Letter of the President of the Management Board

Dear Ladies and Gentlemen!

I have the pleasure to present to you the Annual Report summing up the operations of PKN ORLEN SA in 2004.

The results achieved by PKN ORLEN in 2004 are the best in its five-year history. This accomplishment was possible thanks to the efforts of our Employees and favourable market environment, i.e. high refining margins and rising crude prices, accompanied by a positive Brent/Ural differential. Our revenue rose to almost PLN 29bn, and was more than 17% above the 2003 figure. Over the same time, our operating profit soared by 122.2% – to PLN 2.6bn. Our net profit amounted to PLN 2.3bn, and was 146% higher than in 2003. The return on capital employed reached 20%, which represents an over twofold increase above the 2003 figure. Our Comprehensive Cost Savings Programme brought savings of PLN 637m.

2004 saw a 4% increase in the crude oil throughput, which translated into a recordhigh level of capacity utilisation: 91%. The projects designed to optimise production resulted in higher white product yield (81.6%). Thanks to technological upgrades, we started to produce higher-quality fuel, surpassing the standards currently required by the European Union. Our diesel oil meets the strictest European norms regarding sulphur content, and fuel oil already complies with quality and environmental requirements which will not be in force until 2008. Thanks to our active sales policy, we managed to increase domestic wholesale by 7%, despite a 23% rise in fuel imports compared with 2003. At the end of 2004, PKN Orlen operated a retail network comprising 1,906 stations, including 1,319 company-owned sites. Our 2004 share in the market of retail fuel sales amounted to 28.6%, and was lower by 7 percentage points compared with 2002. The decrease in retail market share was accompanied by low fuel and LPG sales per company-owned station (2.1m in 2004). Despite this negative trend in retail sales, the number of members of our loyalty programmes increased. The number of the VITAY card holders exceeded 5m, while our FLOTA programme had 4 thousand member companies.

Our efforts to identify new business opportunities bore fruit: in April 2004 PKN Orlen won the tender for 62.99% of shares in Unipetrol a.s. – the largest player in the Czech fuel and petrochemicals sector. In order to effectively acquire the shares, it was necessary to carry out certain preparatory activities and comply with formal requirements. One of the material conditions precedent to the share purchase agreement for the Unipetrol a.s. stake was satisfied in October 2004 – none of the existing shareholders in Ceska Rafinerska a.s. exercised their pre-emptive rights. December 2004 saw the fulfilment of another condition precedent contained in the agreement, namely the European Commission issued a decision confirming that no public assistance was involved in the transaction. In March 2005, an official notification of the purchase of Unipetrol shares was filed. This step was necessary to meet the last of the contractual conditions precedent, according to which we had to obtain the consent of the competent anti-trust authority of the European Commission. In April PKN ORLEN received notification from the European Commission regarding its approval of the purchase of a controlling stake in Unipetrol a.s. At the same time, the decision of the European Commission meant the fulfillment of the last of the suspending conditions as included in the conditional agreement to purchase shares in Unipetrol, which was signed in June 2004 between the National Property Fund of the Czech Republic and PKN ORLEN.
Smooth integration with Unipetrol and achievement of related synergies are particularly important to us. We expect that the effects of these actions will enable us to create a platform for further investments in the Czech Republic.

In the fourth quarter of 2004, the newly-appointed Management Board started to work on the Company's strategy. We were guided by the expectations of the capital market and the broadly understood environment of PKN Orlen. The "Value Creation Strategy for 2005–2009", approved by the Supervisory Board in February 2005, is based on the Company's new mission statement, which reads: "*While striving to be the regional leader, we want to ensure that our shareholders benefit from a long-term growth of the company's value by offering our customers the highest quality products*

and services. As a transparent business, in all our actions we observe the principles of corporate governance and social responsibility, caring for the development of our staff and for the natural environment". The strategy defines three key elements which are to support achievement of our financial targets: internal strengthening and improved operating efficiency, development of core business on home markets, and active search for business opportunities on new markets. The strategy also provides for the Group's EBITDA of at least PLN 6bn in 2009. Assuming general economic conditions comparable to those prevailing in 2004, the Group's 2009 EBITDA should amount to PLN 7.9bn, which would mean a twofold improvement of the Company's operational efficiency. If the general economic environment in 2004 is comparable with the situation prevailing in 2005, we project a minimum 14% rise in EBITDA already in 2005. The average annualised return on capital employed projected for 2009 is to reach at least 17.5%.

