



# Annual Report 2002



**ORLEN**

Polski Koncern Naftowy ORLEN  
Spółka Akcyjna

# Financial highlights as at year's end

in accordance with IFRS

2000

2001

2002

	PLN m	PLN m	PLN m
Revenues	18 602	17 038	16 902
EBITDA	2 335	1 706	1 861
EBIT	1 425	617	731
Net profit	902	376	421
Total assets	14 087	14 383	15 073
Shareholders' equity	7 596	7 958	8 329
Net debt <sup>1</sup>	2 542	2 549	2 341
Net cash provided by operating activities	1 073	2 112	1 292
CAPEX <sup>2</sup>	1 459	1 533	967

	PLN	PLN	PLN
EPS	2.15	0.89	1.00
CF per share	2.55	5.03	3.07
Total assets per share	33.53	34.23	35.87
Book value per share	18.08	18.94	19.82

	%	%	%
Gearing <sup>3</sup>	33	32	28
ROACE <sup>4</sup>	11	4	5

	number	number	number
Number of employees in PKN ORLEN Group	13 342	17 582	17 818

<sup>1</sup> Net debt = short and long-term interest-bearing debt - (cash and cash equivalents)

<sup>2</sup> Purchase of tangible and intangible assets

<sup>3</sup> Gearing = net debt / shareholders' equity

<sup>4</sup> ROACE = EBIT after actual tax rate / average (shareholder's equity + net debt)

# Financial data by business lines

in accordance with IFRS

Refining

Petrochemical

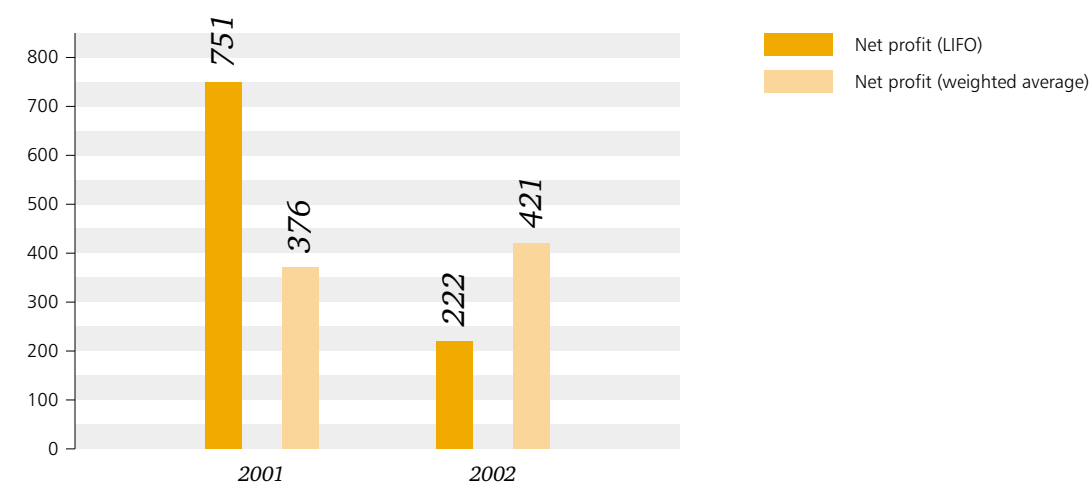
Other

2002	PLN m	PLN m	PLN m
Revenues <sup>1</sup>	16 262	4 166	1 639
Profit	793	200	45
Non-attributed costs		307	
Operating profit		731	
Assets	10 242	2 050	1 688
CAPEX	554	183	920

<sup>1</sup> Including inter-segment sales (PLN m 5 165)

## Net profit

in accordance with IFRS (PLN m)



# Annual Report 2002

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Polski Koncern Naftowy ORLEN  
Spółka Akcyjna





## Letter from the President of the Management Board of PKN ORLEN

*Ladies and Gentlemen,*

*A year ago, the Supervisory Board entrusted me with the management of PKN ORLEN. Therefore a review of the past year is also an evaluation of the first year of activities of the Management Board under my lead, hence the unusual volume of information contained herein and the length of this letter.*

*Difficult as last year was, it was a good year too. It was a time of hard work and a rapid acceleration of internal changes, combined with an adverse economic situation. We also commenced the Company's expansion, which had been promised for so long.*

*While bearing in mind the challenges still ahead of us, it is with great pleasure that I share with you the joy from projects that we have completed and the objectives that we have achieved. Each of them is a product of the Management Board's consistent management and growth strategy. Our objective is to build a strong international enterprise in this part of Europe, which will be capable of competing effectively in European markets and which will be ready to actively participate in the inevitable globalisation process.*

*As part of preparing for the task of being a leader in the consolidation process, we resolved to begin by enhancing the Company's effectiveness and internal strength. To meet these objectives, we not only restructured the Company and the ORLEN Capital Group, but also developed the retail segment and cost-saving programmes. At the same time, we carried on our M&A activities both domestically and in neighbouring countries; we also continued to stabilise the core business through the development of the petrochemical sector.*

*Let's move on to hard facts.*

*Beyond a shadow of a doubt, **the Management Board's greatest achievements** last year include the first step in our adopted development strategy, which was the **acquisition of 494 service stations based in northern Germany** from BP p.l.c for an attractive price of EUR 140m. The service stations, whose average sales total approximately 2.8m litres a year, that is almost 50% above the throughput of PKN ORLEN's service stations in Poland, become an efficient element of our network.*



The attractiveness of the undertaking is enhanced by the fact that, by delivering Company-produced fuel and lubricants to this network PKN ORLEN will not only earn its retail margins but refinery margins too. Costs related to logistics are optimised through fuel swaps.

Obviously, this undertaking has not only a symbolic dimension – for the first time ever, a Polish company effected such a large investment in a West European market – but primarily it is a good business which is financially sound. The ratios speak for themselves: the IRR stood at 16.5% while the 2002 EBITDA was over EUR 27m. We have a 7% market share in northern Germany; in Schleswig-Holstein around 12.5%. Our network is the sixth largest in Germany. It could easily be said that PKN ORLEN has just joined the European Union as Poland's outpost.

**Another event of historic importance** was the conclusion of the agreement on the establishment of a joint venture with Basell Europe Holdings BV, after ten months of hard negotiations. This has meant the inclusion of PKN ORLEN in the world-wide petrochemical industry distribution system; and, as highlighted by experts, this was effected on terms favourable to us. As part of this undertaking, the joint-venture will have built, by the end of 2004, polyolefin units with a capacity of 320,000 tonnes of polyethylene and 400,000 tonnes of polypropylene a year, at the cost of around EUR 300m. At the same time, PKN ORLEN will increase its ethylene and propylene production capacity, which are feedstocks for the polyolefin units, by investing approximately EUR 250m. It is vital that under the agreement, we not only acquire a world-class and state-of-the-art technology, with an 80%-guaranteed utilisation ratio for our installations, but also access to the international sales network operated by Basell Europe Holdings BV.

Let's focus again on the Polish market. A year ago, the privatisation process of Rafineria Gdańska SA, Poland's second largest refinery, was proceeding without our participation – we were virtually excluded from it. Our consistent and steady pursuit with the iron logic of representing the interests of Poland, Polish companies, all shareholders and investors, presented a clear vision for the development of one of Poland's most significant economic pillars. This line of reasoning, supported by the relevant figures and facts, resulted in a change in the government's strategy, which had been in place for six years. Consequently, PKN ORLEN is now a member of a consortium, which has been granted exclusivity in negotiations with Nafta Polska SA on the acquisition of available shares in Rafineria Gdańska SA.

**Execution of profitable contracts for the supply of crude oil for the future is the third project of strategic importance.** In accordance with projections, we diversified the sources of supply – over 40% of crude oil will be supplied by J&S and approximately 40% directly by the Yukos Group, Russia's largest crude explorer.

**The fourth challenge of strategic importance was refocusing PKN ORLEN from production to marketing.** The best evidence of the impact of this large change, which occurred in such segments as wholesale and retail trade, is the total rebranding, i.e. reconstruction and rebranding of more than 250 service stations and in a further 600 service stations the introduction of easily recognisable branding elements (mostly 9 – 12 metre high information pylons). I am convinced that everyone has noticed the change, and among the competition it must have rightly aroused fears. The process is, of course, in progress. Now our customers will easily find their service stations to fill up their cars with fuel of the highest quality, to shop and to collect points in the VITAY programme – the largest loyalty scheme in Central Europe. The number of the programme's participants is continually growing, thanks to attractive prizes and the efforts of friendly and agreeable station staff, who are thoroughly trained in customer service. These actions have allowed us to restore our prestige and considerably improve the image of the Company. 11.5% of customers have returned to us. This is a good trend.

We have been also working on enhancing internal structures. We started with the Management Board by reducing the number of its members from nine to five. We also reduced the number of the directors reporting to the Management Board from 60 to 22, and the number of lower-tier executives from 160 to fewer than 100. This movement naturally made the pace of our work more dynamic and, at the same time, it represents an appropriate sign of the trend. At present, the management staff is paid in accordance with the incentive system introduced in 2002, which is based on the Company's performance. For the managers this offers a significant incentive to improve the effectiveness of the entire Company. Shortly, we are going to implement the bonus system for the management, which will depend on company valuation and finally, we also intend to introduce the above changes at lower ranks. We trust that we will be able to achieve a permanent increase and improvement in the profitability of PKN ORLEN.

**Ladies and Gentlemen,**

**In 2002, PKN ORLEN had to face a difficult situation** caused by the strong volatility of crude oil prices worldwide. Weak GDP growth in Poland, combined with a simultaneous increase in crude oil prices (by 2.3% y-o-y), led to lower demand for petroleum products. We also had to deal with lower refinery margins, which shrank by 60% compared with the corresponding period of the previous year. Refinery margins calculated on the basis of Brent crude prices fell from USD 18.4 per tonne in 2001 to USD 8 per tonne in 2002. We estimate the theoretical adverse effect of reduced margins on EBIT at approximately PLN 468m.

The gap between Ural and Brent crude prices also shrank, which led to a PLN 35m fall in pre-tax profit.

Poland's GDP growth was 1.3%, which for an emerging market was, by any measure, unsatisfactory. Another critical issue in the economy is the unemployment rate, which at the end of 2002 reached a dangerous high of approximately 20%. This led, in particular, to a 6% drop in Polish new car sales from last year's figure. These and many other factors (e.g. development of the grey market of fuel imports and trade) had an adverse effect on fuel consumption, which fell by 3.7% in relation to the previous year. In this context, the 1.4% rise in PKN ORLEN's sales is an achievement, comparable to a situation where you are running up a down escalator. Also the weakening of the USD in relation to the PLN (by 2.1% compared with 2001) had a negative impact on PKN ORLEN's revenue.

But our outlook is optimistic. The world economy, including Poland, showed signs of a slight rebound last quarter. We recorded, for instance, growth in domestic demand of 0.8%. GDP growth of 3.6% in 2003, as projected by the government, also brings a ray of light. However, this optimistic official forecast varies from analysts' estimates (2.6% – 2.8%). In this context, we can expect a real increase in the sales of new cars of approximately 7% in the coming year.

As you can see, we had to operate in a challenging economic environment. Yet we managed to increase profit. EBIT (according to IFRS) rose by over 18%, and net profit by nearly 12% that is up to PLN 421m. This was possible thanks to cost cutting and the higher profitability of wholesale. As we promised at the beginning of our term of office, the inland premium increased by 20% (to PLN 711m).

We also had to face unfavourable changes in the regulations on income and excise taxes. Despite the announced reduction of the corporate income tax rate from 28% to 24%, Parliament agreed to accept a reduction by a mere 1 percentage point – to 27%. This means that we will have to revalue deferred income tax provisions at over PLN 75m. In accordance with accounting standards, we also have to carry most re-branding costs as operating expenses. Furthermore, PKN ORLEN recorded an increase in costs incurred from building the ORLEN brand and increasing throughput per station. Although these are expenses made with a view to stimulating future growth, in 2002 they already led to higher throughput per station in the CODO network – by 11.5%. An increase was also seen in the general and administrative expenses that were beyond our control, e.g. insurance or real estate taxes. This group of costs is estimated at PLN 64m pre-tax, with the cost of insurance (PLN 23m) being a major item. The increase in these items follows from higher rates due to reinsurance after the terrorist attacks of 11 September 2001. A positive event was the sale of LG Petro shares for PLN 58m. These changes, in addition to the difficult conditions in the oil industry, caused a reduction in net profit of over PLN 600m. On the other hand, we recorded a positive result on stock valuation (approximately PLN 206m) by using the weighted average stocks valuation method.

**Let us now have a closer look at our investments.** Having **decided that it is better** to abandon desirable investments and **to pursue only indispensable** ones, we reduced net capital expenditure to PLN 888m while achieving the same economic effect. Concurrently, we shifted most of our investment efforts from the refining segment to marketing, which is considered to be the pivot of PKN ORLEN's new strategy. And, as we promised, our production investments were made chiefly to bring us in line with Auto Oil's 2005 standards. Our production capital expenditure did not exceed PLN 200m.

The profitability and value of our capital expenditure are of paramount importance to us. The basic factors which condition the implementation of our development and expansion strategy are our financial standing and solvency: in 2002, the level of our gearing decreased further, down to approximately 28.1% at the end of the year. **Given such a low level of external financing, we can feel secure**, even if the value of our liabilities increases up to the next threshold of EUR 300m, which would have no impact on our credit rating, currently at BBB (according to Fitch Ratings Limited). Proceeds from the sale of some of our non-core assets will become an additional source of free cash flow – relevant transactions in this respect, like the restructuring of the ORLEN Capital Group, are already being negotiated with potential buyers.

The ROACE ratio (EBIT after tax / average (equity + net debt)), which in 2002 stood at 5%, still remains unsatisfactory. That is the reason why we have launched two complex projects: Economic Value Added (EVA, in cooperation with Andersen Business Consulting) and a comprehensive cost reduction programme (in cooperation with McKinsey & Company). These projects will be implemented not only in production, which was the case earlier with KBC, but across the parent company and the ORLEN Capital Group. Specific objectives to be attained as part of the programmes and the time anticipated for their achievement will be provided together with our results for Q2 2003.

**Let me now comment shortly on the ORLEN Capital Group's operating performance.** In 2002, we increased utilisation of our Plock refining facilities by about 1.2 percentage points, up to 92.4%. Over the same period, the level of fuel output increased slightly, not due to any earlier limitations in our production plant but owing to a considerable increase in petrochemical production and sales. In 2002, the volume of petrochemical sales increased by 29.5%. The growth trend of the Polish petrochemicals market will continue. PKN ORLEN has a competitive advantage over the competition with respect to the cost of petrochemical production and wishes to take full advantage of market conditions and to exploit all the existing opportunities in this area, which is perceived as having considerable stabilising potential for PKN ORLEN's operations.

Lower sales of light products may be attributed to weaker markets and the fact that the question of using light heating oil as car fuel remains unsolved. We are aware of the problem of increased imports of light heating oil (estimated at over 200,000 tonnes) and of some high-sulphur components, which are often used for diesel oil, by those who avoid paying the excise duty. This issue should soon be regulated with relevant laws as it has a very negative impact on the state budget revenues as well as on perceptions of the quality of Polish fuels.

**Dear Shareholders,**

A year ago I made some promises with respect to the Company's operating parameters and our targets. Now is the time to look at whether I kept them.

