POLSKI KONCERN NAFTOWY ORLEN
SPOLKA AKCYJNA

ANNUAL REPORT
2004

(amended on 5 May 2005 in relation to the issued annual report prepared on 31 March 2005, "amended annual report")

PLOCK, MAY 2005

Further presented Report of PKN ORLEN S.A. for the year ended 31 December 2004 consists of:

- Letter from the President of the Management Board
- Financial statements of PKN ORLEN S.A. for the year ended 31 December 2004
- Management Board Commentary on Business Operations of PKN ORLEN S.A. for the year ended 31 December 2004
- Auditor's opinion and auditor's report supplementing the opinion on the financial statements for the year ended 31 December 2004

POLSKI KONCERN NAFTOWY ORLEN
SPOLKA AKCYJNA

FINANCIAL STATEMENTS
FOR THE YEAR
ENDED 31 DECEMBER 2004

(amended on 5 May in relation to the issued financial statements prepared on 31 March 2005, "amended financial statements")

PLOCK, MAY 2005

INTRODUCTORY NOTES TO THE FINANCIAL STATEMENTS

These financial statements are financial statements amended on 5 May 2005 in relation to the issued prepared on 31 March 2005 financial statements for the year 2004 as a consequence of the information received by the Company on 19 April 2005 concerning a negative result of the arbitration procedure in relation to the receivable from PSE S.A. in the amount of PLN 111.5 million (Note 45f). On the basis of the above, the Company recognized an additional allowance for the receivable from PSE S.A. in the PKN ORLEN Capital Group's consolidated financial statements prepared on 19 April 2005 in the amount of PLN 66.9 million. In relation to the above, acting on the basis of art. 54.1 of the Accounting Act the Management Board took a decision to amend on 5 May 2005 the standalone financial statements for the year ended 31 December 2004 prepared originally on 31 March 2005. Following the above mentioned adjustment, the Company's net financial result for the year 2004 was decreased by the amount of 54 million zlotys in comparison to the data presented in the Company's financial statements prepared on 31 March 2005. The consequence of the above mentioned events is a change of the proposed by the management Board of PKN ORLEN distribution of profit for the year 2004 and changes introduced to the following notes in relation to the financial statements issued on 31 March 2005: D, 7A, 7C, 18A, 30B, 34A, 34B, 38, 39, 40a, 41, 42, 43, 61b.
Also the following notes in relation to other significant events after the balance sheet date till the date of the preparation of these financial statements were amended: 45c, 45e, 45f, 45i, 45n, 45o, 50b, 52a, 52b, 57.3, 57.4, 63d.

A. Name, address, main operating segments of the Company and the period for which the financial statements are presented

Polski Koncern Naftowy ORLEN Spolka Akcyjna ("Company", "PKN ORLEN") located in Plock, Chemikow 7 was formed through transformation of a state-owned enterprise into a joint stock company, on the basis of the Public Notary Act of 29 June 1993. The Company was registered as Mazowieckie Zaklady Rafineryjne i Petrochemiczne "Petrochemia Plock" Spolka Akcyjna. It was registered in the District Court in Plock on 1 July 1993 under the registration number RHB VIII 780. On 26 July 2002 changes in earlier registration under number KRS 28860 in the District Court for capital city Warsaw were introduced.

On 19 May 1999 Ordinary General Meeting of Shareholders of the Company adopted a resolution on merger of the Company with Centrala Produktow Naftowych "CPN" Spolka Akcyjna ("CPN") by incorporation of CPN to the Company. On 7 September 1999 CPN was deregistered and at the same date the merger of the Company with CPN became effective.

In accordance with the resolution of the Ordinary General Meeting of Shareholders dated 19 May 1999, registered in the District Court in Plock on 20 May 1999, the Company changed its name to Polski Koncern Naftowy Spolka Akcyjna.

In accordance with the resolution of the Extraordinary General Meeting of Shareholders dated 3 April 2000, registered in the District Court in Plock on 12 April 2000, the Company changed its name to Polski Koncern Naftowy ORLEN Spolka Akcyjna.

Structure of share capital of the Company as at 31 December 2004 is as follows:

Issue	Number of shares	Nominal value (PLN)
Series A	336,000,000	420,000,000.00
Series B	6,971,496	8,714,370.00
Series C	77,205,641	96,507,051.25
Series D	7,531,924	9,414,905.00
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Total	427,709,061	534,636,326.25
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In accordance with the Resolution of the Ordinary General Meeting of Shareholders of the Company No. 8/99 dated 19 May 1999 as the result of incorporation of CPN by the Company, the scope of activities of the Company was

changed. According to the Articles of Association which was approved by the Ordinary General Meeting of Shareholders dated 19 May 1999 with its last changes resulting from the contest of the uniform text of the Articles of Association accepted by the resolution of the PKN ORLEN's Supervisory Board dated 17 September 2004 including changes to the Articles of Association introduced to the commercial register of the District Court for the capital city of Warsaw, XXI Economic Department of the National Register Court, according to the decision dated 2 September 2004 Act No. WA.XXI NS-REJ KRS/18662/04/ the Company's activity includes:

- processing of crude oil and manufacturing of oil-derivative (refinery and petrochemical) products and semi-finished products,
- domestic and foreign trade on own account, on commission and as consignee, including in particular: the trade of crude oil, oil-derivative and other fuel, sale of motor vehicles, parts and accessories for them, sale of consumer and industrial goods,
- research and development activity, project work, construction and production activities on own account and as the consignee, in the areas of manufacturing, storage, packaging and trade in solid, liquid and gaseous oil products, secondary chemical products as well as transportation: by land, by rail, water and by pipeline,
- transportation activity including land transport, rail transport, water and pipeline transport,
- storage of crude oil and liquid gas, creation and management of oil stock according to the appropriate regulations,
- services connected to the principal activity, especially:
  - land and sea reloading,
  - refining of gas and oil including ethylisation, dyeing and blending of components,
- purchase, trade and processing of used lubricant oil and other chemical waste,
- manufacturing, transportation and trade in electrical and heating energy,
- overhaul of the appliances used in core activities, especially refinery and petrochemical appliances, oil storage appliances, oil stations and means of transport,
- metal production and manufacturing of plastic raw materials,
- operation of gas stations, bars, restaurants and hotels,
- capital investment activity, in particular: purchasing and trade of shares and stakes in domestic and foreign trade,
- activities in the area of education, professional schooling and internal human capital services,
- activities in area of accounting and bookkeeping as well as activities related to data bases and its processing,
- financial agency services including receipt of money orders and transference of liabilities to cheque drawers
- providing services in respect of the clearance of electronic fuel cards
- activities from the branch of geodesy and cartography
- crude oil exploration
- natural gas exploration

- manufacturing of prefabricated buildings of metal excluding service activities
- production of metal construction excluding service activities
- service in respect of installing metal constructions
- performance of general civil work relating to building construction
- performance of general civil work in the area of line constructions: pipelines, power supply lines, electric traction line and telecommunication – long-distance transmission lines
- performance of general civil work in the area of construction of distribution lines: pipelines, power supply lines, electric traction line and telecommunication – local lines
- performance of general civil work in the area of mining and production.

The core business of the Company is designated by Code PKD 2320 in compliance with Polish Activity Classification – manufacturing of crude oil refining products. The Company runs a business within segments of production and distribution of crude oil and chemical products.
The Company is the biggest refinery and producer of petrochemicals in Poland and after the incorporation of CPN, the leading distributor of motor fuels in Poland.
Within the basic activity of the Company there are two business segments: refining and chemical.
The Refining Segment includes crude oil processing and wholesale and retail sales of refining products comprising mainly fuels. The Chemical Segment includes production and sales of petrochemicals.

The composition of the Supervisory Board of PKN ORLEN as at 31 December 2004 was as following:

- Jacek Bartkiewicz - President of the Supervisory Board
- Krzysztof Zyndul - Vice-President of the Supervisory Board
- Ireneusz Wesolowski - Secretary of the Supervisory Board
- Raimondo Eggink - Member of the Supervisory Board
- Maciej Gierej - Member of the Supervisory Board
- Krzysztof Lis - Member of the Supervisory Board
- Malgorzata Okonska-Zareba - Member of the Supervisory Board
- Piotr Osiecki - Member of the Supervisory Board
- Michal Stepniewski - Member of the Supervisory Board

During the year 2004 the following changes in composition of the Supervisory Board took place:

On 1 March 2004 Jacek Bartkiewicz was dismissed from the position of Member of the Supervisory Board of the Company by the State Treasury as a result of his resignation. Simultaneously, Grzegorz Mroczkowski was appointed to the Supervisory Board of the Company.

On 2 April 2004 Grzegorz Mroczkowski was dismissed from the position of Member of the Supervisory Board of PKN ORLEN by the State Treasury. Simultaneously, Maciej Kruk was appointed to the Supervisory Board of PKN ORLEN. Subsequently on 8 April 2004 Maciej Kruk was dismissed from the position of Member of the Supervisory Board of PKN ORLEN by the State Treasury and simultaneously Janusz Zielinski was appointed to the Supervisory Board of the Company.

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

On 22 April 2004 Krzysztof Kluzek resigned from its position in the Supervisory Board of PKN ORLEN. Simultaneously the Supervisory Board of PKN ORLEN appointed Krzysztof Kluzek to the position of the Member of the Management Board.

On 11 June 2004 Marian Czekanski resigned from the position of Member of the Supervisory Board of PKN ORLEN. The reason for resignation was the appointment of Marian Czekanski for the position of the Minister of Health.

On 24 June 2004 the Management Board of PKN ORLEN informed that according to the article 8 Act 1 of the Articles of Association of the Company, the Ministry of State Treasury on 24 June 2004 dismissed Janusz Zielinski from the position of Member of the Supervisory Board of PKN ORLEN. Simultaneously on 24 June 2004 Michal Stepniewski was appointed to the Supervisory Board.

On 24 June 2004, the Ordinary Shareholders Meeting of PKN ORLEN appointed Janusz Zielinski to the Supervisory Board of PKN ORLEN.

On 29 July 2004 Jacek Walczykowski resigned from the position of Vice-President and Member of the Supervisory Board of PKN ORLEN. Simultaneously the Supervisory Board of PKN ORLEN appointed Jacek Walczykowski to the position of the President of the Management Board of PKN ORLEN.

On 5 August 2004 Andrzej Wieczorkiewicz resigned from the position of Member of the Supervisory Board of PKN ORLEN.

On 5 August 2004 the Extraordinary Shareholders Meeting dismissed from the position of Member of the Supervisory Board the following persons: Jan Waga, Ryszard Lawniczak, Andrzej Studzinski, Krzysztof Szlubowski, Janusz Zielinski, and simultaneously appointed to the Supervisory Board: Jacek Bartkiewicz, Raimondo Eggink, Maciej Gierej, Krzysztof Lis, Malgorzata Okonska-Zaremba, Piotr Osiecki, Ireneusz Wesolowski, Krzysztof Zyndul.
Due to tragic death of Krzysztof Lis on 31 January 2005 and resignation of Krzysztof Zyndul on 30 March 2005 from the position of the Member of the Supervisory Board of PKN ORLEN as at the date of the preparation of the financial statements the Supervisory Board of PKN ORLEN acts in the composition of seven persons.

The composition of the Supervisory Board of PKN ORLEN as at the day of preparation of the financial statements was as following:

- Jacek Bartkiewicz - President of the Supervisory Board
- Ireneusz Wesolowski - Secretary of the Supervisory Board
- Raimondo Eggink - Member of the Supervisory Board
- Maciej Gierej - Member of the Supervisory Board
- Malgorzata Okonska-Zareba - Member of the Supervisory Board
- Piotr Osiecki - Member of the Supervisory Board
- Michal Stepniewski - Member of the Supervisory Board

The composition of the Management Board of PKN ORLEN as at 31 December 2004 was as following:

- Igor Chalupec - President of the Management Board, General Director (CEO),
- Janusz Wisniewski - Vice-President of the Management Board, Operating Director (COO),
- Andrzej Macenowicz - Vice-President of the Management Board, Human Resources and Management Systems Director (CHO),
- Wojciech Heydel - Vice-President of the Management Board, Retail Sales Director (CMO),
- Cezary Smorszczewski - Vice-President of the Management Board, Capital Investments and Capital Group Director (CIO),
- Jan Maciejewicz - Vice-President of the Management Board, Cost Management and IT Director (CCO),
- Pawel Szymanski - Member of the Management Board, Chief Financial Officer (CFO),

During the year 2004 the following changes in composition of the Management Board took place:

On 22 April 2004 the Supervisory Board of PKN ORLEN appointed Krzysztof Kluzek to the position of the Member of the Management Board.

On 28 July 2004 Zbigniew Wrobel resigned from the position of the President of the Management Board of PKN ORLEN. The resignation became effective on the date of appointment of a new President of the Management Board by the Supervisory Board.

On 29 July 2004 the Supervisory Board of PKN ORLEN appointed Jacek Walczykowski to the position of the President of the Management Board. On 29 July 2004 Jacek Walczykowski resigned from the position of Vice-President and Member of the Supervisory Board of PKN ORLEN and from the position of Vice-President and Member of the Management Board of Nafta Polska S.A.
On 16 August 2004 the Supervisory Board of PKN ORLEN dismissed Jacek Walczykowski from the position of the President of the Management Board of PKN ORLEN – General Director. The resolution was taken unanimously.

On 16 August 2004 the Supervisory Board of PKN ORLEN took unanimously a resolution to entrust Janusz Wisniewski, Vice-President of the Management Board of PKN ORLEN, with the entitlement of the acting President of the Management Board of PKN ORLEN until appointment of a new President of the Management Board of PKN ORLEN within the procedure approved by the Supervisory Board.

On 21 September 2004 the Supervisory Board of PKN ORLEN appointed unanimously Igor Chalupec to the position of the President of the Management Board. The appointment became effective on 1 October 2004.

On 18 October 2004 the Supervisory Board of PKN ORLEN S.A. changed composition of the Management Board. The Supervisory Board of PKN ORLEN S.A. accepted resignations received on 18 October 2004 of:

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

Simultaneously the Supervisory Board of PKN ORLEN appointed to the current term of the Management Board:

- 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.

