163
Infrastructure for Project no. 8	26	135
Underground crude oil and gasoline warehouse	41	14
Hydrorefining	52	3
Gasoline warehouse in Ostrow Wielkopolski	84	-
Pass-out and condensing turbin set building – TG6	71	-
Pipeline Płock-Ostrow Wielkopolski	43	-
Modernisation of FKK II	18	-
Desulphurisation unit for liquid gases	14	-
Other Construction in progress	568	519
	--------	--------
Total	943	1,233
	=====	=====

The PKN Group companies record all scheduled maintenance, repairs and site restoration costs as expenses when incurred. Environmental remediation costs related to site restoration are accrued when management has a legal or constructive obligation to remediate and clean up the sites (see Note 17).

The amounts of borrowing costs capitalised for the years ended 31 December 2000 and 1999 were PLN 125 and PLN 161, respectively. The average capitalisation rates were 5% in 2000 and 10% in 1999.

(in PLN millions)

6. Goodwill and negative goodwill

	31 December 2000	31 December 1999
Centrala Produktow Naftowych "CPN" S.A.	94	105
Other	(5)	-
	---------	---------
Total	89	105
	=====	=====

The movements in each period were as follows:

	31 December 2000	31 December 1999
Gross amount		
Beginning of period	107	-
Goodwill on acquisition of minority interest of CPN (see Note 20)	-	107
Goodwill/(Negative goodwill) recognised	(8)	-
	-------	-------
End of period	99	107
	-------	-------
Accumulated amortization		
Beginning of period	2	-
Charge for the year	8	2
	-------	-------
End of period	10	2
	-------	-------
Net book value at the end of period	89	105
	====	====

(in PLN millions)

7. Intangible assets

	31 December 2000	31 December 1999
Software	4	9
Patents and trademarks	61	42
Other	15	9
	-------	-------
Total	80	60
	====	====

The movements in each period were as follows:

	Software	Patents and trademarks	Other	Total
Cost				
1 January 1999	10	31	11	52
Additions at cost	6	30	5	41
Disposals	(1)	(1)	(1)	(3)
	------	------	------	------
31 December 1999	**15**	**60**	**15**	**90**
	------	------	------	------
1 January 2000	15	60	15	90
Additions at cost	4	28	8	40
Newly consolidated companies	3	-	-	3
Disposals	(1)	-	(1)	(2)
Transfers	(7)	7	-	-
	------	------	------	------
31 December 2000	**14**	**95**	**22**	**131**
	------	------	------	------
Accumulated depreciation				
1 January 1999	4	7	4	15
Charge	3	11	2	16
Disposals	(1)	-	-	(1)
	------	------	------	------
31 December 1999	**6**	**18**	**6**	**30**
	------	------	------	------
1 January 2000	6	18	6	30
Charge	5	16	1	22
Newly consolidated companies	1	-	-	1
Disposals	(1)	(1)	-	(2)
Transfers	(1)	1	-	-
	------	------	------	------
31 December 2000	**10**	**34**	**7**	**51**
	------	------	------	------
Net book value				
31 December 1999	**9**	**42**	**9**	**60**
	====	====	====	====
31 December 2000	**4**	**61**	**15**	**80**
	====	====	====	====

Research and development expenditure recognised as expenses amounted to PLN 31 and PLN 14 respectively, in 2000 and 1999.

(in PLN millions)

8. Financial assets

	31 December 2000	31 December 1999	PKN Group interest in capital as at 31 December 2000	Principal activity
Polkomtel S.A.	329	326	19.61%*	GSM mobile operator
LG Petro Bank S.A.	35	31	19.99%**	Bank
Telewizja Familijna S.A.	26	-	11.96%	Television operator
Bank Ochrony Srodowiska S.A.	19	19	4.99%	Bank
NFI Piast S.A.	9	9	4.88%	Investment fund
Bank Wspolpracy Regionalnej S.A.	8	8	0.82%***	Bank
Other	11	7		
Total	437	400		
Less valuation allowance	(11)	(7)		
Net value	426	393		

* as at 31 December 1999 the Group interest in capital was 19.58%
** as at 31 December 1999 the Group interest in capital was 18.72%
*** as at 31 December 1999 the Group interest in capital was 8.55%

Fair value and valuation allowance information regarding interest in publicly traded entities:

	31 December 2000				31 December 1999			
	Cost	Allowance	Carrying Amount	Fair value	Cost	Allowance	Carrying Amount	Fair value
LG Petro Bank S.A.	35	-	35	77	31	-	31	40
Bank Ochrony Środowiska S.A.	19	-	19	47	19	-	19	46
NFI Piast S.A.	9	(6)	3	3	9	(5)	4	4
Bank Współpracy Regionalnej S.A.	8	(4)	4	4	8	(1)	7	7

Polkomtel S.A., a Polish GSM mobile operator, is presented at historical cost of PLN 329 (19.61% of interest) as at 31 December 2000. There are three other shareholders in Polkomtel with approximately 19% ownership interest and several other minority shareholders. It was not practicable to estimate the fair value of this investment due to the absence of quoted market prices.

On 29 December 2000 PKN exercised the subscription right and applied for 1,078,550 registered shares of “J” series issued by Polkomtel S.A., which is proportional to PKN’s 19.61% stake in this company. In the year 2000 PKN paid the first instalment amounting to PLN 27 representing 25% of the total amount due for these shares.

(in PLN millions)

8. Financial assets (continued)

On 7 February 2001 the Supervisory Board of Polkomtel S.A. adopted a resolution concerning the acceptance by the Management of the company for the call on the remaining part of payment for registered shares of “J” series. According to the resolution, in 2001 PKN made a payment of PLN 81 for the remaining part of the capital increase, which was 75% of the value of the purchased shares.

