MANAGEMENT BOARD COMMENTARY ON THE COMPANY'S OPERATIONS OF POLSKI KONCERN NAFTOWY ORLEN S.A.

FOR 2004

(DIRECTORS' REPORT)

(amended on 5 May 2005 in relation to the issued Management Board Commentary on the Company's operations prepared on 31 March 2005, "amended Management Board Commentary on the Company's operations")

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INTRODUCTION

Organisational and legal acts within Frame Organisational Rules and Regulations of PKN ORLEN S.A., which are currently in force, were approved by the Management Board on 1 December 2004. According to these Regulations, organisational structure of PKN ORLEN S.A. consists of Head Office in Plock and Warsaw, Production Department in Plock and 12 Regional Organisational Units in Bialystok, Gdansk, Katowice, Krakow, Lublin, Nowa Wies Wielka, Plock, Poznan, Rzeszow, Szczecin, Warsaw and Wroclaw having the status of an employer within the meaning of Art. 3 of the Labour Code. Regional Organizational Units are composed of Regional Wholesale and Logistics Offices, Regional Retail Trade Offices, Regional Investment and Maintenance Offices, Regional Financial Offices as well as Financial Offices.

On 22 April 2004 the Supervisory Board of PKN ORLEN S.A. decided to extend the number of the Members of the Management Board from 5 to 6. On 1 June 2004 the Management Board of the Company decided to change of the Framework Organizational Rules and Regulations of the Company by the change of responsibilities of Members of the Management Board:

- President of the Management Board – General Director,
- Vice-President of the Management Board, responsible for Production, Wholesale and Logistics,
- Vice-President of the Management Board, responsible for Economics and Finance
- Vice-President of the Management Board, responsible for Human Resources and Management Systems
- Vice-President of the Management Board, responsible for Strategy and Capital Investments,
- Member of the Management Board, responsible for Retail Sales and Marketing.

The composition of Reporting Directors was also extended. The following positions were created: Director of Control and Security Office, Director of UNIPETROL Holding Integration, Director of Production's Alliances and Alternative Energy Sources and Director of Margin Optimization.

During 2004 intensive activities were taken in connection with realization of the following projects: value based management and comprehensive operational cost cutting programme. They covered all the business areas of PKN ORLEN S.A.

On 21 September 2004 the Supervisory Board of PKN ORLEN unanimously decided to appoint Igor Chalupec to the position of the President of the Management Board, effective on 1 October 2004. On 18 October 2004 the Supervisory Board of PKN ORLEN S.A. on the grounds of the proposal of the President of the Management Board changed the composition of the Management Board. This was related to the planned change of the Management Board structure oriented towards efficient and transparent management.

These changes were made according to the previously accepted procedure, among others, after individual assessments performed by a consulting company, Korn/Ferry International.

The Supervisory Board of PKN ORLEN S.A. have accepted resignations of:

- Krzysztof Kluzek from the position of the Member of the Management Board of PKN ORLEN S.A. effective on 18 October 2004,
- Sławomir Golonka and Jacek Strzelecki from the position of Vice-President of the Management Board of PKN ORLEN S.A. effective on 31 October 2004.

Simultaneously the Supervisory Board of PKN ORLEN S.A. appointed to the Management Board for the current term:

- Wojciech Heydel as the Vice-President of the Management Board effective on 1 Novemebr 2004,
- Jana Maciejewicz as the Vice-President of the Management Board effective on 1 December 2004,
- Cezary Smorszczewski as the Vice-President of the Management Board effective on 1 November 2004,
- Pawel Szymanski as the Member of the Management Board effective on 18 October 2004.

As at 2 November 2004 new division of competition among Members of the Management Board was introduced:

- President of the Management Board, General Director (CEO),
- Member of the Management Board, Chief Financial Officer (CFO),
- Vice-President of the Management Board for Human Resources Management and Administration (CHO),
- Vice-President of the Management Board for Operational Activities (COO),
- Vice-President of the Management Board for Retail Sales (CMO),
- Vice-President of the Management Board for Capital Investments and Capital Group (CIO).

In the result of the new competence division Strategy Department (previously within structure subordinated to the Vice-President of the Management Board for Strategy and Capital Investments) and Oil Crude Trading Department (previously within structure subordinated to the Vice-President of the Management Board for Economics and Finance) were moved to area of the President of the Management Board, General Director. IT Department (previously within structure subordinated to the Vice-President of the Management Board for Finances) was moved to the structure of the Vice-President of the Management Board for Human Resources Management and Administration.

Within the structure of Vice-President of the Management Board for Capital Investments and Capital Group, the Department of Director for Production Alliances and Alternative Sources of Energy and its functions were transferred to the structures of Director for Property Investments. Additionally, within the structure, Director for Capital Group was appointed.

As the result of new division, the range of responsibilities for the area of the Vice-President of the Management Board for Capital Investments and Capital Group was also defined; this area includes, among others,

conducting acquisition and merger transactions, encorporating and creating new entities within the Capital Group, preparing and conducting capital investments and disinvestments within the Group, coordinating process of the Group capital assets unification and exercising ownership supervision over the Capital Group companies.

Additionally, until the new rules of segment management is implemented in the Capital Group, the Members of the Management Board and Reporting Directors coordinate actions in this area using legal and formal supervision over the Capital Group companies. In relation to that ranges of particular Directors' responsibilities were spread on the whole Group (defined as PKN ORLEN S.A. and the Capital Group Companies). At the same time, all Reporting Directors in cooperation with the area of the Vice-President of the Management Board for Capital Investments and Capital Group were to bear responsibility for the process of unification of capital assets in relation to their areas and for the realization of the synergy effects associated with it.

As at 1 December 2004 new organizational area of Vice-President for Cost Management and IT (CCO) was introduced. IT Department, Crude Oil Trading Department and newly created Purchase Department and Cost Management Department belong to this area. The departments of the newly created area supervise realization of the raw material supply of the Company (with exclusion of energy, fuels for resale, and non-fuel products), they are responsible for turnover of natural gas, purchases of fuel raw materials, cost management, optimization of IT solutions and IT standards implementations, and for activities within sector of crude oil and natural gas searching and mining.

As the result of implemented changes, the following departments were also created: Director of Legal Department for Legal Systems within area of the President of the Management Board, General Director: Director of Department for Systems of Human Resources Management within the area of the Vice-President of the Management Board for Human Resources Management and Administration: Director of Department for Planning and Retail Sales Analysis, Director of Department for Purchase of Non-Fuel Products and Category's Management in the area of the Vice-President of the Management Board for Retail Sales. Department of Director for Optimizing Production Assets was liquidated and its functions were transferred to the area of Director of Production and Technique and Purchase Department.

Apart from the above changes implemented during 2004 in organisational and legal area of the Company, both external factors as well as internal activities taken to ensure high economic efficiency, have significant impact on the Company operations.

The most important external factors influencing PKN ORLEN S.A results are the following:

- Economic growth

Data published by the Central Statistics Office indicate the improvement of unfavourable trend observed since II half of 2000. In 2004 gross domestic product ("GDP") increased by 5.4% while in 2003 by 3.8%. Increase in GDP was mainly influenced by increase in domestic demand in 2004 by 4.9% while in 2003 it was 2.5%. For the year

2005 increase in GDP by 5% is forecasted. Rapid pace of the economic growth in Poland may have positive impact on growth of the consumption of liquid fuels.

- Unemployment rate

At the end of 2004 the unemployment rate was lower comparing to the end of 2003and amounted for 20.0% comparing to 19.1% at the end of 2003. There was a lower number of new registered unemployed and at the same time there was an increase in number of unemployed deregistered from the employment agency evidence. High unemployment rate in Poland is one of the factors, which limits internal demand and adversely influences the level of sales of the Company's products.

- Inflation

According to data published by the Central Statistics Office, the average annual increase in prices of consumer goods and services in 2004 was higher than in 2003 (3.5% as comparing to 0.8%).

- Prices of crude oil, refinery products and margins

Changes in crude oil prices as well as significant fluctuations in finished goods prices on world markets, cause significant variations in margins generated by the Company. During 2004 there were large fluctuations in crude oil prices. The average annual price of Brent barrel from quotations increased in comparison to 2003 by 32.7% to the level of 38.29 USD/bbl. Additionally, during 2004 there were strong increases in product margins (crack), which positively influenced the results of the Company. Margins on petrol increased by 41.5% to the level of 114.06 USD/tonne, on diesel by 66.1% to the level of 102.76 USD/tonne and on Ekoterm by 62.4% to the level of 68.34 USD/tonne. As the refinery margins are concerned there were significant increases noted on, among others, ethylene by 39.6% to the level of 516.10 USD/tonne and on propylene by 35.0% to 427.10 USD/tonne.

- Fluctuation of foreign exchange rates

The exchange rate fluctuations have significant impact on sales revenue and results of the Company (by means of adjusting the fuel prices on the basis of import parity), costs of crude oil and other raw materials as well as financial costs related to debt denominated in foreign currencies. Purchases of crude oil and other raw materials realised by the Company are denominated in USD and EUR, although the majority of revenues are realized in PLN. As a result of the above trend, changes in the exchange rate of PLN to foreign currencies have a significant impact on the results achieved by the Company. The average annual year exchange rate of USD decreased by 6.2% to the level of PLN 3.65 (calculated as arithmetical average of daily NBP exchange rates within period from 1 January to 31 December 2004). Simultaneously, the EUR exchange rate increased by 3.8% to the level of 4.53 PLN

- Changes in fiscal policy and current law regulations

Corporate Income Tax rate in 2004 amounted to 19%. In 2003 Corporate Income Tax rate of 27% was in force. Lower level of tax rate will positively influence net results of the Company and the amount of cash. Any changes in VAT regulations and excise tax will also be of great importance for the economic situation of the Company. Fiscal policy is characterized by enlarging its subject range and increasing of excise tax rates for crude oil products. While prices of products are on high level, it is additional barrier preventing form full transfer of operational costs on products selling prices.

- Mandatory reserves

Owing to obligations, resulting from membership in European Union, Poland is compelled to reach the level of 90-days mandatory reserves of liquid fuels, constituting the assurance of the energetic safety for the country. Thus, the producers and importers of fuels are obliged to create the mandatory reserves. The current schedule of creation the reserves of liquid fuels is specified in the Decree of the Ministry of Economy dated on 14 June 2002, in force on 1 July 2002. The reserves are created on basis of production and import quantities, generated by the specific company in the previous year, less export. Starting from 1999 and each of the following years the level of mandatory reserves required has been increased by further 2% to reach the level of 76 days of production or imports of the entity as at the end of 2008. Moreover the Ministry of Economy is responsible for setting of economic fuel reserves: for liquid fuel in quantity equal to 14 fuel consumption days in the current year, this responsibility can be transferred to PKN ORLEN S.A. The Company builds and maintains mandatory reserves of fuels (petrol, diesel, Ekoterm) and crude oil. In 2004 the Company received the consent from The Ministry of Economic Affairs And Labour for changing structure of the mandatory reserves: from hitherto in force 40% fuels – 60% crude oil to 37.5% fuels – 62.5% crude oil. For storing mandatory reserves the Company takes advantage of the Underground Warehouses for Crude Oil and Fuels of IKS "Solino" S.A., own warehouses located around the country, and warehouses belonging to Naftobazy Sp. z o.o. The cost of storing underground warehouses for crude oil and fuels are at the level definitely lower than the cost of ground warehouses.

- Decrease in car sales

During the year ended 31 December 2004 lower demand on domestic car market was observed. According to companies analysing motor market, car sales in 2004 decreased by about 10.0% to the level of over 318 thousand cars. The level of sales of new cars influences fuel consumption.

- Domestic fuel consumption

In 2004 estimated domestic fuel consumption (fuel, diesel oil and light heating oil) based on data from Nafta Polska S.A. amounted to 13,524 thousand tons, which constituted an increase by 7% compared with consumption observed in 2003.

- Interest rates

Higher than in 2004 inflation pressure was favourable for increase of base interest rates. At the end of 2004 Lombard Rate reached the level of 8.00% whereas Discount Rate – 7.00% (at the end of 2003 respectively 6.75% and 5.75%). The average LIBOR 3M rate increased 0.4 pp in comparison to the year 2003, whereas the average EURIBOR 3M rate decreased by 0.2 pp in comparison to 2003. The level of interest rates influences cost of the Company's debt.

The following internal factors influenced the results achieved by PKN ORLEN S.A. in 2004:

- Loyalty programs development

VITAY programme is a loyalty scheme aimed at individual clients visiting ORLEN filling stations on a regular basis. VITAY was launched on 14 February 2001. Until 31 December 2004 VITAY had gained over 5 million of participants. Clients, while purchasing in accordance with the programme conditions, are granted VITAY points, which can be converted later into petrol or VITAY prizes. In December 2002 the next stage of creating relationships with customers and encouraging their loyalty was implemented. In December 2004 the VITAY programme was expanded by additional attractive prizes and offers from partner companies cooperating with the PKN ORLEN S.A. In the new edition of VITAY catalogue a new formula of calculating points was applied in order to promote services offered by filling stations (e.g. a car wash and a hoover).

Flota Polska Programme is designed for institutional clients operating their own means of transportation. Shipping companies, production and service companies, banks, offices of central and local administration and foreign branch offices belong to the programme members. We offer two kinds of flota cards for our clients: K-type cards, issued in driver's name and S-type cards issued for a specific vehicle registration number. Each card can be loaded with individual limit for fuel volume as well as products and services value and frequency of transactions. Additionally, flota managers can visit a personalized web-page, on which tools for assisting flota management are provided.

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

As at the end of 2004 there were 3,919 participating enterprises and the number of active cards amounted to 90,000.

Prepaid cards are offered to institutional clients as a method for rewarding employees and clients. Till the end of 2004 about 40,000 cards of this type were issued.

- Investment program

The increase of the Company effectiveness during the year 2004 was to a great extent influenced by investment processes in production and marketing.

The most important investment projects already finished or being still in progress are as follows:

- Desulphurization of Cracking Fuel – the main aim is to enable launch of petrol production according to the European Union requirements - Directive 98/70/EC. This Directive imposes obligation on fuel producers to sell, starting from 2005, fuels with the content of sulphur up to 50 ppm with availability on the market of fuels with the content of sulphur of 10 ppm, and after 2009 the whole range of fuel with the content of sulphur of 10 ppm.
- Hydrorefining of diesel from Hydrodesulfurization of Gudron (HOG) - aim to optimize the utilization of diesel from HOG and as a result to improve the diesel production by 320 thousand tonnes annually.
- Modernization of Fragrances Extraction Installation – aim to optimize the production of fragrances such as benzene, toluene and xylene.
- Modernization and building of new petrol and diesel fuel tanks – aim to increase storage capacity and at the same time adoption of tanks complex to the legal requirements and extending product line.
- Intensification of the installation Olefin II from 360 to 700 thousand tonnes of ethylene and at the same time an increase of the production of prophylene from 135 to 380 thousand tons according to the contract signed with the company ABB Lummus. It will enable a significant increase in the supply of ethylene, prophylene and butadiene constituting the main raw material for the domestic chemical industry.
- Investments in own and patronage petrol stations network.

In 2005 the following projects are expected to be completed:

- Investments related to polyolefins within Joint Venture Company with Basell,
- Construction of Desulphurisation Installation of Craking Fuel,
- Intensification of Fragrances Extraction Installation,
- Further stages of investment in IT systems of the Company,
- Modernization of storage bases,
- Investments in petrol stations network,
- Construction of new fuel tanks on the Production Plant premises.

- Optimisation of logistics of own products

At the end of the year 2004 there were 20 storage bases in the organizational structures of PKN ORLEN S.A.

The targeted network of storage bases used by PKN ORLEN S.A. assumes the amount of 13 own bases, taking into account such criteria as:

- usage of bases of the greatest flow capacity and the best locations;

- the level of incurred and future expenditures for modernization;
- usage of the most operationally and financially effective external bases;
- requirements of the European Union and in the area of environment protection.

The activities aiming at restructuring employment were carried out in own bases.

The processes of modernization and extension were finished in the bases in Ostrow Wielkopolski and Mosciska. At present, those bases meet all the requirements determined by the EU obligations. Modernization works were continued in 7 other bases in order to adapt them to EU requirements.

PKN ORLEN S.A. cooperates with Naftobazy Sp. z o.o. in the area of trade and store mandatory reserves. The cooperation is realized in the area of storage and reloading in 5 bases of Naftobazy, at the end of pipelines. In 2004 PKN ORLEN S.A. used 6 out of 22 bases belonging to Naftobazy. The validity of the perennial agreement with Naftobazy was extended by a year – till the end of 2005.

PKN ORLEN S.A. uses own pipelines and the network of the pipelines of PERN "Przyjazn" S.A. for transporting fuels. In line with the implemented strategy of the Company assuming building own pipeline system of distributing fuels in the region of Dolny Slask and integrating Storage Base No 111 in Wroclaw with the system, preliminary works were launched to build the fuel pipeline on the distance of 94 kilometres Ostrow Wielkopolski - Olesnica - Wroclaw. As pipeline transport is the safest and cheapest way of transporting fuels, PKN ORLEN S.A. aims at intensification of usage of the potential of far-reaching pipelines. The share of the mention transport in the structure of the fuel distribution exceeded the level of 60% in 2004. At the same time the share of own transports in the total volume of refining and petrochemical products increased nearly 3 times from 4% in 2003 to 11% in 2004. Five new transport connections were activated.

- Optimisation projects

Implemented in cooperation with KBC company Profit Increase Program (PIP) brings measurable effects in reduction of cost crude processing per barrel. The programme consists of modification of technological procedures. Measurable effects in reducing costs are also brought by improvement in the operating of program PIMS, which is used to optimize production processes.

Cooperation with Shell Global Solutions company will result in decrease of maintenance costs and optimisation of installations' production time. The implemented in the initial phase of the program Risk Matrix enabled to harmonize in the whole Production Plant all aspects connected with overhauling in the context of necessity and urgency of maintenance works. There were computer supported analyses in the area of improving reliability carried out for all the production installations (apart from those destined for modernization in the nearest future). Within those analyses detailed programs concerning maintenance and diagnostic activities were worked out in order to secure proper balancing of costs incurred for maintenance and technical reliability of the production assets. Similar analyses were carried out on chosen installations with special attention paid to automatic security device. The level imposed securities and the frequency of testing particular elements of the system was verified. Another group of

practical analysis carried out based on risk management methodology was used in case of pipelines and pressure device. The alternative periods of time and inspection methods were worked out. The system of explanation and protection against repeating events was prepared for error incidents.

The efficiency of solutions undertaken under the cooperation with Shell Global Solutions in the area of improving production installations and the extent of assimilation of new practices in our organization will be assessed in detail after closing the program which is scheduled for June this year.

- Solomon Studium

PKN ORLEN S.A. participates for the first time in Solomon Benchmarking in the area of refining (fuel) industry. The contract was signed on 16 December 2004. Solomon studium has been carried out for more than 20 years and about 95% of the world refineries participate in this program. The participation in the studium in the year 2004 will give information concerning refineries' performances in comparison to the competition in the particular region. The results of the Solomon studium enable to determine optimization trends in long term plans of the Company's activities. The results of analysis became widely acceptable and followed benchmarks of "tracking and assessing" of refinery's activities. The range of examination involves the whole spectrum of the refinery's activities, including technological data (processes, gains and quality of products), operating costs (among other costs of energy, employment, maintenance) and other important aspects such as reliability, operational readiness and capital expenditures. The Solomon report with the results will be available in 2005.