Most of the parameters and targets were attained. The targets we have set for ourselves for 2002 were achieved due to enhanced efficiency and the refocusing of our actions and investments onto our customers, who are the final link in our production and marketing chain. The 20% increase in the inland premium testifies to the efficiency of our logistics. Our achievements in the area of retail sales of the ORLEN Capital Group, such as a 4.9% increase in the volume of sales, compared with the 5% target, or a 3% increase in the gross sales margin, precisely as forecast, fill us with optimism and confidence that the course of action we are pursuing is effective. We rebranded and upgraded 258 service stations and marked another 600 with a new pylon mounted logo, which has become one of the most recognisable logos in Poland. A very important development was the agreement reached with the National Association of Owners of Service Stations (dealer owned and operated stations) and implementing a cooperation programme based on franchise agreements prepared together with the Association, which ended the dispute that had continued for a several years.

The success of PKN ORLEN would not be possible without teamwork. One of my first decisions was to eliminate director functions for individual units, which until that time had been performed by the members of the Management Board. In this way, while maintaining the functional division of duties, the Management Board is responsible for the whole Company. The soundness of such a concept is confirmed by independent opinions: the "Businessman Magazine", a prestigious Polish monthly, when awarding the title of the manager of the year for the first time did not honour just one person, but the whole Management Board of PKN ORLEN. This title is among other precious awards won by the Company in 2002: the "Byk" (bull) award from the "Sukces" magazine for the achievements in 2002 and the award from Euromoney Magazine for "A Leading Company in Poland For Corporate Governance".

Therefore, it comes as no surprise that we decided to build and sponsor the ORLEN Rally Team. The participation of motorcyclists and car drivers in the gruelling Dakar Rally, where the Polish drivers came in the top ten – the best result ever achieved by Poles in this rally, is not only a testing field for our products, but also a common success of many people: mechanics, drivers as well as marketing and PR specialists. It is a well thought plan of building ORLEN corporate image which more and more Poles want to identify with.

**In 2003, we are also set to face a number of challenges.** Political unrest in the world and instability of crude oil prices will not favour painless development. Two of our most prominent undertakings – Basell Orlen Polyolefins Sp. z o.o. and the service stations in Germany – will be in their intermediary stage and will not yet positively contribute to our results. What is more, we are planning a two month shutdown of the Hydrocracker, because of the need to increase its efficiency.

However, in spite of that, we will not slow down the pace of our work and the transformation. We believe that the privatisation of the Rafineria Gdańska SA will be finalised with our participation and that the third stage of the privatisation of PKN ORLEN will commence, thus giving a signal to initiate sector consolidation in the region. We will be implementing ambitious investment and business programmes, we are determined to overcome all difficulties and to create shareholder value. I am confident that our efforts will lead us to success. That was the reason why we have changed our financial reporting standards and communicate so intensely with investors encouraging them in this way to co-manage the Company. We listen to their remarks and try to see their point of view, because they are the ones who invested their assets and expect success. We are pursuing a common goal.

I wish to thank everyone who, like me and the entire Management Board acting under my guidance, believe that we can achieve our goal, who share my passion for making history and creating reality: building ORLEN's position and ORLEN brand – as we may now proudly say – worldwide.

**Zbigniew Wróbel**

President of the Management Board of PKN ORLEN  
Chief Executive Officer





## Management Board of PKN ORLEN

<b>Andrzej Macenowicz</b>	Vice-President, Human Resources and Management Systems
<b>Jacek Strzelecki</b>	Vice-President, Chief Financial Officer
<b>Zbigniew Wróbel</b>	President of the Management Board Chief Executive Officer
<b>Sławomir Golonka</b>	Vice-President, Sales
<b>Janusz Wiśniewski</b>	Vice-President, Production and Development

from the left

## Supervisory Board of PKN ORLEN

(as at 17 April 2003)

<b>Maciej Gierej</b>	Chairman of the Supervisory Board
<b>Jan Waga</b>	Vice-Chairman
<b>Jacek Bartkiewicz</b>	Member
<b>Edward Grzywa</b>	Member
<b>Krzysztof Kluzek</b>	Member
<b>Andrzej Kratiuk</b>	Member
<b>Ryszard Ławniczak</b>	Member
<b>Orest Andrzej Nazaruk</b>	Member
<b>Krzysztof Szlubowski</b>	Member





## PKN ORLEN and its activities

*PKN ORLEN holds a leading position in the Polish retail and wholesale market for petroleum and petrochemical products.*

We operate service station networks in Central Europe, providing our customers with top quality products, goods and services. The retail network is supported by an efficient logistics infrastructure, comprising storage depots and a pipeline network. Our integrated refining and petrochemical production complex in Plock is one of the most advanced and efficient facilities of this type in Europe.

PKN ORLEN of Plock was established in 1999 as a result of the merger of Petrochemia Plock SA and CPN SA. With our 116 subsidiary and associated companies, we are among the largest oil corporations in Central Europe. Our operations account for approximately 10% of state budget revenue.







## PKN ORLEN on the capital markets

*PKN ORLEN's shares are listed on the Warsaw Stock Exchange and – in the form of Global Depositary Receipts (GDRs) – on the London Stock Exchange.*

PKN ORLEN's share capital is divided into 420,177,137 ordinary bearer shares, with a par value of PLN 1.25 per share. First quoted in November 1999, our shares are listed on the Warsaw Stock Exchange (WSE) and – in the form of Global Depositary Receipts (GDRs) – on the London Stock Exchange (LSE), where each GDR represents two PKN ORLEN shares. Depositary Receipts are also traded in the United States on the OTC market, with The Bank of New York acting as the depositary.

As part of the Management Incentive Scheme, 11,344,784 ordinary shares were registered in public trading and offered to the holders of PKN ORLEN convertible bonds. The shares are not listed, and none of the bondholders had converted the bonds into shares as at 31 December 2002. PKN ORLEN plans to introduce a New Incentive Programme as the existing Scheme expires at the end of 2003.



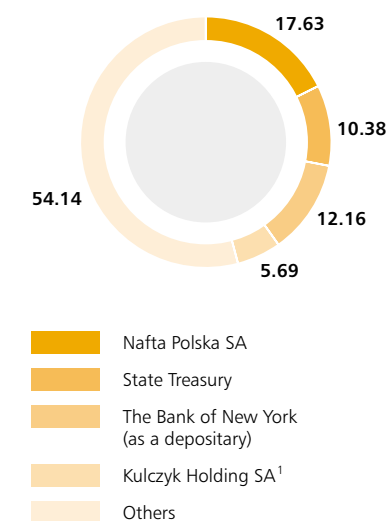
## Share price performance in 2002

2002 was not a good year for the capital markets. The slowdown in the global economy had an adverse effect on stock prices world-wide. The Warsaw Stock Exchange was not spared the market slump either. The key market indices showed gains only in January 2002. The beginning of February saw the onset of another long-term bear market. The market picked up in mid-May, but the correction failed to support the short-lived optimism of investors. The second, very dynamic bear market phase that followed, did not end until late August, when PKN ORLEN stock hit a 52-week low at PLN 15.30. After a short period of price consolidation, the WSE indices began to climb, and the upward trend continued until mid-December. Over this time PKN ORLEN stock rose by 27%, to PLN 19.55 per share. The year end was yet another period of decline. As a result, at the last session in 2002, the PKN ORLEN price was 5.8% lower when compared to the first trading day in January.

Over the twelve months of 2002, more than 227.4m PKN ORLEN shares in total were traded on the WSE. Although the drop sustained by the main London Stock Exchange index (FTSE100) in 2002 was several times larger than the fall of the WIG20, the price of our GDRs listed on the LSE correlated closely to our stock price in Warsaw. The minor discrepancies in price changes on the two markets were caused by foreign exchange rate fluctuations. In 2002, the volume of PKN ORLEN shares traded on the LSE exceeded 92.8m shares.

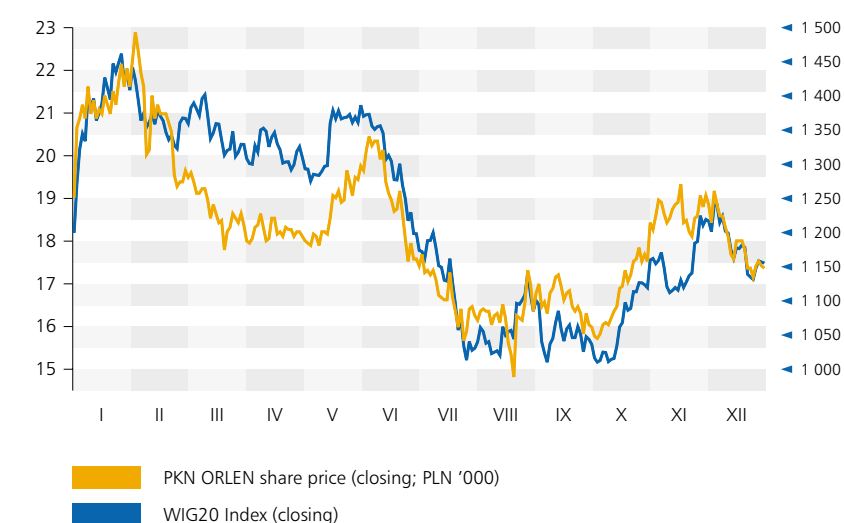
All in all, more than 320m PKN ORLEN shares changed hands on the European markets over the past year. As at the end of 2002, pension funds held 66,046,505 PKN ORLEN shares, representing 15.7% of the Company shares in issue.

Shareholder structure of PKN ORLEN as at 5 May 2003 (%)



<sup>1</sup> as in the current report No 56/2002 dated 20 June 2002

Performance of PKN ORLEN shares on the WSE





## Strategy

*The Management Board's strategic objective is to create a regional oil concern led by PKN ORLEN.*

We set ourselves a three-year time horizon to achieve this goal, subject to the implementation of the PKN ORLEN privatisation plan announced by the Polish government. In pursuing the Company's development, we will continue to be committed to the highest standards in our operations for the benefit of our shareholders and customers.

The first steps in the implementation of our strategy are enhancing the efficiency of our operations through the modernisation of our retail network, cost cutting in all areas of our activities, and restructuring of the ORLEN Capital Group. We are also leveraging the opportunities for expansion in the domestic market, tapping on our expertise in this area. We are expanding our core business by executing complementary projects in neighbouring countries.

In all our projects we are guided by clearly set targets, based on easily verifiable efficiency indicators. These indicators serve as a basis for defining tasks in the following segments of our activity:

- retail and wholesale trade,
- refining,
- petrochemicals,
- Capital Group.

Our main goal for the retail segment is to enhance our network efficiency and to increase the retail margin. Retail will continue to be the segment which supports high margin volumes in wholesale trade. Stronger focus on sales of non-fuel goods, rebranding, strengthening of the retail network in Germany, and the anticipated consolidation with Rafineria Gdańska SA, are the key areas on which we will concentrate with a view to achieving the set goal.

In wholesale trade we will strive to maximise the margin volume while reducing the cost of logistics. The key drivers of success in meeting this goal will be an effective pricing policy, the possible merger with Rafineria Gdańska SA, and a number of initiatives designed to enhance the functioning of our storage depots and pipelines. Outsourcing of certain logistics functions may also be of significance in this area.

The principal objectives for the refining segment are further improvement in the quality of fuels and a sizable cost reduction. In order to ensure the highest possible security of production, we have extended the group of crude oil sources to include – for the first time – direct supplies from the Yukos Group. Feedstock will

be delivered through the Friendship pipeline, with guaranteed alternative supplies by sea transport.

The goal set for our petrochemical operations is to leverage our production potential optimally, and to diversify the Company's business. A strategic move in this segment was the execution of a joint venture agreement with Basell Europe Holdings BV, a world leader in the production of polyolefins. This cooperation will enable PKN ORLEN to launch its products on foreign markets, and will enrich the joint venture's product offering with petrochemicals that have not been produced in Poland to date. The increased production volume will enable us to fully utilise our refining capacity. According to our estimates, the internal rate of return on this investment should be at least 18%.

We intend to significantly quicken the pace of the ORLEN Capital Group's restructuring. The plans provide for a gradual disposal of the undertakings which are not connected with the oil industry, and we will focus on the creation of a less complex, more transparent and core-business-centred structure.

Implementation of these strategic plans should bolster our position on the Polish market and create a platform for us to act as leader in the consolidation of the oil industry players in the region.

*"Difficult as last year was,*

*it was a good year too.*

*It was a time of hard work and*

*a rapid acceleration of internal changes,*

*combined with an adverse economic*

*situation. We also commenced*

*the Company's expansion, which*

*had been promised for so long".*



## Retail Network

*In 2002, PKN ORLEN initiated steps to change our profile from a production – to a market-oriented company.*

*"Now our customers will easily find their service stations to fill up their cars with fuel of the highest quality, to shop and to collect points in the VITAY programme – the largest loyalty scheme in Central Europe".*

According to this strategy, in managing the network of PKN ORLEN service stations, we have focused on both increasing customer satisfaction and providing effective support for the wholesale of our products. Thanks to the comprehensive upgrade of our service stations and the market-wide launch of the ORLEN brand, we have managed to substantially improve sales efficiency at company-owned stations. Following the introduction of the new standard, we expanded our offering of non-fuel products and services yielding higher unit margins. A consistent implementation of the strategic objectives has translated directly into an enhanced perception of the ORLEN brand.

As at the end of 2002, the PKN ORLEN network comprised 1,313 company-owned stations and 620 franchised stations. Out of the 1,313 company-owned stations, 845 operated under the ORLEN logo – 258 outlets were fully rebranded and modernised, while in the case of 587

stations the rebranding was partial (new price display pylons)\*. The direct expenditure on changing the image of the company-owned stations totalled approximately PLN 74m, of which PLN 61m was recognised as current period expenses.

### Network Optimisation

Along with the rebranding process, we continued the programme of optimising PKN ORLEN's retail network. In 2002, we excluded from the network 88 company-owned stations in the least attractive locations and the lowest profitability.

As part of the above project we plan to build, by the end of 2005, over 200 new ORLEN stations and to close down approximately 400 stations in unattractive locations or with unclear legal status. As a result, the number of stations in the PKN ORLEN network in Poland will amount to approximately 1,100 at the end of 2005.

\*see also in Corporate Visual Identity on page 37

### Fuel Sales

Through our network of company-owned stations, in 2002 we provided services to approximately 30% of customers in the domestic retail market for fuels. Despite last year's economic stagnation, our fuel sales rose 4.4% compared with 2001, and totalled 2,124,300 tonnes (gasolines, diesel oil, LPG). The average throughput per company-owned station in 2002 was 2.06m litres of fuel, which represented an 11.5% increase in sales over the 2001 figure. Thanks to the higher profitability of the stations, the total growth in profit margin was 2.9% over 2001. During the same period, per-station fuel sales by foreign oil concerns operating in Poland fell by 6.7%.

In our opinion, the higher sales of diesel oil at the company-owned stations followed not only from the higher number of vehicles with diesel engines in Poland, but also from adjusting our stations' infrastructure to better meet the needs of heavy transport vehicles. Due to the rising costs of using gasoline-fuelled vehicles, an increasingly larger number of our customers purchased LPG.