9. Investments accounted for on an equity basis

As at 31 December 2000 and 1999 the PKN Group's investments accounted for on an equity basis were as follows:

	Recorded value on equity basis as at 31 December		PKN Group Interest in Capital as at 31 December 2000	Principal activity
	2000	1999		
Anwil Group	216	171	38%	Manufacturing of chemical components
Niezależny Operator Międzystrefowy Sp. z o.o.	48	-	35%	Telecommunication services
Naftoport Sp. z o.o.	44	39	44%	Construction, operation and maintenance of loading station for liquid fuel
Other	55	74		
	-------	-------		
Total	363	284		
	====	====		

Anwil has significant operations in chemical industry in Poland.

(in PLN millions)

10. Inventories

	31 December 2000	31 December 1999
Finished goods	1,138	734
Work in progress (semi-products)	253	187
Goods for resale	47	250
Materials and production supplies	1,267	868
	---------	---------
Net inventories	2,705	2,039
	=====	=====

The inventory write-offs to net realisable value amounted to PLN 21 and PLN 4 respectively, in 2000 and 1999.

As at 31 December 2000 and 1999 the carrying amounts of inventories valued at net realisable value were PLN 851 and PLN 23, respectively.

As at 31 December 2000 and 1999 the carrying amounts of inventories pledged as security for liabilities were PLN 36 and PLN 89, respectively.
`

The increase in inventories is primarily due to the increase in the quantity of crude oil and finished goods held in inventories from December 31, 1999 to December 31, 2000.

According to Polish regulations, the Company and certain of its subsidiaries are obliged to maintain level of liquid fuel inventories, which in 1999 equalled 2% of total production and imports of these fuels in the previous year. This level is subject to annual increase by additional 2% of production and imports. Subject to the application of EU regulations in Poland, this required maximum level may reach 90 days of total production and imports of these liquid fuels.

(in PLN millions)

11. Trade and other receivables

	31 December 2000	31 December 1999
Trade receivables	1,466	1,117
Value added and other taxes recoverable	522	234
Prepayments	12	25
Other receivables	120	118
	---------	---------
Gross receivables	2,120	1,494
Less allowance for doubtful accounts	(107)	(73)
	---------	---------
Net receivables	2,013	1,421
	=====	=====

Total receivables include PLN 27 and PLN 42 of amounts denominated in foreign currencies as at 31 December 2000 and 1999, respectively. Trade receivables relate primarily to the sales of finished goods and sales of goods bought for resale.

Concentrations of credit risk relating to trade receivables are limited due to the large number of customers comprising the PKN Group's customer base and their dispersion across many different industries principally in Poland.

The allowance for doubtful accounts and changes therein for the years ended 31 December 2000 and 1999 were as follows:

	For the year ended	
	31 December 2000	31 December 1999
Allowance, beginning of period	73	69
Charged	88	48
Released	(42)	(37)
Written off	(12)	(7)
	-------	-------
Allowance, end of period	107	73
	====	====

12. Short-term investments

Short-term investments as at 31 December 2000 and 1999 included commercial papers.

(in PLN millions)

13. Deferred costs

	31 December 2000	31 December 1999
Prepayments	37	19
Other	17	11
	-------	-------
	54	30
	====	====

14. Cash and cash equivalents

	31 December 2000	31 December 1999
Polish Zloty	174	172
Other currencies	2	5
	-------	-------
	176	177
	====	====

Concentrations of credit risk relating to cash and cash equivalents are limited because the PKN Group places its cash with several well-established Polish and international institutions.

The cash and cash equivalents balances include the social cash held by the Group. These amounts which are not available for use by the Group equal to PLN 5 and PLN 5 as of 31 December 2000 and 1999, respectively.

15. Minority interest

The minority interests represent the net assets of subsidiaries attributable to interests that are not owned, directly or indirectly through subsidiaries, by the Company.

	31 December 2000	31 December 1999
Beginning of period	147	285
Change in the composition of shareholders	(11)	(5)
Increase in the companies' equities	23	39
Inclusion of new companies in consolidated financial statements	11	16
Acquisition of CPN minority interest	-	(188)
	-------	-------
End of period	170	147
	====	====

(in PLN millions)

15. Minority interest (continued)

Minority interest consists of the following:

	31 December 2000	31 December 1999
Rafineria Trzebinia S.A.	45	38
Rafineria Nafty Jedlicze S.A.	37	34
Inowroclawskie Kopalnie Soli "Solino" S.A.	20	26
Petrolot Sp. z o.o.	18	15
Petrozachód Sp. z o.o.	11	11
Petroprojekt Sp. z o.o.	7	-
Other	32	23
	170	147

16. Interest bearing borrowings

	Note	31 December 2000	31 December 1999
Bank loans	(a)	2,444	1,785
Other loans and credits	(b)	102	104
Commercial papers	(c)	185	125
Other		1	2
Subtotal		2,732	2,016
Less: short-term portion		(1,496)	(1,091)
Long-term portion		1,236	925

As at 31 December 2000 principal repayments fall due on:

	31 December 2000
12 months ended 31 December 2001	1,496
1 January 2002 - 31 December 2003	1,175
Thereafter	61
	2,732

The Company's interest bearing borrowings have increased by 716 during the year ended 31 December 2000. Changes were mostly a result of obtaining loans from consortium of banks organised by ABN AMRO, PKO BP S.A., PBK S.A., BRE S.A. and of additional issue of commercial papers in the amount of 51 PLN, offset by the repayment of loans granted by BH S.A. CITIBANK S.A.

