

Letter of the President of the Management Board of PKN ORLEN S.A. to the Shareholders, Customers and Employees

Dear Sirs,

Without a doubt, you will agree that 2000 was the most important year in the up to the present history of Polski Koncern Naftowy ORLEN S.A. It was the first full year of operations for PKN ORLEN S.A. after the establishment of the Company in September 1999, as a result of the merger between the former Petrochemia Plock and the former CPN S.A. In 2000, once again PKN ORLEN S.A. proved to be the largest Polish enterprise in terms of sales volume. As a result of the second stage of the Company's privatisation in June 2000, most PKN ORLEN S.A. shareholders represent private capital. Another 2000 success was the introduction of the ORLEN brand onto the market.

PKN ORLEN S.A. is one of the largest oil-refining and petrochemical companies in Central Europe. Last year, the Company and its Capital Group recorded best ever financial results. The consolidated sales revenue amounted to PLN 26.9bn in accordance with the Polish Accounting Standards - PAS (PLN 18.6bn in accordance with the International Accounting Standards - IAS). EBIDTA (earnings before interest, depreciation, income tax and amortization) increased up to PLN 2.3bn in accordance with the PAS (PLN 2.3bn in accordance with the IAS), which means a 18% increase in relation to 1999 pro forma. The 2000 operating income stood at PLN 1.4bn in accordance with the PAS (PLN 1.4bn in accordance with the IAS), while the pre-tax profit was at PLN 1.1bn in accordance with the PAS (PLN 1.3bn in accordance with the IAS). The net profit amounted to PLN 0.8bn in accordance with the PAS (PLN 0.9bn in accordance with the IAS). The EPS stood at PLN 1.92 in accordance with the PAS (PLN 2.15 in accordance with the IAS).

Since June 2000, the Company has been amongst the group of enterprises with the majority private shareholding. At that time, Nafta Polska S.A. sold almost 110 million PKN ORLEN S.A. shares in a public offering. Despite rather unfavourable stock exchange conditions, investors showed immense interest. The second stage of the privatisation resulted in an increased number of free float shares, up to 72% of the issue, while the remaining 28% were kept by Nafta Polska S.A. and the State Treasury Ministry. PKN ORLEN S.A. shares are traded at the Warsaw and London Stock Exchanges. PKN ORLEN S.A. shares are among

the group of securities with the highest free float, attesting to investor's confidence in the continued growth and development of PKN ORLEN S.A.

The movement over to the private sector crowns the integration and restructuring processes, initiated in 1999, of the two companies which together came to make up PKN ORLEN S.A. Since the beginning of 2000, a more effective regional structure of the Company has been operational. The structure is connected with the Plock-based head office via an IT network. Already, the structural changes in PKN ORLEN S.A. have meant measurable savings.

We have successfully implemented a major part of the long-term PKN ORLEN S.A. investment programme. Only over 2000, we spent in our Capital Group over PLN 1.6bn on world-class equipment and technology. The plant in Plock has been equipped with a modern Reformer VI and Isomerisation C₅-C₆ installations for the production of engine fuel components, as well as with a Hydro-desulphurisation of diesel oil installation VI and Hydro-desulphurisation of soft asphalt. These two forward-looking investments constitute one of the factors thanks to which leading investment banks view PKN ORLEN S.A. as one of the most attractive Polish stock exchange companies.

The modern production infrastructure makes it possible to further increase operational efficiency. A year ago, I announced that between 2000 and 2002 we intended to cut costs by PLN 500m within the Company and the Capital Group. This promise is now being fulfilled.

In 2000, mainly due to our co-operation with KBC, a world leader in optimising refinery management, we managed to save 40% of the PLN 125m forecasted production savings. In 2001, we plan to cut costs of one processed barrel of crude oil by USD 0.40.

We expect that the largest reduction of costs will be achieved in the area of wholesale trade and logistics: amounting to about PLN 300m of the aforementioned PLN 500m. According to our estimates, in 2000 the Company-wide savings amounted to about PLN 75m, which is 25% of the amount. These savings were made possible thanks to such things as an extensive reorganisation process. There was 11 Regional Organisational Units established, which include Regional Wholesale and Logistics Offices, Regional Retail Trade Offices, Regional Financial Offices and Regional Investment and Development Offices. An IT network connects these units with the Main Plant in Plock, making it possible to work together using the SAP R/3 program. We have decreased the number of the storage and distribution bases to 42, and the remaining 110 are to be sold, leased or liquidated.

The new investments in wholesale trade and logistics, now in progress, will also contribute to upgrading product distribution. In Ostrów Wielkopolski, we began the construction of a Fuel Storage Depot with the storage capacity of 55,000 m³, along with a pipeline connecting it to the Plock Refinery. The adaptation of salt caverns in Inowroclawskie Kopalnie Soli Solino (the Inowroclaw salt mine) has been continued. Adapted salt mine will be used as an underground fuel storage facilities for mandatory fuel inventories, required by the European Union regulations.