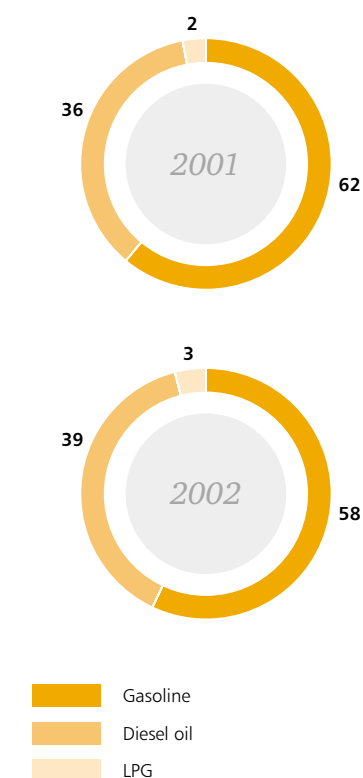
### Sales of Non-Fuel Products

One of our initiatives aimed at increasing the efficiency of the retail network in 2002 was the expansion of the range of products yielding the highest margins. In 2002, the margin on non-fuel sales rose by 21.7% over the 2001 figure, which significantly contributed to the total retail margin. The share of the non-fuel retail margin in the total margin (gasoline, Diesel oil, LPG, non-fuel products) was 19%. The 2002 value of non-fuel sales amounted to PLN 653,511,500 – up by 32.9% over the 2001 figure.

### Our Customers

The task to which we devoted particular attention in 2002 was increasing the satisfaction of customers using PKN ORLEN stations. In addition to the visible improvement in the appearance of the stations, our efforts also focused on appropriate selection and training of employees. Our products and services are suited to satisfy many needs of our customers, which is confirmed by independent market research. Top quality products, as well as friendly and professional staff, are appreciated by the growing number of motorists visiting PKN ORLEN stations. With a view to meeting the expectations of the most demanding customers, we will continue to enhance the quality of products and services offered at our sites.

Share of individual types of fuel in PKN ORLEN's retail sales (%)







*"Beyond a shadow of a doubt, the Management Board's greatest achievements last year include the first step in our adopted development strategy, which was the acquisition of 494 service stations based in northern Germany from BP p.l.c for an attractive price of EUR 140m".*

### VITAY

The VITAY programme is part of the process of building the ORLEN brand and customer loyalty. Under the VITAY programme, retail customers are awarded points, which may then be redeemed for gifts or fuel.

By the end of 2002, 1,397 service stations had been included in the programme (1,286 company-owned and 111 franchise stations). The VITAY programme accounted for approximately 70% of the total fuel sales at company-owned stations. At the end of 2002, the number of participants in the programme was close to 3.5m. VITAY is the largest project of its type in Central Europe, and we will continue to expand the range of services offered under the programme.

### FLOTA POLSKA

FLOTA POLSKA is a loyalty programme for corporate vehicle fleets.

The scheme offers convenient and non-cash forms of purchasing fuel, products and services at the stations with the FLOTA POLSKA logo. Until the end of 2002, the programme covered 1,291 company-owned stations and 186 franchise outlets.

In 2002, we acquired over 1,100 new corporate customers and issued close to 85,000 new fleet cards. As at the end of 2002, our customers used 142,000 cards, which accounted for 4.3% of total sales (fuel and non-fuel products) at PKN ORLEN stations.

### Stations in Germany\*

In search for new sales markets, we acquired 494 services stations in northern Germany from BP/Aral.

This transaction will boost the wholesale volumes of PKN ORLEN fuels, which will allow us to achieve higher refining and wholesale margin volumes. It will also help us become, to a certain extent, independent of the domestic retail market, thus contributing to the diversification of operational risk.

As a result of the transaction, we acquired approximately 3% of the German market in terms of the number of stations. Our goal is to play an active part in northern Germany, where our current share of the fuel market is approximately 7%.

Federal State	PKN ORLEN's market share by volume (%)
Nordrhein Westfalen	6.13
Niedersachsen	6.26
Schleswig-Holstein	12.40
Hamburg	7.29
Bremen	5.26
Sachsen-Anhalt	5.49
Berlin	5.78
Mecklenburg Vorpommern	4.66
Brandenburg	3.86

\*see also in ORLEN Capital Group on page 45

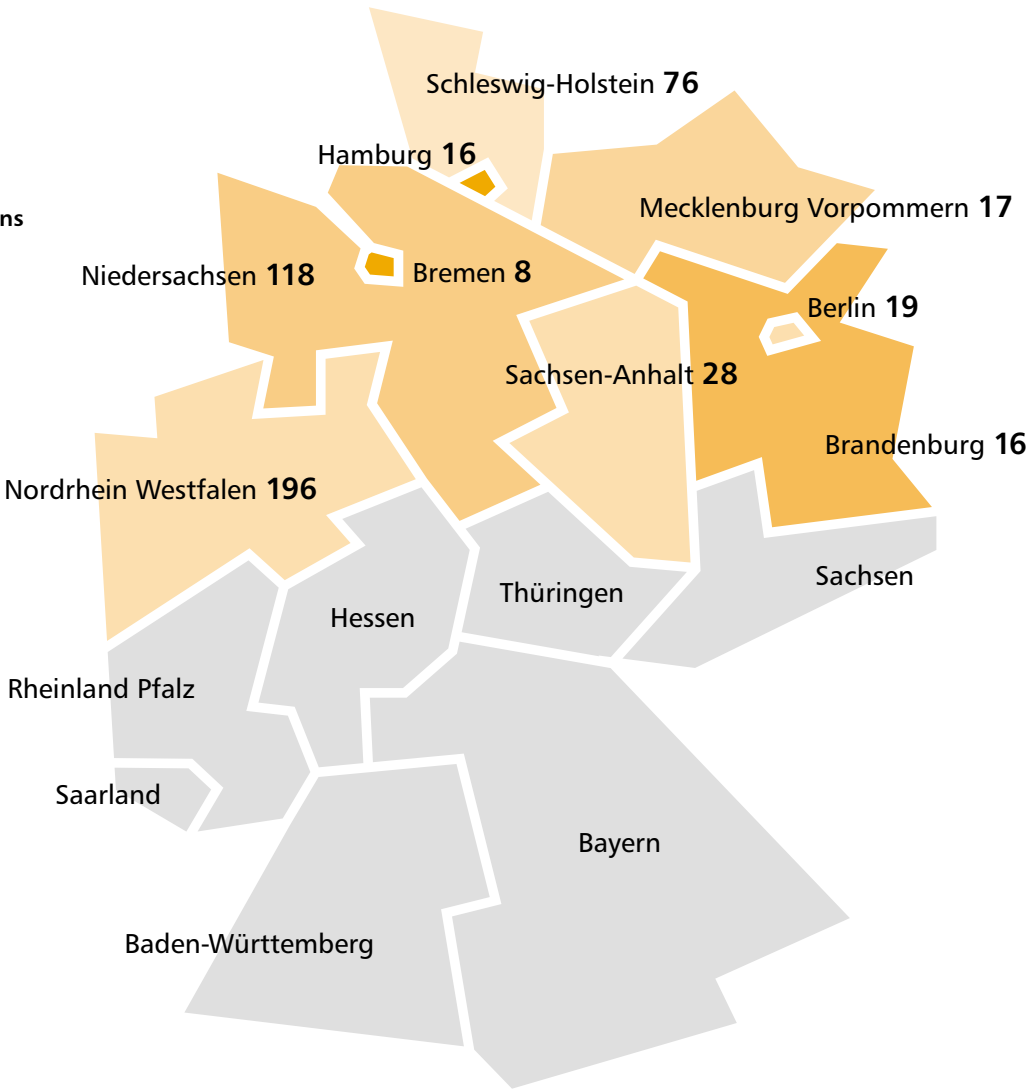
PKN ORLEN stations in Germany achieved a record fuel throughput per outlet (average 2.8m litres in 2002).

The 2002 throughput of the acquired network totalled approximately 1.4bn litres of fuel (1.1m tonnes).

Throughput per site  
(m litres / y)

	2001	2002
Germany	3.4	3.4
ORLEN stations in Poland	1.8	2.1
ORLEN stations in Germany	2.8	2.8
Western Europe	2.3	2.4

Number of PKN ORLEN stations in individual federal states







In line with our strategy, the new stations are to operate under two brand names. The ORLEN brand will be introduced at the best stations achieving high margins. The other brand will cover stations focusing on volume sales. In the years to come, we are planning to invest in Germany approximately EUR 35m in the rebranding and upgrading of our sites. The German stations are expected to be profitable as early as 2004.

In the second half of 2003, fuel will be delivered to our German stations under swap contracts with foreign concerns operating in Poland. A portion of the supplies will also come from Poland. The decision whether to deliver fuel to the German stations from the Plock refinery will depend on the logistics-related cost efficiency of such supplies. We are planning to include a wide range of attractive non-fuel products from Poland in the offering of our German stations.

Our activities will mark the beginning of building a perception of the ORLEN brand abroad. Through the experience gained in Europe's largest fuel market, we will strengthen our position in the region, while creating a solid foundation for developing our presence in the EU market.

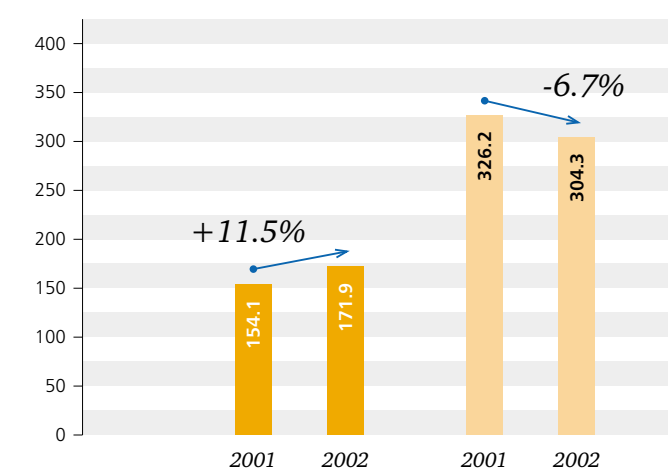
#### Goals for 2003

In 2003, with the growing expectations of our customers in mind, we want to further improve the quality of our services. Our goal is to maintain the leading position on the domestic market by increasing the efficiency of the company-owned stations. We are planning to increase the volume of retail sales by approximately 5% before the end of 2003. According to our estimates, at the end of 2003 our Polish retail assets will include approximately 500 fully rebranded outlets operating under the ORLEN logo, while 850 stations will feature new price display pylons.

In 2003 we are planning to spend approximately PLN 700m on optimising the network structure and enhancing its efficiency.

Monthly average fuel sales per station (gasolines, diesel, LPG; '000 litres)

■ PKN ORLEN  
■ Foreign concerns



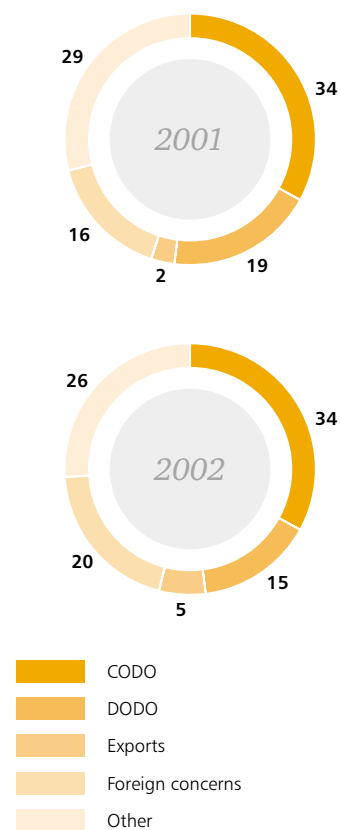




## Wholesale and Logistics

*By changing PKN ORLEN's profile from a product – to a market-oriented company, we have set new goals for the Company's wholesale and logistics.*

Gasoline and diesel oil – clientbase (%)



By mid term, we would like to focus on maximising margins while reducing selling costs. All of our activities, both internal and external, are designed to achieve this goal.

The most important areas of these activities are:

### Wholesale

- Pricing policy aimed at achieving a high margin volume (unit margin vs. sales volume),
- Increasing sales under annual contracts,
- Increasing sales to stations in Germany while maintaining the existing unit margin on the domestic market,
- Customer segmentation.

### Logistics

- Network optimisation and enhancement of the efficiency of storage depots,
- Increased share of pipeline transport,
- Strict cost budgeting.

A matter of utmost importance is the merger with Rafineria Gdańska SA, which will enable us to maintain sound unit margins and realise synergies in wholesale and logistics.

In 2002, we achieved a significant rise in the inland premium. Through aggressive marketing strategies and the optimisation of the logistics network in 2002, the inland premium for PKN ORLEN rose to PLN 711m, which represents a 20% rise over 2001. The higher inland premium was achieved on an almost 2% increase in PKN ORLEN's total sales.

### Gasoline and diesel oil

In 2002, PKN ORLEN sold 6,147,000 tonnes of gasoline and diesel oil through its retail and wholesale networks, 2.9% more than in the previous year.

As a result of the steps taken, PKN ORLEN's share in the wholesale market for gasoline and diesel oil rose by another 2 percentage points, to 67% and 60%, respectively.

We were able to achieve the volume of gasoline and diesel oil sales as shown in the charts above, thanks to such factors as the improved efficiency of PKN ORLEN's retail network and increased sales under annual contracts.

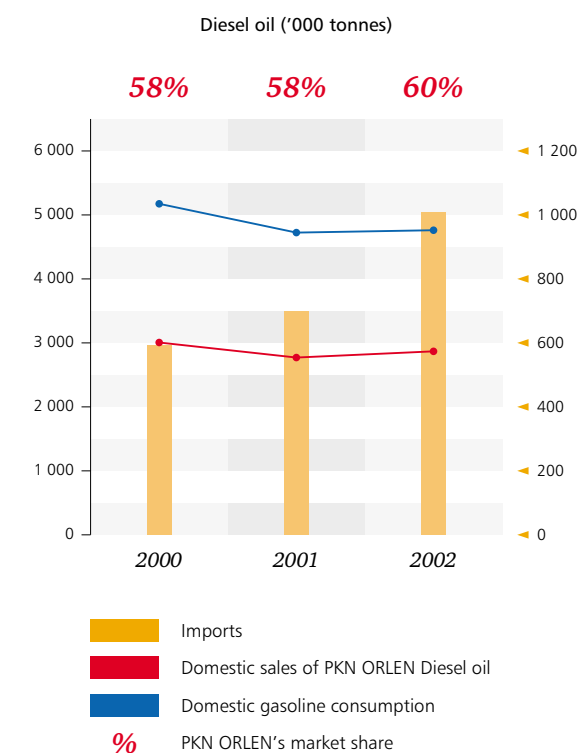
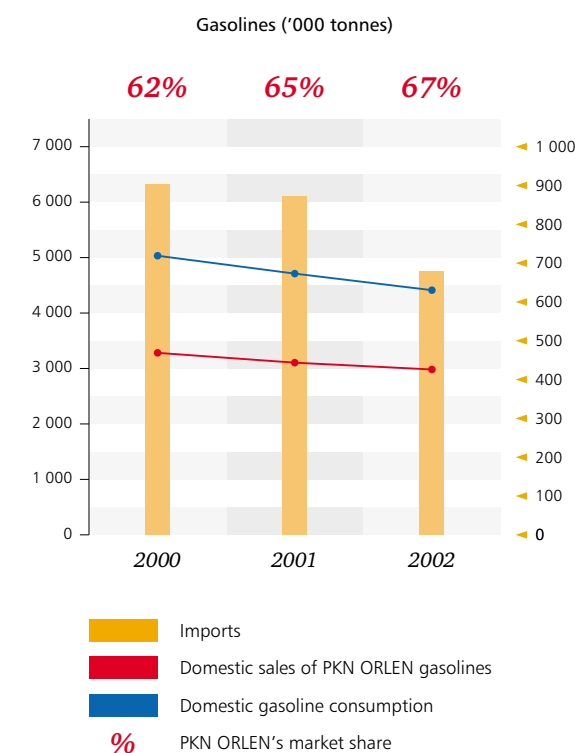
Higher fuel exports, mainly to the Czech Republic, also contributed to the rise in total fuel sales.