- Risk Management System

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

In case of the exposition USD/PLN there is a natural hedging, it means the exchange rate risk by purchasing crude oil is compensated by the revenues from the sales of products, which prices depend on the USD/PLN exchange rate. Moreover, swap transactions concluded in the year 2003 stabilizing cash flows in EUR generated by sales of petrochemical products were realized in the year 2004. Maturity date of the mentioned hedging transactions is 2006.

The Company initiated in the first quarter of 2004 the implementation of market risk management and decided to implement system supporting the management of hedge transactions. In order to formalize the risk management process relevant procedures were implemented and the Risk Committee was set up to control the Company's exposure to risk and to take decisions on concluding hedging transactions.

- Consolidation of oil production and distribution

On 1 July 2004 the Company signed an agreement on disposal of property constituting a self-operating unit functioning in the structure of PKN ORLEN S.A. as the Lubricant Department. The purchaser of the mentioned property is ORLEN Oil Sp. z o.o., located in Krakow. The above deal represents a further step in the restructuring process carried out by PKN ORLEN S.A. The project's aim is to consolidate the production and sale of engine oils and lubricants in the PKN ORLEN Capital Group. It is also a further stage in the process of integrating the production of oil bases and the production and sale of finished products such as engine oils and lubricants. On 18 August 2004 the share capital of ORLEN Oil at the value of PLN 43,558 thousand was increased by PLN 31,535 thousand, i.e. to the amount of PLN 75,093 thousand. Stakes in the increased capital were covered by PKN ORLEN S.A. in the form of cash contribution.

After the increase of the share capital of ORLEN Oil, the stake of PKN ORLEN S.A. in the capital increased from 9% to 47.2%. The remaining stakes are possessed by Rafineria Trzebiania S.A. (43.8%), Rafineria Nafty Jedlicze S.A. (4.5%), Rafineria Czechowice S.A. (4.5%). The aim of capital increase is to gain financial resources for financing acquisition of property incorporated in Lubricant Department of PKN ORLEN S.A. The undertaken steps aim to realize a strategy of consolidation lubricant assets of PKN ORLEN S.A. around ORLEN Oil in order to create a uniform centre managing oil segment in PKN ORLEN S.A.

- Implementation of efficiency plans

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

I. CURRENT AND PROJECTED FINANCIAL POSITION OF THE COMPANY

1.1 Production

The volume of crude oil processed in 2004 amounted to 12,194 thousand ton and was higher by 4% in comparison to previous year.

The most important factors determining production activity of the Company in 2004 were:

- In February an agreement with UHDE Edeleanu was signed, which is a contractor for technical project - installation of Desulphurisation of Cracking Fuel. Launching of installation is planned at the turn of 2005 / 2006;
- Prospects of introduction in Poland restricted norms for motor fuel, binding from 1 January 2005 in EU, has caused necessity of production of high quality new fuels and diesel oils already in 2004;
- In June a production of City Diesel Oil was launched, with content of sulphur amounting to 10mg/kg – ONM Super, which will successively substitute for ONM Standard 25;
- In August a production of new fuels began: unleaded 95 and unleaded 98 with content of sulphur amounting to 50mg/kg and 35% of aromatics (volume);
- Since August the Company has produced, apart from basic diesel oil, Ekodiesel Ultra with content of sulphur amounting to 10 ppm, which meets the most strict qualitative and ecological requirements for high-pressure fuels in EU countries;
- Implemented initiatives under Comprehensive Operational Cost Cutting Programme resulted in improvement of effectiveness in production exceeding PLN 200 million;
- In July an initiative of Profit Improvement Programme – PIP was implemented (realized in cooperation with KBC in years 1999-2002) concerning directing of slop wax as additional raw material from HOG installation to Catalytic Cracking 2 installation. The effect planned for 2005 in relation to the usage of the implemented solution amounts to PLN 40 million;
- Production of new kind of heating oil Ekoterm Plus with content of sulphur below 0.1%(m/m) was started in the beginning of October 2004. The product was lunched significantly in advance in relation to EU requirements which order implementation of this product just in 2008. This oil is a product with enhanced usage and ecological characteristics in the quality class specific for modern heating equipment with low emission as used in Europe;
- In August a production of new type of fuel for air-plane's turbine engines (code name: MPS F-34) was lunched. It was developed by Military Research & Development Centre as a consequence of adoption process to NATO standards (special anti-corrosion and lubricating supplement was added to JET A-1);
- On 1 July Oil Base Division was moved into ORLEN Oil as a consequence of the restructuring programme in PKN ORLEN;

– In January 2005 PKN ORLEN signed an agreement with AXENS was signed (base project, licence and catalyst delivery) on diesel oil stabilization centre from HOG installation. Project is planned to be accomplished in the end of 2007.

1.2 Sales

In 2004 PKN ORLEN sales of products, goods for resale and materials amounted to PLN 28,996,289 thousand (including wholesale in the amount of PLN 20,609,413 thousand, retail sale in the amount of PLN 8,386,876 thousand), which accounts for 117.7% of 2003 sales revenues. Revenues from the sales of finished products amounted to PLN 26,941,670 thousand and were higher by 17.5% compared to 2003, while the revenues from the sales of goods for resale and materials reached the level of PLN 2,054,619 thousand, i.e. 20.9% more than in 2003.

In 2004 PKN ORLEN sold in its retail and wholesale chain 11,354.8 thousand tonnes of finished products and goods for resale – 4.5% more than in 2003.

The biggest quantity volume and share in sales (both retail and wholesale) of products and goods for resale had:

- Diesel – 3,424.7 thousand tonnes (30.2% share) – increase in share by 0.3 pp in comparison to previous year realization
- Petrol – 2,863.9 thousand tonnes (25.2%) – decrease in share by 1.1 pp comparing to 2003
    - Eurosuper 95 – 2,356.4 thousand tonnes (20.75%) – decrease of 0.6 pp
    - Super Plus 98 – 193.1 thousand tonnes (1.7%) – increase of 0.1 pp
    - Universal 95 – 314.5 thousand tonnes (2.8%) – decrease of 0.6 pp
- Light heating oil – 1,702.4 thousand tonnes (15%) – increase of 0.8 pp
- Heating oil III – 718,9 thousand tonnes (6.3%) – decrease of 0.1 pp
- Aircraft fuel JET - 345,3 thousand tonnes (3.0%) – increase of 0.3 pp
- Liquid gas (LPG) – 316 thousand tonnes (2.8%)

In 2004 sales of refinery products increased by 5.0% in comparison to 2003 (including: increase of 4.9% in light products):

– an increase in sales was observed, among others, in:
    – Diesel oil (by 5.4%) – as a consequence of increasing sales in wholesale and retail chain. Wholesales of diesel oil increased by 7.3% due to larger purchases of: foreign concerns, chains of associated and franchised petrol stations (adequately: 38%, 36% and 257%), as well as a 48% increase in export sales. A diminutive increase (1.4%) of retail sales is caused by growing customer interest in diesel cars and realization of fuel coupons by farmers in first half of 2004;
    – Ekoterm (by 10.6%) – due to a favourable discount system for ADOO (increase of 19.6%), introduced

since April 2004, growing demand, lower supply on the market of RGTerm of LOTOS S.A. in last 2 months and dynamic media campaign focused on Ekoterm quality;

- Aircraft fuel (by 17.4%) - mainly as a result of sales increase to the exporters (increase by 60.4 thousand tonnes, i.e. by 163.4%) - though the sales on the domestic market slightly decreased (by 3.5%) due to the lower demand from the army;
- Liquid gas (by 4.3%) due to increase of retail sales (by 28.5%). As the internal demand grew, the wholesale segment declined by 6%.

The rise in the domestic wholesale results from higher demand from foreign companies (by 36%) and development of local distribution channels:

- associated petrol stations – increase by 30% - the programme for associated petrol stations was popular with clients, the number of stations (at the end of 2004 331 the abovementioned fuel stations – rise by 88 such stations compared to the quantity at end of 2003);
- franchised petrol stations – the turnover increased by 160% which is the effect of among others modernization of petrol stations and rise in the number of stations (by 39).

As sales of petrochemical products are concerned, insignificant decrease (by 0.6%) was recorded as compared to 2003. In 2004 the following were noted:

- decrease in sales of, among others, paraxylene due to lower demand on the domestic market; ethylene and ortoxylene due to lower exports. The amount of petrochemical products to be exported is determined after ensuring that the domestic demand is satisfied. Possible change in the amount of products to be exported may result from different demand in the Polish market and the more favourable prices to be attained for foreign transactions;
- increase in sales of among others ethylene and glycols - as a result of higher demand from domestic client; propylene due to higher supply of products.

Apart from that, the sale of plastic was ceased as the process of transferring PE and PP production to Basell ORLEN Polyolefins Sp. z o.o. was concluded.

In 2004 PKN ORLEN sold 2,706.5 million liters of fuels (petrol, diesel, and liquid gas) on its own stations, which is a 1.5% decrease in volume of sale as compared to 2003.

Retail sale volume of fuels in 2004 amounted to:

- Petrol – 1,468.7 million liters,
- Diesel – 1,029.4 million liters,
- Liquid gas – 208.4 million liters.

The dynamics of 2004 particular fuel and liquid gas products sales in comparison to 2003 is presented below:

Products and goods for resale	Dynamics 2004 / 2003
Unleaded petrol, including:	93.5 %
Eurosuper 95	98.1 %
Super Plus 98	98.1 %
Universal 95	92.0 %
Diesel	101.4 %
Liquid gas	128.5 %

- Average sale per petrol station in 2004 amounted to 2.1 million litres, which is a 0.9% drop compared to 2003.
- In 2004 the share of diesel and liquid gas in the volume of sold fuel rose, which is in line with current developments on the retail market in Poland. Simultaneously, due to maintenance costs more and more customers buy liquid gas for cars. As a result of the preferences mentioned above, the share of diesel in total sales rose from 37% in 2003 to 38% in 2004, liquid gas share rose respectively from 6% to 8%. Higher sales of gas was also influenced by the increase in gas modules on stations by 25% (390 at the end of 2004 as compared to 312 in previous year).
- Petrol share in total retail sales declined from 57 % in 2003 to 54% in 2004, including the following:
  - Universal U 95 petrol share decreased from 9 % to 7%,
  - Eurosuper EU 95 petrol share remained at the level of 43%,
  - Super Plus 98 petrol share decreased from 5 % do 4 %.

In 2004 total profit margin generated by PKN ORLEN S.A on own petrol stations amounted PLN 1,037 million, i.e. at a comparable level as in 2003. The profit margin on fuel retail sales totaled PLN 820 million and decreased by 1.9 % compared to the prior year. The profit margin on non-fuel products and services grew by 3.1 % as compared to the prior year and amounted to PLN 217 million.

Decrease in retail sales of petrol in PKN ORLEN S.A. was influenced mainly by following factors:

- a number of new petrol stations of PKN ORLEN S.A lower than planed, resulting from the lack of realization of the investment programme;
- dynamic development of the competition's stations during the whole year, including close-to-supermarket stations offering fuel at lower prices;
- high retail prices of petrol in different periods of 2004, which constraints the demand for fuel among customers at lower level of wealth;
- significant differences between prices of petrol and liquid gas;

- bad locations and a small range of services (for instance the lack of a car wash);
- aggressive advertising and promoting campaigns at the stations of competition and introduction by the company Shell sales of a new petrol Suprema and V-power in the network of Shell;
- lack of increase of sales efficiency resulting from lack of realization of the restructuring program in the network.

1.3 Sales and supply markets

Entire crude oil bought by PKN ORLEN is provided to Plock from Russia, additionally 1 million barrels of low-sulphur crude-oil was purchased due to repair downtime of the Refinery in Plock. Companies operating on Russian oil markets and the traders operating on the international fuel market are the Company's suppliers. The only supplier whose share in supplies exceeded 10% of sales revenues in 2004 was J&S.

There was a slight change in the sales structure in 2004 as compared to 2003. The volume share of exports in total sales grew from 6% to 7%.

PKN ORLEN is not dependent on one strategic customer whose share would exceed 10% of total net sales revenues. BP with 8.5% belongs to the customers with the highest share in sales volume. Other key customers of PKN ORLEN S.A. are: SHELL, ORLEN PetroCentrum Sp. z o.o, ORLENPetroTank Sp. z o.o, and BASELL ORLEN POLYOLEFINS Sp. z o.o., joined by CONOCO (in connection with the supply agreement concluded in April 2004), with a 2% share in 2004 sales.

Key accounts are often present in group of oil derived products and petrochemicals, however value of sales to these customers is insignificant as far as total sales is concerned. The following products are dependent on key accounts:

- Liquid gas – ORLEN GAZ – 99.2 % share in wholesales,
- JET Fuel– PETROLOT – 62.7%,
- Post - pirolitycal oil– WARTER – 81.1%,
- Butadiene – F.Ch. Dwory – 91.4%,
- Vacuum gas oil – ORLEN Asfalt Sp. z o.o. –100%,
- Ortoxylene – Z.A. Kedzierzyn – 61.6%,
- Paraxylene – Elana Torun – 94.4%,
- Ethylene oxide– Rokita – 59.3%,
- Ethylene – Anwil S.A. – 44.2%, BASELL ORLEN POLYOLEFINS Sp. z o.o. – 53.5%,
- Benzene – Z.A. Pulawy – 64.4%,
- Propylene - BASELL ORLEN POLYOLEFINS Sp. z o.o. – 65.2%,
- Glycols – Elana Torun – 41.3%.

1.4 Financial resources management

During the year 2004 net financial indebtedness of the Company decreased significantly to achieve a negative value at the end of the year 2004 (the Company managed the gathered surplus of cash and cash equivalents in a safe and efficient way, allocating it for the purchase of UNIPETROL).

The structure of the financial liabilities, taking into account their dates of maturity as well as currencies, in which indebtedness is denominated, is considered positive by external financial institutions.

Loan structure in the Company:	31 December 2003	31 December 2004
Long term	71%	100%
Short term	29%	0%
in USD	43%	50%
in EUR	35%	50%
in zlotys (PLN)	22%	0%

In 2004 the Company used terminable part of the syndicated loan of the long term type obtained from the foreign market and to a small extent it benefited from short term credits, both operational and loans on current accounts, provided by domestic banks, issued short term debt securities within the security issuance program. Revolving part of the syndicated loan was available for use.

The Company pays a great attention to the efficient cash-flows management within its accounts. Since February 2001 a system of financial resources concentration for the whole Capital Group has been in operation. At the end of December 2004 there were 13 companies of the Capital Group active in the system, whereas the whole Capital Group achieves measurable financial gains from optimization of its financial costs and its current liquidity.

Taking into account the possibility of limiting bank charges and improvement of organization of bank services provided hitherto and, in the sequence, including companies within the Capital Group to the same bank service and centralisation of financial resources management, the Company performed reorganisation of its cooperation with banks. Five banks with the highest credibility and equity were chosen for complex service providers; the banks have great experience in managing cash on Polish and foreign markets. The integration and improvement of bank service conditions for particular companies from the Group will be the next step of reorganization.

Detailed information on maturity dates of credits, loans and debt securities issued by the Company are presented in notes 19D, 20C and 20D to PKN ORLEN S.A. financial statements for the year 2004 ("amended financial statements").

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

By the resolution of an Extraordinary General Meeting of PKN ORLEN S.A. dated on 8 Aprli 2004 changes to the "Regulation of Privatisation Fund Usage" were introduced; a number of companies entitled to use the fund increased by adding companies established as the result of restructuring process in PKN ORLEN S.A., which will take part in the project related to Technology - Industrial Park in Plock. It became also possible to use resources form the Privatisation Fund in the form of loans granted for purchase of shares for management buyouts. Possibility of obtaining resources in this way will enable the process of disinvestment decreasing social unrest among the companies' employees.

After obtaining the necessary opinions, including trade unions' opinions, new regulation no. 33/GD/2004 entered into force on 9 August 2004. This regulation concerns borrowings granted from Privatisation Fund of Polski Koncern Naftowy ORLEN S.A., which describes procedures of granting the borrowings in details.

In connection with lack of borrowings repayment in 2004 the following transfer of equity shares to PKN ORLEN S.A. took place: ORLEN Transport Kedzierzyn Kozle Sp. z o.o. – 6 shares, ORLEN Transport Nowa Sol Sp. z o.o. – 15 shares, ORLEN Transport Plock Sp. z o.o. – 1 share, ORLEN Transport Krakow Sp. z o.o. – 125 shares, ORLEN Transport Slupsk Sp. z o.o. - 15 shares, ORLEN Transport Olsztyn Sp. z o.o. - 111 shares. Transfer of the above listed shares took place for the total amount of PLN 37,423.06. The closing balance of indebtedness at the end of 2004 included interests amounts to PLN 973,797.02.

Closing balance of borrowings granted from the Company's Social Fund to employees and pensioners of the Company as at 31 December 2004 amounted to PLN 14,433 thousand, whereas closing balance of borrowings granted to the employees of consolidated companies from the Capital Group, which signed an agreement with PKN ORLEN S.A. on having a common social activity, amounted to PLN 5,742 thousand.

As at 31 December 2004 off-balance sheet liabilities of the Company due to sureties, guarantees and other form of the security of liabilities of other entities amounted to PLN 1,218,562 thousand, including:

subsidiaries on benefit of which guarantee and sureties were granted	in PLN (in thousand)	in the currency of the surety (in thousand)	Maturity date
ORLEN PetroTank Sp. z o.o. Widelka	43,867	43,867 PLN	2008-07-02
Rafineria Nafty Jedlicze S.A.	20,000	20,000 PLN	2006-12-20
ORLEN Transport Kedzierzyn-Kozle Sp. z o.o.	122	30 EUR	2006-03-31
ORLEN Deutschland AG	119,616	40,000 USD	2005-01-31
ORLEN Deutschland AG	428,295	105,000 EUR	2005-01-31
TOTAL	611,900	-	-

Joint-ventures on benefit of which guarantee and sureties, pledge on shares were granted	in PLN (in thousand)	in the currency of the surety (in thousand)	Maturity date
Basell Orlen Polyolefins Sp. z o.o.	152, 963	37, 500 EUR	2005-01-11
TOTAL	152, 963	-	-

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

Moreover the Company pledged a register in respect of the possessed shares in BASELL ORLEN POLYOLEFINS Sp. z o.o. for the record value of PLN 453,699 in order to secure financial liabilities of this entity.

1.4.2 Bond issuance

Bonds issuance is a flexible and effective instrument of gathering financial funds used for payment of current liabilities and repayment of matured securities. Issue is made in form of public auction, in which Bank Handlowy w Warszawie, Bank Pekao S.A. and BRE Bank S.A. participate. A bank which offers the most favourable profitability of issued securities conducts the issuance.

During 2004 the Company was issuing three month bills. On maturity date bills were repurchased or, if cash was needed, they were rolled (new issue) prolonging the period of financing.