(in PLN millions)

16. Interest bearing borrowings (continued)

(a) Bank loans analysed by currency are as follows:

		31 December	
		2000	1999
Polish Zloty	(1)	1,553	1,212
Deutsche Mark	(2)	21	341
U.S. Dollar	(3)	835	190
Swiss Franc	(4)	35	42
		--------	---------
		2,444	1,785
		=====	=====

(1) as at 31 December 2000 loans in Polish Zloty that bore fixed rates of 20%–20.5% (15.6% for preferential loans) amounted to PLN 63 and loans that bore floating rates of T/N WIBOR+0.18% - T/N WIBOR+3%, 1M WIBOR+0.05% – 1M WIBOR+2.5%, 3M WIBOR+0.2% – 3M WIBOR+1.5%, 0.30 – 0.75 of the NBP discount rate amounted to PLN 1,490;
as at 31 December 1999 loans in Polish Zloty that bore fixed rates of 17%–27% (8% for preferential loans) amounted to PLN 6 and loans that bore floating rates of T/N WIBOR – T/N WIBOR+3.04%, 1M WIBOR–1M WIBOR+2.5%, 3M WIBOR–3M WIBOR+3%, 6M WIBOR–6M WIBOR+1.1%, 0.3–0.65 of the NBP discount rate amounted to PLN 1,206;

(2) as at 31 December 2000 loans in Deutsche Mark that bore floating rates of 1M LIBOR+1% - 1M LIBOR+1.5% and 6M LIBOR+1.5% amounted to PLN 21;
as at 31 December 1999 loans in Deutsche Mark that bore floating rates of LIBOR+1.25%, 1M LIBOR+1.5%, 3M LIBOR+1% and 6M LIBOR+1,5% amounted to PLN 341;

(3) as at 31 December 2000 loans in U.S. Dollar that bore floating rates of 3M LIBOR+0.35% and 6M LIBOR+1.5% amounted to PLN 835;
as at 31 December 1999 loans in U.S. Dollar that bore floating rates of 1M LIBOR+0.2% and 6M LIBOR+1.5% amounted to PLN 190;

(4) as at 31 December 2000 and 1999 loans in Swiss Franc that bore a floating rate of 3M LIBOR+1% amounted to PLN 35 and PLN 42, respectively.

The one-month WIBOR rates as at 31 December 2000 and 1999 were 19.54% and 19.56%, respectively. NBP discount rates as at 31 December 2000 and 1999 were 21.50% and 19.00%, respectively.

As of 31 December 2000 and 1999 the PKN Group had loans from related companies, LG Petrobank S.A., amounting to PLN 14 and PLN 23, respectively and Bank Ochrony Srodowiska S.A. amounting to PLN 65 and PLN 98, respectively. Interests rates of loans from Bank Ochrony Środowiska S.A, are lower than market rates as these loans are for environmental friendly investments.

As of 31 December 2000 and 1999 loans amounting to PLN 752 and PLN 917 respectively, are secured on specific assets of the PKN Group.

(in PLN millions)

16. Interest bearing borrowings (continued)

(b) Other loans and credits

	31 December	
	2000	1999
Wojewodzki Fundusz Ochrony Srodowiska i Gospodarki Wodnej (Voivodship Fund for Environmental Care)	18	21
Narodowy Fundusz Ochrony Srodowiska (National Fund for Environmental Care)	84	83
	-------	-------
Total	102	104
	====	====

(c) Commercial papers issued by PKN are denominated in Polish Zloty. As at 31 December 2000 they are subject to interest rates at 19.21% - 19.69% and are repayable in the first quarter 2001.

The PKN Group uses various methodologies to assess and manage financial risk:

(1) To reduce the interest rate risk of the loan portfolio, the proportion of the fixed and floating rates is determined by management based on historical trends and future predictions. The majority of Polish Zloty loans have floating interest rates.

(2) The PKN Group continuously monitors the achievable interest rates and attempts to replace its loans with more favourable ones in response to market conditions.

(3) The PKN Group uses currency options transactions to hedge the foreign exchange risk of the portion of the loan portfolio. The net effect of fair value valuation of currency options was PLN 29 (loss) for the year ended 31 December 2000.

Based on arrangements made with the banks the PKN Group had unused loan facilities in the amount of PLN 333 as at 31 December 2000.

17. Provisions for liabilities and charges

	31 December	
	2000	1999
Environmental provisions	543	574
Jubilee awards and retirement bonuses	102	110
Penalties and compensation	51	9
Other provisions	18	22
	-------	-------
	714	715
	====	====

The PKN Group companies have a legal and constructive obligation to remediate a significant number of contaminated retail and wholesale sites. The provision has been determined based on the evaluation of the sites and estimated remediation cost per site by an independent professional consultant.

(in PLN millions)

17. Provisions for liabilities and charges (continued)

The movements in each period were as follows:

	Environmental provision	Jubilee awards and retirement bonuses	Penalties and compensations*	Other provisions	Total
1 January 1999	520	82	9	18	629
Charge	61	43	-	22	126
Use of provision	(7)	(15)	-	(18)	(40)
Reversal	-	-	-	-	-
31 December 1999	574	110	9	22	715
Charge	-	9	42	7	58
Use of provision	(31)	(17)	-	(11)	(59)
Reversal	-	-	-	-	-
31 December 2000	**543**	**102**	**51**	**18**	**714**

* In the year 2000, the Company has set up a provision in amount of PLN 40 for the contingent liability concerning the penalty imposed by the Office for Protection of Competition and Consumer with regard to "Petrygo" and monoethylene glycols. The results of this antimonopoly proceeding are described in Note 29 f) to these consolidated financial statements.