Better wholesale performance was achieved despite an almost 4% decrease in gasoline and diesel oil consumption in Poland and a concurrent increase in imports of mid distillates by 500,000 tonnes (diesel and light heating oil). Market competitiveness in 2002 was affected by pressures on the wholesale margin in Poland resulting also from the heightened activities of Rafineria Gdańska SA.

The acquisition of 494 service stations in northern Germany will contribute to higher

total sales of fuels and light heating oil, and to increasing refining and wholesale margins. The northern Germany stations will be supplied with fuel under swap contracts with Rafineria Gdańska SA (by sea transport) and with foreign operators active in Poland. In addition, thanks to the attractive cargo tariffs negotiated with PKP SA (Polish Railways) at the end of 2002, we will be able to supply fuel directly from Płock to our German stations located close to the border.

### Poland's fuel market



Source: Nafta Polska SA / PKN ORLEN  
Market share = (domestic sales - purchases) / consumption



### Light heating oil – Ekoterm Plus

Light heating oil was sold only to wholesale customers, through the network of Authorised Heating Oil Resellers, and independent customers. In 2002, 173 Authorised Heating Oil Resellers accounted for 80% of our total light heating oil sales. Due to the special nature of this product, Ekoterm Plus is not sold at service stations. Despite the higher efficiency of the network of Authorised Heating Oil Resellers, we recorded a 20% drop in the sales of light heating oil in 2002 (to 1,585,000 tonnes). As a consequence, PKN ORLEN's share of the domestic market for light heating oil fell from 69% to 59%.

One of the underlying factors in the weaker sales of Ekoterm Plus was the growth of the grey economy. Not only did this phenomenon have a detrimental effect on PKN ORLEN's sales structure and margins, but also significantly reduced the State Treasury's revenue. A positive development on the light heating oil market was a deceleration of the downtrend and a slight pick-up of sales at the year end.

The volumes of wholesale and retail sales of light products fell to 7,998,000 tonnes, or by 2.9%, compared with 2001. Due to longer maintenance shutdowns of the hydrotreating units, we recorded a 12.1% increase in sales of other refining products, which rose to 2,082,000 tonnes.

### Petrochemicals

In response to growing market demand, we increased the sales of petrochemicals by over 25% compared with 2001. The total sales volume was 1,087,000 tonnes. Since March 2003, polyolefins (polyethylene, polypropylene) have been also sold via the world-wide distribution network of Basell Europe Holdings BV, our joint venture partner. In the first half of 2005, following the commissioning of new polyethylene and polypropylene installations, we will be able to market larger volumes of these products.

### Logistics

By the end of December 2002, we reduced the costs of primary and secondary logistics by approximately PLN 8.5m compared with 2001. We achieved this despite tariff increases by PKP SA and PERN SA. This good result had its source in the increased share of pipeline transport in product distribution, from 50% in 2001 to 55% in 2002. The improvement has been attributable to such factors as the launch of a 214 km product pipeline from Plock to Ostrów Wielkopolski. In addition, we have organised our own rail transport.

All this will bring the unit cost of transport down by approximately 20% as early as 2003, on routes where PKN ORLEN uses its own means of railway transport. The costs of secondary logistics have also been reduced by negotiation of more attractive rates with our partners.

In 2002, the cost of storing mandatory stocks of finished products rose by approximately PLN 13m over the 2001 figure, which followed from an increase in the volume of products required under legal regulations to be stored, from 27 to 36 days of sales. This increase was partially offset through a change in the proportion of crude oil and products stocks from 30:70 to 50:50, respectively. In the fourth quarter of 2002, we started to store crude oil and products in the salt caverns of IKS SOLINO SA. The storage of fuel in the underground storage depots of IKS SOLINO SA will soon enable us to enlarge the volume of maintained stocks, while reducing the cost of their storage. The effects of changing the structure of stocks and introducing the more economical underground storage depots will be felt as soon as 2003.

In addition to the use of the salt caverns in 2002, we continued to optimise the storage of operational stocks in above-ground storage depots. In 2002, we allocated approximately PLN 160m to the upgrade of fuel depots in Mościska and Ostrów Wielkopolski, and the launch of the pipeline to the Ostrów Wielkopolski depot. The disposal of the 22 least-profitable storage facilities generated a cash inflow of approximately PLN 23m.

### Goals for 2003

Our goal for 2003 is to maintain the inland premium at the level slightly lower than in 2002. At the same time, we aim to maintain the current share in the market for engine fuels and fuel oils.

We will invest approximately PLN 100m in the further modernisation and expansion of the fuel depots in Ostrów Wielkopolski and Mościska, thus adding another 100,000 m<sup>3</sup> of storage capacity. We also intend to reduce the number of storage depots from 30 to 20.

Moreover, we are planning to expand the underground storage capacity of IKS SOLINO SA by the end of 2003. As a result, PKN ORLEN will have three crude oil caverns with a capacity of 500,000 tonnes each, one heating oil cavern (capacity of 125,000 tonnes), and two enlarged caverns for diesel oil (total capacity of 450,000 tonnes).

*"...we had to operate in a challenging economic environment. Yet we managed to increase profit. EBIT (according to IFRS) rose by over 18%, and net profit by nearly 12% that is up to PLN 421m. This was possible thanks to cost cutting and the higher profitability of wholesale".*





## Refining Activity

*In 2002, we completed a number of investment projects designed to improve the quality of our products and we were able to achieve product parameters significantly closer to the EU specifications for 2005.*

The projects, which in 2002 cost approximately PLN 240m, enhanced the process efficiency of the main unit in Plock. However, the main goal in refining for 2002 was to maximise refining margins while maintaining optimal, market-driven production volumes.

The supplies of crude oil are secured under long-term contracts with J&S and the Yukos Group. The contracts not only mitigate the supply risk, but also provide for alternative sea transport in the event that the feedstock cannot be delivered through the pipelines. We have contracted 5.4m tonnes annually from J&S and not less than 5m tonnes from the Yukos Group.

### Investments

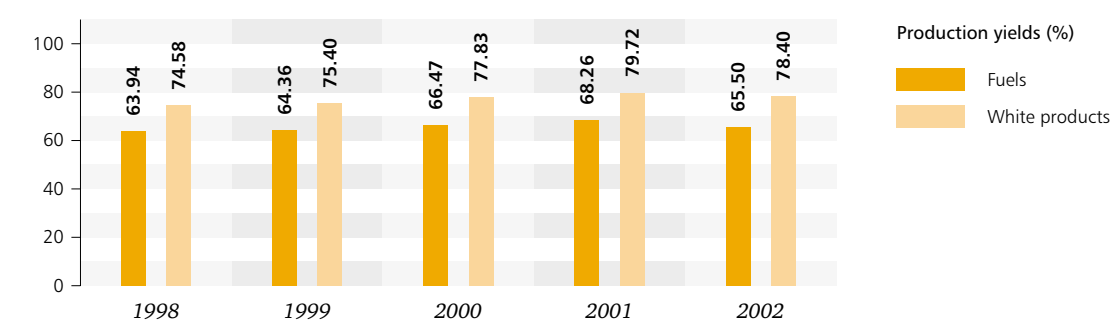
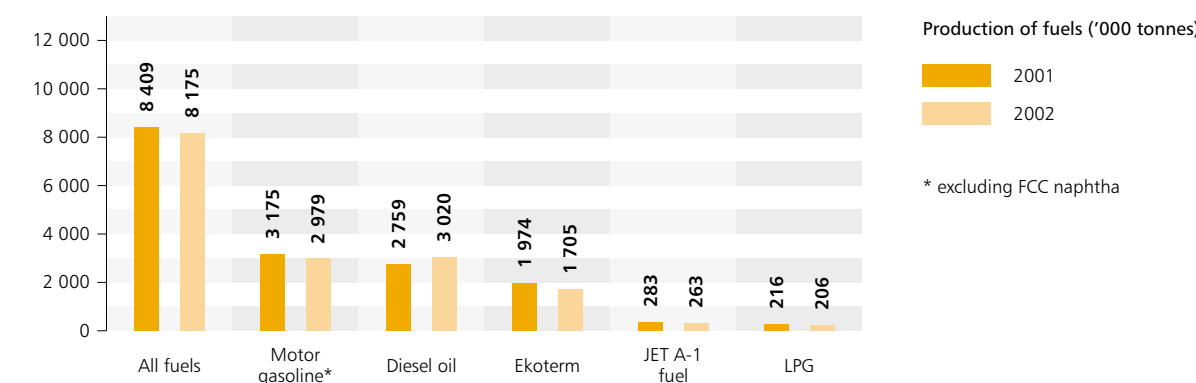
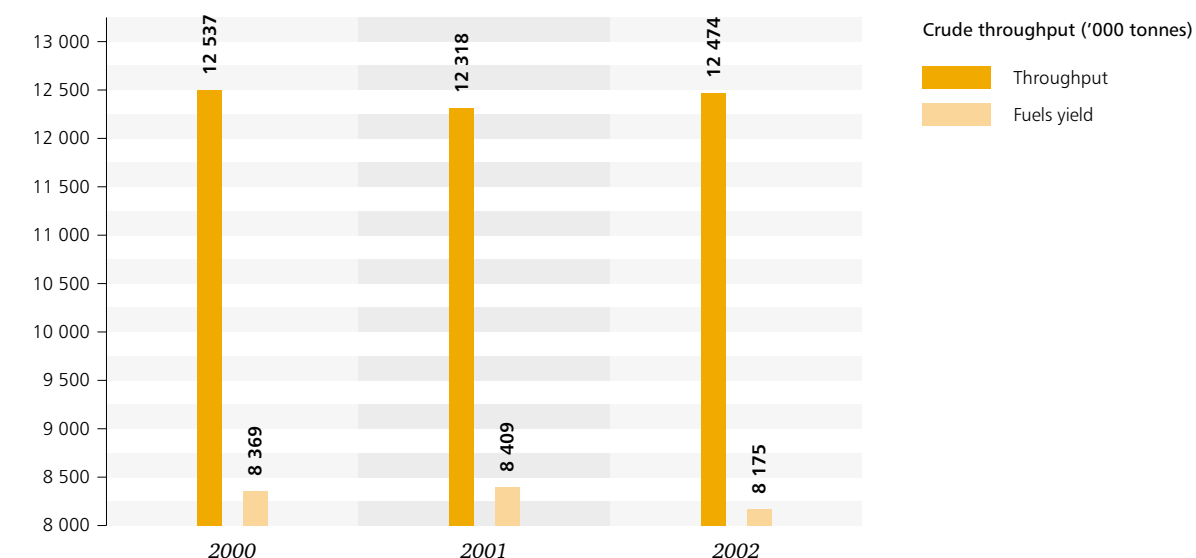
In May 2002, we launched the Crude Distillation Unit III (DRW III) after its modernisation, which increased the unit's throughput capacity from 3.2m tonnes to 6.7m tonnes per annum. The technological solutions we applied not only brought environmental benefits but also enabled us to reduce energy consumption at the distillation units in Plock by 8%.

The Company's enhanced total throughput capacity will also be of significance given the development of our petrochemicals operations, including in particular the production of polyolefins at Basell Orlen Polyolefins Sp. z o.o. the joint venture of PKN ORLEN and Basell Europe Holdings BV.

The optimum use of the DRW units' production capacity and the increased efficiency in the processing and desulphurisation of crude oil will allow greater flexibility of the feedstock structure. We have reduced the share of the more expensive low-sulphur crude oil in the processed total from over 10.5% in 2001 to 3% in 2002.

In response to the growing demand for diesel oil seen in 2002 we expanded production by over 9%. However, compared to 2001, the total fuel output in 2002 dropped by approximately 3%, the two underlying factors being lower demand for gasoline and a shift in the production profile towards a larger share of petrochemicals.

*"Execution of profitable contracts for the supply of crude oil for the future is the project of strategic importance".*







### Goals for 2003

For 2003 we have planned investments of approximately PLN 650m. Most of the funds will be allocated to the upgrade of Ethylene Cracker II and to the upgrade and modernisation of the Aromatics Extraction Unit.

The modernisation of the Aromatics Extraction Unit, scheduled for the third quarter of 2003, will enable us to improve the quality of benzene and toluene and change the structure of feedstock thus adapting to the programme of modernisation and upgrade of Ethylene Cracker II. The investment in the Aromatics Extraction Unit will enable expansion of the production of aromatics by 70,000 tonnes per annum.

In 2003, we will make further efforts to bring the quality of our fuels closer to the EU specification for 2005. The construction of the FCC Naphtha Desulphurisation Unit, scheduled for commencement in 2003, is to support production of gasolines with a sulphur content of below 10 ppm.

Furthermore, work is in progress on a project for the construction of the Diesel Oil Desulphurisation Plant VII, which will allow us to reduce the sulphur content in our diesel oils to below 10 ppm. We estimate that in 2003 investments made to adapt our products to the strictest quality requirements will amount to approximately PLN 155m.

2002 saw the beginning of the upgrade of the Hydrocracker. By the end of 2003 it will result directly in a higher output of diesel oil with a sulphur content of below 50ppm, and indirectly in a larger output of gasolines. The completion of the project will improve the yield of white products at PKN ORLEN by 1% – 2 %.

We intend to implement a comprehensive system for the rationalisation of maintenance costs and plant availability in cooperation with Shell Global Solutions. The new system is forecast to achieve savings in the order of PLN 100m annually.

*"In 2002, we increased utilisation of our Plock refining facilities by about 1.2 percentage points, up to 92.4%".*





## Petrochemical Activity

*In the petrochemicals segment we aim to maximise synergies within our refining operations.*

At the same time we are optimising costs and bringing our product offering in line with market needs.

Accordingly, in response to the growth of demand for petrochemicals in 2002, we increased the output of these products to 1,164,522

tonnes from 940,157 tonnes in 2001. This change, combined with a lower demand for gasolines and the high prices of aromatic hydrocarbons, translated into a larger share of petrochemicals in our total production volume: 9.31%, as compared to 7.62% in 2001.