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

As at 31 December 2004 there was no indebtedness of the Company from bond issuance.

1.4.3 Cash management

Financial situation of the Company remains stable and safe. PKN ORLEN S.A. has high creditability, which enables it to receive quick and relatively inexpensive external financing. The further syndicate long-term loan agreement signed yet in 2003 in the amount of EUR 500 million made the structure of liabilities stable and on the other hand reduced demand for loans from domestic banks. Thanks to that the bank limits are improved and may be used by the companies of the Capital Group and by the Company again. Simultaneously, the continuation of the bonds issuance program enables the Company to gather financing which is less expensive than that from banking sources.

In connection with free cash and cash equivalents owned in 2004, there were short-term investments made over the year 2004. Free cash and cash equivalents were mainly invested in treasury bonds and treasury bills. Taking into account the guarantee of money resources for the purchase of UNIPETROL all of the investment transactions were short-term and were concluded in the form of Buy-Sell-Backs. As at 31 December 2004 PKN ORLEN S.A. possessed securities worth PLN 1,010,985.60 thousand.

1.5 Changes in financial assets of PKN ORLEN S.A.

As at 31 December 2004 PKN ORLEN S.A possessed directly shares in 80 companies, including:

- 47 subsidiaries (with above 50% share),
- 2 joint venture (with 50% share),
- 4 associated companies (with share between 20% and 50%),
- 27 other minority companies (with below 20% share).

Capital involvement of PKN ORLEN at the end of 2004 decreased by PLN 128,825 thousand in comparison to the end of December 2003 and amounted to PLN 2,108,666 thousand.

Significant changes in organisational and capital relations in the Capital Group PKN ORLEN during 2004 till the moment of the preparation of the financial statements are as follows:

- On 7 January 2004 PKN ORLEN and ConocoPhillips Central and Eastern Europe Holdings B.V. located in Rotterdam, the Netherlands ("ConocoPhillips") concluded the Agreement concerning the intention to co-operate in the process of privatization of UNIPETROL a.s., a company operating in the Czech oil sector ("UNIPETROL"). The agreement determines preliminary terms of the cooperation of the parties, outlines the proposed ultimate shareholding of the parties in some of the companies of UNIPETROL Group and the potential terms of the acquisition by the parties of some assets of UNIPETROL Group, in the case of the PKN ORLEN successful participation in the UNIPETROL privatisation. On 12 January, 2004 in response to the announcement from 3 November 2003 published by Czech National Property Fund ("NPF") the PKN ORLEN submitted an indicative offer and on 23 April 2004 an offer (the "Offer") for the acquisition of 62.99% of the share capital of UNIPETROL a.s., a company operating in the Czech oil sector, and of the purchase of receivables of state agency Ceska Konsolidacni Agentura ("CKA") from certain entities directly or indirectly owned by UNIPETROL, as well as for purchase of 9,76% of Spolana a.s. share capital currently held by CKA (the "CKA Assets"). PKN ORLEN agreed to pay CZK 11.3 billion for the 62.99 stake in UNIPETROL, CZK 1.0 million for CKA's 9.76% stake in Spolana and approx. CZK 1.7 billion for CKA's receivables with a total nominal value of approximately CZK 3.1 billion and EUR 9.5 million, and USD 4.9 million as at 1 April 2004. On 4 June 2004 PKN ORLEN entered into an agreement with NPF to acquire, subject to appropriate regulatory approvals, 114,224,038 bearer

shares of UNIPETROL, each having the nominal value of CZK 100, representing approximately 62.99% of all issued and outstanding shares of UNIPETROL. PKN ORLEN has also reached agreements with CKA to acquire 745,000 bearer shares of Spolana, each having a nominal value of CZK 655 which represents 9.76% of the share capital of Spolana, a UNIPETROL's producing subsidiary, and receivables from some of the companies of the UNIPETROL Group (the "Framework Agreement"). Pursuant to the Resolution of the Government of Czech Republic No. 415, dated on 28 April 2004, the Czech Government authorized sales of Unipetrol and Spolana shares and receivables mentioned above. In 2003 UNIPETROL presented in its audited financial statement a consolidated profit in the amount of CZK 87.7 million, while the consolidated revenues amounted to CZK 67.9 billion. The agreement assumes an adjustment by the value of shares of the company UNIPETROL, as it would include all unexpected changes in the value of UNIPETROL during the period till the transaction is concluded. The formula of the price adjustment bases on the adjusted net book value of the company UNIPETROL at the end of the year 2003 and at the end of a month, in which PKN ORLEN S.A. will acquire a stake in the company UNIPETROL constituting 62.99% of the share capital. The range of the price adjustment in case of UNIPETROL's is limited to a potential adjustment between 5% and 15% up and between 5% and 25% down. The settlement of the purchase price will be made by an Escrow Account. 10% of the purchase will be deposited into the account after the Purchase Agreement of UNIPETROL's Shares, and the remaining 90% of the purchase price will be deposited after all the precedent condition, mentioned in all the three agreements concerning UNIPETROL, Spolana and Framework Agreement, are fulfilled. The agreement was concluded under several conditions precedent, among which are: gaining the antimonopoly consent, the decision of the European Commission that the transaction does not constitute any public aid or that it is compatible with the common market. A large portion of the funds for the financing of this transaction is already provided in the form of the currently available credit limits. The reminder will be arranged for within the time periods indicated in the payment schedules relating to the transaction. The completion of the transaction will not result in any violation of any covenants under the syndicated credit facility agreement. The banks have already offered PKN ORLEN their assistance in financing the transaction in question. Simultaneously PKN ORLEN S.A. signed an agreement concerning the co-operation with AGROFERT HOLDING a.s., which assumes sale of those amongst assets of UNIPETROL, that are not considered as basic for PKN ORLEN's activities. Cooperation with AGROFERT enables PKN ORLEN to keep only the assets of Unipetrol it deems to be core. Pursuant to an agreement with ConocoPhillips, PKN ORLEN has agreed to sell with the best effort to ConocoPhillips one third of petrol stations, belonging to some of UNIPETROL's subsidiaries. In exchange for that, ConocoPhillips has agreed to provide operational advice and operational assistance to PKN ORLEN in stabilizing and continuing the operations of this UNIPETROL subsidiary in the immediate period following the privatization of UNIPETROL. The disposal of certain assets to ConocoPhillips and AGROFERT will reduce the amount of funding required for this transaction. The transactions contemplated with ConocoPhillips and AGROFERT are expected to close by the end of 2005.

The purchase of the company UNIPETROL constitute one of the subsequent significant steps in the strategy of PKN ORLEN, because it creates an exceptional opportunity to extend the geographical area of its activity, to enter the attractive Czech market and to strengthen its position in the southern Poland. The Company considers itself as a long term strategic investor and regional consolidator of the most important refining assets and retail distribution of UNIPETROL.

- On 19 April 2004 changes in the contract of partnership of the company CPN Marine Service Sp. z o.o. located in Gdansk. They concerned changes in the subject of the activity of the company and extension of its share capital. The share capital was increased from the amount of PLN 50 thousand to the amount of PLN 1,000 thousand by issuing 1,900 new shares at the nominal value of PLN 500 each. The shares in the increased capital were taken by the sole shareholder – PKN ORLEN and covered in total in the form of money resources. At the same time the name of the company was changed from CPN Marine Service Sp. z o.o. to Centrum Komercjalizacji Technologii Sp. z o.o. The subject of the activity is advisory service concerning running business and management.
- The Registered Court in Elmshorn (Germany) registered on 11 May 2004 an increase in the share capital of ORLEN Deutschland Immobilien GmbH located in Elmshorn, Germany. The share capital was increased from EUR 30 million to EUR 60 million, i.e. by the amount of EUR 30 million as the consequence of a merger with ORLEN Deutschland GmbH and the change of contract of partnership. The shares in the increased capital were taken by the sole shareholder – PKN ORLEN and covered in total in the form of cash contribution. At the same time on 11 May 2004 following companies were deregistered as the result of the merger:
  1. Jewel Tankstellen Nord GmbH (taken over by AMF Service GmbH)
  2. Orlen Tankstellen Aktiengesellschaft (taken over by AMF Service GmbH)
  3. NTG Norddeutsche Tankstellen AG (taken over by ORLEN Deutschland Immobilien GmbH)
  4. AMF Service GmbH (taken over by ORLEN Deutschland GmbH)
  5. ORLEN Deutschland GmbH (merged with ORLEN Deutschland Immobilien GmbH).

  Moreover the name of the company ORLEN Deutschland Immobilien GmbH was changed to ORLEN Deutschland GmbH. On 27 May 2004 the Registered Court in Elmshorn registered ORLEN Deutschland GmbH as a joint-stock company under the name of ORLEN Deutschland AG. The company specializes in fuel wholesale and retail. PKN ORLEN owns 100 % of the total shares in ORLEN Deutschland AG.
- On 11 May 2004 PKN ORLEN S.A. purchased 3,450 shares at the nominal value of PLN 500 each in the company ORLEN Petroprofit Sp. z o.o. located in Niemce constituting 15% of its share capital and the same amount of voting rights on the General Shareholders Meeting as a result of the sale agreement concluded with Profit Sp. z o.o. in Swidnik. The total price for the purchased shares amounted to PLN 5,750 thousand. As a consequence of the above mentioned transaction PKN ORLEN became the sole shareholder in the company Petroprofit Sp. z o.o. An increase of the capital engagement in the company Orlen Petroprofit Sp. z o.o. is an integral part of the PKN ORLEN's strategy, which assumes the process of systematization of the capital

structure of the Regional Market Operators.

- On 7 June 2004 a change in both the amount and structure of the initial capital of ORLEN Powiernik, based in Plock were registered. The initial capital of ORLEN Powiernik was increased from PLN 4,000 to PLN 25,000 and divided into 50 shares with a par value of PLN 500 each. The capital was increased through a cash contribution from PKN ORLEN. The total number of shares was taken by the sole shareholder - PKN ORLEN and covered in the form of cash contribution.
- On 30 June 2004 PKN ORLEN purchased 5,200 shares in ORLEN Morena Sp. z o.o., based in Gdansk ("ORLEN Morena"), with a par value of PLN 1,000 each, representing 49.52% of the initial capital of ORLEN Morena and the same number of voting rights at its Shareholders' Meeting, at a total price of PLN 5,954 thousand as a result of the agreement between PKN ORLEN and FOX-OIL Sp. z o.o. based in Gdansk. Following the above mentioned transaction, PKN ORLEN is the sole shareholder of ORLEN Morena's. An increase of the capital engagement in ORLEN Morena Sp. z o.o. is an integral part of the PKN ORLEN's strategy, which assumes the process of systematization of the capital structure of the Regional Market Operators.
- On 1 July 2004 PKN ORLEN signed a agreementt regarding the sale of the assets constituting a self-operating unit of PKN ORLEN – Lubrificant Oil Division, at a total net price of PLN 47,391,125.96. The buyer of the above mentioned assets was ORLEN Oil Sp. z o.o. with its headquarters in Cracow. The above transaction represents a further step in the restructuring process conducted by PKN ORLEN. It aims at consolidation of production and sales of engine and lubricant oils in the Capital Group and represents also a further stage in the process of integrating the production of oil bases and the production and sale of finished products such as engine and lubricant oils. As of the date of signing the agreement, PKN ORLEN possessed 9% of the share capital of ORLEN Oil Sp. z o.o. On 11 August 2004 the District Court in Cracow registered an increase of the share capital in the company ORLEN Oil Sp. z o.o. Share capital of Orlen Oil Sp. z o.o. amounting to hitherto PLN 43,558 thousand was increased to PLN 75,093 thousand. The stake in the share capital was covered fully in cash by PKN ORLEN S.A. After an increase of the share capital of the company ORLEN Oil the stake of PKN ORLEN in the share capital of the company increased from 9% to 47.2%. The remainig stakes are possessed by Rafineria Trzebinia S.A. (43.8%), Rafineria Nafty Jedlicze S.A. (4.5%), Rafineria Czechowice S.A. (4.5%). Each stake gives a one voting right at the Shareholders' Meeting. The aim of an increase of the share capital is to raise funds for partly financing of the purchase by ORLEN Oil the assets constituting the Lubricant Oil Division of PKN ORLEN S.A. All undertaken actions are connected with the strategy of integrating oil assets of PKN ORLEN S.A. in ORLEN Oil in order to create a uniform centre responsible for managing oil segment of the PKN ORLEN's business.
- On 14 July 2004 the District Court for the capital city Warsaw registered the company Plocki Park Przemysłowo-Technologiczny S.A. located in Plock, in which PKN ORLEN S.A. gained 50% of the share capital, it means 50,000 bearer privileged shares series A at the nominal value PLN 10 each, constituting 50% of voting rights at the shareholders' meeting. Shares taken were covered by PKN ORLEN in cash contribution in

two portions till the end of 2004. The subject of the activity of the company Plocki Park Przemyslowo-Technologiczny S.A. is among others the activity connected with managing the holding , advisory in the area of running a business, management and administration, sale and purchase of real estates on own account. The remaining 50% of shares of the company, it means 50,000 bearer privileged shares series A at the nominal value of PLN 10 each were taken by the legal entity of the public law under the name of "Miasto Plock". Taking shares in Plocki Park Przemyslowo-Technologiczny S.A. is considered to be a long term investment of PKN ORLEN S.A.

- On 6 September 2004 the District Court in Opole, VIII Economic Department of the National Register Court, registered changes in the contract of partnership of the company ORLEN Transport Kedzierzyn-Kozle Sp. z o.o. located in Kedzierzyn-Kozle concerning an increase of the share capital of the company. The share capital was increased from PLN 5,389,500.00 to the amount of PLN 10,009,000.00 – by the amount of PLN 4,619,500.00. The stakes in the increased share capital were taken wholly by PKN ORLEN S.A. and covered by contribution. As a result of an increase of the share capital of ORLEN Transport Kedzierzyn-Kozle Sp. z o.o. the stake of PKN ORLEN S.A. increased from 89.35% to 94.27%, the remaining stakes are possessed by the company's employees. After the registration of an increase of the share capital of the company the total volume of voting rights in the company amounts to 20,018. The record value of the assets contributed to ORLEN Transport Kedzierzyn-Kozle Sp. z o.o. by PKN ORLEN amounts to PLN 1,658,687.16.
- On 10 September 2004 the District Court for the capital city Warsaw, XXI Economic Department of the National Register Court registered the company ORLEN Eko Sp. z o.o. located in Plock, in which PKN ORLEN S.A. took 100% shares at the nominal value of PLN 500 each, constituting 100% of voting rights at the shareholders' meeting. The stakes taken in the amount of 4,000 were covered by PKN ORLEN S.A. in the form of cash in the amounting to PLN 2,000,000. The core business of the company ORLEN Eko is waste administration.
- On 3 January 2005, the District Court in Opole, VIII Economic Department of the National Register Court, registered a merger of Zaklad Urzadzen Dystrybucyjnych Sp. z o.o., headquartered in Opole (transferee company), with the following companies (offeree companies):
  -Serwis Katowice Sp. z o.o., headquartered in Katowice,
  -Serwis Kedzierzyn - Kozle Sp. z o.o., headquartered in Kedzierzyn - Kozle,
  -Serwis Kielce Sp. z o.o., headquartered in Kielce,
  -Serwis Lodz Sp. z o.o., headquartered in Lodz,
  -Serwis Rzeszow Sp. z o.o., headquartered in Rzeszow.

the take-over of the total assets of the offeree companies by Zaklad Urzadzen Dystrybucyjnych Sp. z o.o. (merger by take-over). In accordance with the above, the changes in the contract of partnership were made concerning an increase of the initial capital of Zaklad Urzadzen Dystrybucyjnych by PLN 222,700, from PLN 6,536,500 hitherto to PLN 6,759,200. Shares in the increased capital, with a nominal value of PLN 50 each, were taken by the

shareholders of the offeree companies. As a result of an increase of the share capital of the company Zaklad Urzadzen Dystrybucyjnych Sp. z o.o. the stake of PKN ORLEN S.A. decreased from 99.94% to 96.65%. After the registration of the merger of companies and an increase of the share capital of Zaklad Urzadzen Dystrybucyjnych Sp. z o.o. the total volume of voting rights amounts to 135,184. The registration of the merger of Zaklad Urzadzen Dystrybucyjnych Sp. z o.o. with Serwis Katowice Sp. z o.o., Serwis Kedzierzyn-Kozle Sp. z o.o., Serwis Kielce Sp.z o.o., Serwis Łodz Sp. z o.o., Serwis Rzeszow Sp. z o.o. results in cancellation of offeree companies from the register.

- On 28 January 2005 the District Court in Cracow, XII Economic Departament of the National Register Court, registered change of the amount and structure of share capital in Rafineria Trzebinia S.A. in Trzebinia. The share capital was decreased from PLN 43,041,890 to PLN 42,995,350 and is divided into 4,299,535 shares at the nominal value PLN 10 each. A decrease of the share capital of Rafineria Trzebinia S.A. results from the resolution No. 1 of the Extraordinary Shareholders' Meeting of the company from 28 December 2004 concerning amortization of 4,654 shares of Rafineria Trzebinia S.A. After a decrease of the share capital of the company Rafineria Trzebinia the stake of PKN ORLEN in the share capital of the company amounts to 77.15%. The remaining shares are possessed by the State Treasury – 9.19%, other – 13.66%. Each share gives one voting right at the shareholders' meeting.

During 2004 there were sales of the stakes possessed by the Company in following companies:

- On 21 April 2004 PKN ORLEN S.A. signed preliminary agreement on disposal of all shares held (9,600 shares constituting 40% of initial capital) in Flexpol Sp. z o.o. located in Plock (Flexpol). The book value of shares amounts to PLN 4.8 million, while selling price amounts to PLN 7.2 million. Disposal of all shares of Flexpol Sp z o.o.the held by the Company to Przedsiebiorstwo Produkcyjno-Handlowe Gasior Sp. z o.o. took place on 28 July 2004. The closing of the promised disposal agreement followed satisfying the last requirement: selling by the Company to the Investor all the fittings rented currently by Flexpol from PKN ORLEN at the gross price of PLN 26,108 thousand as well as real estate rented by Flexpol from PKN ORLEN till that date at the gross price of PLN 12,932. Flexpol paid to the so far shareholders dividend in the amount of PLN 3 million for 2003, that is for PKN ORLEN S.A. PLN 1.2 million.
- On 11 May 2004 based on the agreement of shares disposal, PKN ORLEN S.A. disposed to Zaklad Urzadzen Dystrybucyjnych Sp. z o.o. all the shares held (5,913 shares) in Serwis Lodz Sp. z o.o., at par value PLN 100 each, constituting 97.3% of the initial capital and 97.3% voting rights at the Shareholders Meeting, at the total price amounting to PLN 591,300 to Zaklad Urzadzen Dystrybucyjnych Sp. z o.o. The above mentioned transaction is a following step in the process of selling of non-core companies. PKN ORLEN S.A. posses 99.94% in the initial capital of Zaklad Urzadzen Dystrybucyjnych Sp. z o.o.
- On 12 May 2004 PKN ORLEN S.A. disposed to Brenntag Polska Sp. z o.o. 4,000 shares in ORLEN Polimer Sp.

z o.o. at par value of PLN 500 each, constituting 100.00% of the initial capital and 100.00% of voting rights at the Shareholders Meeting, for the total price amounting to PLN 5,803,782.41. The above mentioned transaction is a following step in the process of selling of non-core companies. The Company realized gross profit at the level of PLN 3,803,782.41 on that transaction.