18. Trade, other payables and accrued expenses

Trade, other payables and accrued expenses:

	31 December 2000	31 December 1999
Trade payables	1,603	1,333
Taxes and social security	849	759
Social funds	56	64
Holiday pay accrual	15	14
Accrued expenses and other payables	67	77
	2,590	2,247

The social fund is an employer's obligation based on the government mandated calculation based on the number of employees and the monthly minimum wage in Poland. The amounts calculated under this formula must be used for the benefits of the employees.

Trade, other payables and accrued expenses include PLN 1,078 and PLN 362, respectively, of amounts denominated in foreign currencies as at 31 December 2000 and 1999.

19. Deferred income

	31 December 2000	31 December 1999
Grants	2	2
Other	1	9
	3	11

(in PLN millions)

20. Shareholders' equity

The share capital as at 31 December 2000 represented by the parent company's share capital was PLN 525, divided into 420,177,137 shares with nominal value of 1.25 Polish Zloty each.

The share capital consist of the following share series for 2000 and 1999:

Share series	Number of shares issued at 31 December 2000	Number of shares issued at 31 December 1999	Number of shares authorised at 31 December 2000	Number of shares authorised at 31 December 1999
A series	336,000,000	336,000,000	336,000,000	336,000,000
B series	6,971,496	6,971,496	6,971,496	6,971,496
C series	77,205,641	77,205,641	77,205,641	77,205,641
D series	-	-	11,344,784	-
	420,177,137	420,177,137	431,521,921	420,177,137

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

Authorisation and issuance of C share series took place on 19 May 1999 and for the purpose of these consolidated financial statements has been presented as having occurred prior to 1 January 1999. The accounting basis for presentation of PKN Group reorganisation has been described in Note 2b.

The share exchange for the 19.43% minority interest in CPN held by the employees of that company was accounted for using the acquisition method of accounting. As of 7 September 1999 PKN shares with fair value of PLN 295 were exchanged for CPN shares held by the employees of that company. Until 7 September 1999 CPN shares held by employees were presented as the 19.43% minority interest that amounted to PLN 188 on 7 September 1999. As a result of the described acquisition, a PLN 107 goodwill balance was created.

Series D shares and series A convertible bonds were authorised by General Meeting of Shareholders on 15 May 2000. D series shares, with nominal value of 1.25 PLN each, will be issued in years 2001-2003 in exchange for A series convertible bonds according to the management motivation program accepted both by the General Meeting of Shareholders and the Supervisory Board of the Company. Due to the limitations of Polish Commercial Code, series A convertible bonds instead of options will be offered to the top and medium level management. As at 31 December 2000 and until the date of these financial statements, the Company did not grant its employees an option to purchase A series convertible bonds.

On 14 July 2000 Warsaw Stock Exchange Council admitted for trading 11,344,784 D series shares.

Revaluation reserves result from obligatory revaluation of fixed assets performed as of 1 January 1995. Revaluations of property, plant and equipment were performed in Poland as mandated by the Central Statistics Office ("GUS") and were designed to reflect the level of inflation. These amounts are not distributable.

(in PLN millions)

20. Shareholders' equity (continued)

The distributable reserves of the Company under Polish law as at 31 December 2000 and 1999 amounted to PLN 2,280 and PLN 3,372 respectively. PKN might only distribute dividends to the extent of distributable reserves available under Polish Accounting Standards for the Company on a stand-alone reported basis.

During the years ended on 31 December 2000 and 1999 the Company has paid dividends in the amount of PLN 21 and 15, respectively.

21. Revenues

	For the year ended	
	31 December 2000	31 December 1999
Domestic sales	17,687	12,722
Export sales	915	557
	--------	--------
	18,602	13,279
	=====	=====

Revenues are primarily generated in the territory of Poland. Approximately 5% and 4 % of the total revenues for 2000 and 1999, respectively, related to export sales.

22. Operating costs by nature

	For the year ended	
	31 December 2000	31 December 1999
Raw materials and energy	12,722	6,436
Cost of goods bought for resale	1,746	3,162
External services	1,365	1,293
Payroll and benefits (staff costs)	788	795
Depreciation and amortisation	867	660
Taxes and charges	185	212
Other *	205	201
	---------	---------
	17,878	12,759
Adjusted by:		
Elimination of internal services	-	(50)
Change in inventories, deferred and accrued costs	(615)	(418)
Internal costs capitalised	(86)	(238)
	---------	---------
Operating costs	17,177	12,053
	=====	=====

* In the year 2000, the Company has set up a provision in amount of PLN 40 for the contingent liability concerning the penalty imposed by the Office for Protection of Competition and Consumer with regard to "Petrygo" and monoethylene glycols. The results of this antimonopoly proceeding are described in Note 29 f) to these consolidated financial statements.

(in PLN millions)

23. Net interest and other financial income and expenses

	For the year ended 31 December 2000	For the year ended 31 December 1999
Interest expense	(210)	(33)
Foreign exchange losses	(164)	(80)
Interest income	54	51
Foreign exchange gains	166	52
Profit from sale of shares, securities	-	1
Other	(32)	(8)
	-------	-------
	(186)	(17)
	====	====

24. Income tax

	For the year ended 31 December 2000	For the year ended 31 December 1999
Current income tax charge	284	286
Deferred tax charge (benefit)	78	(23)
	-------	-------
	362	263
	====	====

The PKN Group does not constitute a tax group under Polish legislation. Therefore, every company in the Group is a separate taxpayer.

According to the Polish tax regulations, the tax rates in effect in 2000 and 1999 were 30% and 34%, respectively. The tax rate is regulated to be 28%, 28%, 24% and 22% in 2001, 2002, 2003 and 2004 and thereafter, respectively.