Production volumes of selected petrochemicals in 2001 and 2002 ('000 tonnes)

	2001	2002	change
Ethylene	92 299	116 111	25.8%
Propylene	70 358	81 551	15.9%
Butadiene	37 837	51 377	36%
LDPE Polyethylene	137 761	157 663	14%
Polypropylene	121 994	142 818	17%
Benzene	45 823	75 561	65%
Toluene	25 838	58 493	126%
P-xylene	27 027	32 238	19%
Phenol	51 311	50 726	-1%
Acetone	31 716	31 430	-1%
Glycols	91 215	115 870	27%
Coolants	15 587	16 717	7.2%
Solvents	49 570	48 383	2%
Aromatics	125 139	222 461	78%
Sulphur	101 524	111 032	9%

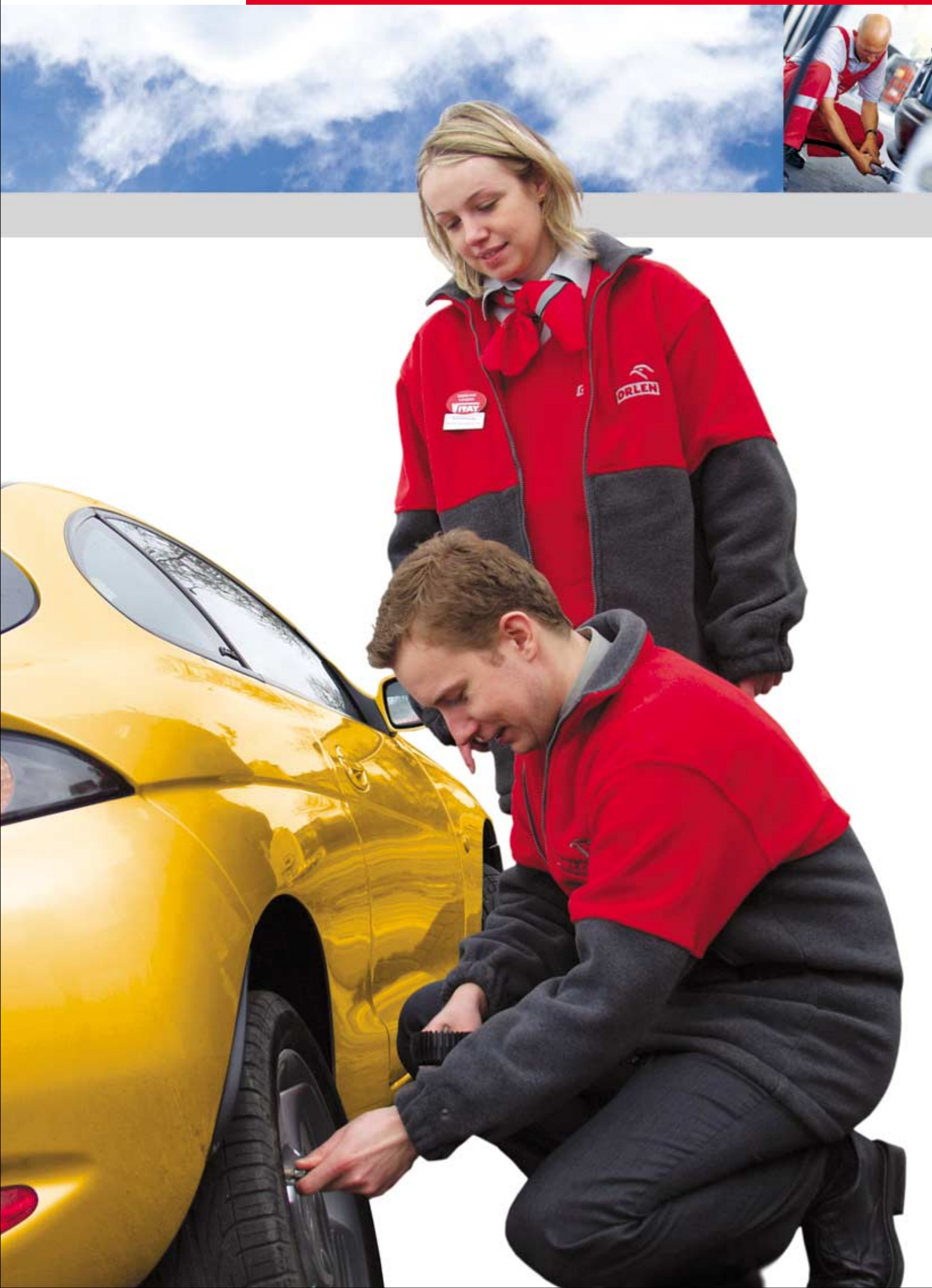
Following the completed upgrade of the Polypropylene II unit we expanded our polypropylene production capacity by 2,000 tonnes monthly. In 2002, our total output of this polymer went up by over 17%. The production volume of polyethylene was larger by 14%, and amounted to 157,663 tonnes.

The most significant development in our petrochemical segment was the establishment of a joint venture with Basell Europe Holdings BV, a global force in polyolefins. The business rationale for this venture is integration with a global polyolefins production leader and its extensive trading network. Furthermore, it will also enable PKN ORLEN to address the demand for other types of polymers in Poland by importing products manufactured by our partner. Under the agreement, Basell Europe Holdings BV, has guaranteed sales of the joint venture's products through its worldwide distribution channels. Another noteworthy aspect of this cooperation is the economies of scale, manifest in low unit production costs. The strong standing of both companies, which enjoy the trust of the financial markets, is an asset in raising financing on favourable terms. The cost of the joint venture is estimated at approximately EUR 550m, with EUR 108.5m contributed in kind by each of the partners.

Since March 2003 the joint venture has operated the polyethylene and polypropylene units contributed by PKN ORLEN. By the end of 2004 the JV is to construct a polypropylene unit with a capacity of 400,000 tonnes p.a. (Spheripol technology) and a high-density polyethylene (HDPE) unit with a capacity of 320,000 tonnes per annum. (Hostalen technology). As a result of these investments the scale of our petrochemicals production will more than double, and sales will amount to approximately EUR 600m annually. The feedstock will be provided by Ethylene Cracker II, which is being modernised by ABB Lumus Global GmbH. Its increased production capacity will support an annual production of 660,000 tonnes of ethylene (previously: 360,000 tonnes) and 315,000 tonnes of propylene (previously: 135,000 tonnes). Factoring in the upgraded catalytic crackers, the total propylene production volume will reach 445,000 tonnes (previously: 240,000 tonnes).

*"Another event of historic importance was the conclusion of the agreement on the establishment of a joint venture with Basell Europe Holdings BV, after ten months of hard negotiations".*





## Employees

*The concept behind the human resources policy adopted by the Company's Management Board in 2002 changed radically, going beyond the traditionally accepted framework of personnel-related activities.*

The new solutions for recruitment, professional selection, remuneration, and social care are designed to promote the potential of all employees. The tools and procedures used in the sub-categories of our human resources policy ensure an effective verification of employees' professional skills, provide the means to stimulate their motivation and foster the need to evolve personally.

One of the main elements in our personnel philosophy is the acquisition and retention of high-quality specialists and experts, whose knowledge and experience ensure the effective implementation of our objectives.

PKN ORLEN's dynamic growth and change in management quality entails the necessity to upgrade the professional skills of the employees, and to ensure that they are always abreast of the latest developments in selected areas. Therefore, we have decided to allocate approximately PLN 5.7m (16% more than in 2001) for the professional development of our employees.

At the end of 2002, we developed a new bonus system for management personnel, which directly correlates the variable compo-

nent of remuneration with the Company's results and the performance of individual tasks. The next stage will be to expand this system to include other employee levels, and therefore we are continuing work on the implementation of a modern employee assessment system, whose purpose will be to stimulate efficiency on an on-going basis, through the setting and monitoring of the performance of individual tasks and development of each employee. Our ultimate aim is to correlate base pay with the results of the work of individual employees.

The Company is mitigating the impact of difficult, but unavoidable, employment restructuring decisions by offering various incentives. The Company's proposals in this area are accepted by over 200 employees annually. The Company's Management Board seeks to meet the employee's need for secure employment through the adoption of the Guaranteed Employee Benefits Package.

As a result of the restructuring activities, the Company plans to employ approximately 6,500 staff at the end of 2003. As at the end of 2002, the headcount was 7,298.

*"We also reduced the number of the directors reporting to the Management Board from 60 to 22, and the number of lower-tier executives from 160 to fewer than 100. This movement naturally made the pace of our work more dynamic..."*





## Corporate Image

*2002 saw another year of intensive work on the implementation of a system of corporate identity and the building of the ORLEN brand.*

The rebranding of service stations, as well as activities related to promotion, sponsorship, and charity, helped to increase considerably awareness of the ORLEN brand. Regular surveys on the Company's image confirm that the adopted strategy was the right choice – year by year customers' recognition of PKN ORLEN is increasing. The Company is winning customers' trust, not only as a producer and service provider, but also as an active partner in community life. Spontaneous awareness of the ORLEN brand increased in 2002 to 40%, while prompted awareness exceeded 76%, thus making PKN ORLEN the best known oil company in Poland.

Based on the experience gathered in recent years, in 2002 we created the ORLEN Team – a professional Polish rally team, comprising two motorcyclists and two car teams. The ORLEN Team was created with a view to integrating the promotional activities related to sponsoring, image creation, and product marketing. The great performance of our drivers – the 9th place of Marek Dąbrowski in the Paris-Dakar Rally (the highest place ever taken by a Pole in the rally), and the 3rd place in the World Cup, aroused much interest

in the media and gave satisfaction and a sense of national pride to a large group of sports fans.

As a Sponsor, we are also involved in preparing the Polish national teams to participate in the Athens 2004 summer Olympics and Turin 2006 winter Olympics.

PKN ORLEN supports sports both nationwide and locally. WISŁA Płock, a handball team sponsored by the Company, won the Poland Championship and the Polish Handball Cup, and was the first Polish team to take part in the European Champions League.

One of the examples demonstrating our care for customers are events devoted to improving driving skills, which contributes to the better safety of road traffic. This is the main goal of the "Safe Driving School" campaign, initiated in September 2002. We invited cooperation of Telewizja Polska SA, a Polish national TV station, and thus our initiative became countrywide.

In 2002, we also initiated a series of activities aimed at promoting safe sailing on the water routes of the Mazury lake district, and developing the region's environmental-protection infrastructure.

As part of the Treaty for the Mazury District (Porozumienie dla Mazur) between the Polish Sailing Association and five Polish leading companies, PKN ORLEN provides support to the Voluntary Water Rescue Services of Mazury. In addition, we are undertaking activities promoting safe sailing, e.g. marking navigational obstructions on the route of the Great Lakes in the Mazury district.

As a leader of Poland's economy, PKN ORLEN also actively participates in the nation's social and cultural life. We support Polish culture by participating in numerous events of vital importance for Polish society.

Evidence of our sense of responsibility and care for Polish culture was the support we lent in 2002 to such events as the Four Cultures Festival (Festiwal Czterech Kultur), the Camerimage Festival (Festiwal Camerimage), the Jubilee Gala of Irena Kwiatkowska (a widely acclaimed Polish actress), the Ludwig van Beethoven Easter Festival (Festiwal Wielkanocny Ludwiga van Beethovena), and renovation of the monuments of the Old Town in Gdańsk.

In our support of social and cultural initiatives, we do not forget the citizens of Płock, our hometown. We traditionally organise Chemist's Day, which is celebrated with a sports and recreation festival, and attracts the participation of the greatest stars of Polish entertainment.

### Corporate Visual Identity

As part of a consistent and uniform image policy for the Company and the ORLEN Capital Group, we continued the work on implementing rules to establish a corporate visual identity system, and monitored compliance with the rules.

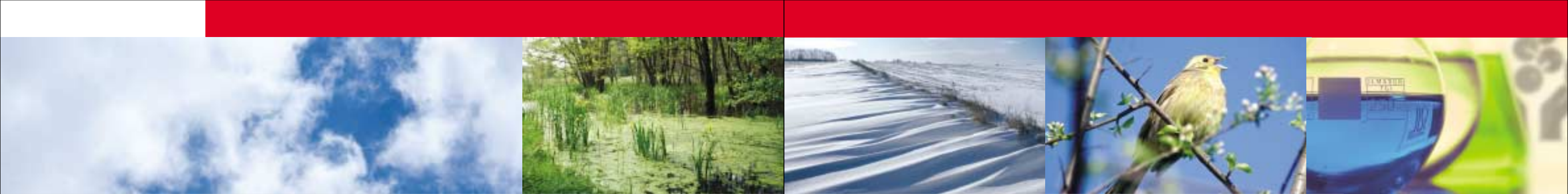
In 2002, we continued to rebrand our service stations; at the end of the first quarter of 2003, 1,084 sites bore the ORLEN logo, out of which 335 stations were fully rebranded, and 749 partially.

In addition, more member companies of the ORLEN Capital Group used the new visual standards to provide evidence of their membership in the ORLEN Group – 65 companies used the ORLEN visual standards in 2002.



*"We rebranded and upgraded 258 service stations and marked another 600 with a new pylon mounted logo, which has become one of the most recognisable logos in Poland".*





# Environmental Protection

*2002 was the first year of PKN ORLEN's operations under the new environmental legislation enacted at the end of 2001.*

Our purpose is to achieve the maximum possible environmental neutrality of the refining and petrochemical production complex in Plock and of other PKN ORLEN facilities with regard to their immediate environment. At the same time we aim to minimise the environmental impact of our products.

2002 was the first year of PKN ORLEN's operations under the new environmental legislation enacted at the end of 2001. The changes with respect to priorities in environmental protection set forth in the new statutes were reflected in the Environmental Policy of PKN ORLEN, which were prepared and adopted in October 2002. One of the key objectives specified in this document is to ensure an integrated approach to counteracting environmental pollution.

### Environmental Policy

Aware of our impact on the natural environment, we have a policy of on-going adjustment of both our planning methods and process management to the needs of environmental protection. This aim determines our strategy, which is then reflected in our current and future development programmes, as well as in all our other activities conducted under the ISO 14001 Environmental Management System

implemented at the refining and petrochemical production complex. We pledge to roll out the system at our other units in Poland and to build an environmental management regime which will ensure mitigation of PKN ORLEN's environmental impact in all areas of our activity.