- On 29 July 2004 PKN ORLEN disposed to Nijman Zeetank International Transport Sp z o.o. located in Sandomierz, all the shares held in the initial capital of ORLEN Transport Lublin Sp. z o.o. located in Lublin, which is 31,845 shares at par value of PLN 500 each. The disposed shares constitute 98.45% of the initial capital of ORLEN Transport Lublin and the same number of voting rights at the Shareholders Meeting of its company. The value of the transaction amounted to PLN 16 million (on 29 July 2004 the book value of shares possessed by PKN ORLEN S.A. amounted to PLN 15,922,490). The remaining 1.55% of shares in the initial capital of ORLEN Transport Lublin are in possession of current and previous company's employees. Disposal of shares took place on 2 April 2004 as a result of the sales agreement concerning shares of ORLEN Transport Lublin Sp. z o.o. concluded between PKN ORLEN S.A. and the Investor on 2 April 2004, as well as meeting all the precedent conditions, including positive decision from the Polish Office for Protection of Competition and Competitors and the Ministery of Interior and Administration and confirmations from the other shareholders of ORLEN Transport Lublin concerning not exercising their pre-emption rights.
- On 16 of August 2004 the group of shareholders on behalf of employees of Petrotel Sp. z o.o. repurchased from PKN ORLEN S.A. a package of 440 shares of Petrotel Sp. z o.o. for the amount equal par value of one share that is PLN 1 thousand per each share, amounting in total to PLN 440 thousand. The remaining shares it means 229 units were purchased by the entitled shareholders of Petrotel on 7 September 2004. As a result of the above agreements the share of PKN ORLEN S.A. in the initial capital of Petrotel decreased from 88.80% to 80.65%.

1.6 Profit and loss statement

1.6.1 Revenue

In the year 2004 sales of finished products, goods for resale and materials of PKN ORLEN S.A. amounted to PLN 28,996,289 thousand, which is 17.7% more than in the year 2003. An increase in volume sales of finished goods by 4.5% (including light products by 4.9%, ethylene by 7.3%, prophylene by 8.5%) was accompanied by an increase of the value of sales revenues in connection with high quotations of fuel prices on the world stock exchanges (an increase of quotation of petrol by 35.0%, diesel by 40.0%, Ekoterm by 37.5% and air fuel Jet A-1 by 41.4%).

1.6.2 EBIT

Profit on sales of PKN ORLEN S.A. for the year 2004 amounted to PLN 2,825,463 thousand and it was higher by 163.6% in comparison to the profit on sales in the year 2003. Such level of an increase of profit on sales was achieved by taking advantage of favourable circumstances on the market. An increase of the margins from quotations of core products (petrol by 41.5%, diesel by 66.1%, Ekoterm by 62.4% and air fuel Jet A-1 by 70.9%) and over 2-time increase of the differentiation between quotation of Ural and Brent oil from /-1.76/ to /-4.12/ USD/bbl were assisting elements. The Program of the Reduction of Operating Costs was also very important in creating the result for the year 2004, especially in the area of production and logistics. In 2004 the Company recorded a decrease of the volume of retail sales of fuels (petrol, diesel, LPG) by 1.8% and a decrease in retail margin on the sales of fuels. During the year 2004 the sales efficiency decreased (taking into account the volume of sales of fuels per one fuel station) by 0.9%.

In 2004 the Company incurred a loss on other operational activity amounted to PLN 220,523 thousand in comparison to the previous year profit of PLN 100,303 thousand. Such considerable disproportions result from presenting in the financial result for the year 2003 the effects of contribution of self-operating unit of the Company to Basell Orlen Polyolefins Sp. z o.o. Other operating profit resulting from the difference between the book value of the contributed assets and liabilities and the fair value of obtained stakes in Basell Orlen Polyolefins Sp. z o.o. amounted to PLN 226 million. Operating profit (EBIT) in 2004 amounted to PLN 2,604,940 thousand and is higher by 122.2% than the profit achieved in the previous year.

1.6.3 Financial activity

During 2004 gain on financial activities amounted to PLN 220,982 thousand, as compared to the loss of PLN 23,923 thousand recorded in 2003. The gain on financial activity was caused by higher than in 2003 increase of financial revenues in comparison with increase of financial costs. Financial revenues in 2004 amounted to PLN 545,120 thousand and increased in comparison to 2003 by PLN 283,606 thousand and this was caused by positive tendency of foreign exchange rates (increase of positive foreign exchange differences in 2004 by PLN 306,577 thousand). At the same time the Company noticed increase of financial costs by PLN 38,701 thousand in comparison to 2003 resulting among other from an increase of investment revaluation costs.

1.6.4 Extraordinary gains and losses

Negative (PLN 2 thousand) result on extraordinary activities had a slight impact on the Company' net result.

1.6.5 Gross profit, income tax and net profit

PKN ORLEN S.A. generated in 2004 gross profit in the amount of PLN 2,825,920 thousand (increase by 146.1% compared to 2003). Increase in gross profit was accompanied by increase in income tax charge by 173.8%.

In 2004 the Company generated net profit in amount of PLN 2,276 million and was higher by 140.2% comparing to previous year's result. In relation to increasing tendency in crude oil prices LIFO effect amounted to minus PLN 190 million in 2004 and generated the Company's net result at the level of PLN 2,086 million.

1.7 BALANCE SHEET

1.7.1 Total assets

As at 31 December 2004 total assets of the PKN ORLEN S.A. amounted to PLN 15,568,105 thousand and increased by PLN 1,859,247 thousand (by 13.6%) in comparison to 31 December 2003. As far as assets are concerned, the main part, which amounts to 56.4% of total assets, was constituted by fixed assets (64.5% as at 31 December 2003). In equity and liabilities, the major part is shareholders equity constituting 66.9% of total liabilities as at 31 December 2004 (61.4% as at 31 December 2003). Comparing certain balance sheet captions as at 31 December 2004 and 31 December 2003 the following can be noted:

– decrease in non-current assets by 0.7% to the level of PLN 8,785,446 thousand mainly as the result of decrease in long term investments (by 5.4%).

– increase in current assets by PLN 1,920,021 thousand, i.e. by 39.5% to the level of PLN 6,782,659 thousand. Growth of current assets is the result of increase in short term investments by PLN 1,558,305 thousand, which was caused by appearing of debt securities (mainly bonds and government bills) in the amount of PLN 1,016,899 thousand and cash and cash equivalents by PLN 228,369 thousand. Short term receivables during the 12 month period ended 31 December 2004 increased by PLN 403,668 thousand, mainly due to increase of trade receivables by PLN 374,489 thousand. Growth of inventory amounted to PLN 115,921 thousand (4.5%).

– increase in the shareholders' equity by PLN 2,005,990 thousand up to the level of PLN 10,416,439 thousand mainly as a result of an increase of the net financial result achieved by the Company during the year 2004. The level of the capital reserves increased by PLN 670,875 thousand mainly due to the distribution of the profit amounting to PLN 651,770 thousand. In 2004 the dividend for the year 2003 in the amount of PLN 278,011 thousand was paid (in the year 2003 PLN 58,825 thousand).

– decrease in the liabilities and provisions for liabilities by PLN 146,743 thousand to the level of PLN 5,151,666 thousand results mainly from a decrease of trade liabilities by PLN 159,243 thousand (12.3%), whereas there was an increase of the provisions' level by PLN 200,515 thousand.

1.7.2 Net financial indebtedness

At the end of the year 2004 the level of long-term and short-term loans, borrowings and debt securities issued amounted to PLN 1,413,570 thousand and was lower by PLN 815,225 thousand in comparison to the level at the end of the year 2003. The net financial indebtedness (calculated as loans, borrowings and debt securities less cash and cash equivalents) decreased by PLN 1,043,594 thousand to the amount of PLN 1,122,432 thousand in comparison to the year 2003. A significant decrease in net financial indebtedness whereas there was an

disproportional increase in equity led to improvement of financial debt to equity ratio (loans, borrowings and debt securities less cash and cash equivalents to equity) from the level of 25.8% as at 31 December 2003 to 10.8% as at 31 December 2004.

1.8 Cash flow statement

1.8.1 Operating activity

In 2004 net cash flows from operating activities amounted to PLN 2,883,077 thousand and were higher by 132.9% than cash flows from operating activities in 2003.

The most important factors influencing cash flows positively in 2004 in comparison to the year 2003 were:

- increase in net profit by PLN 1,328,380 thousand,
- increase in the level of short and long term liabilities, apart from credit and loans by PLN 469,390 thousand whereas there was a decrease in 2003 by PLN 83,905 thousand,
- increase in the level of provisions for liabilities by PLN 182,956 thousand whereas there was a decrease in 2003 by PLN 72,095 thousand,

At the end of the year 2004 the net working capital (current assets less short term liabilities) amounted to PLN 3,977,891 thousand whereas the net working capital at the end of 2003 amounted to PLN 1,669,353 thousand. It results mainly from an increase of short term investments, including the level of the debt financial securities (mainly treasury bonds and treasury bills).

1.8.2 Investing activity

The net cash flow from the investing activity in 2004 amounted to PLN (-) 1,783,374 thousand, whereas in the previous year achieved the level of PLN (-) 1,289,776 thousand. Such level of the net cash flow from the investing activity was a result of higher expenditure for financial assets (treasury bonds and treasury bills).

1.8.3 Financing activity

In 2004 the net cash flow from the financing activity amounted to PLN (-) 873,785 thousand whereas in 2003 amounted to PLN 53,229 thousand. A positive result on this activity was the consequence of a significant increase of the level of obtained loans and issuance of debt securities, which were mainly the source of the financing of the expenditure for tangible investments and expansion of the business activity in Germany.

1.9 Employment

At the end of the year 2004 the Company's employment amounted to 5,701 persons, which is connected with a decrease in comparison to the end of 2003 by 586 persons. A decrease in the employment results mainly from the restructuring process and natural employees' movements.

1.10 Description of significant off balance sheet items

At the end of 2004 the total amount of contingent liabilities in respect of the related companies amounted to PLN 1,218,562 thousand, in 2003 PLN 961,156 thousand. The above amount is the result of the guaranties and sureties granted and a pledge on shares.

1.11 Predicted economic performance

The following factors should be considered while assessing future financial position of the Company:

- fluctuations of crude oil prices which affect the costs incurred by the Company and cause fluctuations of margins realized on products,
- fluctuations of prices of finished products on worldwide markets, what influence, through parity of import, both level of fuel prices and margins,
- trends in fuels consumption in Poland resulting from among others, pace of economic growth and unemployment rate,
- fluctuations of exchange rates which could cause changes in costs of debt servicing, purchase cost of crude oil and other raw materials in foreign currencies and changes in value of prices, margins and land premium,
- realization of the announced PKN ORLEN S.A. plan of development of retail activities,
- economic effects reached as a result of continued and newly commenced optimizing programs and benefits from implemented savings and effectiveness programs (Comprehensive Operational Cost Cutting Program, Margins Optimization System, Risk Management System and Value Based Management System, CAPEX Optimization System),
- effectiveness of fuel retail business in Germany,
- expenditures for the purchase of UNIPETROL and restructuring processes,
- synergies resulting from taking over UNIPETROL assets for management,
- restructuring of the logistics assets,

- activity of a joint-venture company with Basell Europe Holdings BV which produces petrochemicals based on existing installations, starting from year 2005 production of petrochemicals will be based on new installations,
- activation of Olefin II after rewamping,
- change of fiscal policy related to corporate income tax and excise tax.

II. MAJOR ACHIEVEMENTS IN THE AREA OF RESEARCH AND TECHNICAL DEVELOPMENT.

High quality of products and client service while fully respecting environment protection requirements has been the target of PKN ORLEN S.A. in its production, distribution and trade activities.

That aim is one of the components of an integrated system of environment protection implemented in 2003. In 2004 intensive works concerning preparation of application for integrated permission for Production Plant in Plock, which is considered to be "ecological passport" indispensable for the Company's being, were conducted. On 20 October 2004 all documentation was handed in to Wojewodship Office and the final decision is expected at the turn of the first and second quarters of 2005.

For the purpose of keeping the systems of environment and quality management at the proper level and taking the industrial safety regulations into consideration, audits were conducted in 2004 concerning those subjects, i.e.:

- In January 2004 the recertfication audit of the Quality Management System run by Bureau Veritas Quality International (BVQI) was finished. The audit included organizational divisions of: the Company Head Offices in Plock and Warsaw, Production Department in Plock and five Regional Organizational Offices. The audit has confirmed the adaptation of the operating Quality Management System to new PN–EN ISO 9001:2001 standard requirements. On 28 January 2004 PKN ORLEN S.A. was granted with the system certificate concerning the manufacturing, wholesale and retail. In October 2004, the proper operating of the system and the fact of maintaining the rights to the certificate was confirmed by the supervision audit.
- In February 2004 BVQI conducted the supervision audit of the operating Environment Management System. It was also connected with the certification of the System implemented for fuel warehouses. The positive outcome of the audit was the base to prolong the validity of the certificate for the System conformity to ISO 14001 international standard granted in 2000 and extending its scope for fuel warehouses. This means that the Environment Management System is being supervised and improved properly. The certificate has been prolonged for the next three years with validation date till April 2006 and has two certifications: British UKAS and Dutch RvA. Each year supervision audits for maintaining the validity of the certificate will be carried out.
- In February 2004 in the area of Reformers the certificate audit of Industrial Safety System was carried out by auditors from Central Institute of Labour and State Labour Inspectorate. In June 2004 under the decision of Committee, PKN ORLEN S.A. was granted with the certificate of Industrial Safety Management System conformity to PN-N 18001:2004 standard requirements. The system has been progressively implemented in other divisions of Main Plant.
- The Quality Management System consistent with PN-EN ISO/IEC17025:2001 standard was implemented in the Company's laboratory of Environmental Tests. In September 2004 the certificate audit was carried out by the auditors from Polish Center of Certifications. The audit resulted with the application for granting the certification for the laboratory.

– In October 2004 in the Main Plant in Plock the supervision audit of Quality Management System was conducted. The System operates under AQAP standard, which is obligatory for suppliers of NATO army forces. The audit carried out by Department of Quality and Management Systems covered the range of operations of Agent for Managements Systems as well as sales, logistics, crude oil supplies and production services which are responsible for supplies for the army. The outcome of the audit, based on new AQAP 2120:2003 standard requirements, confirmed compliance with its requirements and was the basis for granting the Company with the Certificate of conformity with AQAP 2120 requirements.

In 2004 due to requirements resulting from the EU membership it was necessary to apply new environment management projects and systems, among others the principles for trading of carbon dioxide emission rights. The rules of system and commitment of 141 countries, including Poland, for decreasing carbon dioxide emission by 5.2% till the year 2012, came into force on 16 February 2005. The system's principle is that the company that invests in technology and reduces the carbon dioxide emission below the limit granted will be able to resell the surplus to the other company and to generate profit on such transaction.

For the purpose of cost optimization of land reclamation on petrol and base stations applications were submitted to appropriate local authority with indication that land or soil pollution was caused by another entity i.e. previous user Centrala Produktow Naftowych S.A. According to 12 article of the introduction act bodies approving applications have a year period to decide whether circumstances of pollution entitle to make an entry in the register stating that previous possessor had contaminated land.

As PKN ORLEN S.A. does not posses its own laboratories and does not employ scientists on regular research post and orders research and development work to research and development centres and organisations, universities and all types of companies and associations providing such services.

In 2004 there was much work done, crucial for the Company, connected with elaboration of new products technologies, improvement of the manufactured products quality, the improvement of the manufacturing technology and more efficient utilization of components used to production. The necessity to undertake such works resulted from the Company's care for customers concerning both assortment and quality of goods.

The most important tasks accomplished within the production area are the following:

1. Contract with Shell for the „Program of Profit Improvement through reasonable reduction of the maintenance costs and optimisation of production installation working time".
2. "Development of technology for diesel production with the content of sulphur below 10mg/kilo". Contractor: Institute of Oil Technology in Krakow. In accordance with a binding decree Minister of Economy, Employment and Social Policy as of 23 December 2003 concerning quality requirements for liquid fuels (Journal of Law from 31 December 2003), diesel with content of sulphur below 10mg/kg should be available in Poland starting from 1 January 2005 and from 1 January 2009 only diesel with the content of sulphur below 10mg/kilo could be available for sales. Due to works undertaken production technology for a new kind of diesel oil with content

of sulphur below 10mg/kilo was developed. Tests of physical, chemical and functional properties of base and finish fuel were performed. Compatibility of upgrade additives with chosen engine oils was also tested.

3. Work: "Testing of low-temperature properties and selection of cold flow improver to diesel and light heating oils, which include the components from hydro-cracking after revamping". Contractor: Institute of Oil Technology in Krakow. The necessity to undertake such works results from the fact that component of diesel and heating oil coming from hydro-cracking is difficult to cold flow improver properties and even slight change in its production technology can make it difficult to meet the low-temperature properties required by standards or even make it impossible.
4. Work: "Technology development of new unleaded petrol ("Extreme") with extreme high properties and technology of racing petrol." Contractor: Institute of Oil Technology in Krakow. As a result of conducted works, two variants of technology production were prepared:
   - fuel with extreme high drivibility properties,
   - fuel for rally cars with engines without turbo compressors and with engines with turbo supercharging.
5. "Technology development of light heating oil Ekoterm Plus with content of sulphur not higher than 0.10% (m/m)". Contractor: Institute of Oil Technology in Krakow. Within the works conducted, tests of physical, chemical and functional properties of base light heating oil with the content of sulphur below 0,10% (m/m) were carried out.
6. "The use of atmospheric residue of Hydro-cracking as a raw material for base oils II group with the Oil Department installations". Contractor: Institute of Oil Technology in Krakow.
7. "Laboratory and engine quality assessment of diesel Ekodiesel Plus 50 according to the Company's Standard". Contractor: Central Oil Laboratory in Warsaw.
8. "Improvement of recipes and production technology of PETRYGO Q for industrial and laboratory scale". Contractor: Warsaw Technical University, Institute of Chemistry in Plock.

In 2004 a lot of work resulting from law and formal requirements of conclusions and recommendations included in different reports and analysis. The purpose of this work is to limit the environmental risk which results from the Company's activities, to improve the safety of employees operating technology objects, to improve the safety for local society and to create the Company's reliability among workers and its environment. These works included:

1. Work: "Development of security conception concerning premises close to HF alkylation's installation in a case of outflow of hydrogen-fluoride acid." Contractor: ORLEN Projekt S.A. in Plock. The necessity to perform works resulted from conclusions included in security report prepared for Main Plant of the PKN ORLEN S.A in Plock.
2. Work: "Comparison of Polish and British approach to risk minimization of soil and underground water pollution caused by newly-built petrol stations in the respect of securities related to the risk of water-soil environment pollution". Contractor: WS ATKINS Polska Spolka z o.o. located in Warsaw. Formal requirement – the report

will be used during negotiations on "increasing environmental pollution" insurance' conditions of new-built petrol stations.