The reconciliation between the reported income tax expense and the theoretical amount arising by applying the statutory income tax rates is as follows:

	For the year ended 31 December 2000	For the year ended 31 December 1999
Profit before income tax	1,287	1,245
	-------	-------
Income tax calculated at statutory rate	386	423
Effect of investment tax allowance bonus	(23)	(34)
Effect of income/ expenses not subject to income tax	(24)	(23)
Non tax deductible costs	30	12
IAS adjustments	(6)	(1)
Tax rate changes	-	(110)
Other	(1)	(4)
	-------	-------
Income tax expense for the year	362	263
	====	====

(in PLN millions)

24. Income tax (continued)

The net deferred tax liability as at 31 December 2000 and 1999 consists of the following:

	31 December	
	2000	**1999**
Deferred tax assets:		
Deferred tax on environmental charges	121	133
Investment tax allowance bonus	23	34
Excess of accounting depreciation over tax allowed	19	37
Unrealised foreign exchange losses	-	12
Jubilee and retirement costs provisions	24	27
Other	24	19
	-------	-------
	211	262
	-------	-------
Deferred tax liabilities:		
Investment tax allowance	(343)	(343)
Capitalisation of borrowing costs	(113)	(105)
Unrealised foreign exchange profits	(19)	-
	-------	-------
	(475)	(448)
	-------	-------
Net deferred tax liabilities	(264)	(186)
	====	====

As the companies in the PKN Group are not subject to group taxation and relief, the deferred tax assets and liabilities in the individual companies must be evaluated on a standalone basis. As a result, the consolidated balance sheets reflect deferred tax assets of PLN 18 and PLN 22 and deferred tax liabilities of PLN 282 and PLN 208 as of 31 December 2000 and 1999, respectively.

Under Polish tax regulations, taxpayers may reduce the taxable income by the costs of purchasing qualifying fixed assets acquired in a given tax year (investment tax allowance deduction). In addition, the taxable income may be further reduced in the following year by 50% of the previous year deduction (investment tax allowance bonus).

Both the initial deduction and the additional deduction are subject to limits prescribed in the Corporate Income Tax Act dated 15 February 1992. The opportunity to claim a deduction that is not used in a given year due to lower pre-tax profit is forfeited and cannot be carried over into the next year.

Following to recent changes in income tax law, the above described tax incentives are only available in year 2000 in relation to the continued investment projects from previous periods. In all other cases, the investment incentives are no longer available.

(in PLN millions)

25. Operating leases

Operating lease agreements are mainly in respect of the lease of buildings, computer equipment and vehicles. The lease expenses for the years ended 31 December 2000 and 1999 were PLN 13 and PLN 12, respectively.

Future minimum lease payments under non-cancellable operating leases with a term of more than one year as at 31 December 2000 were as follows:

	31 December 2000
2001	12
2002	8
2003	6
2004	3
2005 and thereafter	5

Total minimum lease payments	34
	====

26. Supplementary cash flow information

Significant non-cash transactions between the Company, Nafta Polska S.A., State Treasury and the employees of former CPN are described in Notes 2b and 20 to these consolidated financial statements.

27. Purchase commitments

As of 31 December 2000, capital and other expenditures amounting to PLN 1,510 had been committed and authorised under contractual arrangements and PLN 2,171 had been authorised by Management Board and not contracted yet.

28. Related party transactions

Since inception through June 2000 the Company's ultimate parent was the Polish State Treasury. The Polish State Treasury supervised its investment in the Group through a 100% owned intermediary company, Nafta Polska S.A. (as at 30 June 2000 Nafta Polska S.A. owned 44% of the Company’s shares and the State Treasury owned 10.4% of the Company’s shares).

Significant transactions between the Company and its major shareholder, Nafta Polska S.A. are described in Note 2b.

(in PLN millions)

28. Related party transactions (continued)

Transactions between the Company and its related parties were conducted on normal commercial terms and were as follows:

	Entities accounted for on equity basis	Refineries owned by Nafta Polska S.A.	Other
Sales			
1999	270	925	5
2000	526	504	3
Purchases			
1999	185	429	160
2000	228	167	75
Trade debtors			
31 December 1999	40	76	1
31 December 2000	59	111	-
Trade creditors			
31 December 1999	25	18	11
31 December 2000	26	6	6

The above transactions included primarily sales and purchases of petroleum products as well as purchases of maintenance, transportation and other services.

29. Contingencies and risks

a. Guarantees and warranties

The PKN Group granted guarantees and warranties to other entities. The amounts of such guarantees and warranties were PLN 56 and PLN 51 as at 31 December 2000 and 1999, respectively.

b. Litigation

The following claims or lawsuit may affect the PKN Group:

(i) The claim of Enerco S.A. amounting to PLN 5, which includes the amount of share capital called but not paid in (PLN 2) plus interest due (PLN 3). The bankruptcy trustee of Enerco S.A. assets filed a complaint against the Company claiming that CPN did not pay in an amount due resulting from an agreement to increase the share capital of Enerco S.A. The Company is challenging the claim. The proceedings are pending in the District Court in Warsaw and management believes that the outcome will not have a material adverse effect on its consolidated financial position or results of operation.

(ii) The claim of Enerco–Industrie, Paris amounting to PLN 21 and reflects the amount of share capital called but not paid in (PLN 5) and penalty interest (PLN 16). Enerco-Industrie claims that CPN did not contribute its contribution to Enerco S.A. The proceedings ended on 12 April 1999 but the District Court in Warsaw resumed the case postponing the hearing till later date. Management believes that the outcome will not have a material adverse effect on its consolidated financial position or results of operation.