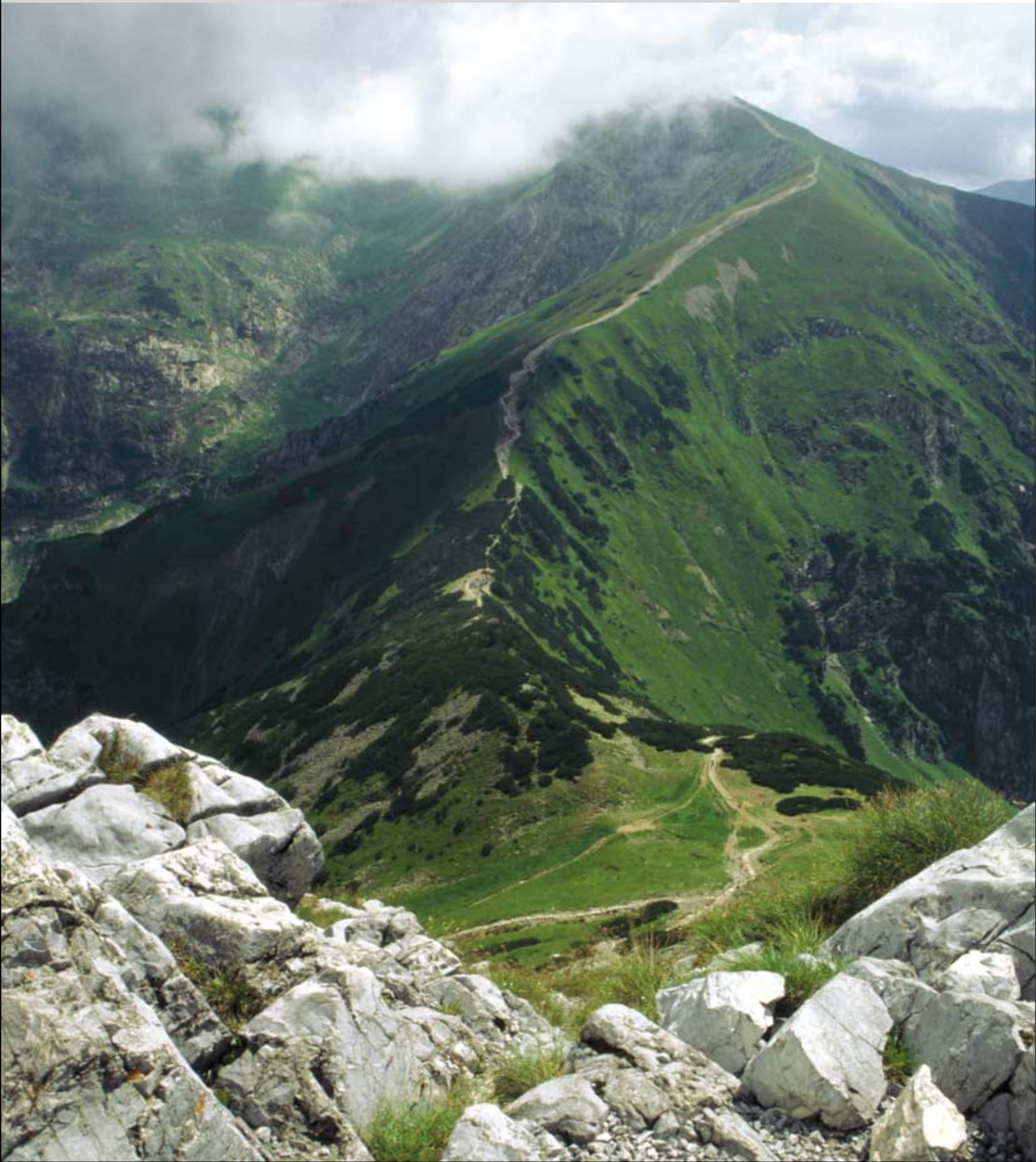
### Environmental Protection Investments

In 2002, capital expenditure on environmental protection projects at the refining and petrochemical production complex in Plock exceeded PLN 125m.

About 500 environmental tasks, worth in total over PLN 30m, were performed at PKN ORLEN service stations, storage depots and other facilities. We estimate that last year our total capital expenditure on environmental protection amounted to PLN 155m.

### Pro-Environmental Adaptation Programme

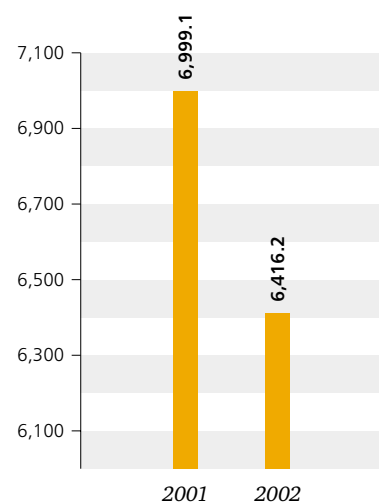
Since 1997 we have executed a number of tasks aimed at a reduction of the environmental impact of our activities as part of the Pro-Environmental Adaptation Programme. Air quality control, reduction of noise emissions, and reduced intake of water from the Vistula River



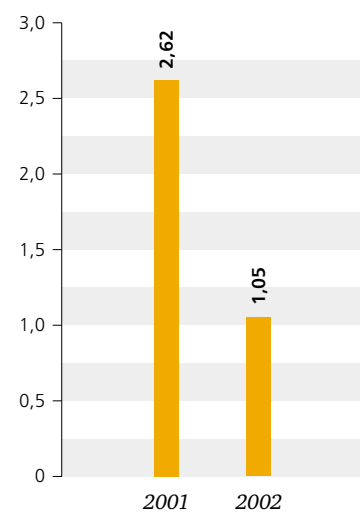




Emissions of nitrogen dioxide  
in 2001 – 2002 (tonnes)  
Main site in Plock



Emissions of hydrogen sulphide  
in 2001 – 2002 (tonnes)  
Main site in Plock



(and the related smaller amount of generated effluent) are only some of the 22 projects implemented. We are planning to complete all of the Pro-Environmental Adaptation Programme tasks by the end of 2003. Completion of the programme will contribute to a reduction of the negative impact of our activities on virtually all components of the environment.

#### Responsible Care

The efforts to extend the ISO 14001 Environmental Management System into all of PKN ORLEN's units in Poland, participation in the Earth Days and the Clean Up the World Event, or the continuation of our cooperation with the Council for the Restitution of the Peregrine Falcon, are only some of the activities taken up by the Company as part of the Responsible Care programme. We have participated in this international programme, which was initiated by the Canadian Chemical Industries Association in 1984, for six years. From Canada the ideas of responsibility and care for the environment very quickly spread into the USA and then also into Europe. Everywhere in the world, participation by companies in the chemical industry in this programme is widely approved by their customers and employees as well as environmental activists and local communities.

In 2002, PKN ORLEN was awarded a diploma in recognition of its special contribution to the promotion of the programme.

#### Plant Environmental Inspection (Green Police)

PKN ORLEN's Plant Environmental Inspection, which has been functioning for four years, has become a part of the image of PKN ORLEN and the town of Plock. The work of the Green Police inspectors consists in receiving notifications from the particular production installations of planned modernisation or maintenance works which may (although not necessarily) cause temporary changes in the environment (e.g. noxious smells, noise etc.). The inspectors' task is to oversee the work carried out, and to minimise any potential negative impact on the environment.

#### Air Quality Control

In 2002, the Company recorded a reduction of the total volumes of pollutant at the main site in Plock by over 2%. Furthermore, last year we considerably reduced emissions of nitrogen dioxide and hydrogen sulphide (compared with 2001) by over 8% and 50%, respectively.

One of the measures of our impact on the environment is the amount of environmental charges paid by PKN ORLEN. In 2002, these charges dropped by PLN 3.5m.

Our achievements in the area of environmental protection were acknowledged by the jury of the fourth "Friends of the Environment" Ecological Contest organised under the auspices of the President of the Republic of Poland, who awarded PKN ORLEN the title of "Environmentally Friendly Company" in 2003.

## European Union

*For PKN ORLEN, adjustment to EU requirements is one of our priorities. That is why many areas of our operations are already fully compliant with the EU regulations.*

By treating the quality of our products and services as our top concern we have proved that we can effectively operate in the open free market (there are no legal, logistic or economic barriers to the import of fuels from the countries of the European Union, and global oil concerns have for years been present in the Polish market). Our experience and business skills has prompted us to enter directly the retail fuel market of Germany, one of the members of the European Union.

The importance that PKN ORLEN attaches to the issues related to Poland's accession to the European Union is reflected in the appointment of a special Proxy for European Union Accession in charge of coordination of our activities related to Poland's entry to the EU. As we are well aware of the importance of availability of information regarding the EU's internal regulations, we have actively participated in Poland's preparations for EU membership. We have contributed to the transposition of EU laws into Polish laws by cooperation with the public administration authorities, active backing of related initiatives, and support for relevant organisations. PKN ORLEN is an active member

of EUROPIA (European Petroleum Industry Association), an organisation grouping European refining companies which jointly account for over 90% of the EU oil market. By participating in various EUROPIA working groups, which develop the association's positions and lobbying strategies with respect to issues of key importance for the oil industry, we gain direct access to the most recent industry information and the opportunity to present our position on proposals for regulations which are to be enacted by the EU. Our broad understanding of our role led us to make and develop new contacts with European organisations dealing with the social aspects of corporate activity, such as the EHRN (European Human Resource Network). This opens up new opportunities for cooperation and to use the experience gained by European corporations in this area.

PKN ORLEN would similarly like to join in the implementation of the National Development Plan, particularly in the field of activities promoting innovation and competitiveness of companies operating in the Single European Market.

*"Our objective is to build a strong international enterprise in this part of Europe, which will be capable of competing effectively in European markets and which will be ready to actively participate in the inevitable globalisation process".*

# EU Enlargement: Opportunities and Threats to PKN ORLEN

## Opportunities

1. The possibility to reap the fruit of efforts made in connection with:

a) PKN ORLEN's technological adjustment to the requirements set forth in the EU directives:

- With over USD 2bn investments in the construction of modern crude oil processing facilities at the Plock Refinery, it is now among Europe's ten leading refineries and is able to produce fuels meeting current EU requirements or even – as is the case with diesel oil – the requirements which will become effective in the EU in 2005 (the sulphur content in our diesel oil does not exceed 50ppm);
- Extensive preparation of refining installations and the distribution network for the reduction of harmful emissions, i.e. the implementation of the provisions of the IPPC (Integrated Pollution Prevention Control) system and the European Parliament and Council Directive 94/63 (on the control of volatile organic compound (VOC) emissions resulting from the storage of petrol and its distribution from terminals to service stations);
- Active development of the system of mandatory stocks, and the infrastructure for their storage (e.g. at IKS SOLINO SA).

b) Acquiring the skills required to operate on a free and open market – the upgraded and restructured distribution network is a modern and efficient system, which ensures best-of-breed customer service, the source of our success on the Polish market where:

- there are no logistic or formal barriers to fuel imports;
- the financial regulations are compatible with EU requirements – the import duty rate on fuels is 0% and the excise tax rate exceeds the minimum set by the EU;
- we compete with the distribution networks of the world's largest oil concerns.

Our free and open market competition challenge started with entry to the highly competitive German market.

2. Poland's accession to the European Union will entail implementation of regulations which will ensure equal treatment for all participants in the fuel market:

- use of unfair competitive practices by other market participants will become more difficult given the continuous monitoring and control of engine fuel quality;
- limited ability of the state to provide aid to inefficient companies.

3. Growth of the Polish fuel market depends on the growth of Poland's entire economy – Poland's accession to the European Union offers an opportunity for such growth.

4. Poland's participation in the Common Market will provide a wider platform for exchange of goods and participation in international alliances.

5. EU funds will become available for company restructuring.

## Threats

Following Poland's accession to the EU, the country's fuel market will have to undergo changes necessitated by the construction of the European environmental and energy security systems, as well as by the integration of the EU markets. This will translate into the need to incur additional expenditure and will become a source of other burdens on the fuel market:

1. More stringent quality requirements for engine fuels: from 2009, the maximum admissible sulphur content will be 10 ppm, while, from 2005, fuels with such sulphur content will have to be available on the market. Another requirement will be the introduction of a separate kind of diesel oil for farm engines and equipment.
2. Change of the regulations governing mandatory stocks (including a possible increase in the required quantity of stocks of liquid fuels to a volume equivalent to 120 days of consumption).
3. Change of tax regulations including, in particular, an increase in the minimum rate of excise duty for diesel oil to EUR 302 per 1000 litres.
4. Increase in costs related to the more stringent environmental protection regulations concerning such issues as pollution liability, prevention of excessive contamination, or reduction of greenhouse gas emissions:
  - reduction of engine fuel consumption by 25%: in 2008 the average consumption of fuels by passenger cars is to be limited to 5.8l per 100km;
  - reduction of consumption of oil-derivative fuels: to be substituted by biocomponents;
  - limits on the emissions of greenhouse gases from industrial installations and the launch of trading in greenhouse gas emission allowances.
5. Changes in the rules governing mergers: on the one hand a simplification of the procedure and a shifting of the decision-making burden onto the member countries, on the other hand extension of the European Commission's fair-competition and consumer protection powers to the common market.
6. The possibility of accession to the eurozone, preceded by a two-year freeze of the exchange rate, will be an additional challenge for PKN ORLEN, as the existing system of procurement of raw materials exposes our financial results to currency risks.





## ORLEN Capital Group

*The primary objective of the ORLEN Capital Group is to support PKN ORLEN's core business. The Group comprises strong and effective distribution and logistics facilities.*

Our strategy assumes increasing our equity stakes in strategic subsidiaries, while restructuring or disposing of undertakings not directly related to the refining and petrochemical business. The funds thus released will be used to finance the core business and improve PKN ORLEN's efficiency.

As at the end of December 2002, PKN ORLEN held stakes in 116 companies, including:

- 67 subsidiary companies (with equity interests in excess of 50%);
- 5 affiliated companies (with equity interests from 20% and 50%);
- 44 companies with minority interest (with equity interests below 20%).

Pursuant to the policy adopted by the Management board for 2002, we realised gains on disposals of equity interests in non-core companies. In the fourth quarter of 2002, we disposed of the entire holding of 4,450,708 shares in LG PetroBank SA, which yielded

a profit of PLN 58m. Moreover, an additional profit of PLN 1.5m was derived from the disposal of shares in CIECH SA.

In 2003, we plan to source additional funds from the disposal of such assets as a 35% stake in Niezależny Operator Międzystrefowy, a 40% stake in Flexpol and a 88.8% stake in Petrotel Sp. z o.o. By the end of 2003, we intend to dispose of equity interests in most of the minority companies acquired by PKN ORLEN as a result of debt-to-equity swaps. The total proceeds of the disinvestments are estimated to reach USD 90m in 2003, with a profit of approximately USD 26m.

In the first quarter 2002, we completed another stage of the consolidation of our gas distribution companies, whose assets contributed to ORLEN Gaz Sp. z o.o. of Płock. The company's initial capital currently stands at PLN 24.8m.

*"...we carried on our M&A activities both domestically and in neighbouring countries; we also continued to stabilise the core business through the development of the petrochemical sector".*





*"We have a 7% market share*

*in northern Germany;*

*in Schleswig-Holstein around 12.5%.*

*Our network is the sixth largest*

*in Germany".*

In 2002, we continued the restructuring efforts designed to spin-off companies from PKN ORLEN. As a result, ORLEN Laboratorium Sp. z o.o. commenced its activities outside PKN ORLEN as of 1 January 2003. We estimate that the new undertaking's spending on new equipment, research and development will reach approximately PLN 15m by the end of 2005.

With a view to creating a strong player in the area of production and marketing of road bitumen and bitumen binders, we established a Bitumen Plant as a new organisational unit within PKN ORLEN. The Bitumen Plant, together with the assets of Rafineria Trzebinia SA, will be used to establish ORLEN Asfalty Sp. z o.o., with a targeted production capacity of approximately 750,000 tonnes per year.

The joint venture with Basell Europe Holdings BV, forms an important element of the ORLEN Capital Group. In September 2002, after several years of negotiations, we finally executed the joint-venture agreement with Basell Europe

Holdings BV; the new undertaking will produce polypropylene and polyethylene and will market these products throughout Europe. Since 1 March 2003, Basell Orlen Polyolefins Sp. z o.o., where both partners hold each 50% interest, has offered new types of polymers. A proportion of these products will be ultimately produced in Plock, and some of them, such as high-density polyethylene (HDPE) will be produced in Poland for the first time. We anticipate that Poliolefiny Polska will reach its full production capacity by the end of 2005.

Another significant development for the ORLEN Capital Group was the acquisition of two German companies, through which PKN ORLEN acquired 494 service stations in Germany. As a result of the transaction, which involved the purchase of BP, Aral and EM Eggert service for EUR 140m, we achieved a 3% share of the local market. We will be an active player in northern Germany, where we hold approximately 7% of the fuel market.

# ORLEN Capital Group's financial performance

PKN ORLEN's subsidiary and affiliated companies generated a total revenue of PLN 7.4bn, which represented 4% growth over 2001. The companies recorded an aggregate net profit of PLN 89.7m.

As at the end of 2002, the subsidiary and affiliated companies jointly employed 10,520 people, which was 3% up on the 2001 headcount.