The composition of the Management Board of PKN ORLEN as at the day of preparation of the financial statements was as following:

- Igor Chalupec - President of the Management Board, General Director (CEO),
- Janusz Wisniewski - Vice-President of the Management Board, Operating Director (COO),
- Andrzej Macenowicz - Vice-President of the Management Board, Human Resources and Management Systems Director (CHO),
- Wojciech Heydel - Vice-President of the Management Board, Retail Sales Director (CMO),
- Cezary Smorszczewski - Vice-President of the Management Board, Capital Investments and Capital Group Director (CIO),
- Jan Maciejewicz - Vice-President of the Management Board, Cost Management and IT Director (CCO),
- Pawel Szymanski - Vice-President of the Management Board, Chief Financial Officer (CFO).

B. Format and general rules of preparation of financial statements

The financial statements were prepared in compliance with the Polish Accounting Standards ("PAS") defined by the amended Accounting Act of 29 September 1994 (Journal of Law No 76, pos. 694, year 2002, with further amendments, the "Accounting Act") and the Decree of the Council of Ministers of 16 October 2001 on current and periodic information and published by issuers of securities (Journal of Law No 139, pos. 1569 with further amendments, the "Decree").
The financial statements are prepared for the period from 1 January 2004 to 31 December 2004 while the comparable data comprise: for the balance sheet and balance sheet explanatory notes data as at 31 December 2003, for profit and loss account, cash flow statement and explanatory notes – data for the period from 1 January 2003 to 31 December 2003.

The accounting rules applied for financial statements for periods beginning in year 2004 and for comparable data referring to 2003 are presented in point C of the introduction to the financial statements.

In 2004 the Company did not introduce significant changes in the applied accounting policy in the comparison to the policy applied by the Company in 2003, except for changes in valuation of assets and liabilities denominated in foreign currency according to changes in the Accounting Act. Since 1 January 2004 the closing rate used for reporting assets and liabilities denominated in foreign currency is approximated by the average National Bank of Poland exchange rate as of balance sheet date. The effect of these changes was reflected in the financial statements by adjustments in the comparative data.

	Net profit	Equity
	period from 1 January 2003 till 31 December 2003	31 December 2003
According to published financial statements	933,781	8,374,451
Difference	13,484	35,998
Comparative data (restated)	947,265	8,410,449

Since 2004 the Company applies hedge accounting in relation to hedge transactions meeting certain requirements for hedge accounting, which results in presentation of effective part of hedge valuation in the Company's equity in the revaluation reserve until the moment it is realized. The use of approach mentioned above does not require restatements in the opening balance of 2004 and the comparative data for 2003.

The financial statements were prepared under assumption that the Company will continue as a going concern for the foreseeable future, being period not shorter than 12 months subsequent to 31 December 2004. As of the date of authorisation of the financial statements the Management Board states that there are no circumstances, indicating any threat of Company's continuation as a going concern.

C. Description of principal accounting policies

The financial statements were prepared on the historical cost basis concept, which was modified for the following items:

- fixed assets (Note 2),
- financial instruments (Note 9 and Note 44).

Accounting polices adopted by the Company are presented below

Intangible fixed assets

Intangible fixed assets are recognised if it is probable that in the future they will bring economic benefits, which can be attributed directly to these assets. Initially intangible fixed assets are presented at the purchase price or at

manufacturing cost. Subsequently, the intangible fixed assets are valued at the purchase price or at manufacturing cost less accumulated amortisation and impairment losses. Intangible fixed assets are amortised using straight-line method over the period corresponding to their estimated economic life. Depreciation rates resulting from tax regulations are used only if they correspond with the estimated economic life of the intangible fixed assets. The correctness of applied periods and depreciation rates is verified periodically, at least at the end of the financial year, and any necessary adjustments to depreciation charges are made in subsequent periods. Typical depreciation rates applied in reference to intangible fixed assets:

Purchased licences, patents and similar assets	7 - 50%
Purchased computer software	10 - 50%

Research and development costs

Expenses on research are treated as costs at the moment when they are incurred. Costs of completed development projects conducted for own needs, incurred before the production is commenced or technology is applied, are treated as intangible fixed assets, if:

- product or technology of production is clearly set, and related to them costs of development are reliably determined,
- technical usefulness has been confirmed and properly documented and on this basis the entity decided to manufacture the products or to apply the technology,
- the costs of completed research will be covered – according to assumptions – by revenues from sales of the products or application of the technology.

The period of amortisation of development costs does not exceed 5 years.

Tangible fixed assets

Tangible fixed assets, excluding land and real estate classified as investments, are valued at purchase price or manufacturing cost taking into account revaluation less accumulated depreciation and impairment losses. At the moment of disposal or liquidation of a fixed asset the purchase price or manufacturing cost and its accumulated depreciation are removed from books and any profit or loss on its disposal is presented in income statement. Land is valued at purchase price less impairment losses.

Costs incurred after a fixed asset is put into operation, such as: overhaul and maintenance costs, exploration charges influence financial result of the reporting period in which they were incurred. If it is possible to prove that the incurred costs increased the future economic benefits resulting from ownership of the fixed asset exceed the benefits previously assumed, the incurred costs increase the initial value of the fixed asset.

Tangible fixed assets are depreciated using the straight-line method over their estimated useful economic lives. Depreciation rates resulting from tax regulations are used only if they correspond with the economic life of the fixed assets. The correctness of applied periods and depreciation rates are verified periodically, which results in proper adjustments of depreciation charges in subsequent periods.

Typical depreciation rates applied to tangible fixed assets are as follows:

Buildings and constructions	1.5-10%
Plant and machinery	4.0-30%
Transport vehicles	6.0-20%
Other tangible fixed assets	8.5-25%

Assets of estimated useful life below 1 year and cost less than PLN 3.5 thousand are fully expensed when brought into usage.

The impairment losses on a fixed asset, that previously were subject to revaluation, are deducted from the revaluation reserve attributed to given fixed asset. In case the impairment loss exceeds the revaluation reserve attributed to this fixed asset, the difference is expensed in the reporting period in which the impairment loss was recognised.

Acquired perpetual usufruct rights of land and acquired cooperative title to premises are recorded as fixed assets and depreciated over their economic useful life.

The Company does not recognise perpetual usufruct rights of land acquired on the grounds of an administrative decision made in previous years due to the fact that the historical value of such a right cannot be reliably determined.

Construction in progress

Construction in progress is valued at a total costs directly attributable to its purchase or manufacture less its impairment charges. Construction in progress includes also materials purchased for construction in progress. Construction in progress is not depreciated until it is completed and put into operation.

Financial lease

Assets used under lease, tenancy agreements, lease agreements or other agreements complying with the criteria set by the Accounting Act are treated as fixed assets and presented at lower of the two values: fair value of the leased asset at the beginning of the lease contract and current value of minimal lease payments.

Assets leased out, tenancy agreements or other agreements complying with the criteria set by the Accounting Act are treated as long term receivables and presented in the amount of net lease investment.

Real estate investments

Real estate investments comprise investments in land as well as buildings and constructions purchased to gain income from rent and from increase in real-estate value. Real estate used for mentioned above economical benefits but not purchased for this reason are treated as fixed assets. Real estate investments are presented at fair value.

Investments in subordinates

Shares in subordinates are presented in standalone financial statements at cost of purchase less any potential impairment losses.

Inventories

Inventories are valued at the purchase price or manufacturing cost less impairments relating to the level of the net selling price. Different types of inventories are valued using weighted average method in a following way:

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

Indirect costs included in manufacturing costs comprise among others: the part of fixed, indirect production costs, which correspond with level of cost in case of normal operating capacity utilisation.

The net realisable value of an element of inventory is determined as possible to obtain, as of the balance sheet date, selling price less VAT and excise duty, less any rebates, discounts and any other similar decreases in value and costs spent on making the item available for sale and enabling the sale.
Inventories that lost their economic usefulness are written off against costs.

Receivables

Receivables are stated at amount due less allowance for doubtful debts. Allowances are recognised on the grounds of analysis of ageing of receivables either based on the analysis of possibility of collection of receivables from individual debtors or when the contractor goes into bankruptcy or liquidation.

Allowances for bad debts are treated as other operating or financial costs – depending on the kind of the receivables, to which the allowance refers.

Written-off, overdue and bad debts diminish the previously made allowances for their value.

Written-off, overdue and bad debts for which no allowances were made or which were not fully allowed for, are treated as other operating costs or financial costs.

Cash and cash equivalents

Cash and other cash assets include cash on hand and cash in banks, cash in transit and other cash assets. Cash includes assets in form of domestic currency and foreign currencies. Cash and cash equivalents are stated at nominal value.

Prepayments and deferred costs

Deferred costs are expenses relating to a period later than that in which they were incurred. Such deferred costs mainly include the following: cost of excise duty and fuel charge (concerning inventory of goods), cost of catalysts, costs of insurance, cost of advertising concerning patronage agreements and leasing costs.

Financial instruments

Financial instruments are presented and valued in accordance with Decree of the Minister for Finance dated 12 December 2001 on detailed rules of recognition, valuation methods, scope of disclosure and way of presentation of financial instruments (“decree on financial instruments”).

Financial instruments are classified into the following categories:

a) held-for-trading financial assets and liabilities,
b) loans granted and own receivables,
c) financial assets held to maturity,
d) financial assets available for sale.

Held-for-trading financial assets are treated as assets acquired principally for the purpose of generating economic benefit from short-term changes in price and fluctuations of other market factors or short maturity of the acquired instrument, and other financial assets too, irrespective of intentions, which lead to conclusion of the contract, if they constitute an element of portfolio of similar financial assets, for which the realisation probability of intended economic benefits in a short time is considerable.

Held-for-trading financial assets or financial liabilities comprise financial derivatives, except when an entity recognises concluded contracts as hedging instruments.

Financial assets arisen directly due to cash transfer to the other party of the contract, providing that the contract meets requirements determined in proper paragraphs of decree on financial instruments are treated as loans granted and own receivables, irrespective of their maturity.

Financial assets not classified as loans granted and own receivables, for which the concluded contracts determine the maturity of nominal value and right to obtain economic benefits at set dates, for example, interests of constant or determinable amount, providing that the entity intends and is able to hold the assets until maturity, are classified as held-to-maturity financial assets.

Other financial assets, not meeting requirements to classify them into categories enumerated in points a) to c) are treated as financial assets available for sale.

Financial assets are measured at their fair value (without any deduction of transaction costs which the entity would incur in case of selling the assets) excluding:

a) loans granted and own receivables not available for sale,
b) financial assets held to maturity,
c) financial assets that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured,
d) hedged financial assets.

Financial assets not measured at their fair value are measured in the following manner:

- loans granted and own receivables, excluding those held for trading - at the amortised cost, estimated by using effective interest rate regardless if the entity is going to held it until maturity or not,
- financial assets, for which the maturity is set - at the amortised cost estimated by using effective interest rate,
- financial assets, for which the maturity is not set - at the purchase price.

Financial liabilities are valued at the amortised cost, excluding financial liabilities held-for-trading and derivatives, which are measured at fair value.

Derivatives and embedded derivatives

In connection with the implementation of hedge accounting in 2004 the Company presents the effective and non-effective part of financial instruments satisfying requirements of the hedge accounting and constituting instruments hedging cash flows respectively in equity and in the income statement.

Derivatives possessed by the Company, which are not accounted for as hedging instruments are classified as short term assets or short term liabilities and measured at fair value, with any changes to their fair value recognised in profit and loss. Derivatives are in particular: forward and futures contracts, options and swap contracts.

An embedded derivatives are separated from the host contracts and accounted for as derivatives if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract in which the subject derivative is embedded,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative,
- it is possible to reliably measure the fair value of the embedded derivative,
- the hybrid (combined) instrument is not measured at fair value and changes in its fair value are not charged to net profit or loss.

Embedded derivatives are accounted for in a manner similar to this of separate derivatives that are not classified as hedging instruments.

Equity

Equity is presented in books by category in accordance with rules determined by law and the Company's Articles of Association.

Share capital is stated at nominal value in compliance with the Company's Articles of Association and the relevant entry in the Company's Register.
Declared but not paid share capital is accounted for as unpaid share capital. Own shares and unpaid share capital decrease the value of equity of the Company.

The reserve capital is supplied from net profit distribution, transfer of revaluation reserve and share premium decreased by the shares issuance costs.

Equity arisen due to conversion of debt securities, liabilities and loans into shares is presented at nominal value of these securities, liabilities and loans, adjusted by not amortised discount or premium, interests accrued and not paid to the day of conversion, which will not be paid, unrealised foreign exchange differences and capitalised issuance costs.

Revaluation reserve was established as result of the fixed assets revaluation as at 1 January 1995. In case of disposal or liquidation of a fixed asset item, the corresponding part of revaluation reserve is transferred to reserve capital. Moreover, reserve capital is increased by the difference between fair value and purchase price, less deferred tax, of the asset available for sale, if it has a quoted market price in an active market, and whose fair value can be reliably measured, and the influence of the valuation of an effective part of the instruments hedging cash flows.

Impairment losses on fixed asset, which previously was subject to revaluation, diminishes the revaluation reserve attributed to the fixed asset. If impairment loss exceeds the revaluation reserve attributed to given fixed asset, the difference is expensed in the reporting period in which the impairment loss was recognised.

Formation costs diminish the reserve capital up to the amount of share premium. The remaining part of formation costs is expensed as financial cost.

Provisions

Provisions are set for:

1) certain or highly probable future liabilities, amount of which can be reliably estimated, particularly for losses on economic transactions in progress, including guarantees granted, borrowing transactions, results of legal actions,
2) future liabilities resulting from restructuring, if basing on separate rules, the Company is obliged to perform it or binding agreements were concluded, and the restructuring plans allow to estimate reliably the value of future liabilities.

The above mentioned provisions are expensed as: other operating costs, financial costs or extraordinary losses, depending on circumstances to which the future liabilities correspond. Occurrence of the liability for which the provision was set diminishes the provision.