29. Contingencies and risks (continued)

(iii) The claim of Ten Hoeve Bros. Inc. amounting to PLN 11, which includes the amount of PKN liability not paid (PLN 3) plus interest due (PLN 8). The claim concerns the realisation of investment project.

(iv) The claims of individuals amounting to PLN 22, which includes the amount of fee for an inventive project (PLN 21) and the family member's accident recompensation (PLN 1).

c. Tax regulations in Poland

Poland currently has a number of laws related to excise tax, value-added tax, corporate income tax and payroll (social) taxes, together with others, which have not been in force for significant periods. Implemented regulations are often unclear or inconsistent. Often, differing opinions regarding legal interpretations exist both among and within government ministers and organisations, creating uncertainties and areas of conflict. Tax settlements, together with other legal compliance areas (for example: customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Poland that are substantially higher than those typically found in countries with more developed systems.

There are no formal procedures in Poland to agree the final level of tax charge for a period. Tax settlements may be a subject of review during the subsequent 5 years. There is a risk that the authorities may have a different opinion from that presented by the entities constituting the PKN Group as to the interpretation of the law which could have significant effect on Group's stated tax liabilities.

d. Jedlicze Refinery shares purchase - contingent liability to Nafta Polska S.A.

In accordance with the agreement dated 19 November 1998, the Company purchased 75% of share capital of Rafineria Nafty Jedlicze S.A. from Nafta Polska S.A. for the price of PLN 64. In case Rafineria Nafty Jedlicze S.A. would generate a profit adjusted by the costs of setting up provisions not allowed for tax purposes of at least PLN 30 in both 2000 and 1999 , the Company is bound to pay additional PLN 17 in relation to Rafineria Nafty Jedlicze S.A. shares purchase. The agreement to purchase shares became effective on 1 January 1999. Rafineria Nafty Jedlicze S.A. generated in 1999 more than PLN 30 calculated according to the above formula, but it did not generate above specified profit for the year 2000.

e. Excise tax – contingent liability of Jedlicze Refinery

Rafineria Nafty Jedlicze S.A. was subject to a tax audit for the period from January to September 1998 performed by tax authorities with respect to excise tax allowances in relation to diesel fuels. The tax audit was led by Fiscal Control Office, which issued a decision to increase excise tax liability of Rafineria Nafty Jedlicze S.A. in the amount of PLN 100 including interest charge. Rafineria Nafty Jedlicze S.A. appealed to Fiscal Chamber questioning substantial basis of the decision. Fiscal Chamber suspended execution of the decision until appeal process finishes.

On 22 December 1999 Fiscal Chamber in Rzeszow after revision of Rafineria Nafty Jedlicze's appeal turned down the tax decisions in full and returned the matter for the renewed appraisal by the tax authorities of lower level.

On 12 July 2000, the Fiscal Control Office issued a decision setting tax liability relating to excise tax for February 1998 amounting to PLN 5 and liability resulting from interests of PLN 5 (the above amounts were paid).

29. Contingencies and risks (continued)

In connection to the Rafineria Nafty Jedlicze appeal the Fiscal Chamber fully repealed the decision issued on 12 July 2000. As the result the Fiscal Control Office in Krosno in accordance with the decision issued on 9 October 2000 made the return payment of excess excise tax paid in for February 1998 amounting to PLN 11, which includes interests of PLN 1.

On 22 February 2001 Rafineria Nafty Jedlicze received the decision of the Fiscal Control Office in Rzeszow, which set tax liabilities amounting: for March 1998 to PLN 0.7 and liability resulting from interests as of 28 February 2001 to PLN 0.9, for April 1998 to PLN 0.6 and liability resulting from interests as of 28 February 2001 to PLN 0.6. The Fiscal Control Office fully repealed the decision of the Fiscal Control Office Inspector and the lawsuit was discontinued. The Management Board of Rafineria Nafty Jedlicze does not agree with the decision of the Fiscal Control Office concerning tax liabilities for March and April 1998 and on 22 March 2001 appealed to the Supreme Administrative Court.

As of the date of preparation of these consolidated financial statements the result of the above mentioned proceedings was not known. Management believes that taking into consideration the merits of the appeal, a negative outcome is not probable.

f. Antimonopoly proceedings

The Company is subject to four anti-trust proceedings.

I. In two proceedings Office for Protection of Competition and Consumer ("OPCC") issued a decision setting cash penalty. These proceedings concern:

1. Prices of fuels – the Company appealed to Anti-Trust Court against the negative decision of OPCC setting a penalty of PLN 5. Anti-Trust Court repealed the decision of OPCC concerning monopolistic practice of PKN ORLEN and therefore the cash penalty was waived. The provision of PLN 5, created in year 1999, was released.
2. Methods of setting prices of antifreeze liquid to radiators „Petrygo" and prices of monoethylene glycols – the Company appealed to Anti-Trust Court against the negative decision of OPCC setting penalty of PLN 40. The Company has provided for the above amount.

II. Until the date of preparation of these financial statements two remaining proceedings have still been pending.

1. Average prices of liquid fuels – OPCC and Polish Chamber of Liquid Fuels appealed against the positive court verdict for the Company in this case.
2. Refusal to sale fuels – the Company appealed to the Supreme Court against the negative verdict of the Anti-trust Court, concerning cessation of monopolistic management practice.

Until the date of preparation of the presented financial statements, the results of the above proceedings were not yet known. These financial statements do not include provisions relating to the above proceedings.

Antimonopoly proceedings can result in considerable fines, which could have a material adverse effect on the business, results of operations and financial condition of the PKN Group.

g. Litigation relating to CPN and the merger with CPN.