## Naftoport Sp. z o.o.

The company is the largest operator of imported crude oil reloading facilities for ships in Poland. The company's core business consists in the reloading of oil and oil products for Polish refineries.

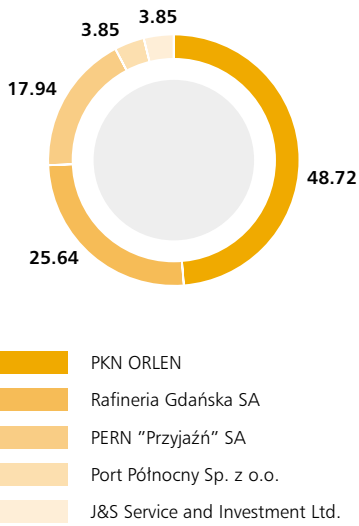
Naftoport's annual reloading capacity is 23m tonnes of crude oil.

## PKN ORLEN's strategy with respect to the company

Because of its ability to help secure an alternative supply of feedstock, Naftoport is an important asset for us. It is also an important asset for the State Treasury due to its role in the country's energy security. Therefore, the terms of the company's future continued operation within the ORLEN Capital Group may, to a significant extent, depend on detailed arrangements made during the privatisation of Rafineria Gdańska SA.

Sales revenue	PLN 40,618,000
Share capital	PLN 45,942,000
Number of employees as at 31 December 2002	20
Net profit for 2002	PLN 16,913,000
Shareholders' equity as at 31 December 2002	PLN 100,499,000

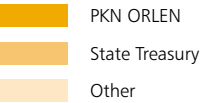
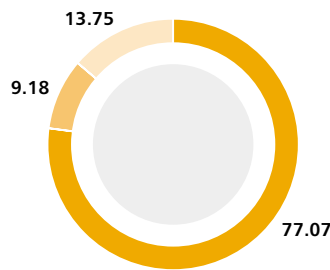
Shareholder Structure as at 31 December 2002 (%)







Shareholder Structure  
as at 31 December 2002 (%)



### Rafineria Trzebinia SA

In terms of its throughput capacity, Rafineria Trzebinia SA ranks fourth in Poland, after the Plock, Gdańsk and Czechowice refineries.

The company's business includes:

- crude oil distillation,
- production and sales of fuel (including gasolines, diesel oils, and fuel oils),
- blending and packaging of lubricating oils,
- processing of paraffin slack waxes,
- production of bitumen and bitumen products.

Rafineria Trzebinia SA's business focuses on specialised products, such as lubricating and industrial oils, and a range of paraffin products.

2002 was a year of intense preparatory work for the launch of a plant for the esterification of vegetable oils at Rafineria Trzebinia SA, with a planned annual production capacity of 100,000 – 150,000 tonnes. The main advantages of the new plant will be its more environmentally-friendly products, and the fulfilment of the most stringent EU environ-

mental protection standards. Biofuels produced using the proposed technology will allow us to reprocess up to 40% of used vegetable oils and fats, which are less expensive, and subject to lower price volatility, than the principal feedstock, which is oilseed rape. This can be viewed as a guarantee of the stability of feedstock prices. Production is scheduled to begin in 2004. The total capital expenditure on the project is estimated at EUR 19m.

In 2002, work continued on the expansion of the unit for deoiling paraffin slack waxes and construction of a paraffin hydrotreatment plant. The projects, amounting to PLN 20m, will enable Rafineria Trzebinia SA to increase its paraffin slack waxes production capacity from 30,000 to 56,000 tonnes annually. The use of the most state-of-the-art technology, licensed from ExxonMobil, is expected to bring about a marked improvement in the quality of products. In addition, new paraffin blends will open up opportunities for the export of paraffins and paraffin products to the EU.

Sales revenue	PLN 1,423,200,000
Share capital	PLN 43,042,000
Number of employees in the group as at 31 December 2002	1,248
Net profit for 2002	PLN 55,156,000
Shareholders' equity as at 31 December 2002	PLN 257,620,000
Rafineria Trzebinia SA's subsidiaries and associated companies	10

### Rafineria Nafty Jedlicze SA

Rafineria Nafty Jedlicze SA is located near Krosno, in the southeast of Poland. The company ranks second in Poland in terms of the production of lubricating oils.

The company's business comprises:

- transport, processing, storage and trade of crude oil and oil derivatives, as well as used oils and other types of waste,
- collection of used oils,
- blending of lubricating oils and other industrial fluids,
- production of oil solvents and fuels,
- production of lubricants and bitumens,
- production of containers and packaging of oils and other industrial fluids.

Rafineria Nafty Jedlicze SA also produces limited quantities of engine fuels and heating oils. In addition, it regenerates used oil in facilities with an annual capacity of 80,000 tonnes. The collection of used oils is carried out by a network of companies with capital links to Rafineria Nafty Jedlicze SA.

Because of the abolition of excise tax relief on sales of diesel oil with components derived from the reprocessing of used oil, 2002 was an

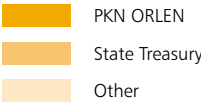
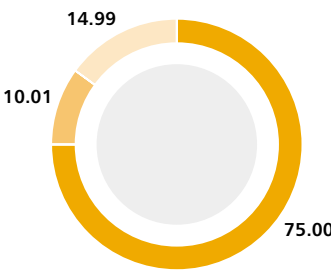
important year for Rafineria Nafty Jedlicze SA. The burden of financing the regeneration of used oil was transferred onto the producers and importers of fresh oil; this ultimately resulted in a severe reduction in the volume of used oil supplied to Rafineria Nafty Jedlicze SA. In view of this development, the company considerably curtailed the production and sale of diesel oil in 2002.

The provision of outsourcing services related to the desulphurisation of diesel oil for other businesses allowed Rafineria Nafty Jedlicze SA to alleviate the consequences of the less-than-optimal utilisation of production capacity at the used-oil hydrofinishing installation. In the fourth quarter of the year, Rafineria Nafty Jedlicze SA launched the provision of services related to the treatment of dewaxed residue from the hydocracker in Plock. As a result of this process, base oils II were obtained.

In addition, in 2002 the company developed a technology for the production of new generation extended drain oils, with the mileage of up to 160,000 km. These oils are used in the transmissions of trucks and buses.

Sales revenue	PLN 1,459,998,000
Share capital	PLN 78,000,000
Number of employees in the group as at 31 December 2002	932
Net loss for 2002	PLN 30,720,000
Shareholders' equity as at 31 December 2002	PLN 131,144,000
Rafineria Jedlicze SA's subsidiaries and associated companies	26

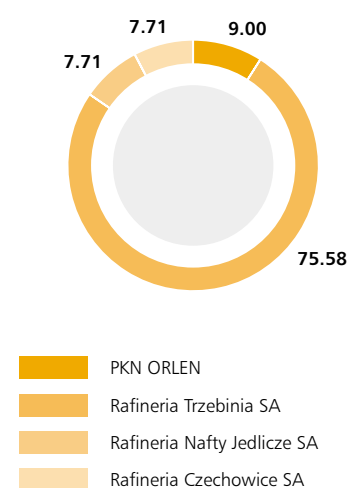
Shareholder Structure  
as at 31 December 2002 (%)







Shareholder Structure  
as at 31 December 2002 (%)



## ORLEN OIL Sp. z o.o.

ORLEN OIL Sp. z o.o. is a producer of lubricating oils and car-care products marketed under the ORLEN brand, and a distributor of the products of the ORLEN Capital Group.

The company's business comprises:

- production and sales of lubricating and base oils, and chemical products,
- domestic and international trade in chemical, refinery, and petrochemical products,
- provision of storage and transport services.

The marketing activities carried out in the second half of 2002 and the implementation of the new sales policy strengthened the company's dominant position in the lubricant market. The key element of ORLEN OIL's trade policy was a clear change in the structure of the product range to include a greater number of high-class engine oils. The strategy pursued by the management board assumes further development of the product offering, with a special emphasis on the Platinum engine oils, which should enable the company to maintain the leading position in the Polish market for oil production and distribution.

ORLEN PLATINUM 0W/30 SL/CF synthetic oil will be the key element of the market campaign.

The change in the business profile boosted sales revenue from 4% to 33%. At the same time, the share of the revenue from such products as base oils from PKN ORLEN or oil and lubricant products from Rafineria Nafty Jedlicze SA fell from 96% to 65%.

### PKN ORLEN's strategy with respect to the company

Our strategy assumes the completion of the spinning-off of oil businesses from other ORLEN Capital Group members, such as Rafineria Nafty Jedlicze SA, and the contribution of their assets to ORLEN OIL. Acquisition of the production business by ORLEN OIL and integration of the production of and trade in lubricating oils are necessary for the long-term efficiency of the oil business. The ultimate objective is to establish a strong entity, able to face competition from western companies and other oil and lubricant producers.

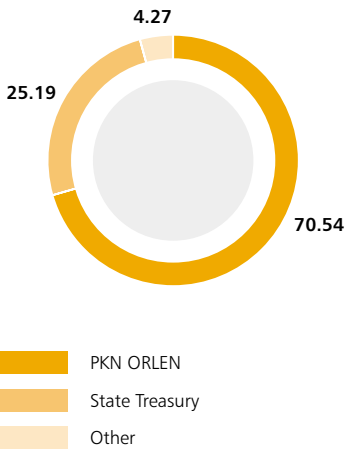
Sales revenue	PLN 396,760,000
Share capital	PLN 43,558,000
Number of employees in the group as at 31 December 2002	698
Net profit for 2002	PLN 7,608,000
Shareholders' equity as at 31 December 2002	PLN 58,133,000
ORLEN OIL's subsidiaries and associated companies	12







Shareholder Structure  
as at 31 December 2002 (%)



### IKS SOLINO SA

The company mines and processes brine, and produces industrial brine. The brine is supplied to such companies as ZA Anwil SA in Włocławek, a member of the ORLEN Capital Group. Given the nature of its core business, the company is ideally suited to store large amounts of crude oil and fuels cheaply.

The company's business comprises:

- storage of crude oil and refinery products,
- production of industrial brine,
- processing and packaging of vacuum salt,
- trade in the company's own products on domestic and foreign markets,
- trade in mining, mechanical, electrical, construction and transport assets.

As at the end of 2002, PKN ORLEN stored a total of 431,226 tonnes of finished products and 582,737 tonnes of crude oil. Almost 34% of the crude oil and approximately 20% of the diesel and fuel oils were stored in the underground caverns of the IKS SOLINO SA salt mine. In 2002, we operated two crude oil caverns, each with a capacity of 500,000 tonnes,

Sales revenue	PLN 87,163,000
Share capital	PLN 19,145,600
Number of employees as at 31 December 2002	363
Net profit for 2002	PLN 9,573,000
Shareholders' equity as at 31 December 2002	PLN 76,604,000

one heating oil cavern with a capacity of 125,000 tonnes and two diesel oil caverns, each with a capacity of 125,000 tonnes. These caverns are connected to the Przyjaźń Pipeline by the 42.5 km Żółwieniec pipeline – the "Góra" salt mine section, and a 18.7 km Płock – Nowa Wieś Wielka section (a production pipeline network). These pipelines were commissioned in the fourth quarter 2002. By the end of the year, we had transferred approximately 198,000 tonnes of crude oil and 86,000 tonnes of finished products to the caverns.

#### PKN ORLEN's strategy with respect to the company

Our strategy towards the company assumes a further strengthening of PKN ORLEN's position as the majority shareholder. This follows from the nature of the company's business and the construction of underground crude oil and fuel storage facilities.

### ZA Anwil SA

ZA Anwil SA is one of the largest enterprises in the Bydgoszcz Province, and is also the leading chemical industrial enterprise in Poland.

The company's business comprises:

- production of nitrogen fertilisers, semi-products and other related products;
- production of polyvinyl chloride and other related products;
- production of polyethylene packaging;
- trading and service activities based on the company's production capabilities.

The company is Poland's largest manufacturer of polyvinyl chloride (PVC) and a major producer of nitrogen fertilisers. Ethylene, the principal raw material used in the production of polyvinyl chloride, is purchased from PKN ORLEN. ZA Anwil SA owes its position on the domestic and international markets mainly to the high quality of its products, which is certified by ISO 9001 and 9002 quality certificates, as well as to the Polish Q quality sign granted to its ammonium nitrate.

In 2002, the company reported record performance in terms of the PVC production and sales. A thorough modernisation of the vinyl chloride production plant allowed ZA Anwil SA to reach a production output of 238,440 tonnes.

Sales revenue	PLN 1,116,772,000
Share capital	PLN 150,000,000
Number of employees in the group as at 31 December 2002	2,490
Net profit for 2002	PLN 16,115,000
Shareholders' equity as at 31 December 2002	PLN 813,434,000
ZA Anwil SA's subsidiaries and associated companies	16

In May 2002, a joint-venture agreement for the construction of a PET granule plant in Włocławek was signed. The agreement was concluded by ZA Anwil SA and SK Chemicals, a South Korean company. Under the agreement, SK Eurochem was established to construct, launch and operate a new production plant with an annual capacity of 120,000 tonnes.

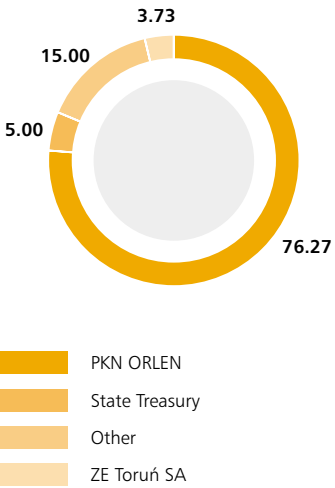
In 2002, Anwil's undisputed success in the area of environmental protection was the deletion of the company from the Hot Spots list of polluters threatening the environmental safety of the Baltic.

#### PKN ORLEN's strategy with respect to the company

We will aim to consolidate the equity interests held by the financial institutions and employees. Within the next few years, PKN ORLEN may increase its involvement in companies in the heavy chemicals industry, either on its own, or in cooperation with ZA Anwil SA.

Plans to divide ZA Anwil SA into fertilizer and PCV divisions, with the former to be sold to a trade investor at a later date, are also under consideration.

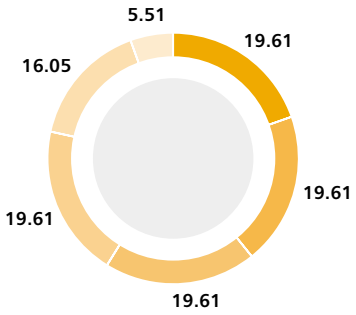
Shareholder Structure  
as at 31 December 2002 (%)







Shareholder Structure  
as at 31 December 2002 (%)



- PKN ORLEN
- KGHM SA
- Vodafone American Asia, Inc.
- TeleDenmark A/S
- PSE SA
- Other Polish companies

## Polkomtel SA

Operating under the name of Plus GSM, Polkomtel SA is one of Poland's three mobile telephony operators using the GSM 900 and DCS 1800 systems. At present, it is the second largest mobile telephony operator in Poland in terms of the number of subscribers.

Because of its value, Polkomtel SA is an important member of the ORLEN Capital Group, even though it is not included in the Group's consolidated financial statements.

The company's business comprises:

- provision of mobile telephony services,
- sale of GSM-related products and services,
- design, installation, operation, and management of the GSM system.