Provision for jubilee and retirement bonuses

According to remuneration schemes, employees are entitled to jubilee bonuses upon completion of a certain number of years in service and to retirement allowances paid on retirement. The amount of bonuses depends on employee's average remuneration and length of service. The employees receive also a one–off payments on retirement. Pensions are paid to employees who prove permanent disability to work. The amount of bonuses depends on employee's average remuneration and length of service. The costs of jubilee and retirement/pension bonuses are accrued in Company on a basis of an independent actuarial valuation. According to the Accounting Act the provisions for jubilee and retirement bonuses are presented in the balance sheet in caption "Liabilities and provisions for liabilities" as "Provision for retirement benefits and similar bonuses".

Equity compensation plan costs

Convertible bonds, issued by the Company as the part of the employee compensation plan, are recognised at the moment of granting the employee an option to buy convertible bonds. As of balance sheet date, the fair value of the convertible bonds is recognised as remuneration expense and presented in short term payables. The fair value is estimated on the basis of historical volatility of listed shares and Black-Scholes' model.

Environmental costs

Provisions for certain or highly probable costs or losses resulted from environment protection requirements are recorded in case of existence of law requirements or existing policy regarding elimination of pollution of environment or harmful items, if the amount of future expenses or losses is possible to be estimated. The Company periodically updates the level of environmental provision based on independent expert valuations.

Loans and borrowing expenses

Costs of loans and borrowings are recognised in principle at the moment of occurrence. Costs of loans and borrowings are capitalised only in case if they directly refer to acquisition, construction or manufacture of certain element of fixed assets. Costs of loans and borrowings are capitalised until the element of assets is ready for planned use. Providing that the net book value of an asset is greater than the value possible to recover, the net book value is decreased by the write-off resulting from impairment.

Loans are initially recorded at the amount of inflows received, decreased by transaction costs. Subsequently they are presented at the amortised cost with use of effective interest method. The difference between net inflows and maturity amount is reflected in net profit or loss in the period of loan.

Foreign currency transactions

At the balance sheet date assets and liabilities denominated in foreign currencies are recorded using the average National Bank of Poland exchange rate as at the balance sheet date.

Positive exchange rate differences concerning long term investments denominated in foreign currencies, arising at the day of their valuation are credited to revaluation reserve. If the revaluation amount was not settled to the valuation date, the negative valuation change of the investment previously revaluated, debits the revaluation reserve to the amount at which the revaluation reserve was credited. In other cases the results of negative valuation change are recognised as financial costs. Increase in valuation of specified investment, directly connected with its previous negative valuation treated as financial costs, is recognised, to the level of these costs as financial income.

Exchange rate differences concerning other foreign exchange assets and liabilities, arising at the date of their valuation by the payments of receivables and payables, are recognised as financial income or financial costs respectively, and in the justified cases as purchase price or cost of fixed assets construction.

Method of translating financial statements of foreign entities expressed in foreign currencies

Financial statements of foreign entities are translated into Polish currency. Relevant balance sheet captions are translated using the average National Bank of Poland exchange rate as at the balance sheet date; relevant income statement captions are translated using the exchange rate being the arithmetic average of the National Bank of Poland exchange rates as at the days ended the monthly periods.

Sales revenues

The sales revenues comprise amounts due or received from sales, including excise duty and fuel charge, less VAT. Revenues from sales are recognised in situation when it is probable that the company will receive economic benefits resulting from transactions and when amount of the revenues can be reliably estimated.

Sales of goods for resale and finished productss is recognised at the moment of delivery, which results in transfer of risk and benefits stemming from ownership of these goods and products. Income on services is recognised in proportion to the completion, providing that it is possible to estimate it reliably. In case it is not possible to estimate reliably the effect of transaction related to services rendering, income on the services is recognised only to the value of costs incurred in relation to it.

The amount of sales revenues is corrected by the totals from settlement of transactions hedging cash flows.

Costs

Operating costs are accounted for in period they relate to. Costs are accounted for both by type and by function. Cost of goods sold includes direct costs of goods and justifiable part of indirect costs. General and administration expenses include costs of the Company's general operations and management. Selling and distribution costs are the costs incurred in relation with sales of products and goods for resale and include particularly excise duty and fuel charge related to sale of products of the Company.

Dividends

Dividends receivable are accounted for as financial income as of the day when the proper body concludes about profit division resolution, unless the resolution determines another day of right to the dividend.

Net profit or loss

Net profit or loss is constituted by:

- operating result, including this resulting from other operating income and costs,
- financial operations result,
- extraordinary operations result,
- compulsory amounts reducing profit resulting from income tax, the payer of which is the entity, and payments equal to it, on the basis of separate regulations, as well as differed tax.

Result on operating activity is calculated as the difference between net income on sales of finished products, goods for resale and materials adjusted by grants, discounts, rebates and other increases and decreases, excluding VAT and other operating income, and cost of sales of finished products, goods for resale and materials sold, valued at initial cost or at purchase price, increased by all incurred from the beginning of the year general and administration expenses, selling and distribution costs and other operating costs.

Result on financial operations is the difference between financial income, particularly on dividends (shares in profits), interests, profits on sales of investment, revaluation of investments, excess of positive above negative foreign exchange differences, and financial costs, particularly of interests, losses on sales of investments, revaluation of investments, excess of negative above positive foreign exchange differences.
Result on extraordinary items is the difference between extraordinary profits and losses.

Taxation

Current liabilities resulting from corporate income tax are calculated in accordance with Polish tax regulations.

Due to temporary differences between book values and tax values of assets and liabilities the Company sets up provisions and/or recognises assets resulting from deferred tax.

Deferred tax asset is set in the amount of future expected tax deduction due to negative temporary differences, which will lower in the future basis for income tax calculation, set in line with prudent valuation principle.

Deferred tax provision is set in the amount of income tax due in the future, due to positive temporary differences, which are differences, which will increase basis for income tax calculation in the future.

The amount of deferred tax asset and provision is set basing on income tax rates binding in the predicted year of occurrence of income tax liability.

Deferred tax asset and provision can be netted off against if there is a title giving right to simultaneous settlement when calculating current tax liability.

Deferred tax asset and provision resulting from operations settled with equity are also reflected in equity.

Impairment

Impairment takes place when there is a considerable probability, that the item of assets or a group of assets controlled by the Company will not bring in the future in a considerable part or at all the previously estimated economic benefits. It justifies making a write-off bringing down the net book value of the item of assets to the net sales price, and in case of inability to determine the price – to differently determined fair value.

Write-offs on current assets made in reference to their impairment and resulting from their valuation at net selling price instead of purchase or acquisition prices, or costs of manufacture are accounted for as respectively: other operating costs, costs of goods sold or costs of sales.

Providing that the reason for which the write-off adjusting the value of assets was made, including impairment, is no longer present, the value of all or respective part of previously made write-off increases value of the item of assets and is accounted for as respectively other operating income or financial income.

Contingent liabilities and receivables

Contingent liability is defined as an obligation, arising of which is dependent on occurrence of certain events. Contingent liabilities are not presented in balance sheet, however information about contingent liabilities is disclosed unless the probability of outflow of resources embodying economic benefits is insignificant.
Contingent receivables are not presented in balance sheet, but the information about contingent receivables is disclosed, if the inflow of resources embodying economic benefits is probable.

Related party transactions

According to the Accounting Act transactions between related parties, which are: the dominant company or significant investor, subsidiaries, joint ventures and associates are presented in the financial statements. Related companies in case of the Company are all entities directly or indirectly associated and direct or indirect subsidiaries and joint ventures.

Investment allowance

In accordance with Decree of Cabinet dated 25 January 1994 on investment allowance and reductions of income tax (”Investment Expenses Decree”) and with article 18a of the Corporate Income Tax Act, being in force till 31 December 1999 and with article 3.1 of the Act dated 20 November 1999 on Changes of Corporate Income Tax Act being in force from 1 January 2000, the Company benefited from investment allowance in period 1998-2003. The fixed assets affected by the investment allowance are depreciated for accounting purposes according to normal depreciation rates applied for particular types of fixed assets. The effects of the investment allowance are recorded off-balance sheet and considered only in relation to taxable profits and deferred tax provision purposes.

Management Board estimates

The preparation of financial statements requires the Management Board to make estimates and assumptions that affect the amounts reported in the financial statements and notes to these financial statements. Actual results may differ from those estimates. Management estimates concern among the others provision set, accruals and depreciation rates.

D. Main captions of the financial statements calculated in EURO together with exchange rates

	for the year ended 2004
NBP average exchange rate at the end of period	4.0790
Arithmetic average of exchange rates for 12 months of 2004 (last day of the month)	4.5182
Maximum exchange rate during the period (last day of the month) – 29.02.2004	4.8746
Minimum exchange rate during the period (last day of the month) – 31.01.2004	4.0790

SELECTED FINANCIAL DATA	PLN thousand	EURO thousand	PLN thousand	EURO thousand
	cumulatively for 01.01.2004 – 31.12.2004		cumulatively for 01.01.2003 – 31.12.2003	
I. Net sales of finished products, goods for resale and materials	28,996,289	6,417,664	24,629,963	5,451.278
II. Operating profit	2,604,940	576,544	1,172,163	259,431
III. Profit before taxation	2,825,920	625,453	1,148,241	254,137
IV. Net profit	2,275,645	503,662	947,265	209,655
V. Assets (as at the balance sheet date)	15,568,105	3,816,647	13,708,858	3,360,838
VI. Liabilities and provisions for liabilities (as at the balance sheet date)	5,151,666	1,262,973	5,298,409	1,298,948
VII. Long term liabilities (as at the balance sheet date)	1,407,709	345,111	1,356,181	332,479
VIII. Short term liabilities (as at the balance sheet date)	2,804,768	687,612	3,193,285	782,860
IX. Equity (as at the balance sheet date)	10,416,439	2,553,675	8,410,449	2,061,890
X. Share capital (as at the balance sheet date)	534,636	131,070	534,636	131,070
XI. Number of shares (as at the balance sheet date)	427,709,061	427,709,061	427,709,061	427,709,061
XII. Weighted average number of shares	427,709,061	427,709,061	420,804,797	420,804,797
XIII. Net profit for 12 months per share (PLN/EURO)	5.32	1.18	2.25	0.50
XIV. Net book value per share (PLN/EURO)	24.35	5.97	19.66	4.82
XV. Net cash flow from operating activities	2,883,077	638,103	1,237,747	273,947
XVI. Net cash flow used in investing activities	(1,783,374)	(394,709)	(1,289,776)	(285,462)
XVII. Net cash flows used in financing activities	(873,785)	(193,392)	53,229	11,781

Selected financial data for the year 2004 and 2003 were calculated into EURO according to the following rules:

- particular captions of assets and liabilities– at the average exchange rate published as at 31 December 2004 – 4.0790 PLN/ EURO,
- particular captions of profit and loss account and cash flow statement– at the exchange rate being an arithmetic mean of average 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 – 4.5182 PLN/ EURO.

E. Financial Statements according to International Financial Reporting Standards

The Company prepares consolidated financial statements in accordance with Polish Accounting Standards ("PAS") and discloses detailed information concerning differences between PAS and International Financial Reporting Standards ("IFRS"). The Company presents reconciliation between main financial data from consolidated financial statements as well as explanations of these differences.
In 2003 the International Accounting Standards Board has issued IFRS 1, which is effective for financial statements for periods beginning on or after 1 January 2004. In accordance with the pronouncements of IFRS 1 the Company is considered as the first time adopter of IFRS. IFRS 1 requires, among other things that an entity recognises in its financial statements all assets and liabilities whose recognition is required by IFRS. In accordance with IFRS 1 an entity may elect to measure an item of property, plant and equipment at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at that date. The Company has not determined fair value as a deemed cost in relation to the fixed assets discussed above, which would result from the requirements of IFRS 1.
The Company will adapt IFRS 1 from the beginning of the year 2005, as described in Note 63e.

Scope of financial statements

The captions of the financial statements prepared according to PAS and IFRS may differ significantly. The scope of disclosures to financial statements according to PAS differs from the scope of disclosures under IFRS.

F. Changes in accounting policy relating to future periods

Since 1 January 2005 according to the Resolution No. 3 of the Extraordinary Shareholders Meeting of PKN ORLEN S.A. dated 30 December 2004 (based on the art. 45 par. 1c of the Accounting Act – valid since 1 January 2005) PKN ORLEN will be preparing standalone financial statements for statutory purposes in compliance with IFRS approved by the endorsement process of the EC in the year 2005. Substantial differences in applied rules of accounting are presented in the Note 63e.

Note 39. Method of calculation of earnings and diluted earnings per ordinary share for the years ended 31 December 2004 and 31 December 2003

		2004	2003
Net profit for 12 months (in PLN)	(A)	2,275,644,989.92	933,780,782.19
Weighted average number of ordinary shares	(B)	427,709,061	420,804,797
Earnings per ordinary share (in PLN)	(A/B)	5.32	2.22
Weighted average expected number of ordinary shares	C	-	-
Diluted earnings per ordinary share (in PLN)	(A/C)	-	-

The Company calculates earnings and diluted earnings per ordinary share according to IFRS.

Note 40. Suggested distribution of the profit of the Company for 2004 and distribution of undistributed profit from the previous years and distribution of profit for 2003

a) Suggested distribution of profit for the year 2004

According to the accepted policy of the company the Management Board suggests:

Dividend (PLN 1.60 per share)	684,334,497.60
Capital reserve	1,587,310,492.32
Charge to the Company's Social Fund	4,000,000.00
Total	2,275,644,989.92

b) Suggested distribution of undistributed profit from the previous years resulting from the change of the accounting rules

Capital reserve	24,952,860.27

c) According to the resolution of General Meeting of Shareholders profit for the year 2003 was distributed in the following way:

Dividend (PLN 0.65 per share)	278,010,889.65
Capital reserve	651,769,892.54
Charge to the Company's Social Fund	4,000,000.00
Total	933,780,782.19

Note 41. Method of calculation of net book value and diluted net book value per share as at 31 December 2004 and 31 December 2003

		2004	2003
Net book value (in PLN)	(A)	10,416,438,817.03	8,410,449,923.90
Number of shares	(B)	427,709,061	427,709,061
Net book value per share (in PLN)	(A/B)	24.35	19.66
Expected number of shares	(C)	-	-
Diluted net book value per share (in PLN)	(A/C)	-	-

The Company calculated net book value and diluted net book value per share according to IFRS.