3. Work: "Performing analysis of dust, falls and soil according to Wojewodship Office's decision". Contractor: Research and Development Centre PR in Plock. Wojewodship Office's decision – sign OS.I.7640/4/97 as of 23 December 1997 which obliges the Company to conduct environmental monitoring.
4. Work: "Carrying out of guarantee measurements of reconstructed boiler OOG-320(K2) in Heat and Power Generating Plant of PKN ORLEN S.A.". Contractor: Research and Measurement Plant of Power Engineering "ENERGOPOMIAR" Sp. z o.o. in Gliwice (Zaklad Pomiarowo-Badawczy Energetyki "ENERGOPOMIAR" Sp. z o.o. in Gliwice). Formal requirement – necessity to confirm basic parameters of the boiler work after its reconstruction (the parameters are guaranteed in the contract), determination of the basic pollutions emission and measurement of the noise level.
5. „Preparing long term forecast for fuel and energy economy development till the year 2025, particularly for the issue concerning liquid fuel". Contractor: Agency of Energy Market in Warsaw. This obligation resulted from the Act as of 10 April 1997 – Energy Law, which obliges the Minister of Economy to prepare, in cooperation with appropriate ministers, framework for state policy concerning the long term (not shorter than 15 years) forecast for the development of energy and fuel economy. The necessity to finance these works by the Company results from settlements and obligations imposed on the Company.
6. „The Concept of fire alarming and detecting gas hazard for PKN ORLEN S.A., the Main Plant in Plock". Contractor: NOMA 2 Sp. z o.o. in Katowice – recommendations of After Alarming Commission, the need for increasing the security level.
7. Performing and updating of "Cards for characteristics", "Written instructions for Drivers" and "Certificates" for the Company's products, unfinished goods and waste. This work results from the Decree of Minister of Health and Social Security Policy as of 21 August 1997 (with this year amendments) concerning hazardous substance which pose danger for men's health and life – the producer and supplier of hazardous chemical substance is obliged to have cards for characteristics of this substance, make it available for receivers for free and inform them about all introduced changes.
8. Work connected with current monitoring of corrosion process in production installations. In 2004 the following installations were subject to constant control: DRW II, DRW III, DRW IV, DRW VI, and vapour generator on DRW II, Installation of Slot Distillation Unit, Cracking Installation for Catalysys II and Hydro-cracking Installation, OLEFINY II.
9. "Analysis of microbiological purity of fuel, diesels and heating oil in new terms of preventive dosing of biocides". Contractor: Institute of Oil Technology in Krakow.

The care for our clients makes as to order different kinds of works connected with not only the quality control of our products, but also examining the influence of external factors on products quality and works connected with lowering the negative influence of our products used in exploitation on the environment. Such works include:

1. „Assessment of user's properties of light heating oil". Contractor: Institute of Oil Technology in Krakow.
2. „Preparing purifying technologies for used radiator liquids, with the membrane method." Contractor: Industrial Chemistry Institute in Warsaw.

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

The most important projects initiated and completed in 2004:

1. VBM – Value Based Management – within the second phase of VBM, SEM-BPS system for budgeting and planning which covers all process in PKN ORLEN S.A. was implemented. For the project purposes the database in SAP-BW system was developed and 195 planning applications was implemented under the valid business concept.
2. European Union – adjusting business process and systems in PKN ORLEN S.A. and other companies from the Group to the new law solutions resulting from the EU integration.
3. Integrating FLOTA card system with European Orlen-DKV system through implementing co-branded Orlen-DKV cards. Customers' service and card transactions settlement have been already integrated.
4. The system of planning the fuel supplies to PKN ORLEN S.A. stations was improved in order to fully control the process of supply. New mechanisms of automatic exchange of data between transport companies, supporting the planning process were implemented.
5. The Audit of Information Systems Security was carried out and the Company started to implement the audit recommendations included in long term plan.
6. Changes in POS systems in fuel stations resulting from recommendations of Security Audit were implemented.
7. Sale of telecodes in fuel stations was implemented.
8. New solutions for logistics of Vitay prizes were introduced. Taking over the warehousing service from an external operator and implementation of MRP functionality enabling to automatically refresh the stock level of Vitay prizes on fuel stations.
9. Main business system and POS systems on petrol stations were adapted for new format of bank accounts' numbers – IBAN.
10. Second stage of implementation of new staff-wages system (SAP HR) was finished. New staff-wages system includes i.e. recruitment, employees' self-service and manager's desk.

11. Implementation of Help Desk system – modernization of IT tools in order to improve the internal client service quality through introduction of professional tool for contact with business user.
12. Choosing the partner for the exchange of card's terminals on fuel stations, completing the creation and tests of new application for cards.
13. Introducing system of pin codes control of external fleet cards on petrol stations.
14. Implementation of software for the gastronomy on fuel stations.
15. Servicing fleet cards on motorways.
16. Transfer of Oil Division to ORLEN Oil Sp. z o.o., ensuring necessary infrastructure and service in key systems. Implementation into SAP HR system services for Oil Division.
17. Implementation of the new employees' agreements in the companies: PetroEltech and PetroMechanika into SAP HR system.
18. Implementation of salary's management in CM module in SAP HR system.
19. Support of sales representatives in wholesale – creation of supporting software:" Activity of Wholesale", the set of reports creating the wholesale client profile.
20. Change of infrastructure and software for data transmission and collection between stations.
21. Implementation of the system for Nuvit marketing analysis in DataMining technology which is based on VITAY system data.
22. Implementation of the system for clearing VITAY data.
23. Activating new hardware platform for VBM project and for production system (servers, discount matrix) of data warehouse SAP BW.
24. Project of technological upgrading Windows domain to Active Directory was carried out.
25. The new version of the system for managing the amendments implementation (Patch management) was introduced – SMS 2003.
26. Participation in implementation of systems within the production area: RIS (Refinery Information System) and participation in development of the concept for the dispatching system of fuel warehouses.
27. Implementation of central billing for stationary telephones.
28. Preliminary works and signature of the agreement concerning the Microsoft license (Agreement Enterprise/ Select) for PKN and the Capital Group.
29. Preparing infrastructure for ODRA project office.
30. Expanding access to the Internet. Rebuilding of interior nodes and activating additional digit item 2 Mbps.
31. Installation of new routers within corporate network.
32. Activating WLAN network in PKN ORLEN locations.
33. Joining Hotel Petrochemia and the company CKT in corporate network.

34. Modernization of the power supply 230V (new UPS's) of the main sever in the building 07.
35. Modernization of network installation Olefiny II and cabling of TA building (carried out by Investment Department).
36. Installation of telecommunications system in Water-Sewage Plant and the exchange of the main cable.
37. Concept preparation of the modernization of the network for telephone and teletype service in Expedition Plant (activating of node (V) in DGT exchange).

III. PREDICTED DEVELOPMENT OF THE COMPANY

The following issues should be considered while analysing predicted directions of Company's development:

- Strategy of development of the Company

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

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

The above actions, as well as some investments from the area of the Group core business, including first of all purchase transaction of UNIPETROL will allow to strengthen a position of PKN ORLEN S.A. on the domestic market.

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

One of the areas that encounters the Company's interest will be considering the possibility to enter the sector of searching and exploration of crude oil.

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

• EBITDA	over PLN 6 billion
• ROACE	17,5%
• CAPEX between 2005-2009	PLN 1.7 billion
• Financial gearing	30-40%
• The rate of dividend paid	30%

- Development of the retail sales

On 2 March 2005 PKN ORLEN S.A. announced "PKN ORLEN 2005-2009 Retail Sales Development Plan in Poland". Main elements of the plan are: restructuring of retail network till 2009 and potential acquisitions to

strengthen the market position. Capital expenditures are necessary for optimization and restructuring of the chain through building new stations, rebranding, and upgrading the stations and through implementing new product strategies. The Company plans to increase its share of non-fuel products in total margin. There is also a need for reorganization of retail sales department. The program for individual customers assumes segmentation into Premium and Economy brands. Premium under ORLEN brand will be addressed to the value and quality sensitive customers. Economy standard will be orientated for price sensitive customers. The planned structure of the network will comprise of around 1,000 Premium stations (under the ORLEN brand) and around 900 Economy stations.

- Integration with Unipetrol

On 4 June 2004 PKN ORLEN entered into an agreement with Czech National Property Fund ("NPF") in order to acquire 62.99% stake in Czech oil and petrochemicals group, Unipetrol a.s. ("Unipetrol"). Those shares were offered in the public auction. A large portion of the funds for the financing of this transaction has been already hedged in the form of the currently available credit limits and short term investments. The remaining part will be arranged for within the time periods indicated in the payment schedules relating to the transaction. Talks between PKN ORLEN S.A. and actual creditors concerning gaining their support for this transaction were completed with a positive outcome. PKN ORLEN S.A. is confident that the needs of Unipetrol for financing will be settled on Czech banking market.

This transaction will strengthen the position of PKN ORLEN S.A. in refinery and petrochemical sector in Middle-East Europe and also improve the Company's competitiveness as well as will be a strong point in the future consolidation process in the region. This will enable to introduce common better management standards to the acquired structures, and to more efficiently use the possessed assets through proper combining them into business chains, in order to achieve synergy effects.

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

The company Basell Orlen Polyolefins Sp. z o.o. started its business in the area of producing and selling polyolefin on 1 March 2003. Realization of the investment program concerning building new polyolefin production installation will set producing capabilities at the level of 400 thousand tons of polypropylene, and 320 thousand tons of polyethylene HPDE annually. The production of new objects will help to cover all the needs of the fast developing market. Due to that undertaking, in the first half of 2005 the factory producing polyethylene HDPE will be activated, which is the sole one in Poland. The polyethylene is currently available on domestic market only through import.

- Retail activity in Germany

In 2002 the Company purchased about 500 petrol stations in the area of northern Germany and has been operating using two brands: ORLEN and STAR. As a result of the purchase of petrol stations in Germany, the Company possesses over 2.4 thousand petrol stations. Performance of PKN ORLEN S.A. in Germany allows to achieve more

flexibility in the area of sales of its products and creates opportunities to conclude swap transactions with the largest customers in the region, which contributes to further increase in efficiency and competitiveness of PKN ORLEN S.A. On the other hand the competitiveness of the German market expressed among others in narrowing retail margins causes that ORLEN Deutschland AG does not realize assumed business goals with the present scale of activities.

- Comprehensive Operational Cost Cutting Programme in the Company

In December 2002 the Management Board of the Company took a decision to implement comprehensive operational cost cutting program in years 2003-2005 within two phases. In the first phase the potential of cost reduction and the detail concept of the plan were identified and estimated, consisting in the definition of key initiatives and monitoring process. The second phase will include implementation of the initiatives and monitoring their results. As a result of the program implementation operating costs in all areas of activities will decrease significantly. In 2004 the implemented initiatives generated savings of PLN 637 million. At the same time the impact on the operating result amounted to PLN 378 million.

- Value Based Management

PKN ORLEN S.A. activities concentrate on realization of the principal strategic aim which consists in creating value for shareholders through building and maintaining competitive and structural advantage and achieving the highest standards of operational activity. The tool for realization of these plans is among other the implementation of the Va1ue Based Management (VBM) program. The main objective of VBM program is to direct the strategy of PKN ORLEN S.A. towards creating value for shareholders.

The principal purposes of the project are to establish a sound platform for the performance of strategic goals, to increase the financial potential and operational efficiency, to enhance the Company's competitiveness in Poland and in the region, and to strengthen competence and motivation of the management throughout the Company and the Capital Group. Value Based Management supports realization of the Company's strategy, particularly achieving the leader position in the Middle Europe and a constant increase in value for shareholders. VBM orders and facilitates management of numerous programs being realized in PKN ORLEN S.A. (margin optimization, wholesale increase and others). VBM implementation means introducing modern worldwide management methods. The central point of the program is that management systems are based on the Shareholders Value Added (SVA).

Further works include building of IT tools and supporting in the implementation. The solutions supporting budgeting process will be implemented as the first in the SAP/SEM system. In further stages of implementing works, the solutions in such areas as: basic VBM reporting, balance score card, medium-term planning, management by objectives (MBO) and Capital Group consolidation and management will be built into SAP|SEM. The last stage of implementing works is preparing IT solutions in the area of operation reporting.

- Effects of optimization programs

The cooperation with the company Shell Global Solutions Internationals results in optimization of production time of installations and decreases maintenance costs. The aim of the MERIT program is implementing uniform risk management methodology in the whole plant. This will make possible to take consistent decisions concerning commissioning repair works, taking into consideration their profitability and the impact on operational safety of the installation.

- Investment program

In 2004 the Management Board prepared and initially approved „Program for Development of Main Plant for 2005 – 2010 and Perspectives for Development after the year 2010". Essential investments necessary to adapt the production to changing law and market requirements were specified in this document. In general until the year 2009 the Company plans to increase the production capacity of diesel by approximately 30% and to have implemented the program specified as "non-fuel use of petrol fractions". In practice, the first direction of development includes upgrading of Hydrodesulfurization of Diesel installation (HON) VI, rebuilding of reactor for the Hydrodesulfurization of Gudron installation and building of new HON VII installation. Entering the paraxylene (component for production of plastics) market, which constitutes the second direction of development, provides opportunities for creation of value for the shareholders.

- Loyalty programs

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

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

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

- Capital Group and the external strategy of PKN ORLEN S.A.

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

PKN ORLEN S.A. has stakes in 80 subsidiaries and associates. The companies from the Capital Group can be divided into different ways, in particular in terms of theirs core business:

- Strategic companies which include: Rafineria Trzebinia S.A., Rafineria Jedlicze S.A., Anwil S.A., IKS Solino S.A., Naftoport S.A., ORLEN Asfalt Sp. z o.o., Basell Orlen Polyolefins Sp. z o.o., ORLEN Oil Sp. z o.o.;
- Distribution companies which include: ORLEN Gaz Sp. z o.o., ORLEN Deutschland AG and 7 fuel companies – Regional Market Operators: ORLEN PetroCentrum Sp. z o.o., ORLEN PetroTank Sp. z o.o., ORLEN Petroprofit Sp. z o.o., ORLEN PetroZachod Sp. z o.o., ORLEN Morena Sp. z o.o., Petrolot Sp. z o.o., Ship-Service S.A.;
- Strategic support companies in the area of transport's logistics, which include: rail transport company - ORLEN Koltrans Sp. z o.o. and 7 land transport companies located around the whole country: ORLEN Transport Plock Sp. z o.o., ORLEN Transport Krakow Sp. z o.o., ORLEN Transport Nowa Sol Sp. z o.o., ORLEN Transport Slupsk Sp. z o.o., ORLEN Transport Kedzierzyn Kozle Sp. z o.o., ORLEN Transport Szczecin Sp. z o.o., ORLEN Transport Olsztyn Sp. z o.o.;
- Maintenance and support companies in Main Plant in Plock, which include 2 companies: ORLEN Automatyka Sp. z o.o., ORLEN Wir Sp. z o.o.
- Service companies, which include 3 companies located around the whole country: Zaklad Urzadzen Dystrybucyjnych Sp. z o.o., Serwis Nowa Wies Wielka Sp. z o.o., Serwis Mazowsze Sp. z o.o.
- Other companies including 23 companies with different core activity, located around the whole country.
- Minority companies including 26 companies in which the Company owns less than 20% stake in the share capital. Shares of these companies were acquired mainly as a result of receivables conversion and on most of them the Company recognized impairment provisions.
- Polkomtel S.A.

The purpose of PKN ORLEN is to build a strong Capital Group supporting its basic activities in terms of processing, distribution, logistics and sale of refining products by:

- Undertaking operating and investing activities to realize the economic goals i.e EBITA of PLN 6 billion in 2009 as defined in the „Value Creation Strategy";
- Enhancing the position in the core business companies and controlling their activities. In 2004 among others the Company repurchased shares in fuel companies from minority shareholders;
- Implementing limited segmental management by ensuring coordination between business centers in the PKN ORLEN and the companies;

- Restructuring the core assets, their consolidation to build the value of the Capital Group companies;
- Disinvesting the non-core assets in order to finance the core business. In 2004 shares in 5 non-core companies were sold. At present the process of selling other transport, maintenance and service companies, recreation and leisure companies, and others with different kinds of activities as well as the company Polkomtel is in progress;
- Investing in companies crucial to the Capital Group – investments within an area of heavy chemistry synthesis and purchase of shares in the following companies: Zaklady Azotowe Tarnow, Zaklady Azotowe Kedzierzyn Kozle is considered.

The factors resulting in development of the Capital Group are as follows:

- The plans of the Capital Group relate to development and investments in areas regarded as perspective and providing above the average economic value and market growth;
- Connection with the core business of PKN ORLEN S.A. is the second most significant factor determining the decision to keep the company in the Capital Group. The more correlated the activities of the particular company are with the core activities of the Capital Group or the company is involved in the channel of distribution of PKN ORLEN S.A. and contributes to the margin, the more probable is that the company will be kept in the portfolio;
- Other factors (social, necessary actions and events supporting local society) less essential, though might be taken into account when taking decision concerning the sale of shares in the companies.

IV. IMPORTANT EVENTS THAT WERE SUBJECT OF CURRENT REPORTS DURING THE YEAR ENDED 31 DECEMBER 2004 AND AFTER THAT DATE UNTIL THE DAY OF FINANCIAL STATEMENTS ("AMENDED FINANCIAL STATEMENTS") APPROVAL

1. On 12 January 2004 PKN ORLEN S.A. submitted an indicative offer (the "Offer") for the acquisition of 62.99% of the share capital of UNIPETROL a.s., a company operating in the Czech oil sector ("UNIPETROL") and the purchase of the receivables of Ceska Konsolidacni Agentura ("CKA") from certain entities directly or indirectly owned by UNIPETROL, as well as for the potential purchase of 9.76% of the share capital of Spolana, a.s., currently being held by CKA (collectively the "CKA Assets"). In the offer PKN ORLEN S.A. proposed preliminary purchase price based on the analysis of limited scope information and data obtained on that stage of negotiations. PKN ORLEN S.A. expects that in the next stage of the negotiation, it will be possible to perform legal and financial analysis and to verify compliance with the environment protection and technical standards regulations. Such analysis will enable the Company to assess either the value of UNIPETROL or other rights and obligations connected with privatization process properly. As a result, the final price in the binding offer may be subject to changes. The offer is a part of PKN ORLEN S.A. strategy, according to which the Company shall play a leading role in the consolidation of the refining market in the Central Europe. The purchase of UNIPETROL is one of the next significant steps in PKN ORLEN strategy, as it offers a perfect opportunity for PKN ORLEN to: (I) expand its geographical scope, (II) enter the attractive Czech market, (III) strengthen its position in the Southern Poland. PKN ORLEN S.A. considers itself to be a long-term strategic investor and regional consolidator of the most important assets of UNIPETROL, while simultaneously the Company has signed a contract with AGROFERT HOLDING, a.s., which provides for sale of the UNIPETROL assets that are not considered as core to PKN ORLEN business. Moreover, PKN ORLEN S.A. and ConocoPhillips Central and Eastern Europe Holdings B.V. located in Rotterdam, the Netherlands concluded an agreement concerning the intention to co-operate in the process of privatization of UNIPETROL.