Our acquisition plans will focus on markets with high growth potential. The purpose of investment projects is to strengthen our core business and contribute to our regional leadership. All investment projects will be subject to a thorough financial screening, which will include an analysis in terms of feasibility of achieving the assumed longterm ROACE. We will also test their sensitivity to various macroeconomic scenarios.

An important element of the strategy is the possible upstream expansion by 2009. Such a decision is being considered from two perspectives: security of crude oil supplies and profitability of the investment projects directly related to supplies.

Secure crude supply is an extremely vital issue. PKN Orlen's technical capabilities support processing of crude oil not only from Russia, but also from other sources worldwide. Despite the perturbations experienced by one of our existing suppliers, the measures we took eliminated any threat to supplies security.

The Management Board headed by me started its work at a time when circumstances with negative bearing on PKN Orlen's future were particularly visible.

The uncertainty regarding regional consolidation plans, the shareholder conflict, the appointment and work of the Parliamentary Investigation Commission, and first of all the widespread political influence on the Company then observed, were some of the adverse circumstances we had to face. Among the internal factors, the lack of corporate governance and transparency in management, as well as instances of unethical conduct, proved the most acute problems. We strongly opposed such malpractices and took steps aimed at building PKN ORLEN's new image, by pursuing an open information policy, both externally and internally. We want the Company to recover its good name and regain the respect and trust of the Shareholders, Customers and Employees. This is what is deserved, in the first place, by PKN Orlen's Employees, who have been with the Company for years and are strongly committed to their work.

In order to achieve our goals, we have initiated changes in PKN Orlen's organisational culture. The basis for the changes will be a code of conduct. We want each and every employee to identify with the code's rules. However, it should be remembered that it is a long-term process, involving significant changes in the human resources management systems with respect to employee recruitment, assessment, remuneration and motivation.

In January 2005 PKN Orlen adopted the corporate governance principles proposed by the Warsaw Stock Exchange. We have also signed the worldwide initiative "Partnership Against Corruption", thus undertaking not to tolerate any corruptive actions.

The new Management Board has also taken immediate steps with a view to improving the Company's operational efficiency and transparency. The newly established IT and Cost Management Division is responsible for such tasks as the preparation of a new cost savings programme and development of a centralised procurement system. We have also initiated work on enhancing the management of the Group and its effective restructuring, as well as on implementation of new human resources management methods.

Dear Ladies and Gentlemen!

In terms of technology, the Płock Production Plant ranks among the top ten

European refineries. Our presence on the common market enables us to benefit from this fact. However, it concurrently imposes on us additional costs related to participation in the European energy and environmental security systems.
PKN ORLEN's future depends on our ability to successfully face the conditions currently prevailing on the regional market. I am positive that the implementation of our new strategy will help us achieve the position of the regional leader and ensure the expected growth in the shareholder value.

Our Shareholders approve of the actions we have undertaken thus far, which is confirmed by repeated rises in our share price. From the appointment of the new Management Board on October 18th 2004 to the end of the first quarter of 2005, the PKN ORLEN stock rose by 31.9%, while the WIG 20 index grew by 11.8%.

We were very pleased at the news that *Gazeta Giełdy PARKIET* considered PKN ORLEN shares to be "The Best Investment in a WIG 20 Company in 2004".
It should be stressed at this point that the Management Board intends to maintain its position regarding the dividend policy as presented in the announced strategy.

I would like to thank all PKN ORLEN Employees for their everyday efforts, which build the value of our Company. I would also like to thank the Supervisory Board for its hard work, support and trust, enabling the Management Board to carry out its mission.

The challenges ahead of us are the strategic tasks set for 2005 and subsequent years. We count on further support from the Shareholders, Supervisory Board and Employees, as well as on a kind approach and loyalty of our Customers.

Igor Chalupec
President of the Management Board
PKN ORLEN SA