NOTES TO CASH FLOW STATEMENT

Information about cash and cash equivalents is presented in Note 9.

Note 42. Classification of the Company activities in cash flow statement

The classification of the Company activities into operating investing and financing activities is as follows:

- Operating activity includes transactions and events connected with the Company's core activity, not enumerated in financing and investing activities for example: repayment of liabilities cash inflow from sales of finished products or goods for resale, income tax payments, collection of receivables from sales;
- Investing activity includes mainly inflows and outflows connected with purchase or sale of fixed assets and with purchase or sale of securities;
- Financing activity includes mainly the securing of equity capital and loan capitals as well as their repayment and maintenance.

a) The reasons for differences between balance sheet changes of selected balance sheet items and changes presented in cash flow statement

Receivables:	2004	2003
Balance sheet change in net value of long- and short-term receivables net	(405,924)	(272,434)
Change in receivables resulting from the return of the additional payments to ORLEN Powiernik	(230,299)	-
Change in investment receivables	(20,862)	164,699
Contribution of receivables to Basell ORLEN POLYOLEFINS Sp. z o.o. („BOP")	-	(88,067)
Other	(5,811)	(39,081)
Change in receivables within cash flow statement	(662,896)	(234,883)

Liabilities:	2004	2003
Balance sheet change in short- and long-term liabilities	(336,989)	30,707
Change in loans and borrowings	498,286	(414,827)
Change in liabilities from issued securities	316,939	83,731
Change in liabilities from issued convertible bonds	-	230,299
Adjustment for the liabilities due to valuation of managerial options	-	41,426
Change in investment liabilities	(1,435)	(56,273)
Distribution of profit to Social Fund	(4,000)	(4,000)
Other	(3,411)	5,032
Change in short- and long-term liabilities within cash flow statement	469,390	(83,905)

Accruals and prepayments:	2004	2003
Balance sheet change in accruals and prepayments	178,969	114,145
Change in prepayments for loan commission	(2,184)	10,066
Other	-	289
Change in accruals and prepayments within cash flow statement	176,785	124,500

Provisions:	2004	2003
Balance sheet change in provisions	200,515	(77,149)
Change in provision for deferred tax recognised in equity	(17,559)	939
Contribution of provisions to BOP	-	4,115
Change in provisions within cash flow statement	182,956	(72,095)

Inventory:	2004	2003
Balance sheet change of inventory	(115,921)	(90,929)
Contribution of inventory to BOP	-	(35,487)
Other	-	1,435
Change in inventory within cash flow statement	(115,921)	(124,981)

b) Other captions in cash flow statement

- In the cash flow statement for 2004 amount of PLN 235,195 thousand is presented as item B.I.4 in investing activities. This amount includes:

Return of the additional payments to the ORLEN Powiernik capital	230,299
Other	4,896
Total	235,195

- In the cash flow statement for 2004 amount of PLN (250,733) thousand is presented item B.II.4 in investing activities. This amount includes:

Short-term loan granted to ORLEN Deutschland	(244,800)
Other	(5,933)
Total	(250,733)

c) Relation between presentation of income tax (income tax paid) under accrual (in income statements) and cash basis

A. Income tax presented in income statement	(550,275)
- change in deferred tax liabilities (excluding provisions recognized in equity)	(43,489)
B. Income tax according to tax declaration – charge to income statement	(593,764)
- change in provision for income tax within equity	17,559
C. Income tax according to tax declaration	(576,205)
- change in income tax receivable	43,385
D. Income tax paid	(532,820)

d) Changes introduced to the financial statements for 2004 according to changes in assets and liabilities valuation

Description of cash flow statement's captions	Financial data disclosed in financial statements for 2003	Comparative financial data for 2003 disclosed in financial statements for 2004	Differences
I. Net (loss) profit	933,781	947,265	13,484
A.II.4. Foreign exchange gains/losses	37,582	26,211	(11,371)
A.II.7. Changes in reserves	(73,706)	(72,095)	1,611
A.II.10 Changes in short-term liabilities excluding loans and borrowings	(80,181)	(83,905)	(3,724)

Due to changes in the Accounting Act the Company changed fixed exchange rates used for valuation of assets and liabilities denominated in foreign currencies. The effect of those changes is presented in the comparative data.

ADDITIONAL EXPLANATORY NOTES CONCERNING REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS

Note 43. Selected financial data by the Company's segments of operations

Business segments

The operations of the Company are divided into two main segments: Refining Segment and Chemical Segment.
- The Refining Segment comprises crude oil processing as well as wholesale and retail trade in refinery products primarily fuels
- The Chemical Segment encompasses production and sales of petrochemicals.

The other operations include among others: support functions, as well as repair and maintenance.
Segment profits and assets were specified before inter-segment eliminations. Internal prices in inter-segment sales are similar to market prices.

Segment:	Refining		Chemicals		Other operations		Eliminations		Total	
	for year ended		for year ended		for year ended		for year ended		for year ended	
	31 December 2004	31 December 2003	31 December 2004	31 December 2003	31 December 2004	31 December 2003	31 December 2004	31 December 2003	31 December 2004	31 December 2003
Revenue										
External sales	26,023,899	22,314,502	2,626,901	2,060,964	345,489	254,497			28,996,289	24,629,963
Inter-segment sales	3,023,224	2,689,151	1,473,553	1,372,944	626,651	634,537	(5,123,428)	(4,696,632)	-	-
Total revenue	29,047,123	25,003,653	4,100,454	3,433,908	972,140	889,034	(5,123,428)	(4,696,632)	28,996,289	24,629,963
Total costs	(26,504,763)	(23,773,187)	(3,435,896)	(3,216,881)	(947,314)	(867,338)	5,123,428	4,696,632	(25,764,545)	(23,160,774)
Other operating income	114,913	56,868	21,546	238,452	41,922	27,808			178,381	323,128
Other operating costs	(263,660)	(135,955)	(58,015)	(23,122)	(80,293)	(56,035)			(401,968)	(215,112)
Result										
Segment result	2,393,613	1,151,379	628,089	432,357	(13,545)	(6,531)			3,008,157	1,577,205
Unallocated corporate income									33,301	19,066
Unallocated corporate expenses									(436,518)	(424,108)
Profit from operations									2,604,940	1,172,163
Financial income									545,120	261,514
Financial costs									(324,138)	(285,437)
Loss on disposal of all or part of stakes in subsidiaries										
Gross profit									2,825,922	1,148,240
Extraordinary gains									-	1
Extraordinary losses									(2)	-
Profit before taxation									2,825,920	1,148,241
Income taxes									(550,275)	(200,976)
Other obligatory charges on profit/loss									-	-
Net profit									2,275,645	947,265

Other information	Refining		Chemicals		Other operations		Total	
	as at 31 December 2004	as at 31 December 2003	as at 31 December 2004	as at 31 December 2003	as at 31 December 2004	as at 31 December 2003	as at 31 December 2004	as at 31 December 2003
Segment assets	8,270,382	8,227,701	2,126,924	1,299,810	1,085,084	1,382,713	11,482,390	10,910,224
Unallocated corporate assets							4,085,715	2,798,634
Total assets							**15,568,105**	**13,708,858**
Segment liabilities	2,069,677	1,879,642	103,354	124,439	287,000	167,882	2,460,031	2,171,963
Unallocated corporate liabilities							2,691,635	3,126,446
Total liabilities							**5,151,666**	**5,298,409**

Segment:	Refining for year ended		Chemicals for year ended		Other operations for year ended		Total for year ended	
	31 December 2004	31 December 2003	31 December 2004	31 December 2003	31 December 2004	31 December 2003	31 December 2004	31 December 2003
Property plant equipment and intangible assets expenditures	297,288	378,890	626,503	488,013	33,272	86,272	957,063	953,175
Property plant equipment and intangible assets expenditures unallocated to segments							34,455	34,939
Total property plant equipment and intangible assets expenditure							**991,518**	**988,114**
Segment depreciation	587,415	567,321	46,834	67,024	104,220	124,209	738,469	758,554
Unallocated assets depreciation							31,597	34,608
Total depreciation							**770,066**	**793,162**
Non-cash expenses other than depreciation	187,458	83,386	15,381	9,064	75,881	40,942	**278,720**	**133,392**

Geographical segments

The Company operates primarily in Poland. The table below presents the Company's sales by geographical markets for years ended 31 December 2004 and 31 December 2003:

Segment	Refining for year ended		Chemicals for year ended		Other operations for year ended		Total for year ended	
	31 December 2004	31 December 2003	31 December 2004	31 December 2003	31 December 2004	31 December 2003	31 December 2004	31 December 2003
Domestic sales	25,248,957	21,820,505	2,189,933	1,718,503	345,489	254,324	27,784,379	23,793,332
Export sales	774,942	493,997	436,968	342,461	-	173	1,211,910	836,631
Total external sales	**26,023,899**	**22,314,502**	**2,626,901**	**2,060,964**	**345,489**	**254,497**	**28,996,289**	**24,629,963**

ADDITIONAL EXPLANATORY NOTES

Note 44. Financial instruments

a. Derivative transactions

The purpose of risk management in the Company is to reduce the fluctuations of cash flows and financial result by taking advantage of derivatives to hedge the main factors influencing their fluctuations.

According to „Market risk management policy of PKN ORLEN S.A" the main goal of the Company in the area of market risk management is reducing the fluctuations of cash flows and potential economic losses caused by the occurrence of events which might have a negative impact on the Company's results. Managing market risk involves the processes of identification, measurement and description of ways for minimizing the risk, including aspects of the exchange rates fluctuations, fluctuations of interests rates, and prices of goods.

The main purpose of concluded hedging transactions was to stabilize financial results by minimizing the risk to which the Company is exposed.
Thanks to hedging transactions, for which characteristic of market changes is adversely correlated with changes in revenues from sale of petrochemical products, the Company significantly reduced fluctuations of revenues from sale of the above mentioned products in 2004. The Company uses currency-interest swap transactions EUR/PLN to hedge its revenues from sales of petrochemical products – such transactions limit the risk connected with revenues denominated in EUR. The Company introduced the cash flow hedge accounting standards for such transactions starting from 1 January 2004. The effective part of hedges recognized in capital reserve as at 31 December 2004 amounts to PLN 93,757 thousand (hedges entirely effective) in comparison to PLN 53,028 thousand recorded in profit and loss as at 31 December 2003.
In 2003 derivatives were presented as the assets held for trade. In connection with the Company's adoption of the hedge accounting starting on 1 January 2004, the instruments were reclassified to the financial assets held for sale.

In June 2004 the Company signed the contingent purchase agreement of Unipetrol a.s. shares with Czech Republic Government. In relation to the above, the Company decided to hedge the PLN/CZK exchange rate with forward contracts. The hedge accounting standards are not applied for this group of transactions.

Additionally as at 31 December 2004 in the Company's portfolio there were swaps EUR/PLN which hedged the loan granted to the one of subsidiaries as trade instruments. Due to its short term character the Company decided not to apply the hedge accounting.

The Company measures its derivative instruments at fair value using models for financial instruments valuations which base on public data available from active markets. Transactions can be concluded only with reliable partners admitted to take part in transactions under obligatory procedures approved in the Company and under limits granted. According to „Market risk management policy of PKN ORLEN S.A" it is not allowed to conclude transactions for speculative goals. All transactions concluded are reflected in physical transactions and hedge the risk directly resulting from adequate real transactions or they belong to the group of probable transactions defined in IAS 39 and Decree of the Minister for Finance dated 12 December 2001 on detailed rules of recognition and valuation methods, scope of disclosure, and way of presentation of financial instruments with further changes.

Derivative transactions -continued

Swap and forward transactions

Company	Type of forward transaction	Opening transaction date	Period of transaction	Amount bought forward (in thousand PLN)	Interest rate for the amount bought forward**	Exchange rate**
PKN ORLEN	Currency-interest swap (EUR/PLN) depreciated using the straight-line method*		20.10.2003-29.09.2006	224,136.0	2.4%	4.5
PKN ORLEN	Currency-interest swap (EUR/PLN) depreciated using the straight-line method*	08.10.2003	20.10.2003-29.09.2006	224,284.5	2.4%	4.5
PKN ORLEN	Currency-interest swap (EUR/PLN) depreciated using the straight-line method*	10.10.2003	20.10.2003-29.09.2006	225,720.0	2.4%	4.6
PKN ORLEN	Currency swap (EUR/PLN) depreciated using the straight-line method*	15.10.2003	18.12.2003-30.11.2006	814,968.0	0.0%	5.5
PKN ORLEN	Swap EUR/PLN	17.12.2003	23.12.2004-04.02.2005	82,004.0	0.0%	4.1
PKN ORLEN	Swap EUR/PLN	23.12.2004	23.12.2004-14.02.2005	82,114.0	0.0%	4.1
PKN ORLEN	Swap EUR/PLN	23.12.2004	23.12.2004-25.02.2005	82,276.0	0.0%	4.1
PKN ORLEN	Currency forward CZK/PLN	23.12.2004	30.11.2004-28.01.2005	54,790.0	0.0%	0.1
PKN ORLEN	Currency forward CZK/PLN	30.11.2004	30.11.2004-28.01.2005	273,950.0	0.0%	0.1
PKN ORLEN	Currency forward CZK/PLN	30.11.2004	30.11.2004-28.01.2005	54,828.0	0.0%	0.1
PKN ORLEN	Currency forward CZK/PLN	30.11.2004	30.11.2004-28.01.2005	54,828.0	0.0%	0.1
PKN ORLEN	Currency forward CZK/PLN	30.11.2004	30.11.2004-28.01.2005	164,934.0	0.0%	0.1
PKN ORLEN	Currency forward CZK/PLN	30.11.2004	30.11.2004-28.01.2005	54,790.0	0.0%	0.1
PKN ORLEN	Currency forward CZK/PLN	30.11.2004	30.11.2004-28.01.2005	109,580.0	0.0%	0.1
PKN ORLEN	Currency forward CZK/PLN	30.11.2004	30.11.2004-28.01.2005	164,149.2	0.0%	0.1
		30.11.2004				