2. On 27 January 2004 PKN ORLEN S.A. issued a corporate guarantee to the company Shell Deutschland Oil GmbH – to secure the liabilities of ORLEN Deutschland AG arising from ORLEN Deutschland's fuel trading operations – amounting to EUR 40,000 thousand. The guarantee is valid till 31 January 2005. The issuer possesses a 100% stake in the share capital of ORLEN Deutschland AG. On 10 February PKN ORLEN S.A. provided the company Shell Deutschland Oil AG with a corporate guarantee in order to secure the liabilities of its German subsidiary ORLEN Deutschland AG resulting from trading in fuel for the amount of EUR 20 million. The guarantee is valid till 31 January 2005.

3. On 19 February 2004 PKN ORLEN S.A. issued corporate guarantees to the following companies: HGM Roland

Mineralol Handel GmbH, Holborn European Marketing Company Ltd., Louis Dreyfus & Cie Mineralol GmbH, Mabanaft Deutschland GmbH & Co. KG, Deutsche BP Aktiengesellschaft for the total value of EUR 22 million and USD 40 million and sureties in the form of guarantee letters for such banks as Bayerische-Hypo und Vereinsbank AG, Dresdner Bank AG, Commerzbank AG in the total value of EUR 15 million in order to secure completion of duties by its German subsidiary ORLEN Deutschland AG resulting from trading in fuels. Issued guarantees and sureties will replace currently valid securities granted on 29 July 2003 on the basis of the Issuer's sureties.

4. On 1 March 2004 the Polish State Treasury, following the resignation of Jacek Bartkiewicz from his position as a member of the Supervisory Board of PKN ORLEN S.A., appointed Grzegorz Mroczkowski to replace him. Then, on 2 April 2004 the Polish State Treasury appointed Maciej Kruk as a member of the Supervisory Board of PKN ORLEN S.A., to replace Grzegorz Mroczkowski. On 8 April 2004 the Polish State Treasury appointed Janusz Zielinski as a member of the Supervisory Board of PKN ORLEN S.A., to replace Maciej Kruk.

5. On 8 April 2004 the Extraordinary Shareholders Meeting of PKN ORLEN dismissed Maciej Gierej, Edward Grzywa, Andrzej Kratiuk and Orest Nazaruk from the Supervisory Board, and simultaneously Jacek Walczykowski, Andrzej Wieczorkiewicz, Andrzej Studzinski and Marian Czakanski were appointed to the Supervisory Board.

6. On 16 April 2004 PKN ORLEN withdrawn from submitting a binding offer to purchase shares of SNP Petrom S.A. PKN ORLEN S.A. is currently involved in a number of privatisation processes in the oil sector in the Central Europe. PKN ORLEN S.A. requested twice the Romanian Government to extend the deadline for the submission of binding offers due to the need to conduct further, in-depth analysis, taking into account the impact of these processes on the PKN ORLEN S.A. participation in the privatization of SNP Petrom. However, the Romanian Government decided not to extend the deadline of 15 April 2004.

7. On 22 April 2004 the Supervisory Board of PKN ORLEN S.A. appointed Krzysztof Kluzek as the member of the Management Board. Simultaneously he resigned from the position of the member of the Supervisory Board of PKN ORLEN S.A.

8. On 23 April 2004 PKN ORLEN S.A. submitted an offer for the acquisition of 62.99% of the share capital of UNIPETROL a.s. („UNIPETROL"), a company operating in the Czech oil sector, and for the purchase of the receivables of Ceska Konsolidacni Agentura ("CKA") from certain entities directly or indirectly owned by UNIPETROL, as well as for the purchase of 9.76% of the share capital of Spolana, a.s., currently being held by CKA (collectively the "CKA Assets").

9. On 26 April 2004 PKN ORLEN was informed that, on 19 April 2004 changes in Articles of Association of CPN Marine Service Sp. z o.o. located in Gdansk concerning the initial capital increase and the change of the company's main areas of activities were registered in XII Commercial Division in the Register Court. The initial capital of CPN Marine was increased from the level of PLN 50 thousand to the level of PLN 1 million (by PLN 950 thousand) through issuance of 1,900 shares with par value of PLN 500 each. The capital was increased through cash contribution by the sole shareholder PKN ORLEN. The District Court also registered the change of the name of the company – from CPN Marine Service Sp. z o.o. to Centrum Komercjalizacji Technologii Sp. z o.o. The company's core activity is business and management advisory services.

10. On 29 April 2004 PKN ORLEN S.A. received a letter from WestLB a financial advisor to Czech National Property Found ("NMF") and a state agency Ceska Konsolidacni Agentura ("CKA"), which stated that the Czech Government selected PKN ORLEN S.A. as the successful bidder in the auction for the 62.99% stake in the Czech leading oil and petrochemicals group, UNIPETROL a.s. ("UNIPETROL") held by the NPF. In this connection PKN ORLEN S.A. will purchase the receivables from certain entities form the UNIPETROL Capital Group, as well as 9.76% of the share capital of SPOLANA, a.s. ("SPOLANA"), currently owned by CKA. PKN ORLEN agreed to pay approximately CZK 11.3 billion for the 62.99% stake in UNIPETROL, CZK 1.0 million for CKA's 9.76% stake in Spolana and approximately CZK 1.7 billion for CKA's receivables with a total nominal value of CZK 3.1 billion and EUR 9.5 million, and USD 4.9 million, as at 1 April 2004. According to the Czech law regulations and as a result of the purchase of majority shares in UNIPETROL, PKN ORLEN S.A. is obliged to announce invitation to purchase other shares from minority shareholders of UNIPETROL and its listed subsidiaries. PKN ORLEN S.A. concluded agreements with ConocoPhillips Central and Eastern Europe Holdings B.V, one of the world leading fuel companies and Argofert Holding a.s. („Agrofert"), second biggest group in the Czech chemistry sector, according to which in case of favourable completion of the privatisation process, PKN ORLEN S.A. as the majority shareholder of UNIPETROL will make efforts to sell part of the UNIPETROL assets to ConocoPhillips and Agrofert. A large portion of the funds for the financing of this transaction is already provided in the form of the currently available credit limits. The remaining part will be arranged for within the time periods indicated in the payment schedules relating to the transaction. In view of the Management, the completion of the transaction will not result in any violation of any covenants under the syndicated credit facility agreement. Some of the banks have already offered PKN ORLEN S.A. their services concerning the above mention transaction. PKN ORLEN will present the details regarding the transactions after the agreement with FMN concerning sale of shares has been concluded.

11. On 30 April 2004 PKN ORLEN made public the joint statement of MOL and PKN ORLEN S.A. on the

advancement of their talks concerning cooperation. On 20 November 2003, MOL and PKN ORLEN S.A. signed a Memorandum of Understanding initiating exclusive negotiations to evaluate the potential merits of closer cooperation between the two companies. The Memorandum of Understanding determined an initial period for exclusive consultation between MOL and PKN ORLEN in respect of the potential cooperation. The thorough commonly conducted analysis during the recent months has clearly indicated strong business logic and potential of the cooperation for both companies. The parties have made substantial progress on the creation of an agreed, detailed cooperation framework, but further discussions are still required to reach a binding agreement and to secure approvals from all relevant governmental and corporate bodies. Cooperation between the parties, which has started on the basis of the Memorandum of Understanding, will be continued upon the progress made so far.

12. On 28 July 2004 Zbigniew Wrobel resigned from the position of the President of the Management Board of PKN ORLEN S.A. The resignation was effective when the new President of the Management Board had been appointed by the Supervisory Board. On 29 July 2004 the Supervisory Bard of PKN ORLEN appointed Jacek Walczykowski as the President of the Management Board. Jacek Walczykowski resigned from the position of Vice-President and Member of Supervisory Board, as well as from the position of Vice-President and Member of Management Board of Nafta Polska S.A.

13. On 29 July 2004 PKN ORLEN S.A. granted the surety in the form of guarantee letter for the bank Zurich Versicherung AG for the total value of EUR 20 million in order to secure completion of duties by its German subsidiary ORLEN Deutschland AG resulting from trading in fuels. The surety is valid up to 31 January 2005. The Company has a 100% share in ORLEN Deutschland AG.

14. On 5 August 2004 Andrzej Wieczorkiewicz resigned from the position of the Supervisory Board Member of PKN ORLEN. Andrzej Wieczorkiewicz did not give reasons for his resignation.

15. On 5 August 2004 the Extraordinary Meeting of Shareholders dismissed from the Supervisory Board: Jan Waga, Ryszard Lawniczak, Andrzej Studzinski, Krzysztof Szlubowski, Janusz Zielinski, and appointed to the Supervisory Board: Jacek Bartkiewicz, Raimondo Eggink, Maciej Gierej, Krzysztof Lis, Malgorzata Okonska-Zaremba, Piotr Osiecki, Ireneusz Wesolowski, Krzysztof Zyndul.

16. On 11 August 2004 the Register Court in Krakow registered an increase in the share capital of the company ORLEN Oil Sp. z o.o. ("ORLEN Oil"). The share capital was increased from PLN 43,558 thousand by the amount of PLN 31,535 thousand. The stake in the increased share capital was covered in whole by PKN ORLEN S.A. in the form of cash contribution. After the increase of the share capital of ORLEN Oil the stake of PKN ORLEN S.A. rose from 9% to 47.2%. Remaining shares are possessed by Rafineria Trzebinia S.A. (43.8%),

Rafineria Nafty Jedlicze S.A. (4.5%), Rafineria Czechowice S.A. (4.5%). Each share gives right the right to only one voice during the General Meeting of Shareholders. The purpose of the increase of the share capital is to acquire resources for partly financing the acquisition of ORLEN Oil's assets being the element of the oil department of PKN ORLEN S.A. These tasks are connected with the strategy of consolidation of the oil assets of PKN ORLEN S.A. around ORLEN Oil in order to create the uniform centre managing the oil segment in PKN ORLEN S.A. The contribution accounts for 20% of the ORLEN Oil share capital, i.e. significant asset in accordance with Decree of the Council of Ministers dated 16 October 2001 (paragraph 2 point 1 and 3) concerning current and periodical information published by issuers of securities.

17. On 12 August 2004 PKN ORLEN S.A. received writing from the shareholder Bengodi Finance S.A located in Warsaw, informing that it had filed a suit to in the District Court in Warsaw, XV Commercial Division to affirm nullity of Resolution of the Shareholders Meeting. The suit concerns the Resolution no 14 taken on 5 August 2004 by the Extraordinary Shareholders Meeting to appoint the President of the Supervisory Board. On 30 September 2004 PKN ORLEN received the ruling of the District Court in Warsaw, XV Commercial Division to reject the motion of Bengodi Finance to secure the suit.

18. On 17 August 2004 the Supervisory Board analyzed the process of appointment Jacek Walczykowski for the President of the Management Board. On 16 August 2004 the Supervisory Board of PKN ORLEN S.A. took a resolution to dismiss Jacek Walczykowski from the position of the President of the Management Board – General Director. The resolution was taken unanimously. On 16 August 2004 the Supervisory Board of PKN ORLEN S.A. unanimously took a resolution to entrust Janusz Wisniewski with the entitlement of the acting President of the Management Board of PKN ORLEN S.A. in line with the procedure approved by the Supervisory Board. The Supervisory Board approved of the procedure concerning appointment of the new President of the Management Board with the assistance of the personal advisor.

19. On 21 September 2004 the Supervisory Board of PKN ORLEN unanimously appointed Igor Chalupec to the position of the President of the Management Board with the effect on 1 October 2004. The appointment was made according to procedures earlier approved by the Supervisory Board. Before the appointment decision was made, the Supervisory Board had individual interviews with all the candidates who qualified for inclusion on the short list.

20. On 4 October 2004 the PKN ORLEN S.A. acknowledged the fulfillment of one of the conditions precedent provided for in the conditional agreement to acquire 114,224,038 bearer shares of Unipetrol a.s. ("Unipetrol"), each having the nominal value of CZK 100, and representing approximately 62.99% of all issued and outstanding shares of Unipetrol, The agreement was concluded on 4 June 2004 between the National Property Fund of the

Czech Republic ("NPF") and the Company ("Unipetrol Share Purchase Agreement"). Pursuant to the provisions of the Unipetrol Share Purchase Agreement, the agreement was conluded under several conditions precedent among which were the pre-emptive rights to be executed with respect to the shares held by Unipetrol in Ceska rafinerska, a.s., or the ineffective lapse of the time limit provided for the execution of such pre-emptive rights in connection with the change of control over Unipetrol, with such rights being vested in each IOC member (namely, Eni International B.V., ConocoPhillips Central and Eastern Europe Holdings B.V. and Shell Overseas Investments B.V., being the shareholders of Ceska rafinerska, a.s.). According to the NPF notification received by the Company, the above mentioned condition precedent has been fulfilled as the NPF was advised by Unipetrol of the ineffective lapse of the time period provided for the execution of the above mentioned pre-emptive rights, and none of members of IOC executed his pre-emptive rights.

21. On 18 October 2004 the Supervisory Board of PKN ORLEN changed composition of the Management Board. It is related with planned change of the Management structure oriented on effective and transparent management. The changes were made according to procedures earlier agreed by the Supervisory Board. Before the appointment decision was made, the all candidates had been evaluated by the advisory company Korn/Ferry International.

    The Supervisory Board accepted all handed in on 18 October 2004 resignations of:

    - Krzysztof Kluzek from the position of Member of the Management Board of PKN ORLEN S.A. on 18 October 2004,
    - Slawomir Golonka and Jacek Strzelecki from the position of Vice-President of PKN ORLEN S.A. on 31 October 2004.

    Simultaneously the Supervisory Board of ORLEN appointed to the Management Board the following persons:

    - Wojciech Heydel as Vice-President of the Management Board on 1 November 2004,
    - Jan Maciejewicz as Vice-President of the Management Board on 1 December 2004,
    - Cezary Smorszczewski as Vice-President of the Management Board on 1 November 2004,
    - Pawel Szymanski as Member of the Management Board on 8 October 2004.

22. On 3 November 2004, based on the article 147 paragraph 1 Act on public securities trade as of 21 August 1997, PKN ORLEN S.A. received writing from Kulczyk Holding S.A., located in Warsaw, in which Kulczyk Holding S.A informed PKN ORLEN S.A. that on 27 October 2004 its subsidiary Euro Agro Centrum S.A. had sold 945,000 shares in PKN ORLEN S.A., representing 0.221% of the share capital, giving right to 945,000 voices on the Shareholders Meeting of PKN ORLEN S.A. The transaction was settled on 2 November 2004. As a result Kulczyk Holding S.A together with its subsidiaries possesses 20,443,377 shares in PKN ORLEN S.A. (4.78% of the share capital), giving right to 20,443,377 voices on the Shareholders Meeting of PKN ORLEN S.A. (4.78% of

the all voices).

23. On 16 December 2004 PKN ORLEN S.A. was notified by Czech National Property Found („FMN"), that precedent condition of the Purchase Agreement concerning 114,224,038 bearer shares in Unipetrol a.s. – for FMN to obtain a decision from the European Commission confirming, that the transaction did not meet the citeria of the public aid, was fulfilled. The decision of the European Commission was taken on 1 December 2004 and was obtained by FMN on 7 December 2004.

24. On 3 January 2004 the Register Court in Opole, VII Commercial Division of the National Register Court registered the merger of Zaklad Urzadzen Dystrybucyjnych Sp. z o.o., located on Opole (acquirer) with the following companies (acquirees):
    - Serwis Katowice Sp. z o.o., located in Katowice,
    - Serwis Kedzierzyn - Kozle Sp. z o.o., located in Kedzierzyn - Kozle,
    - Serwis Kielce Sp. z o.o., located in Kielce,
    - Serwis Lodz Sp. z o.o., located in Lodz ,
    - Serwis Rzeszow Sp. z o.o. z , located in Rzeszow,

    by transfer of the companies' properties on the Zaklad Urzadzen Dystrybucyjnych Sp. z o.o, (merger by acquisition). As a result the Articles of Associations of Zaklad Urzadzen Dystrybucyjnych Sp. z o.o. were modified by increasing the share capital of the company by PLN 222,700 (frm PLN 6,536,500 to 6,759,200). The shares in the increased share capital amounting to PLN 50 each were acquired by the current shareholders of the acquired companies.

    As a result of the share capital increase in Zaklad Urzadzen Dystrybucyjnych Sp. z o.o, the share of PKN ORLEN S.A. decreased from 99.94 % to 96.65%. After the registration of the merger and the share capital increase, the total number of voices on the Shareholders Meeting amount 135,184. The registration of the merger of Zaklad Urzadzen Dystrybucyjnych Sp. z o.o with the following companies: Serwis Katowice Sp. z o.o., Serwis Kedzierzyn - Kozle Sp. z o.o., Serwis Kielce Sp. z o.o., Serwis Lodz Sp. z o.o., Serwis Rzeszow Sp. z o.o., results in their exclusion from the register.

25. On 4 January 2005 PKN ORLEN S.A. issued corporate guarantees to the following companies: Holborn European Marketing Company Ltd, Deutsche BP Aktiengesellschaft, Shell Deutschland Oil GmbH for the total value of EUR 64 million and USD 56 million and sureties in the form of guarantee letters for the insurance company Zürich Versicherung AG in the total value of EUR 25 million in order to secure completion of duties by its German subsidiary ORLEN Deutschland AG resulting from trading in fuels (total ca PLN 548 million). The guarantees are valid from 1 February 2005 and are prolongation of the current guarantees valid till 31 January 2005. The guarantees issued for Shell Deutschland Oil GmbH are valid till 30 June 2005 and for Holborn

European Marketing Company Ltd, Deutsche BP Aktiengesellschaft and Zurich Versicherung AG are valid till 31 December 2005. PKN ORLEN S.A. has a 100% share in ORLEN Deutschland AG.

26. On 19 January 2005 PKN ORLEN S.A. was notified by PETROVAL S.A. of withholding the implementation of future contract to supply crude oil from 21 December 2002 due to a force majeure event which impeded the contract's performance. According to the notice delivered by PETROVAL S.A., the event that qualifies as a force majeure event and justifies interruption of the contract's performance is Yukos' inability to deliver crude oil. It is currently impossible to assess how long this situation will persist. The Management Board of PKN ORLEN S.A. declares that the above described situation does not impede supply crude oil continuity thanks to previously undertaken contingencies. Crude oil deliveries are expected to be executed according to plan, thanks to term and supplementary crude oil delivery spot contracts.

27. In compliance with the Company's Articles of Association and the Accounting Act, the Supervisory Board of PKN ORLEN S.A., following its meetings on 21 January 2005, appointed KPMG Audyt Sp, z o.o., based in Warsaw, ul. Chlodna 51, to audit PKN ORLEN S.A. financial statements and the Capital Group's consolidated financial statements for the years 2005, 2006 and 2007, according to the International Accounting Standards. In addition, KPMG will review PKN ORLEN S.A. standalone and its Capital Group consolidated quarterly and half year financial statements starting from 2Q 2005 till 4Q 2007.