At present, PKN ORLEN S.A. manages the widest (2,077 stations) network of retail fuel sale in Poland. In retail trade, we have implemented new operational standards at fuel stations, organised promotional events for customers and made substantial investments. In 2000, the sale of non-fuel products was taken over from station operators, and then, we made the product offer uniform throughout the stations. Thanks to this we were able to negotiate new, advantageous agreements with suppliers, and implement product management by category. All these actions have generated additional profit for PKN ORLEN S.A.

We believe that a perfect product creates value for the shareholder, but only if it is accompanied by an efficient distribution network and effective marketing. Therefore, having carried out numerous analyses, we decided to launch – ORLEN – a new brand which has quickly become one of the well-recognized brand names among Polish customers. Thanks to the introduction of the ORLEN brand concurrently with the public offering of June 2000, we did not have to launch a costly campaign in order to create the brand's image from scratch among the Company's customers, shareholders, partners and employees.

In 2000, 57 fuel stations were built, including two ultra modern testing stations under the ORLEN brand. At the same time we upgraded 117 of the already existing facilities. With respect to retail trade in fuels, PKN ORLEN S.A.'s objective is to maintain its 40% market share, and to achieve a return on the invested capital which would exceed the weighted-average cost of capital. While making decisions on the construction of new stations, we will be selecting the best locations.

Fleet Cards called "Flota Polska" have been introduced for large, institutional customers. The "Flota Polska" Cards are accepted at over 1,100 PKN ORLEN S.A. service stations, which makes them exceptionally attractive for nationwide companies and institutions. None of our competitors' sales networks come even close to the potential of the sales network under our management. At the end of 2000, we also tested cards for individual customers, called "VITAY".

However, I must admit that in 2000 retail trade was the area where we faced certain difficulties. It was the first year in which we recorded a decrease in demand for engine fuels, due to price increases. This reflected the trends seen on worldwide markets, where the prices of crude oil and fuel are at the highest levels they have been in the last 10 years. In Poland, customs duty for imported fuels was abolished three months prior to the planned date. A slowdown in economic growth resulted in a general decrease in consumer and investment demand. We stood up to the challenge well.

This was, to a large extent, thanks to PKN ORLEN S.A. employees. It is not an exaggeration in the least to claim that without their competence, knowledge, personal commitment and determination to develop further, we would have failed to succeed. Every single employee contributes an essential block towards the building the Company's and Capital Group's value. Each and every one of the PKN ORLEN S.A. employees - refinery engineers, tanker truck drivers, logistics experts, IT specialists, finance specialists, employees working at production lines, workers and managers – comprise the Company's and Capital Group's most important assets. And now, to all of them, I would like to simply say: thank you.

As a result of the investments implemented in PKN ORLEN S.A., the company not only has a state-of-the-art infrastructure managed by well-trained employees, but our products comply with the strictest of environmental protection standards. This has been confirmed by awards and certificates received by PKN ORLEN S.A., including the prestigious ISO 14001 for employing procedures compliant with ecological requirements. Diesel oil named Ekodiesel Plus 50, produced since the fourth quarter of 2000, meets the quality standards which will come in force in the European Union in 2005. At the end of 2000, PKN ORLEN S.A. discontinued the production of leaded petrol, which has been substituted by a universal, unleaded gasoline.

The areas on which PKN ORLEN S.A. focuses with respect to the Capital Group management are those related to refining and petrochemical operations. We have already begun to look for trade investors for the other member companies of the Group. Other PKN ORLEN S.A. investments, mainly investments in telecommunications, are treated as mid-term financial investments. In the future, they will be a source of financing core operations.

As the largest Polish company and one of the largest Central-European companies in the refinery and petrochemical sector, PKN ORLEN S.A. plans to expand both in Poland as well as abroad. We are conscious of the intensified consolidation processes among fuel and petrochemical companies in Central Europe, and intend to actively participate in those

processes. This is a unique opportunity for a large, Polish company to extend its operations outside of Poland. This would reinforce Poland's position as a European Union partner.

We are now making preparations for the third stage of PKN ORLEN S.A. privatisation. We support the concept of offering 18% of Nafta Polska S.A. shares to a sector investor. A share exchange with a potential investor could be a prelude to a joint capital project, followed by a merger. However, it will be up to the shareholders to make the final decisions in this matter.

In the next few years, PKN ORLEN S.A. will seek to increase efficiency and decrease operational costs, to increase customer satisfaction, to create solid relationships with its partners, and to take into account the interests of both the shareholders and the society as a whole. PKN ORLEN S.A. will continue to be a good corporate citizen, who at the same time makes every effort to create value for its owners.

The annual report presented to you is a summary of PKN ORLEN S.A. and the Capital Group accomplishments in 2000, also containing selected aspects of our strategy for the years to come.

I would like to thank all readers of the report: the shareholders, capital market institutions, analysts, the media, our employees, partners and customers, for their trust, friendly advice and, many-a-times manifested, support for PKN ORLEN S.A.

I look forward to further co-operation with you.

Andrzej Modrzejewski

President of the Management Board, General Director