Sales revenue	PLN 4,710,270,000
Share capital	PLN 2,050,000,000
Net profit for 2002	PLN 515,827,000
The dividend for PKN ORLEN	PLN 46,508,854
Shareholders' equity as at 31 December 2002	PLN 3,000,092,000

### PKN ORLEN's strategy with respect to the company

The shares in Polkomtel SA are PKN ORLEN's financial investment and are to be disposed of in the medium-term.

The investment in Polkomtel features the highest rate of return amongst all of the financial investments carried out by PKN ORLEN. We assume that upon the emergence of an attractive alternative in the core business, or when the optimum rate of return related to the development of the telecommunications market has been achieved, the stake in Polkomtel will be sold.



Structure of PKN ORLEN Group as at 31 December 2002

Core business companies	
Fuel companies	Sector companies
Einhundertzweindreissigste Vermögensverwaltungs-gesellschaft mbh 100%	Poliolefiny Polska <sup>1</sup> 100%
Einhundertdreißigste Vermögensverwaltungs-gesellschaft mbh 100%	Rafineria Trzebinia SA 77.1%
ORLEN PetroCentrum 100%	Zakłady Azotowe Anwil SA 76.3%
ORLEN PetroTank 90.0%	Rafineria Nafty Jedlicze SA 75.0%
ORLEN PetroProfit 85.0%	IKS SOLUNO SA 70.5%
SHIP - SERVICE SA 60.9%	Naftoport 48.7%
ORLEN PetroZachód 51.8%	Chemiepetrol 20.0%
Petromor 51.3%	ORLEN OIL <sup>2</sup> 9.0%
Petrolot 51.0%	Gas companies
ORLEN Morena 50.5%	

ORLEN Gaz 100%
ORLEN Petrogaz N. Brzeźnica (in liquidation) 52.0%

Non-core business companies			
Maintenance and support	Service companies	Others	Equity investments
ORLEN Wodkan 82.3%	CPN Servis Kielce 100%	ORLEN Budonaft 100%	ORLEN Powiernik 100%
ORLEN Mechanika 68.2%	Servis Gdańsk 100%	ZW Mazowsze 100%	NOM 35.0%
ORLEN Automatyka 52.4%	ZUD 99.9%	SAMRELAKS Młachocice 100%	Polkomtel SA 19.6%
ORLEN Remont 51.2%	Servis Słupsk 99.8%	ORLEN Medica 100%	Telewizja Familijna SA 12.0%
ORLEN Elitech 51.0%	Servis Nowa Wieś Wielka 99.3%	ORLEN Ochrona 100%	Other companies <20%
ORLEN EnergoRem 51.0%	Servis Łódź 97.3%	WISLA Plock SSA 100%	
ORLEN Wir 51.0%	Servis Rzeszów 97.3%	ORLEN Polimer 100%	
Transport companies	Servis Podlasie 89.7%	ZAWITAJ Świnoujście 100%	
	Servis Mazowsze 88.5%	DW Mazowsze 98.7%	
	Servis Wrocław 83.3%	Petromot 97.6%	
	Servis Kraków 83.2%	Zakład Budowy Aparatury SA 96.6%	
	Servis Kędzierzyn-Koźle 80.0%	Petrotel 88.8%	
	Servis Szczecin 78.1%	BHT Dromech SA (in liquidation) 81.2%	
	Servis Zachód 74.3%	CPN Marine Service 70.0%	
	Servis Katowice 55.0%	Centrum Edukacji 69.4%	
	Servis Poznań 51.0%	ORLEN Projekt SA 51.0%	
	ORLEN Transport Warszawa 94.5%	Flexpol 40.0%	
	ORLEN Transport Olsztyn 92.3%	Motell 35.0%	
	ORLEN Transport Kędzierzyn-Koźle 88.8%		

<sup>1</sup> Poliolfefiny Polska is soon to be registered under its new name of Basell Orlen Polyolefins Sp. z o.o.  
<sup>2</sup> ORLEN OIL Group – 92.3% (PKN ORLEN's direct and indirect holding)

Structure of PKN ORLEN Group as at 31 March 2003

Core business companies	
Fuel companies	Sector companies
ORLEN Deutschland GmbH 100%	Poliolefiny Polska <sup>1</sup> 100%
ORLEN Deutschland Immobilien GmbH 100%	Rafineria Trzebinia SA 77.1%
ORLEN PetroCentrum 100%	Zakłady Azotowe Anwil SA 76.3%
ORLEN PetroTank 100%	Rafineria Nafty Jedlicze SA 75.0%
ORLEN PetroProfit 85.0%	IKS SOLUNO SA 70.5%
SHIP - SERVICE SA 60.86%	Naftoport 48.7%
ORLEN PetroZachód 51.83%	Chemiepetrol 20.0%
Petromor 51.31%	ORLEN OIL <sup>2</sup> 9.0%
Petrolot 51.0%	Gas companies
ORLEN Morena 50.48%	

ORLEN Gaz 100%
ORLEN Petrogaz N. Brzeźnica (in liquidation) 52.0%

Non-core business companies			
Maintenance and support	Service companies	Others	Equity investments
ORLEN Wodkan 82.3%	CPN Servis Kielce 100%	ORLEN Budonaft 100%	ORLEN Powiernik 100%
ORLEN Mechanika 68.2%	Servis Gdańsk 100%	ORLEN LABORATORIUM 100%	NOM 35.0%
ORLEN Automatyka 52.4%	ZUD 99.9%	ZW Mazowsze 100%	Polkomtel SA 19.6%
ORLEN Remont 51.2%	Servis Słupsk 99.8%	SAMRELAKS Młachocice 100%	Telewizja Familijna SA 12.0%
ORLEN Elitech 51.0%	Servis Nowa Wieś Wielka 99.3%	ORLEN Medica 100%	Other companies <20%
ORLEN EnergoRem 51.0%	Servis Łódź 97.3%	ORLEN Ochrona 100%	
ORLEN Wir 51.0%	Servis Rzeszów 97.3%	WISŁA Płock SSA 100%	
Transport companies	Servis Podlasie 89.7%	ORLEN Polimer 100%	
	Servis Mazowsze 88.5%	ZAWITAJ Świnoujście 100%	
	Servis Wrocław 83.3%	DW Mazowsze 98.7%	
	Servis Kraków 83.2%	Zakład Budowy Aparatury SA 96.6%	
	Servis Kędzierzyn-Koźle 80.0%	Petrotel 88.8%	
	Servis Szczecin 78.1%	BHT Dromech SA (in liquidation) 81.2%	
	Servis Zachód 74.3%	CPN Marine Service 70.0%	
	Servis Katowice 55.0%	Centrum Edukacji 69.4%	
	Servis Poznań 51.0%	ORLEN Projekt SA 51.0%	
	ORLEN Transport Warszawa 94.5%	Flexpol 40.0%	
	ORLEN Transport Olsztyn 94.4%	Motell 35.0%	
	ORLEN Transport Kędzierzyn-Koźle 88.8%		

<sup>1</sup> Poliolfefiny Polska is soon to be registered under its new name of Basell Orlen Polyolefins Sp. z o.o.  
<sup>2</sup> ORLEN OIL Group – 92.3% (PKN ORLEN's direct and indirect holding)





#### QAL

Qal is a low-freezing, ready-to-use cooling fluid of long durability and high purity. The latest generation of organic additives used in Qal give perfect anti-corrosion and anti-cavitation protection for all the materials in an engine's cooling system. Qal is a fluid optimised for European weather conditions and temperatures, i.e. from summer heat to freezing winters (up to -35°C). The completely new production technology and strict quality controls, complying with ISO 9002 Standard, have resulted in a fluid of the highest worldwide quality. Qal was awarded the title of best Polish products and services in the 12th edition of "Teraz Polska".



#### Platinum

Platinum oils have New Extreme Technology formula to ensure perfect protection for the engine from sediment and wear. The highest quality of Platinum oils has been confirmed by DaimlerChrysler, Volkswagen, BMW and Porsche.



#### Petrygo

A ready-to-use cooling fluid for all types of engine cooling systems. Petrygo was awarded the title of "Lider Rynku" (Market Leader) at the International Moto Fares AWTOTEX in Lviv, Ukraine.



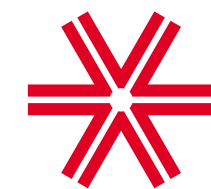
#### ORLEN Team

Professional Polish rally team consisting of Jacek Czachor and Marek Dąbrowski (motorcyclists) and Łukasz Komornicki and Rafał Marton (off-road car drivers).



#### Ekoterm Plus

Light Heating (Furnace) Oil is a product of the highest quality which meets worldwide standards both for its exploitation parameters and environment protection requirements. EKOTERM PLUS is an ideal fuel for central heating boilers in detached houses, hospitals, schools, etc. EKOTERM PLUS was awarded the European Medal by the Office of the Committee for European Integration and Business Center Club.



**orbiton**  
ASFALTY MODYFIKOWANE

#### Orbiton

Orbiton road bitumen is produced from asphalts modified with thermoplastic rubber. It is used in road engineering for constructing bitumen layers. Road bitumens modified with thermoplastic rubber are used in the most demanding conditions. Their highest quality is guaranteed by ISO 9002.



#### Malen

Malen-E and Malen-P are high quality plastics used for production of packaging, technical, thermo-shrinking and garden foils, foils exposed to UV radiation, and transportation bags. They are also used for production of containers, bottles, pipe and profile extrusion cable coating.



**The VITAY loyalty programme**

By the end of 2002, 1,397 service stations had been included in the programme (1,286 company-owned and 111 franchise stations). At the end of 2002, the number of participants in the programme was close to 3.5m. VITAY is the largest project of its type in Central Europe.

**FLOTA POLSKA**

FLOTA POLSKA is a loyalty programme for corporate vehicle fleets. The scheme offers convenient and non-cash forms of purchasing fuel, products and services at the stations with the FLOTA POLSKA logo. Until the end of 2002, the programme covered 1447 stations. As at the end of 2002, our customers used 142,000 cards.



**EUROSUPER 95 Gasoline**

Owing to special additives of the highest quality, Eurosuper 95 provides for excellent engine care. The results of a special test prove that Eurosuper 95 additives significantly limit fuel consumption and deposit formation. They also reduce the risk of damage to the engine. Eurosuper 95 ensures smooth engine operation at high load, both at low and high temperatures.



**UNIVERSAL U-95 Gasoline**

Universal U-95 unleaded gasoline is used for all ignition engines except aero-engines. It is mainly intended for car engines whose valve-seats are not made of special wear resistant materials. However, it may also be used in car engines equipped with catalytic converters. It has all the characteristics of unleaded gasoline with an octane number rating of 95, and it contains additives that replace the lead and protect the valve-seats from wear.



**LPG**

PKN ORLEN is currently the largest Polish manufacturer of liquefied gas. PKN ORLEN's liquified petroleum gas has very good combustion parameters and excellent environmental quality. It is stored and transported in pressurized tanks in liquid form but it is used in its gaseous state.



**SUPER PLUS 98 Gasoline**

SUPER PLUS unleaded gasoline, with a 98 octane number, is the highest octane car gasoline available worldwide. SUPER PLUS 98 provides appropriate performance, smooth engine action and economic fuel consumption. The fuel is enriched with a set of additives which guarantee the cleanliness of the outlet system of the engine.



**EKODIESEL PLUS 50 Diesel Oil**

Ekodiesel Plus 50 is environmentally friendly diesel. Its environmental parameters are better than those stipulated by the European Union 2005 standards. It contains 700% less sulphur (0.005%) than is required in the European Union. When using the new diesel, vehicles produce lower sulphur emissions in exhaust fumes. Ekodiesel Plus 50 has also a higher factor of combustion quality, guaranteeing easier cold starting and better performance due to the higher cetane number.







## Corporate Governance

Since the flotation of PKN ORLEN shares on the Warsaw and London Stock Exchanges, it has been clear that broadly accepted corporate governance issues apply also to our Company. As our activities are determined by the interests of all our shareholders, the Management Board follows such key principles of corporate governance as clarity and transparency of information provided by the Company, and ensuring equal access to such information. Being aware of market expectations, the Management Board accepts and supports all initiatives aimed at the satisfaction of the requirements of all our stakeholders. This approach is attested to by our commitment to create favourable conditions for making investment decisions through the disclosure of reliable and complete information in a convenient manner.

Furthermore, the Company's Management Board supports the idea of organising corporate governance in a normative way, and the initiative of the Good Practice Committee, which consists of representatives of the leading institutions within the Polish capital market. In 2002, the Warsaw Stock Exchange introduced a document prepared by the Committee and entitled "Best Practices in Public Companies in 2002". PKN ORLEN complies with its own high standards of corporate governance and transparency through internal regulations that are overseen by the Constitution of the Management Board, the Constitution of the Supervisory Board, the Constitution of the General Meeting of Shareholders and other internal regulatory mechanisms. Additionally, PKN ORLEN also safeguards the interests of its shareholders and ensures expectations are in line with the market by adhering to independent advice and regulation from external advisors and auditors facilitated by best practice in investor and media relations.

*"...the »Businessman Magazine«,  
a prestigious Polish monthly,  
when awarding the title of the manager  
of the year for the first time did not  
honour just one person, but the whole  
Management Board of PKN ORLEN.  
This title is among other precious  
awards won by the Company in 2002:  
the »Byk« (bull) award  
from the »Sukces« magazine  
for the achievements in 2002 and  
the award from Euromoney Magazine  
for »A Leading Company in Poland  
For Corporate Governance«".*



# Abbreviations and definitions

**Cavern** – Post-exploration underground depot for storing crude oil and petroleum products

**CODO** – company owned dealer operated – a retail outlet owned by PKN ORLEN and run by a dealer

**CPN SA** – Centrala Produktów Naftowych SA, the petroleum products marketing company which merged with PKN ORLEN on 7<sup>th</sup> September 1999

**DODO** – dealer owned dealer operated – a retail outlet owned and run by a dealer under corporate logo

**DRW** – Crude oil distillation unit

**EBIT** – earnings before interest and tax

**EBITDA** – earnings before interest, tax, depreciation and amortisation

**EU, EUR** – European Union, euro

**EVA®** – economic value added registered by Stern Steward & Co.

**GDR** – global depositary receipt each representing 2 shares of PKN ORLEN

**IFRS** – international financial reporting standards

**IRR** – internal rate of return

**Light Heating Oil** – here: Ekoterm Plus produced by PKN ORLEN

**LPG** – liquid petroleum gas

**LSE** – London Stock Exchange

**Nafta Polska SA** – The holding company established by the Polish Government to effect the privatisation of the State's oil interests

**Olefins** – here: ethylene and propylene

**OTC** – over the counter market

**PERN SA** – Przedsiębiorstwo Eksploatacji Rurociągów Naftowych "Przyjaźń" SA – owner and operator of the crude oil storage terminals and the pipelines used to transport crude oil and petroleum products within Poland. PERN is wholly owned by the State Treasury

**PKP SA** – Polskie Koleje Państwowe – Polish Railways

**PLN** – Polish currency (Zloty)

**Polymers** – collective term for polyethylene and polypropylene

**Polyolefins** – here: polyethylene and polypropylene

**ppm** – parts per million

**ROACE** – return on average capital employed

**White products** – Gasolines, diesel oils and LPG – the basic yardstick used to estimate the general standing, technological advancement, and capacity utilisation of individual installations

**WIG20** – Index of the top 20 companies traded on the WSE

**WSE** – Warsaw Stock Exchange

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