28. On 3 February 2005 PKN ORLEN S.A announced that on 2 February 2005 the Supervisory Board of the Company approved a new strategy for PKN ORLEN S.A.
The PKN ORLEN S.A strategy derives from the Group new mission statement:
"Aiming to become the regional leader, we ensure long-term value creation for our shareholders by offering our customers products and services of the highest quality. As the transparent company, we want all our operations to adhere to 'best practice' principles of corporate governance and social responsibility, with focus on care for our employees and the natural environment".
PKN ORLEN S.A. will build its firm value primarily by harnessing its existing potential to a maximum extent. In line with the new strategy, we will continue to implement improvements in efficiency and invest in selective projects offering high returns. As part of PKN ORLEN S.A. focus on its core businesses, we want to strengthen the Company's presence in its key business areas in the relevant markets, while continuing to restructure our asset portfolio.
An efficient integration of UNIPETROL and realization of synergies resulting from that, was indicated as one of the most important aspects in case of not gaining positive decision from the European Union which would enable the Company to conclude the deal. It will allow as a consequence to create a basis for further investment in Czech Republic.

Avoiding of political involvement through implementing clear rules of the corporate order and the policy of managing staff on the basis of essential premises is also considered to be important.

The new strategy was formed on the basis of the detailed analysis concerning among others the future of the refining and petrochemical market. As a result way were determined to bring PKN ORLEN S.A. to the position of the best company in its class.

PKN ORLEN S.A. will carry out monitoring of the expansion taking into account the availability and satisfying of the strict criteria of the assessment of the potential investments in the area of sales and processing – downstream, as well as satisfying additional conditions in the area of searching and exploration – upstream, including the subject of the security of the deliveries.

Strategic partnership and regional consolidation may be considered after the realization of the set goals or, if they serve acceleration of the realization of the strategy.

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

- EBITDA at the level over PLN 6 billion
- ROACE at the level 17.5%
- CAPEX in the years 2005-2009 PLN 1.7 billion
- Financial leverage (gearing) 30-40%
- The rate of dividend paid 30%

In the new strategy the following key areas of improvement of the efficiency were assumed:

- continuation of the program of cost cutting;
- restructuring of the Capital Group PKN ORLEN S.A. and implementation of the segmental management (the sale of shares of Polkomtel S.A., transparent corporate structure, continuation of sale of the assets from non-core activity);
- restructuring and optimization of the retail network till 2009 among others through:
- protecting a share in the market against a further decrease and its extension to the level of 30% of the market share (present share in the domestic retail fuel market is considered to amount to 28.6%)*;
- an increase of the share in retail margin on non-fuel products by 10pp;
- an increase of the annual average sales per station by 5% CAGR;
- analysis of the activity of ORLEN Deutschland, which has to be developed to achieve a critical size or a decision to sell its assets should be considered;
- implementing a management system on the basis of SVA as well as implementing remuneration system connected with achieved results;
- applying strict rules and criteria of assessing new investment projects which take into account first of all predictions concerning the demand for engine oil and middle distillates and after that an expected prosperity for petrochemical products (this aspect will be subject of a further analysis).

Additional important financial and operating information:

- assumed extent of the usage of the Plock production installations in 2005 at the level of 96%;
- all the financial data (as not indicated in the other way) concerns the Capital Group PKN ORLEN on the basis of MSSF;
- taking into account the macroeconomic assumptions from the year 2004 a targeted amount of the EBITDA for 2009 is about PLN 7.9 billion;
- depreciation (yearly average for 2005-2009) amounts to PLN 1.7 billion;
- additional investment expenditure may amount to PLN 2.75 billion;
- CAPEX and depreciation (yearly average 2005-2009) for PKN ORLEN S.A. (the Company) amount to PLN 0.9 billion;
- CAPEX (in PLN million) separately for 2005: PHL 370, retail 480, Pchem 300; for 2006: PHL 580, retail 400; yearly average for 2007-2009: PHL 350, retail 350; additional possibilities of the development are estimated for the amounts: for 2006: retail 60, Pchem 230; yearly average for 2007-2009: PHL 350, retail 60, Pchem 450;
- data concerning CAPEX do not include capital expenditure for finished investment goods, and other expenditure for PKN ORLEN S.A., UNIPETROL, ORLEN Deutschland and subsidiaries to PKN ORLEN S.A.;
- the share in the domestic retail fuel market was calculated as a share of retail sales of PKN ORLEN S.A. in the total retail fuel sales, where the total retail sales amounted to 75% of the total consumption of engine oil and 100% of petrol and LPG;
- assumptions concerning crude oil Brent prices (USD/bbl): 2005=36; 2006=31.8; 2007-2009=29.6, source: own calculations on the basis of the external predictions;
- assumptions concerning crude oil Brent to Ural prices differentiation (USD/bbl): 2005=3.5; 2006=3.1; 2007-2009=2.95, source: own calculations on the basis of the external predictions;
- assumptions concerning refining margin Rotterdam (USD/bbl): 2005=3.43, 2006=3.62, 2007-2009=4.46, source: prediction of PKN ORLEN S.A.;
- assumptions concerning exchange rate PLN/EUR: 2005=4,40; 2006=4.12; 2007=4.08; 2008=4.03; 2009=4.10, source: average of four banks' predictions;
- assumptions concerning exchange rate PLN/USD: =3.20; 2006=3.16; 2007=3.17; 2008=3.37; 2009=3.38, source: average of four banks;
- long term indebtedness/EBITDA ratio will be sustained within the range 2.5-3.5.

29. On 1 March 2005 the Supervisory Board of PKN ORLEN S.A. approved "PKN ORLEN S.A. 2005-2009 Retail Sales Development Plan in Poland".

    The strategy assumes three fundamental strategic targets:

    1. Strengthening of market position.

2. Increasing of operating efficiency.
3. Creation of an efficient organizational structure.

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

The planned structure of the network is c.a. 1,000 Premium stations (under ORLEN S.A. brand) and c.a. 900 economy stations. As part of this, 50 Premium and c.a. 130 economy stations will be renovated or built annually and c.a. 40 Premium stations and c.a. 70 economy stations will be acquired annually. The planned capital expenditure is annually average c.a. PLN 390 million for the years 2005-2009.

Key operating and financial objectives (2009):

▪ Market share	at least 30%
▪ Sales volume	4.9bn litres/p.a.
▪ Share of the FLOTA programme in sales volume	at least 20%
▪ Average fuel sales per station *(company-owned stations [CODO])*	>2.5m litres/p.a.
▪ Non-fuel margin's share in total retail margin *(company-owned stations [CODO], Premium Standard)*	~ 30%
▪ ROACE	>17.5%

30. On 7 March PKN ORLEN S.A. announced that the number of its shares held by Pension Fund Commercial Union OFE BPH CU WBK, located in Warsaw, had decreased. According to the Current Report no 54/2003 of 4 July 2003 Commercial Union OFE BPH CU WBK owned 21,533,539 shares in PKN ORLEN S.A., accounting for 5.125% of the share capital (5.125% of votes at the Shareholders' Meeting). As on 2 March 2005 Commercial Union OFE BPH CU WBK owned 21,040,915 shares in PKN ORLEN S.A., accounting for 4.92% of the share capital (4.92% of votes at the Shareholders' Meeting).

31. On 30 March 2005 Krzysztof Zyndul resigned from the membership in the Supervisory Board of PKN ORLEN. He was appointed to the post of undersecretary at the Ministry of State Treasury.

32. On 14 April 2005, on the basis of share transfer agreements, the Company sold 24 shares with a par value PLN 589,000 and total nominal value PLN 14.136.000 representing 30.77% of the initial capital of Przedsiebiorstwo Przeladunku Paliw Plynnych "Naftoport" SP. z o.o. ("Naftoport") to PERN "Przyjazn" S.A. ("PERN"). The

main stipulations of the agreement are:

- The price for one share: PLN 2,820,512.82
- The total price for 24 shares: PLN 67,692,307.68
- The payment will be secured by a pledge on the sold shares

The agreement will be effective if all conditions are simultaneously fulfilled:

- The President of the Antimonopoly Office shall give unconditional consent for allowing the concentration of ownership by way of the acquisition by PERN of the Naftoport shares, or not issuing a decision regarding this matter within the time-frame which is allowable for this decision. On 13 April 2005 PERN was informed that the President of the Antimonopoly Office gave such a decision.
- Giving approval to the resolution of Naftoport shareholders – this condition was fulfilled on 24 January 2005
- The preemptive rights relating to the sale of shares by any shareholder of Naftoport will not be exercised – the condition was fulfilled on 21 January 2005

On 1 February 2005, at an Extraordinary General Meeting of Naftoport, shareholders accepted the changes to the company agreement. The altered agreement secures PKN ORLEN business arrangements and the remaining shareholders within the scope of the delivery guarantee.

At the same time PKN ORLEN, Naftoport and PERN signed long term commercial agreements which guarantee the security of crude oil delivery both by sea and inland. The above mentioned commercial agreements ensure the crude oil delivery opportunities by Naftoport on conditions not worse than before signing this agreement.

Following the above transactions PKN ORLEN will have a 17.95% stake in Naftoport. The remaining shareholders are:

- PERN 67.95%
- Grupa LOTOS S.A. 8.97%
- Port Polnocny 3.85%
- J & S Services Ltd. 1.28%

33. Polski Koncern Naftowy ORLEN S.A., Central Europe's largest downstream oil company, announces that on April 20, 2005 it received notification from the European Commission dated 20 April, 2005 regarding approval for the purchase from the National Property Fund of the Czech Republic ("FNM") 114,224,038 bearer shares in Unipetrol a.s. ("Unipetrol"), representing 62.99% of all bearer, issued and existing, shares in Unipetrol.
This fulfills the last condition regarding PKN ORLEN's conditional agreement to purchase shares in Unipetrol.

34. Polski Koncern Naftowy ORLEN S.A., Central Europe's largest downstream oil company, hereby announces that it has received the decree of the Arbitration Court, based in Warsaw, which states that the agreement for the purchase of 168,000 shares in Niezalezny Operator Miedzystrefowy Sp. z o.o. („NOM") by Polskie Sieci Elektroenergetyczne S.A. („PSE") in Warsaw from Polski Koncern Naftowy ORLEN S.A. did not come into force because the suspending condition was not fulfilled, i.e. the lack of approval from PSE corporate organs for the deal. At the same time the counter action of Polski Koncern Naftowy ORLEN S.A. for payment for the shares was declined. In accordance to the mentioned decision Polski Koncern Naftowy ORLEN S.A. still owns 168,000 shares in NOM of a total nominal value of PLN 84,000,000, representing 35 % of the initial capital of NOM.

V. MANAGEMENT BOARD STATEMENT CONCERNING COMPLIANCE WITH CORPORATE CODE REGULATIONS

On the basis of paragraph 27 of the Warsaw Stock Exchange ("WSE") Regulations and WSE Board Resolution concerning the application of Corporate Code Regulations for public companies which issue shares, convertible bonds or bonds with priority subscription rights allowed for trading, the Management Board of PKN ORLEN S.A. on 21 January 2005 made a statement on applying of Corporate Code Regulations. PKN ORLEN S.A. adapted all principles recommended by the Warsaw Stock Exchange. The document will be presented to the Shareholders Meeting on their next meeting.

The Supervisory Board agreed with the opinion of the Management Board as to adopt all of the Corporate Code Regulations, recommended by the Warsaw Stock Exchange.

The implementation of the Corporate Code Regulations included in the document "Good Practise Principles 2005" adopted by the Warsaw Stock Exchange, is not only designed for controlling the relationships between the entities involved in the company's operations, but also constitutes another step to adjust the corporate governance to the European Union standards.

Proper procedures and documents will be implemented in the Company to ensure that the adapted regulations will be executed in an appropriate manner. PKN ORLEN S.A. will aim at implementing these principles in all companies from the Capital Group.

The Management Board of PKN ORLEN S.A. maintains its opinion expressed in its announcement dated 21 January 2005.

ADDITIONAL INFORMATION

1. Information about significant agreements

1. PKN ORLEN concluded following yearly agreements:
   1. with BP Polska Spolka z o.o. The subject of the deal is the sale of petrol and diesel oil to the company BP Polska Sp. z o.o. in 2004. An estimated value of the transaction amounts to about PLN 3,342,000 thousand (gross).
   2. with SHELL Polska Spolka z o.o. The subject of the deal is the sale of petrol and diesel oil to the company SHELL Polska Sp. z o.o. in 2004. An estimated value of the transaction amounts to PLN 1,920,000 thousand (gross).

   These agreements are "significant agreements" in accordance with Decree of the Council of Ministers dated 16 October 2002 concerning current and periodical information published by issuers of securities, as their value exceeds 10% of the Issuer's equity.

2. On 7 January 2004 PKN ORLEN S.A. and ConocoPhillips Central and Eastern Europe Holdings B.V. located in Rotterdam, the Netherlands, concluded an agreement concerning the intention to co-operate in the process of privatization of UNIPETROL, a company operating in the Czech oil sector. The agreement sets out preliminary terms of the cooperation of the parties, outlines the proposed ultimate shareholding of the parties in some of the UNIPETROL companies and the potential terms of the purchase by the parties of some assets of UNIPETROL Group, in case of the PKN ORLEN S.A. successful participation in the UNIPETROL privatization. The agreement represents an early stage in the discussions between ConocoPhillips and PKN ORLEN S.A. and does not constitute a legally binding obligation of any party to enter into any future agreement.

3. On 9 January 2004 PKN ORLEN S.A. announced that on 6 January 2004 Basell Orlen Polyolefins Sp. z o.o. with its registered office in Plock ("JV Company") - a joint-venture company of PKN ORLEN S.A. and Basell Europe Holdings B.V. with its registered office in Haarlemmermeer, the Netherlands („BEH") - signed an advisory services agreement ("Advisory Services Agreement") between PKN ORLEN S.A., the JV Company and BEH. Simultaneously, PKN ORLEN S.A. entered into the agreement on construction and co-financing of infrastructure facilities with the JV Company („OSBL Agreement").

4. On 21 April 2004 PKN ORLEN S.A. signed preliminary agreement on sale of all the held shares (9,600 shares constituting 40% of initial capital) in Flexpol Sp. z o.o. located in Plock (Flexpol). The book value of shares amounts to PLN 4.8 million, selling price amounts to PLN 7.2 million. There are the following conditions to be fulfilled before the promissory contract will be concluded: former sale by PKN ORLEN S.A. to the investor of both the devices/installation rented by Flexpol from PKN ORLEN S.A. and the real estate/property partially

rented by Flexpol from PKN ORLEN S.A. The above mentioned sale requires shareholders' approval and UOKiK's (the Polish Office for Protection of Competition and Consumers) assent for the investor to buy the shares. The sale of all PKN ORLEN's shares of Flexpol Sp. z o.o. to Przedsiebiorstwo Produkcyjno-Handlowe Gasior Sp. z o.o. took place on 28 July 2004. On the same date the promissory contract was concluded after the last condition had been fulfilled, i.e. sale by PKN ORLEN S.A. to the investor of both the devices/installation rented by Flexpol from PKN ORLEN S.A. for PLN 26.108 thousand (gross price) and the real estate/property partially rented by Flexpol from PKN ORLEN S.A. for PLN 12.932 thousand (gross price). It is also assumed that Flexpol will pay its so far shareholders a dividend amounting to PLN 3 million for the year 2003 (i.e. for PKN ORLEN S.A. the amount of PLN 1.2 million)

5. On 1 July 2004 the Company signed an agreement on sale of property constituting an integral part of the company functioning in the structure of PKN ORLEN S.A. as the Oil Division for the total price of PLN 47,391,126.96 (net). The purchaser of the mentioned property is ORLEN Oil Sp. z o.o. located in Krakow. The above deal represents a further step in the restructuring process carried out by PKN ORLEN S.A. The project's aim is to consolidate the production and sale of engine oils and lubricants in the PKN ORLEN Capital Group. It is also a further stage in the process of integrating the production of base oils and the production and sale of finished products such as engine oils and lubricants. On the day of concluding the agreement, the stake of PKN ORLEN S.A. in the share capital amounted to 9%.

6. On 6 September 2004 ORLEN Deutschland AG concluded the yearly contract with Shell Oil Deutschland GmbH. The subject of the agreement is sale of about 350-450 thousand cubic metres of petrol and diesel oil to the company ORLEN Deutschland AG in 2004. The estimated value of the transaction amounts to about EUR 360 million. The above mentioned wholesale agreement is the formal closing of previous settlements which have been executed during 2004. These agreements are significant agreements in accordance with Decree of the Council of Ministers dated 16 October 2002 concerning current and periodical information published by issuers of securities, as their value exceeds 10% of the Issuer's equity. ORLEN Deutschland AG is wholly owned by PKN ORLEN S.A.

7. On 23 December 2004 PKN ORLEN S.A. and ORLEN Deutschland AG signed a short term loan agreement for the amount of EUR 60 million for the period from 27 December 2004 till 28 February 2005 to secure the tax liabilities of ORLEN Deutschland AG. The tax liabilities come out of ORLEN Deutschland's fuel trading operations. PKN ORLEN S.A. holds 100% stake in ORLEN Deutschland AG.

8. On 3 January 2005 PKN ORLEN S.A. concluded a wholesale agreement with SHELL Polska Spolka z o.o. for the sale of petrol and diesel oil with an estimate gross value of PLN 1,905 million for delivery during 2005.

9. On 3 January 2005 PKN ORLEN S.A. concluded a wholesale agreement with Orlen PetroCentrum Sp. z o.o. for the sale of petrol and diesel oil with an estimate gross value of PLN 1,173 million (gross) for delivery during 2005.

10. On 3 January 2005 PKN ORLEN S.A. concluded a wholesale agreement with BP Polska Spolka z o.o. for the sale of petrol and diesel oil with an estimated gross value of PLN 2,377 million (gross) for delivery during 2005.

11. On 3 January 2005 ORLEN Deutschland AG signed an agreement with Shell Deutschland Oil GmbH, Hamburg for the delivery of fuels for PKN ORLEN S.A. stations in Germany during 2005 with an estimated value of PLN 2,443 million (EUR 600 million).

12. On 6 January 2005 ORLEN Deutschland AG signed a wholesale agreement with Deutsche BP AG for the purchase of petrol and diesel oil during 2005 with an estimated value of approximately EUR 700 million (approximately PLN 2,852.5 million). The above mentioned agreement is significant agreement in accordance with Decree of the Council of Ministers dated 16 October 2002 concerning current and periodical information published by issuers of securities, as their value exceeds 10% of the Issuer's equity. ORLEN Deutschland AG is wholly owned by PKN ORLEN S.A.

13. On 12 January 2005 PKN ORLEN S.A. concluded a wholesale agreement with Rafineria Trzebinia S.A. for the sale of petrol and diesel oil with an estimate gross value of PLN 343 million for delivery during 2005. PKN ORLEN S.A. holds 77.1% stake in Rafineria Trzebinia S.A.

14. On 13 January 2005 PKN ORLEN S.A. concluded an agreement with Rafineria Trzebinia S.A. for the sale of petrol for pyrolysis with an estimate gross value of USD 1,084,257 (approximately PLN 3,369,763). The agreement is binding for the period 11 January 2005 till 31 January 2005. PKN ORLEN S.A. holds 77.1% stake in Rafineria Trzebinia S.A.