* Financial instruments are valuated at the end of financial period at fair value while interests are calculated monthly on the unamortized part of the base amount of the financial instrument

** Interest rates and exchange rates rounded to one decimal

Fair value and flows from swap transactions EUR/PLN for which hedge accounting is applied

Date of payments of the amount bought forward	Date of payments of the amount sold forward	Amount received by PKN ORLEN S.A. in 12 months period ended 31 December 2004 (in thousand PLN)	Amount paid by PKN ORLEN S.A. in 12 months period ended 31 December 2004	Fair value as at 31 December 2004	Fair value as at 31 December 2003 (in thousand PLN)
Last working day of the month	-	61,673	331	146,785	53,028

Change in the fair value of all the hedging instruments

	Financial assets – hedge transactions – derivative instruments	**Financial liabilities – hedge transactions – derivative instruments**
Fair value as at 1 January 2004	**53,028**	**-**
INCREASES	94,020	-
- acquisition , establishing, drawing	-	-
- valuation	-	-
- revaluation	94,020	-
- reclassification	-	-
DECREASES	-	(17,138)
- sale, release, repayment	-	-
- valuation	-	-
- revaluation		(17,138)
- reclassification	-	-
Fair value as at 31 December 2004	**147,048**	**(17,138)**

b. Changes of financial instruments by categories

Changes of particular categories of financial assets (except for cash and cash equivalents) and financial liabilities of the Company for the year ended 31 December 2003 and 31 December 2004 are the following:

Balance sheet value net	Financial assets held for trading	Financial assets held to maturity	Financial assets available for sale	Loans granted and own receivables	Financial liabilities held for trading
1 January 2003	21,214	-	501,212	101,207	596
- increases	86,785	-	2,120	10,614	1,464
- acquisition, establishing, drawings	85,000	-	2,120	-	-
- revaluation	-	-	-	-	-
- other	1,785	-	-	10,614	1,464
- decreases	(22,170)	-	(4,363)	(111,821)	(596)
- sale, release, repayments	-	-	(1,984)	(111,821)	-
- revaluation	-	-	(2,379)	-	-
- other	(22,170)	-	-	-	(596)
	---	---	---	---	---
31 December 2003	85,829	-	498,969	-	1,464
	======	======	======	======	======
Balance sheet presentation					
Long term investments	-	-	498,969	-	-
Short term receivables	-	-	-	-	-
Short term investments	85,829	-	-	-	-
Short term liabilities	-	-	-	-	1,464
	---	---	---	---	---
Total	85,829	-	498,969	-	1,464
	======	======	======	======	======

Balance sheet value net	Financial assets held for trading	Financial assets held to maturity	Financial assets available for sale	Loans granted and own receivables	Financial liabilities held for trading
1 January 2004	85,829	-	498,969	-	1,464
- increases	14,833	3,323,805	187,795	244,848	15,367
- acquisition, establishing, drawings	-	3,317,891	-	244,848	-
- revaluation	-	5,914	108,851	-	-
- reclassification *	-	-	78,944	-	-
- other	14,833	-	-	-	15,367
- decreases	(93,692)	(2,306,906)	(40,861)	-	(12,619)
- sale, release, repayment		(2,306,906)	(3)		
- revaluation	-		(111)	-	-
- reclassification *	(78,944)	-	-	-	-
- other	(14,748)	-	(40,747)	-	(12,619)
	---	---	---	---	---
31 December 2004	6,970	1,016,899	645,903	244,848	4,212
	======	======	======	======	======
Balance sheet presentation					
Long term investments	-	-	498,855	-	-
Short term receivables	-	-	-	-	-
Short term investments	6,970	1,016,899	147,048	244,848	-
Short term liabilities	-	-	-	-	-
	---	---	---	---	---
Total	6,970	1,016,899	645,903	244,848	4,212
	=====	=====	======	=====	=====

* the effect of applying the hedge accounting rules in 2004

Value of long term financial assets available for sale valued at adjusted purchase price as at 31 December 2003 amounted to PLN 498,628 thousand and included mainly shares and stakes with no active market.
Fair value of short term financial assets available for sale as at 31 December 2003 amounted to PLN 85,829 thousand and included derivative instruments and embedded derivatives.

Value of long term financial assets available for sale valued at adjusted purchase price as at 31 December 2004 amounted to PLN 498,498 thousand and included mainly shares and stakes with no active market.
In case of derivatives for which hedge accounting is not applicable, the Company presents derivative transactions with positive fair value as financial assets held for trading and derivative transactions with negative fair value as financial liabilities held for trading.
Value of short term financial assets held to maturity as at 31 December 2004 amounted to PLN 1,016,899 thousand and included buy-sell-back transactions for bonds and treasury bills.
Fair value of short term financial assets available for sale as at 31 December 2004 includes hedged derivatives of the Company.

Other financial instruments were more described in notes: 4, 9, 15, 19, 20.

c. Interest from debt securities, loans granted and own receivables

year ended 31 December 2003	realised	unrealised with maturity				**interest total**
		to 3 months	3-12 months	above 12 months	total	
Interest from financial assets held for trading	-	-	-	-	-	-
Interest from financial assets held to maturity	-	-	-	-	-	-
Interest from financial assets available for sale	-	-	-	-	-	-
Interest from loans granted and own receivables	10,614	-	-	-	-	10,614
Total	**10,614**	**-**	**-**	**-**	**-**	**10,614**

year ended 31 December 2004	realised	unrealised with maturity				**interest total**
		to 3 months	3-12 months	above 12 months	total	
Interest from financial assets held for trading	-	-	-	-	-	-
Interest from financial assets held to maturity	15,207	5,913	-	-	5,913	**21,120**
Interest from financial assets available for sale	-	-	-	-	-	-
Interest from loans granted and own receivables	-	108	-	-	108	108
Total	**15,207**	**6,021**	**-**	**-**	**6,021**	**21,228**

d. Interests from financial liabilities

year ended 31 December 2003	realised	unrealised with maturity				interest total
		to 3 months	3-12 months	above 12 months	total	
Interest from financial liabilities held for trading	-	-	-	-	-	-
Interest from other short term financial liabilities	83,784	680	-	-	680	**84,464**
Interest from long term financial liabilities	16,208	2,086	-	-	2,086	**18,294**
Total	**99,992**	**2,766**	**-**	**-**	**2,766**	**102,758**

year ended 31 December 2004	realised	unrealised with maturity				interest total
		to 3 months	3-12 months	above 12 months	total	
Interest from financial liabilities held for trading	-	-	-	-	-	-
Interest from other short term financial liabilities	19,829	-	-	-	-	**19,829**
Interest from long term financial liabilities	34,323	3,242	-	-	3,242	**37,565**
Total	**54,152**	**3,242**	**-**	**-**	**3,242**	**57,394**

e. Put/call option of shares/stakes

The Company owns the following put option for shares/stakes, which is not presented in the balance sheet as at 31 December 2004:

- **Put option of AW S.A. Holland II BV ("AWSA") shares**

The Company has a put option of shares of AWSA Holland II B.V. at each demand of PKN ORLEN S.A. up to 31 December 2006 and a put option which can be exercised up to 1 January 2038 in case of withdrawal of Kulczyk Holding S.A. from the investment. Management of the Company asses that both options are fully exercisable.
Additionally PKN ORLEN S.A. provided Kulczyk Holding S.A. with a call option on AWSA Holland II B.V. realisable on each demand handed in between 1 January 2005 and 31 December 2006.
Shares of AWSA are not traded on an active market and their fair value being base for the option valuation cannot be reliably measured in the view of the Management Board. Therefore neither put nor call option issued by the Company have not been valued.

f. Information on interest rate risk

- The Company's liabilities are held until the date of maturity.
- Effective interest rate for financial liabilities is similar to nominal interest rate (the Company is not charged with bank commissions for most of loans and loan margins are at relatively low level).
- Financial surplus is located mainly in treasury securities, i.e. bills and/or bonds, which are issued by the Ministry of Treasury.

The Company uses financing by bank loans. Changes in interest rates influence amount of financial costs incurred by the Company. Increase in interest rates would result in increase of financial cost incurred by the Company, and particularly of interest costs from credits and loans, adequate to the actual amount of financing used, which would be in great part balanced by increase in profitability of financial instruments of depository character that are in the Company's portfolio.

- The biggest credit involvement of the Company in one bank amounts to 8.78%, in the opinion of the Company's Management Board there is no risk of debt concentration in one bank.
- Banks secure their interests with corresponding records in the loan agreements. In case of sadden and significant deterioration of financial situation of the debtor, banks are entitled to demand earlier repayment of the loans.

g. Information on credit rate risk

According to the Management of the Company there is no significant risk connected with receivables related to financial instruments or borrowings granted by the Company.

Note 45. Contingent liabilities and risks

a) Guarantees and other contingent liabilities

Type of liability as at 31 December 2004	
Guarantees granted, including:	1,218,562
- to subsidiaries (i)	611,900
- joint controlled units	606,662
Other contingent liabilities, including:	14,761
- claim of individuals (ii)	900
- claim of legal entities (iii)	13,861
	- - - - - -
Total	1,233,323
	======

(i) including guarantee for Orlen Deutschland totalling PLN 547,911 thousand

(ii) contingent liabilities concern a claim of an individual against third parties sued for PLN 900 thousand due to an accident of a family member

(iii) liabilities of legal entities including a claim of Rec Investments Sp. z o.o. in the amount of PLN 5,000 thousand and a claim of DEC in the amount of PLN 8,861 thousand.

b) Investments allowance

According to the Decree of the Council of Ministry from 25 January 1994 (Journal Law No 39) on Investment Expenditures and article 18a of the Corporate Income Tax Act (binding until 31 December 1999), and article 3.1 on Amendment of the Corporate Income Tax Act from 20 November 1999 (binding since 1 January 2000), according to which the taxpayer was entitled to decrease the taxable basis in the tax year by investment expenditures and in the subsequent year to decrease it by half of the amount of investment expenditures reducing the tax basis in the previous year (called "investment bonus"). For 1998-2003 financial years the Company benefited from the investment allowances in the following amounts (deductions from taxable income):

Company	Tax allowance	Tax bonus
Year 1998	294,689	168,397
Year 1999	258,662	129,331
Year 2000	167,444	107,538
Year 2001	98,444	40,485
Year 2002	13,845	49,222
Year 2003	-	6,923
	- - - - - - -	- - - - - -
Total	833,084	501,896
	=======	======

These allowances and bonuses are conditional. The Corporate Income Tax regulations provide for the loss of entitlement to investment allowances within 3 years from the end of the fiscal year in which the allowance was exercised, if any of the following circumstances arise:

1) the taxpayer has outstanding tax liabilities for particular years in relation to particular taxes paid, constituting the state budget's income, and insurance pension premiums exceeding separately for each title (and for each tax separately as well) 3% of amount due for these years; in case of value added tax outstanding payments can not exceed 3% of VAT due;

2) the taxpayers transfer - in any form - the ownership of items that were subject to income deductions or tax reduction; this does not concern the transfer of ownership resulting from the change of an entity's legal form, merger or division of hitherto companies, performed on the basis of the Commercial Code's regulations;

3) the legal basis for the treatment of fixed assets as used under lease, tenancy agreements or other similar agreements as a component of the taxpayer's property ceases to exist;

4) the taxpayer will be put into liquidation or is declared bankrupt;

5) the taxpayer will get reimbursement for investment expenses in any form.

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

According to the Act on the Amendment of the Corporate Income Tax Act dated 20 November 1998 (Journal of Law no 144, position 931), when evaluating loss of right to deductions made on the basis of article 18a of the Act on Corporate Income Tax (being in force till 31 December 1999) and article 3.1 of the Act on the Amendment of the Corporate Income Tax from 20 November 1999, (being in force since 1 January 2000), which was mentioned in point 1 above, it is stipulated that taxpayers do not lose this right if the taxpayer adjusts the tax declaration and settles the outstanding payments with penalty interest or within 14 days since receiving the decision of first instance body stating tax liability, settles such liability together with interests due.

c) Excise tax – contingent liability of Rafineria Trzebinia S.A.

On 15 October 2004 the Head of Custom Office in Krakow decided to start tax proceedings on determining the amount of tax liability due to excise duty of Rafinaeria Trzebinia S.A. for the months May, June, July and August 2004. As a result of the proceeding carried out by the Custom Office on 5 April 2005 the company Rafineria Trzebinia S.A. received decisions from the Head of Customs Office in Krakow in which the tax liability due to excise duty was set for the period May-June 2004 for the total amount of PLN 60 million. According to the management board of Rafineria Trzebinia S.A. has all the necessary expertises confirming correctness of applied classification of products with 0% tax rate. On 14 April 2005 the Management Board of Rafineria Trzebinia S.A. appealed against subject decisions and applied to suspend the execution of the decision till the date of settling the matter by the District

Court. As at the date of preparation of the consolidated financial statements, the result of the appeal was unknown. On 5 May 2005 Rafineria Trzebinia S.A. received the decision of the Head of Custom Office in Krakow suspending the execution of the above mentioned decision in response to the company's application to suspend execution of the decision till the date of settling the case.

At the moment, apart from the mentioned proceedings in front of the Customs Office in Krakow, on the basis of the authorization of General Inspector of the Treasury Inspection from 18 January 2005 the control proceedings of the Treasury Inspection Office in Krakow take place in the area of reliability of declared tax bases and correctness of calculating and settling excise tax and VAT for the years 2002 and 2003.

As at the date of the preparation of the financial statements the final result being the consequence of the above mentioned control proceedings, as well, as any potential impact of extending of the above proceedings, is not known.

On 25 November 2004 the Supervisory Board of Rafineria Trzebinia S.A. took a resolution on performing a tax audit for the period from 2000 till the present moment, including the control of correctness of procedures and a control of settling tax duties by the company as well as preparing "forensic report" for the period from 200 till the present moment. As at the date of preparation of the consolidated financial statements the works were not finished and the result is not known.

d) Power transfer fee – settlements with Zaklad Energetyczny Plock S.A.