The Company is subject to three court proceedings pursuant to which the claimants are seeking to have declared as invalid the resolutions of the general meeting of shareholders of CPN.

(in PLN millions)

29. Contingencies and risks (continued)

One of them concerns the resolution taken on 29 October 1998 and relating to the transfer of shares in Naftobazy S.A. to Nafta Polska S.A. The proceeding is on its way. The Court did not set a date for the trial.

Two proceedings concern declaring as invalid the resolution of 19 May 1999 relating to the merger of CPN with the Company. In both cases the claimants withdrew their claims. It is believed that lawsuits will be discontinued in the near future.

h. Employees compensation plans

On 19 August 1999 an agreement between PKN and former CPN employees was signed in order to regulate the legal status of the former employees within the structure of PKN after merger of the two companies. This agreement was expanded to all the employees of PKN. The Company has guaranteed all the employees of CPN employment for 24 months from the date of 1 December 1999.

PKN management has launched a restructuring the Company after the merger was executed. Should this restructuring require group termination of employees covered by the guarantee package, those employees will receive the following benefits in addition to those provided for by the law:

- 7 month’s salaries, should the termination take place within first 12 months;
- 4 month’s salaries, should the termination take place in the period between 12 and 24 months;
- the employees who, at the date of termination of the agreement have no more than 3 years to the statutory retirement age (65 for men, 60 for women) will receive an additional payment amounting to one month’s salary.

Management has not yet finalised its restructuring plan and hence is not able to assess the level of the future restructuring costs.

The Polish Labour Code also imposes on an employer an additional obligation to pay between 1 and 3 month’s salaries to the employees made redundant due to employment restructuring or group reductions.

i. Tax allowances – investment incentives

During the period 1995 – 2000 the PKN Group companies took advantage of the investment tax allowances described earlier in Note 24. Under the terms of this scheme, the PKN Group companies have taken current deductions equal to PLN 2,021 in respect of investments in qualifying assets. During the period 1995 – 2000 the PKN Group companies have also utilised additional investment tax bonuses relating to these capital investments. These deductions and bonuses have reduced the tax charges of the PKN Group by PLN 675 and PLN 284, respectively, during the period 1995 – 2000 as follows.

Financial Year	Tax allowance	Tax bonus
1995	138	37
1996	101	52
1997	168	48
1998	111	63
1999	95	46
2000	62	38
	---------	---------
Total	675	284
	=====	=====

29. Contingencies and risks (continued)

These allowances are conditional. The law provides for the loss and reversal of entitlement for all investment allowances if within 3 years, any of the following circumstances arise:

(i) the taxpayer has outstanding tax liabilities exceeding 3% of particular taxes due for specific tax years, in relation to taxes constituting the state budget's income and insurance pension premiums; in the case of VAT, any outstanding payments may not exceed 3% of output VAT,

(ii) the taxpayer transfers, in any form, the ownership of items that were subject to investment deductions; this does not concern the transfer of ownership resulting from the change of an entity's legal form or the merger or diversion of companies, performed on the basis of regulations regarding state-owned companies, the commercialisation and privatisation of state-owned companies, the Commercial Code and Cooperative Law,

(iii) the legal basis for the treatment of leased fixed assets as a component of the lessee's property ceases to exist,

(iv) the taxpayer is put into liquidation or is declared bankrupt,

(v) the taxpayer is reimbursed for investment expenses in any form.

Tax authorities may also deny a claim to tax allowances if the taxpayer had been charged with outstanding tax liabilities at the moment in which the tax incentives deductions were commenced.

The Act for the amendment of the Corporate Income Tax Act of 20 November 1998 (Journal of Law dated 27 November 1998 with further amendments), stipulates that taxpayers do not lose such a right if they correct their tax returns and settle the outstanding payments with penalty interest due, within the period prescribed by regulations. In this case, the above implications described in point (i) are not applicable.

j. Fixed assets located on the land with unsettled ownership issues

The PKN Group owns several service stations and other properties on which the ownership of the underlying land is unclear. The book value of the fixed assets located on plots of land with unsettled ownership issues were PLN 30 and PLN 39 as of 31 December 2000 and 1999, respectively.

k. Termination benefits for key Management personnel

PKN Management Board members, based on their individual employment contracts, are entitled to receive 6 to 12 month's salaries after the termination of employment.

(in PLN millions)

30. The change in the presentation of items in the financial statements

a) Catalyzers issued to production – the Company has changed the presentation of catalyzers issued to production from deferred costs to other property, plant and equipment from year 2000. As the result, the reclassification amounting to PLN 45 was made in the accompanying balance sheet as at 31 December 1999.

b) Distribution costs and administrative expenses – the Company has changed the presentation of operating costs as the result of integration of PKN with former CPN branches. As the result, the reclassification from administrative expenses to distribution costs amounting to PLN 30 was made in the profit and loss account for the period ended on 31 December 1999.

31. Short-term employee benefits for key management personnel

Short-term employee benefits include wages, salaries, social security contributions, paid sick leave, bonuses and profit sharing.

Short-term employee benefits for the year ended 31 December 2000:

Management Board	6.8
Supervisory Board	0.3

32. Employment structure

Average employment by category during the year ended on 31 December 2000 was as follows:

Blue collar workers	8,201
White collar workers	6,486

	14,687
	======

Employment level as of 31 December 2000 equalled 13,342 persons.

(in PLN millions)

33. Post balance sheet events

a) Purchase of shares of Anwil S.A.