15. On 14 April 2005, on the basis of share transfer agreements, the Company sold 24 shares with a par value PLN 589,000 and total nominal value PLN 14.136.000 representing 30.77% of the initial capital of Przedsiebiorstwo Przeladunku Paliw Plynnych "Naftoport" SP. z o.o. ("Naftoport") to PERN "Przyjazn" S.A. ("PERN").

2. Production

No.	Raw material	Processing /tons/		Dynamics
		2003	2004	2004/2003
1.	REBCO	11,606,562	12,045,965	103.8%
2.	Low-sulphur crude-oil	117,440	148,103	126.1%
	Total	11,724,002	12,194,068	104.0%

No.	Product	Processing /tons/		Dynamics
		2003	2004	2004/2003
1.	Total petrol	2,766,691	2,753,075	99.5%
2.	Total diesel oil	3,070,725	3,347,455	109.0%
	Total fuels	5,837,416	6,100,530	104.5%
3.	LPG	215,710	202,925	94.1%
4.	JET A-1	300,622	336,607	112.0%
5.	Ekoterm	1,531,261	1,706,332	111.4%
	Total petrol	7,885,009	8,346,394	105.9%

No.	Product	Processing /tons/		Dynamics
		2003	2004	2004/2003
1.	Heating oil "3"	717,437	678,146	94.5%
2.	Solvents	18,082	17,461	96.6%
3.	Aromatic C9+	26,547	13,772	51.9%
	Razem	762,066	709,379	93.1%

No.	Product	Production /tons/		Dynamics
		2003	2004	2004/2003
1.	Ethylene	246,889	265,350	107.5%
2.	Propylene	201,000	217,658	108.3%
3.	Butadiene	44,055	45,997	104.4%
4.	Benzene	75,289	76,855	102.1%
5.	Toluene	58,814	73,449	124.9%
6.	Ortoxylene	23,329	24,058	103.1%
7.	Paraxylene	36,398	31,550	86.7%
8.	Xylene	16,240	19,967	122.9%
	Total aromatics (pos. 4-8)	210,070	225,879	107.5%
9.	Phenol	52,577	52,967	100.7%
10.	Acetone	33,377	33,828	101.4%
11.	MEG	86,679	94,015	108.5%
12.	DEG	9,676	10,621	109.8%
13.	TEG	310	346	111.6%
14.	Petrygo Q	16,288	16,927	103.9%
15.	Qal fluid	70	379	541.4%
	Total glycols + radiator liquids (pos. 9-15)	113,023	122,288	108.2%
16.	Sulphur	104,331	106,614	102.2%
17.	Ethylene oxide	18,894	17,845	94.4%
	Total	1,024,216	1,088,426	106.3%

3. Sale

Quantity structure of sold products and goods for resale

Group of products and goods for resale	Sales (in thousand tons)		Structure %		Dynamics %
	2003	2004	2003	2004	2004/2003
Petrol	2,867	2,864	26.38	25.22	99.90
Eurosuper 95	2,322	2,356	21.36	20.75	101.46
Super Plus 98	175	193	1.61	1.70	110.29
Universal 95	370	315	3.40	2.77	84.86
Diesel	3,249	3,425	29.89	30.17	105.42
Heating oil (light)	1,539	1,702	14.16	14.99	110.59
JET A-1 (aircraft fuel)	294	345	2.70	3.04	117.35
Light products	7,949	8,336	73.13	73.42	104.87
Liquid gas (LPG)	303	316	2.79	2.78	104.29
Heating oil III	694	719	6.38	6.33	103.60
Sulphur	105	106	0.97	0.93	100.95
Other refinery products	753	817	6.93	7.20	108.50
Total refinery products	9,804	10,294	90.19	90.66	105.00
Polyethylene	27	0	0.25		.
Polypropylene	28	0	0.26		
Phenol	53	53	0.49	0.47	100.00
Acetone	33	34	0.30	0.30	103.03
Ethylene	247	265	2.27	2.33	107.29
Propylene	201	218	1.85	1.92	108.46
Glycol	99	106	0.91	0.93	107.07
Ethylene oxide	19	18	0.17	0.16	94.74
Butadiene	45	45	0.41	0.40	100.00
Benzene	76	77	0.70	0.68	101.32
Ortoxylene	25	23	0.23	0.20	92.00
Paraxylene	37	31	0.34	0.27	83.78
Other petrochemical products	176	190	1.62	1.67	107.95
Total petrochemical products	1,066	1,060	9.81	9.34	99.44
Total	10,870	11,354	100.00	100.00	104.45

Structure of sales of products by main customers

Main customers	% share in net revenues	
	2003	2004
BP Polska Sp. z o.o.	6.8%	8.5%
SHELL Polska Sp. z o.o.	5.2%	5.7%
ORLEN PetroCentrum Sp. z o.o.	2.4%	4.5%
ORLEN PetroTank Sp. z o.o.	5.1%	2.8%
BASELL ORLEN POLYOLEFINS Sp. z o.o.	2.1%	2.6%
CONOCOPHILLIPS Poland Sp. z o.o.	0.01%	2.0%
PETROLOT Sp. z o.o.	2.0%	1.4%
LOTOS S.A.	1.3%	1.3%
ANWIL S.A.	1.1%	1.3%
ORLEN Asfalt Sp. z o.o.	0.8%	1.0%
ORLEN Gaz Sp. z o.o.	1.0%	1.0%
ORLEN Oil Sp. z o.o.	0.7%	1.0%
PETRO ZACHOD Sp. z o.o.	0.6%	0.7%
ELANA S.A.	0.6%	0.7%
ESPPOL Sp. z o.o.	0.2%	0.6%
ANWIM Sp. z o.o.	0.2%	0.5%
Z.A. PUŁAWY S.A.	0.3%	0.5%

Share of remaining customers did not exceed 0.5% of total sales revenues.

4. Suppliers

Crude oil suppliers' structure in 2004:

Company	Quantity (in tons)	Share %
J&S	6,347,648.70	52.52
Petroval	2,725,900.00	22.56
BMP	1,849,900.00	15.30
Wincor	687,217.90	5.69
Totsa	342,696.90	2.84
Arkadia	132,015.00	1.09
Total	12,085,378.50	100.00

5. Transactions with related parties

Transactions with related companies, where value of single transaction or total value of transactions during 2004 exceeds a PLN equivalent of EUR 500 thousand:

No.	Name of business partners	Sales in PLN thousand	Purchases in PLN thousand
1.	ORLEN Gaz Sp. Z o.o.	287,599.1	256,430.3
2.	ORLEN PetroProfit Sp. z o.o.	113,939.0	4,317.7
3.	ORLEN PetroTank Sp. z o.o.	807,072.8	11,517.9
4.	Inowroclawskie Kopalnie Soli "SOLINO" S.A.	844.2	30,055.7
5.	ORLEN PetroCentrum Sp. z o.o.	1,311,241.0	6,928.3
6.	PETROLOT Sp. Z o.o.	401,037.7	1,715.1
7.	Rafineria Trzebinia S.A.	34,571.0	0.0
8.	Petrotel Sp. z o.o.	1,732.2	9,959.5
9.	Wisla Plock Sportowa S.A.	27.0	13,985.1
10.	ORLEN Medica Sp. z o.o	154.5	5,233.9
11.	ORLEN PetroZachod Sp. z o.o.	206,132.8	14,753.3
12.	ORLEN Projekt S.A.	455.0	12,043.3
13.	ORLEN Ochrona Sp. z o.o.	1,846.4	29,237.3
14.	Zaklad Budowy Aparatury S.A.	2,892.3	20,165.5
15.	ORLEN Transport Plock Sp. z o.o.	54,145.0	14,911.3
16.	Rafineria Nafty Jedlicze S.A.	29,773.8	0.0
17.	SHIP-SERVICE S.A.	98,263.7	809.4
18.	ANWIL S.A.	365,232.2	940.3
19.	ORLEN Automatyka Sp.z o.o.	485.1	18,339.8
20.	ORLEN Wir Sp. z o.o.	525.6	6,316.4
21.	ORLEN Budonaft Sp. z o.o.	982.9	50,926.0
22.	ORLEN Oil Sp. z o.o.	270,282.3	52,132.6
23.	Flexpol Sp. z o.o. (sold on 28.07.2004.)	6,599.1	0.0
24.	Serwis Mazowsze Sp. z o.o.	316.3	4,996.8
25.	Centrum Edukacji Sp. z o.o.	321.1	2,680.9
26.	Serwis Nowa Wies Wielka Sp. z o.o.	227.9	2,577.9
27.	ORLEN Transport Olsztyn Sp. z o.o.	4,009.3	5,330.1
28.	ORLEN Transport Lublin Sp. z o.o. (sold on 29.07.2004)	496.9	3,570.2
29.	ORLEN Transport Szczecin Sp. z o.o.	176.1	3,793.2
30.	ORLEN Transport Kedzierzyn-Kozle Sp. z o.o.	1,617.1	5,897.0
31.	ORLEN Transport Poznan Sp. z o.o.	1,898.0	7,914.9
32.	ORLEN Transport Slupsk Sp. z o.o.	10,430.4	5,247.5
33.	ORLEN Transport Krakow Sp. z o.o.	9,474.6	6,401.2
34.	ORLEN Transport Warszawa Sp. z o.o.	354.0	6,014.1
35.	ORLEN Transport Nowa Sol Sp. z o.o.	670.0	11,704.1
36.	ORLEN Asfalt Sp. z o.o. (formerly Bitrex Sp. z o.o.)	303,415.6	4,239.1

No.	Name of business partners	Sales in PLN thousand	Purchases in PLN thousand
37.	Zaklad Urzadzen Dystrybucyjnych Sp. z o.o.	105.9	10,649.8
38.	ORLEN KolTrans Sp. z o.o.	4,491.5	22,115.6
39.	ORLEN Morena Sp. z o.o.	51,680.3	315.3
40.	BASELL ORLEN POLYOLEFINS Sp. z o.o.	777,508.7	8,489.6
41.	ORLEN Laboratorium Sp. z o.o.	2,375.7	36,783.1
42.	NaftoWax Sp. z o.o.	9,434.4	0.0
43.	Petro-Oil Lubelskie Centrum Sprzedazy Sp. z o.o.	2,860.4	10,004.5
44.	Petro-Oil Malopolskie Centrum Sprzedazy Sp. z o.o.	5,397.1	6,921.5
45.	Petro-Oil Wielkopolskie Centrum Sprzedazy Sp. z o.o.	6,571.9	8,223.0
46.	PPHU Piast Sp. z o.o. (sold on 25.05.2004)	23,187.1	8.1
47.	Petro-Oil SEEWAX Sp. z o.o.	1,041.1	12,381.7
48.	Petro - Oil Slaskie Centrum Sprzedazy Sp. z o.o.	1.2	6,158.7
49.	Petro - Oil Podlaskie Centrum Sprzedazy Sp. z o.o.	0.0	3,353.5
50.	Petro - Oil Zachodniopomorskie Centrum Sprzedazy Sp. z o.o.	0.0	3,798.5
51.	Petro-Oil Dolnoslaskie Centrum Sprzedazy Sp. z o.o.	88.4	10,985.9
52.	Petro-Oil Pomorskie Centrum Sprzedazy Sp. z o.o.	50.8	13,348.9
53.	Petro-Oil Lodzkie Centrum Sprzedazy	0.0	4,572.8
54.	ORLEN Eko Sp. z o.o.	1,848.4	4,363.1
.	Total	5,215,884.9	793,559.3

For the purpose of the preparation of the report for the year 2004 the company implemented a procedure involving collection of statements about transactions with related parties to enlarged extent in compliance with IAS 24 "Information revealed concerning related entities".

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

	Sales	Purchase	Receivables	Liabilities	Dividend paid
Legal persons *	365,036	383,647	20,667	33,046	48,150
Physical persons	2,455				

* Transactions in the period of acting members of the key management by persons supervising the Company

In the period presented in the financial statements 23 persons acted as Members of the Supervisory Board. The Company did not gain relevant statements from 1 former Member of the Supervisory Board.

Transactions with related entities were presented using the arithmetic average of the exchange rates published by the National Bank of Poland for the last day of each month in the period from 1 January 2004 to 31 December 2004 – equal - 4.5182 PLN/EUR.

6. Changes in the Management Board and Supervisory Board of PKN ORLEN during the last reporting period

In the period from 1 January 2004 to 31 December 2004 the Management Board of PKN ORLEN consisted of the following members:

Zbigniew Wrobel	President of the Management Board, General Director from 8 February 2002 to 29 June 2004
Slawomir Golonka	Vice-President of the Management Board from 8 February 2002 Vice-President of the Management Board, Sales Director from 12 March 2002 Vice-President of the Management Board, Strategy and Capital Investments Director from 4 May 2004 to 31 October 2004
Andrzej Macenowicz	Member of the Management Board since 8 February 2002 Vice-President of the Management Board since 7 March 2002 Vice-President of the Management Board, Human Resources and Management Systems Director from 12 March 2002 to 1 November 2004 Vice-President of the Management Board, Human Resources Management and Administration Director since 2 November 2004
Janusz Wisniewski	Vice-President of the Management Board since 7 March 2002 Vice-President of the Management Board, Development and Production Director since 12 March 2002 Vice-President of the Management Board, Production, Wholesale Trade and Logistics Director from 4 May 2004 to 1 November 2004 Acting President of the Management Board and General Director from 16 August 2004 to 30 September 2004. Vice-President of the Management Board, Operating Director since 2 November 2004
Jacek Strzelecki	Vice-President of the Management Board, Finance and Economics Director from 11 July 2002 to 31 October 2004
Krzysztof Kluzek	Member of the Management Board from 22 April 2004 Member of the Management Board, Retail Sales and Marketing Director from 4 May 2004 to 18 October 2004
Jacek Walczykowski	President of the Management Board, General Director from 29 July 2004 to 16 August 2004

Igor Chalupec	President of the Management Board, General Director since 1 October 2004
Wojciech Heydel	Vice-President of the Management Board since 1 November 2004 Vice-President of the Management Board, Retail Sales Director since 2 November 2004
Cezary Smorszczewski	Vice-President of the Management Board since 1 November 2004 Vice-President of the Management Board, Capital Investments and Capital Group Director since 2 November 2004
Pawel Szymanski	Member of the Management Board since 18 October 2004 Member of the Management Board, Finance Director since 2 November 2004
Jan Maciejewicz	Vice-President of the Management Board, Cost Management and IT Director since 1 December 2004

In the reporting period the supervision over the activity of the Company was performed by the Supervisory Board, constituting of the following people:

Maciej Gierej	Member of the Supervisory Board from 21 February 2002 to 28 June 2002 Chairman of the Supervisory Board from 28 June 2002 to 8 April 2004 Member of the Supervisory Board since 5 August 2004
Edward Grzywa	Member of the Supervisory Board from 21 February 2002 to 8 April 2004
Krzysztof Kluzek	Member of the Supervisory Board from 21 February 2002 to 22 April 2004
Andrzej Kratiuk	Member of the Supervisory Board from 21 February 2002 to 8 April 2004
Ryszard Lawniczak	Member of the Supervisory Board from 21 February 2002 to 5 August 2004
Grzegorz Mroczkowski	Member of the Supervisory Board from 1 March 2004 to 2 April 2004
Krzysztof Szlubowski	Member of the Supervisory Board from 21 February 2002 to 5 August 2004

Jan Waga	Member of the Supervisory Board from 21 February 2002 to 5 August 2004 Vice-Chairman of the Supervisory Board from 7 March 2002 to 8 April 2004 Chairman of the Supervisory Board from 8 April 2004 to 5 August 2004
Maciej Andrzej Kruk	Member of the Supervisory Board from 2 April 2004 to 8 April 2004
Jacek Bartkiewicz	Member of the Supervisory Board from 25 March 2003 to 1 March 2004 Chairman of the Supervisory Board since 5 August 2004
Orest Andrzej Nazaruk	Member of the Supervisory Board from 17 April 2003 to 8 April 2004 Secretary of the Supervisory Board from 14 May 2003 to 8 April 2004
Janusz Zielinski	Member of the Supervisory Board from 8 April 2004 to 5 August 2004
Marian Czakanski	Member of the Supervisory Board from 8 April 2004 to 11 June 2004
Andrzej Studzinski	Member of the Supervisory Board from 8 April 2004 to 5 August 2004
Jacek Walczykowski	Member of the Supervisory Board from 8 April 2004 to 29 July 2004 Vice-Chairman of the Supervisory Board from 8 April 2004 to 29 July 2004
Andrzej Wieczorkiewicz	Member of the Supervisory Board since 8 April 2004 to 5 August 2004 Secretary of the Supervisory Board from 8 April 2004 to 5 August 2004
Michal Stepniewski	Member of the Supervisory Board since 24 June 2004
Raimondo Eggink	Member of the Supervisory Board since 5 August 2004
Krzysztof Lis	Member of the Supervisory Board since 5 August 2004
Malgorzata Okonska - Zaremba	Member of the Supervisory Board since 5 August 2004
Piotr Osiecki	Member of the Supervisory Board since 5 August 2004
Ireneusz Wesolowski	Member of the Supervisory Board since 5 August 2004 Secretary of the Supervisory Board since 16 August 2004

Krzysztof Zyndul	Member of the Supervisory Board from 5 August 2004 to 30 March 2005 Vice-President of the Supervisory Board from 16 August 2004 to 30 March 2005

7. Total number of shares of the Company and of other Capital Group's entities being held by the Management Board and the Supervisory Board Members

As at 31 December 2004, 2,950 shares in PKN ORLEN S.A. were held by Raimondo Eggink, Member of the Supervisory Board. Other Members of the Management and Supervisory Board, as at 31 December 2004, did not possess any shares and stakes in PKN ORLEN S.A. and other companies of the Capital Group.

8. PKN ORLEN shareholders

The structure of shareholders of PKN ORLEN as at 31 December 2004:

Shareholder	Number of shares	Number of votes	Nominal value of shares	% of the share capital
Nafta Polska S.A	74,076,299	74,076,299	92,595,374	17.32%
State Treasury	43,633,897	43,633,897	54,542,371	10.20%
The Bank of New York	48,480,908	48,480,908	60,601,135	11.34%
Others *	261,517, 957	261,517,957	326,897,446	61.14%
Total	427,709,061	427,709,061	534,636,326	100.00%

*) According to the current report no 19/2005 issued on 7 March 2005, Commercial Union OFE BPH CU WBK possessed 21,040,915 shares of PKN ORLEN, constituting 4.92% of share capital of PKN ORLEN.

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

Management Board Commentary on the Company's Operations
of Polski Koncern Naftowy ORLEN Spolka Akcyjna
for the year 2004
("amended Management Board Commentary on the Company's operations")
submitted by the Management Board composed of:

.....
Management Board President
Igor Chalupec

.....	.....	.....
Management Board Vice-President	Management Board Vice-President	Management Board Vice-President
Wojciech Heydel	Andrzej Macenowicz	Jan Maciejewicz
.....	.....	.....
Management Board Vice-President	Management Board Vice-President	Management Board Member
Cezary Smorszczewski	Janusz Wiśniewski	Paweł Szymański

Plock, 5 May 2005