According to the paragraph 36 of the Decree of Ministry of Economy dated 14 December 2000 relating to detailed methods of determination and computation of tariffs and electricity settlement regulations (Journal of Law No, 1 dated 15 January 2001), the method of calculation of system fee, constituting an element of a power transfer fee was changed. According to the paragraph 37 of the Decree a different method of power transfer fee settlement has been allowed. Following the decision of the Chairman of the Electricity Regulation Office the electricity sale agreement between Zaklad Energetyczny Plock S.A. ("ZEP S.A.") and PKN ORLEN S.A. was signed. The agreement did not determine contentious issues concerning transfer fees for the period from 5 July 2001 to 30 June 2002, as it was regarded as a civil case to be settled by an appropriate court. Zaklad Energetyczny Plock S.A. called on PKN ORLEN S.A. to a compromise agreement, and the District Court in Warsaw called PKN ORLEN as a co-defendant in a court case Polskie Sieci Energetyczne against Zaklad Energetyczny Plock S.A. The Company's Management estimated the claim and in 2002 set up an accrual in the amount of PLN 8,272 thousand for liability to ZEP S.A., and created provision for that purpose in the amount of PLN 9,781 thousand.

As a consequence of the negative court decision PKN ORLEN S.A. was obliged to pay a liability connected with the so called system fee to Zaklad Energetyczny Plock S.A. in the amount of PLN 46,232 thousand. In relation to that the provision for business risks was increased by PLN 28,179 thousand to cover the whole claim.

Preliminary statement of the auditor

The information presented below concerns anti-trust proceedings, in which the Company is the participant. This information was added to the financial statements after the issue of the auditor's opinion and it was not subject to an audit.

e) Anti-trust proceedings

As at the date of the preparation of the report the Company was subject to two anti-trust proceedings.

According to the decision of the Chairman of the Office for Protection of Competition and Consumer ("OPCC") from 21 March 2005, an anti-trust proceeding was started in connection with a suspicion that PKN ORLEN S.A. in Plock concluded an agreement with the Grupa Lotos S.A. in Gdansk which limited competition on the domestic sale market of gasoline Universal 95 through an unanimous decision to give up production and distribution of gasoline Universal 95 and eliminating the competition on the domestic sale market of gasoline Universal 95 as well as excluding the risk of the market take-

over by the competition. Relating to the received letter PKN ORLEN S.A. released a statement on put charges and gave repliess to questions set by OPCC through the letter no DP/69/2005/10 from 11 April 2005 signed by Vice President Janusz Wisniewski. Repliess to further questions made by OPCC is prepared. The deadline for sending replies is 5 May 2005.
Taking into account the fact that the proceedings concerning an agreement concluded between PKN ORLEN S.A. and the Grupa Lotos S.A. on giving up production of gasoline Universal 95 is in very initial phase there is no reason to create a provision in the Company's balance sheet.

On 21 March 2005 the Company received a letter in which the Chairman of OPCC asked to be provided with information concerning the market of monoethylene glycols and "Petrygo" radiator liquid in years 2000-2004. The letter concerns the proceedings in the area of setting prices for antifreeze liquid to radiators „Petrygo" and prices for monoethylene glycols. In these proceedings OPCC issued a decision imposing penalty in the amount of PLN 40m. The Company appealed to Anti-Trust Court against the negative decision of OPCC. On 13 August 2001 the Anti-Trust Court annulled fully the decision of OPCC, which accused PKN ORLEN of applying monopolistic practice, annulling at the same time the cash penalty, in 2001 due to this fact the provision was fully released. OPCC applied on 4 October 2001 to the Supreme Court to annul the verdict. On 10 July 2003 the Supreme Court investigated the application of OPCC to annul the verdict of the District Court from 13 August 2001. The case was conducted again by District Court in Warsaw and Anti-Trust Court, which on the hearing on 21 July 2004 pronounced the judgment again revoking the complaint decision of OPCC.
Due to the received letter PKN ORLEN S.A. gave replies on questions of OPCC on 11 April 2005. Simultaneously OPCC approved prolongation of the period for giving replies up to 6 May 2005 concerning determining the proper geographical market of monoethylene glicole.
In both proceedings PKN ORLEN is represented by the Legal Office COMPER on the base of the authority admitted by the Management Board of the Company.
These financial statements do not include provisions relating to the above proceeding as in the opinion of the Management Board of PKN ORLEN based on an independent legal opinion charging the Company with an obligation to pay the cash penalty is unlikely.

f) Arbitration procedure / sales of shares in NOM Sp. z o.o.

On 20 May 2003, the Management Board of the Company submitted a put option execution declaration for all Niezalezny Operator Miedzystrefowy Sp. z o.o. ("NOM") shares owned by PKN ORLEN S.A. to Polskie Sieci Energetyczne S.A. ("PSE"). The "put" price amounted to PLN 111.5 million and was calculated as a sum of par value of the shares sold and a cumulative investment premium calculated according to the Agreement dated 8 June 2000 regulating the cooperation between the NOM shareholders.
On 20 October 2003, PSE filed a suit to the Court of Arbitration of the Polish Chamber of Commerce in Warsaw, regarding the determination of the invalidity of the shares sales agreement.
Due to the carrying on arbitrage proceedings the Company provided in the standalone financial statements for the period ended 31 December 2004 prepared on 31 March 2005 an allowance in the amount of PLN 44.6 million for receivable from PSE on the grounds of the received legal opinions as at that date.
On 26 April the Company received a sentence of the Arbitration Court of the Polish Chamber of Commerce in Warsaw. The sentence of the arbitration court is unfavourable for the Company As a consequence the estimations of the Management Board in relation to the assessment of the risk of non-collection of the above receivable was changed. As a result the Company provided an allowance for the remaining balance of the disputed receivable from PSE in an additional amount of PLN 66.9 million up to the amount of PLN 111.5 million.

g) Employees compensation plan

On 23 December 2002 an agreement between the Company and trade unions operating within the Company was signed. The goal of this agreement was regulating the situation of employees in case of introducing restructuring activities in PKN ORLEN. The Company guarantees employment for its workers till finishing the restructuring process, but the period was not clearly defined). If the obligation

is not settled by the Company, redundant employees will be paid compensation according to the following rules:

- equivalent of 7 month employee's salary if employment contract is terminated until 31 December 2003;
- equivalent of 4 month employee's salary if employment contract is terminated in the period between 31 December 2003 and 31 December 2005;
- equivalent of 3 month employee's salary if employment contract is terminated after 31 December 2005.

These amounts do not comprise compensation regulated by the article 8 of the Legal act dated 28 December 1989 on detailed principles of terminating employment contracts for reasons concerning the employer.

h) Shield programs

In connection with predicted programs relating to restructuring of employment in the Company the shield programs including among others additional compensations connected with redundancy from the reasons not dependant on an employee are introduced.
In connection with that the Company has created a provision against costs of 2004 in the amount of PLN 70million.

i) Claims and disputes in front of the Court

In accordance with the Agreement signed on 20 December 2002, Tankpol Sp z o.o ("Tankpol") transferred to PKN ORLEN due to cession, 40% of shares held in ORLEN PetroTank Sp z o.o. ("Petrotank") in exchange for receivables from Tankpol. On 30 October 2003 a legal case was filed against PKN ORLEN for compensation for PLN 69,898 thousand or return of the ceded shares. On 26 January 2004 Tankpol modified its claim for repayment of PLN 36,383 thousand or return of the ceded shares. Together with the claim, Tankpol presented a new valuation of Petrotank amounting to PLN 232,147 thousand. On 22 January 2004 Tankpol approached the Company with a compromise offer, stating, that the claim will be revoked if PKN ORLEN pays PLN 32,745 thousand. On 18 February 2004 during the first hearing the court suspended the legal proceeding for the period of three months, in order to allow parties to reach a compromise. At the hearing on 7 September 2004 the both sides applied unanimously to suspended a hearing for another 3 months, which met the Court approbate. However despite carried negotiations there was no agreement reached. On 8 December 2004 Tankpol applied to take the suspended procedure. On 23 February 2005 a further hearing took place, during which the Regional Court declined applications of both sides concerning interviewing witnesses and postponed making sentence till 9 March 2005. On 9 March 2005 the Court, taking into account the complexity of the case, decided to make a sentence on 22 March 2005. On 22 March 2005 the Court made a sentence rejecting a claim of Tankpol sp. z o.o. The sentence does not end the proceedings because Tankpol may appeal against it. In the Company's Management view, based on the independent legal opinion obtained, the final outcome of the above claim should not have a material impact on the presented financial results or the settlement balances.

j) Polish regulations on taxation

Poland has currently a number of regulations related to value added tax, excise tax, corporate income tax and social taxes. Tax regulations are often amended which results in their unclearness and inconsistency. Frequently, existing differences in opinions regarding legal interpretations exist among governmental organizations, as well as tax authorities and tax payers result in the area of creating uncertainties and conflicts. Tax settlements, together with other legal compliance areas (for example: customs or currency controls) may be subject to review and investigation by relevant authorities, which are entitled by law to impose severe fines, penalties together with interest charges. These result in the fact that tax risk in Poland is substantially higher than typical, for countries with better developed tax systems.

There are no formal procedures in Poland concerning the ultimate level of taxation charge. Tax settlements may be subject to tax control during the subsequent 5 years, from the end of the tax year, in which the tax liability reached its maturity. There is a risk that the tax authorities may have a different

opinion from presented by the Company as to the interpretation of the law, what might have a significant impact on the Company's tax liabilities.

k) Fixed assets located on the land with unsettled legal status

Net book value of fixed assets permanently attributed to a land with unsettled legal status as at 31 December 2004 amounts to PLN 18,417 thousand. Those assets are located mainly on fuel stations of former CPN.

l) Other risk related to the process of land reclamation

As it was presented in Note 18d and 18e of additional information and explanations, on 31 December 2004 the Company disclosed in the balance sheet the environmental provision on the basis of analysis of made by independent experts and taking into account present legal rules and practices relating to contaminated land reclamation. Potential future changes to the legal regulations and practices concerning environmental protection may influence the level of the provision in future periods.

m) Pledge on Basell ORLEN Polyolefin ("BOP") shares

Pursuant to the registered share pledge agreement dated 19 December 2003, PKN ORLEN established for the benefit of Kredyt Bank S.A. located in Warsaw acting as the Security Agent (the "Security Agent") a registered pledge, and as the temporary security until the date of entering the registered pledge into pledge register an ordinary pledge (i.e., a pledge under Article 327 et seq. of the Civil Code), in respect of all the shares held by PKN ORLEN in the share capital of the BOP, that is 907,398 shares with a nominal value of PLN 500 each, which represent 50% of the share capital of the Joint-Venture Company, and entitle the shareholder to exercise 50% of the voting rights at the Shareholders' Meeting of the Joint-Venture Company. The condition for the effective establishment of the registered pledge is the entry of such pledge into the pledge register held by the applicable court. Upon registration of the registered pledge the ordinary pledge shall expire.
The pledge established pursuant to the share pledge agreement dated 19 December 2003, provides a security for repayment of present and future pecuniary claims of the pledgee under the Hedging Intercreditor Agreement up to the maximum amount of EUR 750,000,000.
On 23 January 2004 the entry to the pledge register in respect of all the shares of the BOP held by the Company was made.
As a result the liability connected with a loan as at 31 December 2004 amounted to EUR 168,200,000.
As at the date of the preparation of the financial statements, in opinion of the Management Board of the Company there are no presumptions indicating the risk of the lack of possibility of repayment of the above liability by BOP.

n) Tax review in ORLEN Oil Sp. z o.o.

On 13 December 2004 the Supervisory Board of ORLEN Oil Sp. z o.o. took a resolution to carry out tax audit for the period from 2000 till the present date, including control of correctness of procedures and control of settling tax liabilities by the Company as well as preparation of "forensic report" for the period from 2000 till the present date. As at the date of preparation of the consolidated financial statements the works were not completed and their result was not known.

o) Tax review in Rafineria Nafty Jedlicze S.A.

On 17 December 2004 the Supervisory Board of Rafineria Nafty Jedlicze S.A. took a resolution to carry out tax audit for the period from 2000 till the present date, including control of correctness of procedures and control of settling tax liabilities by the Company as well as preparation of "forensic report" for the

period from 2000 till the present date. As at the date of preparation of the consolidated financial statements the works were not completed and their result was not known.

Note 46. Amounts due to the State or local government budgets as a result of obtaining the right of ownership to buildings

As at 31 December 2004 there were no significant amounts due to the State or a local government budget entity due to obtaining the right of ownership to buildings.

Note 47. Discontinued operations

During the year 2004 the Company did not discontinue any core activity and do not plan to discontinue any significant activities in the following 12 months.

Note 48. Information on cost of construction in progress, fixed assets and development for own needs

Cost of construction in progress and fixed assets constructed by the Company for itself during the year 2004 amounted to PLN 10,647 thousand.

Note 49. Capital expenditures planned and incurred after 31 December 2004

Capital expenditures planned by the Company for the year 2005 amount to PLN 1,363,238 thousand, including capital expenditures related to protection of environment amounting to PLN 171,690 thousand. Capital expenditures incurred until the end of February 2005 amounted to PLN 119,421 thousand, including expenditures on protection of environment amounting to PLN 18,380 thousand.

Note 50. Information concerning significant transactions with related parties

a) Transactions with members of the Management and Supervisory Board of the Company, their spouses, siblings, descendants and other relatives

During the year 2004 no significant transactions with members of the Management and Supervisory Board of the Company, their spouses, siblings, descendants and other relatives took place.

b) Transaction with the related entities through the Supervising persons

For the purpose of the preparation of the report for the year 2004 the company implemented a procedure of collection of statements about transactions with related parties to enlarged extent in compliance with IAS 24 “Related party disclosures”.