In the first quarter of year 2001 the Company purchased additional 3.969.879 Anwil shares for PLN 94. As the result, the PKN's interest in Anwil increased by 26% to 64%.

b) New share issue of Niezalezny Operator Miedzystrefowy Sp. z o.o. (NOM)

On 19 March 2001 PKN placed the declaration to acquire new issue shares in NOM. As a result of shares capital increase in NOM, PKN acquired 70,000 new shares of a total value of PLN 35. PKN's interest in NOM remained unchanged at 35% level.

c) Sale of shares in Bank Ochrony Środowiska (BOŚ)

On 28 March 2001 the Company sold all shares in BOŚ. The carrying value of sold shares amounted to PLN 19, the sale proceeds amounted to PLN 66 and the profit on the sale of these shares amounted to PLN 47.

34. Transformation for IAS purposes

The PKN Group companies maintain their accounts in accordance with the accounting principles and practices employed by enterprises in Poland as is required by the Accounting Act dated 29 September 1994. The financial statements set out above reflect certain adjustments not reflected in the companies statutory books to present these financial statements in accordance with IAS, except for non-compliance with IAS 29 "Financial Reporting in Hyperinflationary Economies".

The adjustments to the consolidated financial statements prepared under Polish Accounting Standards ("PAS") are set out below:

	Net profit for the year	
	2000	**1999**
PAS basis consolidated	805	815*
Distributions from profit	(3)	-
Foreign exchange gains, net	79	1
IAS adjustments to Anwil financial statements originally prepared in accordance with PAS	7	(2)
Borrowing costs capitalisation, net	44	136
IAS consolidation of additional entities	6	14
Minority interest of CPN	-	(21)
Amortization of CPN goodwill	(11)	(2)
IAS treatment of negative goodwill	12	12
Fair value adjustment	(1)	(2)
Deferred tax on the above	(27)	(7)
Other	(9)	-
IAS Consolidated	902	944

* PAS basis pro-forma consolidated

(in PLN millions)

34. Transformation for IAS purposes (continued)

	Net assets as of 31 December	
	2000	1999
PAS basis consolidated	7,086	6,328*
Foreign exchange gains, net	81	2
IAS adjustments to Anwil financial statements originally prepared in accordance with Polish Accounting Standards	(2)	(9)
Borrowing costs capitalisation	489	445
IAS consolidation of additional entities	16	23
Goodwill on CPN employee shares acquisition, net	94	105
IAS treatment of negative goodwill	(62)	(74)
Fair value adjustment	-	1
Deferred tax on the above	(133)	(106)
Other	27	-
IAS Consolidated	7,596	6,715

* PAS basis pro-forma consolidated

(a) Foreign exchange gains

In accordance with PAS unrealised foreign exchange gains are deferred until realised in the statutory financial statements. In these financial statements these gains are accounted for as income.

(b) Capitalisation of borrowing costs

In accordance with PAS, borrowing costs are written off to the income statement as incurred net of the amount capitalised related to borrowings for specific capital projects. Borrowing costs incurred on general borrowings are always expensed as incurred. Borrowing costs are capitalised as a part of the costs of the relevant fixed assets up to the date of commissioning and written off to the income statement over the period in which the assets is depreciated.

In these financial statements borrowing costs are subject to capitalisation in accordance with allowed alternative treatment of IAS 23 “Borrowing costs”. Borrowing costs that are directly attributable to the acquisition construction or production of a qualifying assets are capitalised as a part of these assets. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying assets, the amount of borrowing costs eligible for capitalisation are determined by applying an average capitalisation rate to the expenditures on those assets. The amounts reported herein are net of depreciation charges related to the interest capitalised in the current and earlier periods.

34. Transformation for IAS purposes (continued)

(c) CPN minority shareholders participation and goodwill on shares purchased former CPN employees.

For the purposes of the IAS financial statements, the shares being held by employees as of 31 December 1998 were presented as minority shareholders capital. After the merger which was completed on 7 September 1999, these shares are reflected as shareholders'equity.

As discussed in Note 2b, the acquisition of CPN's employee shares was recorded for IAS purposes under the acquisition method of accounting. As a result the Company recognised goodwill of PLN 107 on the acquisition of the 19.43% CPN shares held by the employees.

For PAS pro-forma, the acquisition of CPN, including the acquisition of the minority shares, was pushed back to the earliest financial statements presented under pooling of interests' method.

(d) IAS treatment of negative goodwill

According to PAS the Company charges negative goodwill into income for the two years subsequent to acquisition. In the IAS financial statements, in accordance with IAS 22 (revised 1998) negative goodwill in amount not exceeding the fair value of acquired identifiable non-monetary assets is written off to income over the remaining average depreciation period of depreciable assets.

(e) Deferred tax effects

As a consequence of adjusting the financial statements prepared in accordance with PAS by capitalisation of borrowing costs, the deferred tax position has accordingly been changed.

34. Transformation for IAS purposes (continued)

(f) IAS treatment of Revenues

In accordance with PAS, the Company and certain of its subsidiaries included excise tax charged on the oil product manufactured in their revenues and selling expenses.

For the purpose of these consolidated financial statements prepared under IAS revenues and selling expenses had been presented net of excise tax of 8,258 and 7,198 for the years ended 31 December 2000 and 1999, respectively.

Signatures of the Members of the Management Board

....
President - Andrzej Modrzejewski

....	....
Vice President - Marek Mroczkowski	Vice President - Jarosław Tyc
....	....
Member of the Board - Czesław Bugaj	Member of the Board - Krzysztof Cetnar
....	....
Member of the Board - Andrzej Drętkiewicz	Member of the Board - Tadeusz Szczerba
....	....
Member of the Board - Władysław Wawak	Member of the Board - Wojciech Weiss

Plock, April 30, 2001