	Sales	Purchase	Receivables	Liabilities	Dividend paid
Legal persons *	365,036	383,647	20,667	33,046	48,150
Natural 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 a detailed statement from 1 former Member of the Supervisory Board.

c) Transaction with the related entities through the Managing persons

In 2004 the Members of the Management Board did not conclude transactions with related parties in compliance with IAS 24 "Related party disclosures".

d) Transactions of the Company with related entities in the period between 1 January 2004 and 31 December 2004 and settlements as at 31 December 2004

	Consolidated subsidiaries 1)	Consolidated associates 2)	Unconsolidated subsidiaries 1)	Unconsolidated associates 2)	Consolidated with equity method joint ventures 3)	Total of related entities
Sales	4,391,207	20,861	5,802	23,227	807,362	5,248,459
Purchases	648,839	71,810	70,673	8	8,490	799,820
Interest income	2,602	39	739	136	62	3,578
Other financial income	4,244	-	-	-	-	4,244
Interest expenses	3,599	462	-	-	-	4,061
Short-term receivables (gross)	437,392	1,453	2,492	20	85,916	527,273
Short-term payables	92,555	11,417	9,442	2	582	113,998
Long-term receivables (gross)	32,916	-	192	-	-	33,108
Long-term payables	-	-	-	-	-	-
Short-term investments - loans granted	244,848	-	-	-	-	244,848

1) The Company uses its voting rights (above 50% of voting rights) to appoint members of the Supervisory Board and in some cases also members of the Management Board

2) The Company has significant influence through representatives of supervisory bodies

3) The Company has joint control based on company's contract

Information about share in common stock and number of voting rights at the meetings of shareholders in subsidiaries and associates is presented in Note 4L.

Note 51. Unconsolidated joint ventures

During year 2004 the Company did not participate in join ventures, which are subject to consolidation .

Note 52. Information on significant shares and stakes

a) Polkomtel S.A.

As at 31 December 2004 the Company owned 4,019,780 shares of Polkomtel S.A. which constitute 19.61% share in Polkomtel share capital. Total purchase price amounted to PLN 436,495 thousand.
Polkomtel S.A. activities include:
- designing, installation, exploitation and managing of GSM system on Polish territory in accordance with conditions of license given to the company,
- services connected with GSM cellular telecommunication on Polish territory,
- sales of products and services related to GSM system.

Shares are not quoted on the active market and their fair value cannot be measured reliably. As a result they are presented in the balance sheet at purchase price, as they are not quoted on active market and their fair value cannot be reliably measured. In the opinion of the Management Board on the grounds of the carried out analysis PKN ORLEN does not exert an influence on Polkomtel S.A., so Polkomtel S.A. is not a company associated to PKN ORLEN.
In 2001 the Company granted a loan to the company Polkomtel for financing UMTS expenses amounting to PLN 98,050 thousand.
On 17 December 2003 Polkomtel S.A. made earlier repayment of the loan to PKN ORLEN. The value of returned loan amounted to PLN 98,050 thousand and PLN 2,133 thousand of interest.
In 2004 the Company recognized revenues from dividends from Polkomtel received in the amount of PLN 68 million.
The Management Board of PKN ORLEN concluded the agreement with KGHM Polska Miedz S.A. and Polskie Sieci Elektroenergetyczne S.A. concerning introducing shares of Polkomtel S.A. to the public market.
Basing on the current structure, for gaining the maximum financial effects and for keeping the transparency of shares selling, the above mentioned shareholders have entitled themselves to introduce shares to the public market and than simultaneously to the Stock Exchange in Warsaw.
Introducing shares to the stock exchange should take place at the latest on 30 September 2005. Achieve of a goal described in the agreement, the companies will undertake all activities required by law and intercorporate rules.
On 21 April 2005 the above mentioned agreement was dissolved on the basis of its own force.
On 21 April 2005 the General Shareholders Meeting of Polkomtel S.A. took a resolution to destiny a part of the net profit for the year 2004 for payment of dividend. According to the resolution of PKN ORLEN S.A. will receive the dividend in the amount of PLN 83 million.

b) AWSA Holland II B.V.

As at 31 December 2004 the Company possessed 9.22% stake in AWSA Holland II B.V. share capital at total purchase price of PLN 61,400 thousand.

The company's activities include: possessing shares and managing limited liability company incorporated under Dutch law, granting collaterals for liabilities of third parties and all other activity related to that subject. The company is the dominant company of Autostrada Wielkopolska S.A.

Shares are not listed on active market, and their fair value cannot be reliably measured. Consequently, shares are presented in balance sheet at purchase price. The Company possesses a put option concerning AWSA shares, presented in Note 44e. According to the Management Board of the Company the above option is fully realized.

Note 53. Average employment information

Average employment by specific categories in the Company during the years 2004 and 2003 was as following:

Number of employees	2004	2003
Blue collar workers	2,282	2,585
White collar workers	3,582	3,871
	5,810	6,456

Note 54. Information of the total amount of remuneration, rewards and bonuses paid to or due to (in money, in kind or in any other form) an each managing or supervising person separately

Remuneration of the Company's Management includes cash and non-cash contract remuneration paid in 2004 set according to the decisions of the Supervisory Board of PKN ORLEN.
Remuneration is presented in amounts gross.

a) Remuneration of the Members of the Management Board and Supervisory Board of the Company for the year 2003

Supervisory Board of the Company	856
Management Board of the Company	12,679
	13,535

Remuneration of the Supervisory Board	2003
Jacek Bartkiewicz	72
Maciej Gierej	119
Edward Grzywa	94
Krzysztof Kluzek	94
Andrzej Kratiuk	94
Ryszard Lawniczak	94
Grzegorz Mroczkowski	23
Oresta Andrzej Nazaruk	66
Krzysztof Szlubowski	94
Jozef Wozniakowski	12
Jan Waga	94
Remunerations of the Supervisory Board - total	**856**

Remuneration of the Management Board	2003
Andrzej Modrzejewski	560
Andrzej Dretkiewicz	109
Jaroslaw Tyc	236
Wojciech Weiss	163
Krzysztof Cetnar	695
Zbigniew Wrobel	3,232
Slawomir Golonka	2,151
Janusz Wisniewski	1,944
Jacek Strzelecki	1,707
Andrzej Macenowicz	1,882
Remuneration of the Management Board - total	**12,679**

b) Remuneration of the Members of the Management Board and Supervisory Board of the Company for the year 2004

Supervisory Board of the Company	882
Management Board of the Company	45,159

	46,041
	=====

Remuneration of the Supervisory Board	2004
Jacek Bartkiewicz	67
Marian Czakanski	17
Raimondo Eggink	40
Maciej Gierej	74
Edward Grzywa	27
Krzysztof Kluzek	31
Andrzej Kratiuk	27
Maciej Andrzej Kruk	2
Krzysztof Lis	40
Ryszard Lawinczak	59
Grzegorz Mroczkowski	8
Oresta Andrzej Nazaruk	27
Malgorzata Okonska-Zareba	40
Piotr Osiecki	40
Michal Stepniewski	51
Andrzej Studzinski	32
Krzysztof Szlubowski	59
Jan Waga	67
Jacek Walczykowski	30
Ireneusz Wesolowski	40

Andrzej Wieczorkiewicz	32
Janusz Zielinski	32
Krzysztof Zyndul	40
	=====
Remuneration of the Supervisory Board - total	**882**

Remuneration of the Management Board	2004
Zbigniew Wrobel	12,993*
Jacek Walczykowski	6,034*
Slawomir Golonka	6,802
Jacek Strzelecki	6,347
Krzysztof Kluzek	2,434
Andrzej Macenowicz	4,637
Janusz Wisniewski	4,714
Igor Chalupec	499
Wojciech Heydel	193
Cezary Smorszczewski	233
Jan Maciejewicz	94
Pawel Szymanski	179
	=====
Remuneration of the Management Board - total	**45,159**

*Remuneration include disputed part in the amount of PLN 9,252 thousand.
In opinion of the present Management Board this amount is dubious.

Remuneration in subordinated entities	2004	2003
Slawomir Golonka	98	97
Jacek Strzelecki	63	68
Andrzej Macenowicz	79	79
Janusz Wisniewski	159	135
	- - - -	- - - -
	399	**379**

	2004	2003
Andrzej Macenowicz	42	40
	-	
	- - - -	
	42	**40**

Note 55. Information about advances, loans, borrowings and guarantees granted to the Management and Supervisory Board Members and other information concerning Management and Supervisory Board Members

As at 31 December 2004 the Company did not grant any advances, loans, borrowings, guarantees and any other agreements which result in any operation in favour of the Company to the Management and Supervisory Board Members and their relatives.

Note 56. Significant events from previous years included in the financial statements for the year 2004

No significant events concerning previous years were included in the financial statements for the year 2004.

Note 57. Events occurring after the balance sheet date

1. On 19 January 2005 PKN ORLEN received a notice from PETROVAL S.A. stating that PETROVAL was halting the implementation of a forward contract to supply crude oil (dated December 21, 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 and it is currently impossible to assess how long this situation will persist. The Management Board of PKN ORLEN has declared that the above described situation would not impede continuity of crude oil supply thanks to previously undertaken activities. Crude oil deliveries are expected to be executed according to plan, thanks to term and supplementary crude oil delivery spot contracts.
2. The Management Board of PKN ORLEN was informed on the resignation of Krzysztof Zyndul on 30 March 2005 from the position of the member of the Supervisory Board of PKN ORLEN. The reason for resignation was appointment of Krzysztof Zyndul for the position of the Undersecretary of State in the Ministry of Treasury.

3. On 14 April 2005 sales agreement concerning 24 shares at the nominal value of PLN 589,000 each and at a total nominal value of PLN 14,136,000 constituting as at the date of the signature of the agreement, 30.77% of the share capital Przedsiebiorstwo Przeladunku Paliw Plynnych "Naftoport" Sp. z o.o. ("Naftoport") was concluded between PKN ORLEN as a seller and PERN "Przyjazn" S.A. ("PERN") as a buyer. The most important decisions of the agreement were as follows:
   - Selling price of one stake amounts to PLN 2,820,512.82
   - Total selling price of 24 stakes amounts to PLN 67,692,307.68
   - Hedge of settlement of the amount will be a pledge on sold stakes.

   The agreement was concluded under the condition of satisfying all the following conditions at the same time:
   d. obtaining unconditional approval of the Head of OPCC of concentration through the purchase of PERN stakes or not making decision on this case before the deadline, in which the decision is to be taken. From the information received from PERN results that the company obtained an approval of the Head of OPCC on 24 January 2005
   e. giving permission by the Stakeholders of the company Naftoport expressed in the form of resolution to sell stakes – the condition was satisfied on 24 January 2005
   f. statements of the stakeholders on not taking advantage of the firs purchase right in case of purchasing stakes – the condition was fulfilled on 21 January 2005.

   On 1 February 2005 the Extraordinary Shareholders Meeting of Naftoport accepted changes to the Agreement of the Company Naftorport. The changed agreement secures interests of PKN ORLEN and other stakeholders of Naftoport in the area of guarantees of deliveries.

   Simultaneously PKN ORLEN concluded long term trade agreements with Naftoport and PERN guaranteeing the security of deliveries of crude oil by sea and land transportation. Concluded trade agreements ensure PKN ORLEN to maintain the possibility to be supplied with crude oil by Naftoport on the conditions not worse than those before conclusion of the agreement.

As a result of sale of stakes PKN ORLEN possess 17.95% of the share capital of Naftoport. The remaining shares are possessed by:

a. PERN "Przyjazn" - 67.95%
b. Grupa LOTOS S.A. - 8,97%
c. Port Polnocny - 3.85%
d. J&S Services Ltd. - 1.28%.

Except for relations resulting from the above described sales agreement concerning stakes and trade agreements as well, there are no other relations between the issuer and people managing or supervising an issuer and a purchaser of stakes.

The sold stakes constitute 20% of the share capital of Naftoport, so they constitute financial assets with a significant value in compliance with $2 pos. 1 and 5 of the Decree of Council of Ministry from 21 March 2005 on current and periodical information published by issuers of securities.

4. The Management of Polski Koncern Naftowy ORLEN S.A. ("the Company") informs that on 20 April 2005 it received the decision of the European Commission from 20 April 2005 concerning the approval for taking over by PKN ORLEN S.A. control over Unipetrol a.s. ("Unipetrol") through the purchase from the Czech National Property Fund ("NPF") 114,224,038 bearer shares of the company Unipetrol constituting about 62.99% of all issued and existing shares of the company Unipetrol.

   Receipt of the above mentioned decisions constitutes fulfilling the last of the precedent conditions escrowed in the conditional agreement of the purchase of shares of Unipetrol concluded on 4 June 2004 between NPF and the Company ("the Agreement of Purchase of Shares of Unipetrol") (information concerning the Agreement of Purchase of Shares of Unipetrol was issued by the Company in the current report No 41/2004 from 4 June 2004 and information on fulfilling the remaining precedent conditions was issued by the Company in current reports 79/2004 from 5 October 2004 and 88/2004 from 16 December 2004).

Note 58. Information about relationship between legal predecessor and the Company as well as about the method of overtaking of assets and liabilities

On 29 June 1993 the Minister for Privatization representing the State Treasury transformed the State-owned enterprise Mazowieckie Zaklady Rafineryjne i Petrochemiczne "Petrochemia Plock" located in Plock into State-owned joint stock company. The Company's share capital was covered by the enterprise fund and initial fund of state-owned enterprise. Share capital of the Company at the transformation date amounted to PLN 420 million. The remaining part of the funds was reflected as the Company's reserve capital. All shares of the Company were taken by State Treasury. The special funds of the State-owned enterprise were transformed to the specific funds of the Company, though their initial purpose was retained.

Note 59. Hyperinflationary accounting and reporting

The cumulative yearly average inflation rate for the last 3 years for every period covered by the financial statements did not exceed 100%, therefore financial statements adjusted for inflation are not required.

Note 60. Unusual events influencing items in financial statements

During the 12 month period ended 31 December 2004 there was no unusual events significantly influencing items in the presented financial statements, except for those described below.

Transactions concluded among the Capital Group were trade and services transactions resulted from the typical activities of the particular entities in the Group except for the capital increase in ORLEN Oil by the amount of PLN 46,672 thousand and the sale of Oil Division of PKN ORLEN valued at PLN 173,535 thousand to ORLEN Oil.

Note 61. Differences between data disclosed in the financial statements and previously prepared and published financial statements

Existing differences relating to cash flow statement presentation for the year 2003 were presented in the explanatory notes to the cash flow statement - Note 42d.

a) Changes introduced to the financial statements for the year ended 2004 due to the change of the assets and liabilities valuation rules

	Net profit	Equity
Financial data disclosed in financial statements for 2003	933,781	8,374,451
1. Financial costs adjustment	13,484	13,484
2. Long term investment adjustment	-	11,045
3. Not distributed profit/loss adjustment	-	11,469
Comparable financial data for 2003 disclosed in the financial statements for 2004	947,265	8,410,449

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b) Changes introduced to the financial statements in comparison to quarterly financial statements for 4Q 2004 influencing net profit and equity

	Net profit	Equity
Financial data disclosed in 4 Q 2004 financial statements	2,315,864	10,456,658
1. Partial settlement of the building contract	1,973	1,973
2. Evaluation of embedded instruments in trade agreements adjustment	(3,479)	(3,479)
3. Creation of the provision for the claim resulting from a concluded agreement	(15,191)	(15,191)
4. Recognition of the annual rewards for employees	(38,402)	(38,402)
5. Financial fixed assets impairment adjustment	7,000	7,000
6. Adjustment of the current and the deferred tax	8,307	8,307
7. Other	(427)	(427)
Financial data disclosed in the financial statements for 2004	2,275,645	10,416,439

c) Changes introduced to the financial statements in comparison to quarterly financial statements for 4Q 2004 influencing cash flow statement

Due to the change of classification of investment co-financed by the joint venture company the value of net flows from operating and investing activities was changed

	Report for 4Q	Current financial statements	Change
Net operating flows	2,910,954	2,883,077	(27,877)
Net investing flows in cash flow statement	(1,811,251)	(1,783,374)	27,877

Note 62. Liabilities secured on the Company's assets

As at 31 December 2004 the Company possessed liabilities secured on the BOP shares presented in the amount of PLN 453,699 thousand.

Note 63. Other additional information

a) Other capital reserves – privatization fund

The base for creating the Privatization Fund of Petrochemia Plock S.A. ("Fund") were resolutions of the Privatisation Act from 13 July 1990 state-owned entities. In order to enable employees of the Mazowieckie Zaklady Rafineryjne i Petrochemiczne purchasing shares of Petrochemia Plock S.A. the Employees' Board of the Company by the resolution No 178/93 dated 14 April 1993 entitled the General Director to create the Privatization Fund, from which financial resources had to be allocated for granting to employees loans for purchasing shares of the Company.
In the former CPN S.A. the Restructuring Fund was established by the resolution of the General Shareholders' Meeting dated 24 May 1996, and on 18 July 1997 it was additionally increased.
The Act from 30 August 1996 on Commercialization and privatization of state-owned companies replaced the former Act on Privatization of the state-owned entities form 1990. According to that, employees purchased shares of the Company without payment, so granting loans from the sources of the Fund for purchasing shares at a preferential price became aimless.
As a result there was a change of the destination of the sources from the Privatization Fund for the purposes connected with the realization of the processes of the internal restructuring.
According to the resolution of the Supervisory Board No 20/III/98 from 18 December 1998 the Privatization Fund was allocated for supporting in the form of loans granted to employees moving to the companies, for the purchase of shares or stakes in these companies.
In relation to an implemented project concerning establishment of Park Technologiczny in Plock significant changes were introduced in the area of extending group of entitled to benefit from the sources of the Fund.
Presently loans from the Fund can be granted also to the companies participating in the program of establishing Park Technologiczny, which will arise in result of restructuring PKN ORLEN S.A.
Changes concerning destination of the source of the Privatization Fund were introduced on the base of the Resolution No 26 of the Extraordinary Shareholders' Meeting of PKN ORLEN dated 8 April 2004 concerning changes of the regulations of using loans from the sources of the Privatization Fund.

b) Proceedings in the course concerning the Company

Relating to the proceedings conducted by investigation bodies, in the opinion of the Management Board there is no presumption to state that the proceedings concern matters that may influence significantly the correctness and reliability of the standalone financial statements of the Company for the year ended 31 December 2004. The proceedings are not conducted against the Company.

c) Restructuring of the southern assets

Rafineria Nafty Jedlicze, Rafineria Trzebinia and ORLEN Oil are subject to the project "Restructuring of the southern assets of the Capital Group PKN ORLEN S.A." The project assumes optimization and consolidation of production and the sale of fuels, engine oils, lubricants and paraffins in the Capital Group of PKN ORLEN. In the first half year of the year 2005 the Management Board will take decision concerning the further operations of the southern assets.
As of the date of the above financial statements preparation, no results of the potential restructuring activities, which may have material impact on the presented financial data of the Group as of 31 December 2004 are known to the Management Board.

d) Transaction of purchasing of shares of UNIPETROL

On 4 June 2004 PKN ORLEN entered into the following agreements :
- between the National Property Fund of the Czech Republic ("NPF") and the Company on the purchase of 62.99% shares of Unipetrol a.s. for the amount of CZK 11.3 billion ("Unipetrol Share Purchase Agreement"), on condition that all the relevant consents are obtained from the regulating bodies;
- between the Czech Consolidation Agency and the Company on the purchase of 9.76% shares and receivables belonging to certain entities constituting part of the Capital Group of UNIPETROL for the amount of CZK 1.75 billion in total.

On 11 March 2005 PKN ORLEN informed the European Commission about the planned consolidation between PKN ORLEN and UNIPETROL. The notification was connected with the necessity of fulfilling the last precedent condition related to the Unipetrol Share Purchase Agreement. On 20 April 2005 the Management Board of the Company received a decision of the European Commission concerning approval to take over Unipetrol a.s.

Within 60 days from the date of conclusion of the transaction PKN ORLEN will announce the public invitation to buy shares remainig in the exchange trade shares of UNIPETROL and its subsidiaries: Paramo and Spolana, listed on the Stock Exchange in Prague. In the opinion of the Management Board the conclusion of the transaction will take place before the end of the I half year of the year 2005.

e) Main differences between applied so far for accounting rules based on Polish Accounting Standards (PAS) and International Financial Reporting Standards (IFRS)

In connection with the fact that with the effect from 1 January 2005 PKN ORLEN will prepare its first standalone financial statements in accordance with IFRS endorsed by the European Commission for the year 2005, the main differences identified by the Company between IFRS and PAR concerning changes of equity opening balance as at 1 January 2005 and comparative data in range of net profit for the year ended 31 December 2004 are presented below.

1. Quantified differences

The reconciliation and description of main differences with respect to equity and net profit between PAS and IFRS are based on IFRS standards that are binding as at 1 January 2004. When preparing its first standalone financial statements in accordance with IFRS, IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS") will be applicable.

The International Accounting Standards Board (IASB) introduced many changes to the binding accounting standards and issued new standards during 2004. Additionally the endorsement process being performed by the European Commission has not adopted all of IAS 39 regulations. Also endorsement process by the EC may impact the differences presented. Therefore, it is possible that the IFRS standards that the Company will apply in preparation of its first financial statements in accordance with IFRS containing comparative data for the year 2004 will differ from the standards that were used when preparing the reconciliation below and when presenting non quantified differences described later. Additionally only a complete set of financial statements comprising a balance sheet, income statement, statement of changes in equity, and cash flow statement, together with comparative financial information and explanatory notes, can provide a fair presentation of the Company's financial position, results of operations and cash flows in accordance with IFRSs.

	year ended
	31 December 2004
Impact on the result	10
Distributions from profit for social activity	(4)
Valuation of shares denominated in foreign currency	14

	31 December 2004
Impact on the net assets	14
Distribution from profit for social activity	-
Valuation of shares denominated in foreign currency	14

(a) Distribution from profit for social activity

According to Polish business practice shareholders of the Company had the right to distribute the profit for the employees' benefits, i.e. for bonus payment or for the Company's social fund. Such distributions were presented in statutory financial statements under PAS, similarly to dividend payments, through the change in capital.

In the financial statements prepared in accordance with IFRS such payments are charged to operating costs of the year that the distribution concerns.

(b) Valuation of shares denominated in foreign currency

In accordance with PAS, shares owned by the Company and denominated in foreign currency were valued at each balance sheet date using appropriate exchange rate at balance sheet date.

In situation when value of shares at balance sheet date exceeded the value at transaction date then exchange differences corrected revaluation reserve, when value of shares at balance sheet date was lower than the value at transaction date then exchange differences were expensed to the income statement.

In the financial statements prepared in accordance with IFRS shares denominated in foreign currency are presented in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" i.e. exchange rate at transaction date is used.

(c) IFRS treatment of revenues

In accordance with PAS, sales revenues and cost of sales presented by the Company contain amounts of excise tax and fuel charge charged on the oil product manufactured and included in realized sales revenues.

For the purpose of financial statements prepared under IFRS amounts of excise tax and fuel charge would be eliminated from the revenues and costs of sales in amount of PLN 9,475m in the year ended 31 December 2004.

2. Differences not quantified yet

The Company in spite of due diligence (the Company has launched the process of implementation changes in the area of adapting a record system to financial statements preparation in accordance with IFRS), due to the process complexity, mainly related to non-current assets valuation (fixed assets purchased in the period of hyperinflation, perpetual usufruct), which will be carried out by independent experts, was not able to asses reliably the amounts of certain differences. The Company plans to finish the implementation of IFRS for the statutory purposes till the end of 2005.

These differences were in detail described below together with explanations required by paragraph 18.2 of the Decree of the Council of Ministers dated 11 August 2004 concerning specified conditions which should be fulfilled by prospectus and short term prospectus (Journal of Law No 186, pos. 1921).

IFRS 1

In 2003 the International Accounting Standards Board published IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"). IFRS 1 requires that all enterprises that previously have not made an explicit statement of compliance with IFRS in their financial statements, are to be treated as first time adopters of IFRS. IFRS 1 requires the Company to apply the same accounting policies applicable at the reporting date in the opening balance sheet presented and throughout all periods presented. IFRS 1 grants certain exemptions from this rule in determining the opening balance sheet and the Company may use one or more of these exemptions. Therefore the timing of adopting IFRS, adopted exemptions and accounting policies will have a significant effect on the financial data in accordance with IFRS due to the following:

- items of fixed assets and intangibles may be recognized at fair value at the date of transition, being the deemed cost. This relates primarily to perpetual usufruct received free of charge which was not recorded under PAR as the Company was unable to determine its cost, and assets which did not comply with IAS 29 requirements and which were revalued in accordance with Central Statistic Office outlines (i.e. purchased before 1 January 1997).
- business combinations performed before 1 January 2004 will not be converted in accordance with IFRS 3.

The description of main differences (which were not quantified yet because of the reasons explained above) with respect to equity and net profit between PAS and IFRS as at 31 December 2004 are set out below:

(a) Non-current assets valuation to fair value

For the purpose to prepare the financial statements in accordance with IFRS for the first time, in accordance with IFRS 1 the Company should present all non-current assets by costs, which would be consistent with IFRS. The Polish economy was hyperinflationary until the end of 1996 according to IAS 29 criteria and assets acquired prior to that date are not allowed to be presented in accordance with IFRS according to the formerly determined cost. Using the option included in IFRS 1 the Company decided to value non-current assets acquired before 1 January 1997 to fair value at 1 January 2004 being the deemed cost.

This valuation will result in change of the balance sheet value of assets and depreciation allowance.

(b) Fair value valuation of perpetual usufructs received free of charge

For the purpose to prepare the financial statements in accordance with IFRS, IFRS 1 requires from the Company to present all assets and liabilities in opening balance whose presentation is required by IFRS. Perpetual usufructs granted in the past to the Company's entities based on administrative decisions fulfill the definition of asset. Therefore they should be presented in financial statements of the Company according to IFRS at their fair value. In previous PAS financial statements the Company did not present perpetual usufructs because was not able to asses historical purchase price of these rights. The Company also did not asses historical of these perpetual usufructs because it was practically impossible. This valuation will result in change of the balance sheet value of net assets and depreciation allowance.

(c) Fixed assets component accounting

In accordance to actualized IAS 16 the Company should divide fixed assets on major components, included capitalized costs of major repairs and periodic reviews, which will be subject to depreciation according to individual economic useful periods.

In PAS financial statements there is no division of fixed assets on components and capitalization of their major repairs and reviews.

The implementation of fixed assets component accounting will result in change of depreciation allowances and repair costs.

(d) Capitalisation of financial costs

In accordance with PAS, the Company presents financial costs in the income statement when incurred net of the amount capitalised related to liabilities concerning specific investment projects. Financial costs incurred on general borrowings are expensed as incurred. Financial costs are capitalised as a part of the costs relevant to fixed assets up to the date of commissioning and written off to the income statements over the period in which the assets is depreciated.

In the financial statements prepared in accordance with IFRS borrowing costs are presented when incurred in accordance with benchmark treatment of IAS 23 "Capitalization of borrowing costs".

(e) Deferred tax effects

Adjustments related to the above mentioned differences between PAS and IFRS would be basis for deferred tax calculation.

Note 64. Mandatory reserves of liquid fuels

Pursuant to the Act on State Reserves and Mandatory Fuel Reserves of 30 May 1996 (Journal of Law no 90, position 404 with further amendments) in 1998 the Company was subject to an obligation to create and maintain mandatory reserves of liquid fuels, which accounted for 2% of the previous year production or import.
Starting from year 2002 the level of mandatory reserves is created on the basis of schedule defined by the Decree of Ministry of Economy dated 14 June 2002 (Journal of Law no 84, position 756) as to reach at the end of 2008 the level of 76 days of production or imports (from the last calendar year) less export (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 current year). As at 31 December 2004 the value of mandatory reserves in the Company was PLN 1,250,836 thousand.

SIGNATURES OF THE MEMBERS OF THE MANAGEMENT BOARD

.....
President
Igor Chalupec

.....	.....	.....
Vice-President	**Vice-President**	**Vice-President**
Wojciech Heydel	Andrzej Macenowicz	Jan Maciejewicz
.....	.....	.....
Vice-President	**Vice-President**	**Member**
Cezary Smorszczewski	Janusz Wisniewski	Pawel Szymanski

Plock, 5 May 2005