MANAGEMENT BOARD COMMENTARY ON BUSINESS OPERATIONS OF POLSKI KONCERN NAFTOWY ORLEN SPOLKA AKCYJNA FOR 2002 (DIRECTORS’ REPORT)

INTRODUCTION

During 2002 in Polski Koncern Naftowy ORLEN S.A. (PKN ORLEN) organisational and employment changes took place on the management level. A number of actions supporting the Company's management have been undertaken. On 8 February 2002 Supervisory Board dismissed Andrzej Modrzejewski from the position of the President of the Management Board – General Director, Jaroslaw Tyc from the position of the Vice-President of the Management Board - Retail Sales Director and Andrzej Dretkiewicz from the position of Vice-President of the Management Board - Wholesale and Logistics Director. On that day Zbigniew Wrobel was appointed on a position of President of the Management Board - General Director, as well as Slawomir Golonka on a position of Vice-President of the Management Board and Andrzej Macenowicz on a position of Member of the Management Board. As a result of being appointed on the position of Vice-President of the Management Board Slawomir Golonka was dismissed from the Supervisory Board.

The Company's Supervisory Board on 7 March 2002 conducted consecutive changes in the composition of the Management Board, decreasing the number of its members from seven to five. As a result from the Management Board were dismissed: Czeslaw Bugaj from the position of Member of the Management Board - Production Director, Wladyslaw Wawak from the position of Member of the Management Board - Development and Technology Director, Wojciech Weiss from the position of Member of the Management Board - Employee and Restructuring Director. Additionally Janusz Wisniewski was appointed on a position of Vice-President of the Management Board. Moreover, Supervisory Board entrusted the position of the Vice-President of the Management Board to Andrzej Macenowicz, fulfilling till then function of Member of the Management Board. As the result the Management Board comprises of five persons and its composition during the period from 7 March – 28 June 2002 was as follows:

- Zbigniew Wrobel – President of the Management Board,
- Krzysztof Cetnar – Vice-President of the Management Board – Economic and Financial Director,
- Slawomir Golonka – Vice-President of the Management Board for Sales,
- Andrzej Macenowicz – Vice-President of the Management Board for Human Resources and Management Systems,
- Janusz Wisniewski – Vice-President of the Management Board for Development and Production.

On 28 June 2002 mandate of the Krzyszot Cetnar the Vice-President of the Management Board, Economic and Financial Director, has expired as a result of termination of three year term of office, for which he was appointed. On 11 July 2002 Supervisory Board of PKN ORLEN appointed Jacek Strzelecki for the position of the Vice-President of the Management Board - Economic and Financial Director.

On 15 April 2002 a resolution of the Management Board introduced a temporary Frame Organisational Rules and Regulations of PKN ORLEN. Its instructions make a combination of previous management system based on function units headed by the Members of the Management Board – Unit Directors with new range of responsibilities of the President – General Director and four Vice-Presidents of the Management Board, specified by the Supervisory Board of the Company. There was a merger of management of wholesale and retail as well as control over the production, maintenance of processes and development of the production and logistics parts.

New Frame Organisational Rules and Regulations of PKN ORLEN were approved by the Management Board on 18 June 2002, and from 1 July 2002 they came in force within the Company. According to Regulations, organisational structure of PKN ORLEN consists of Head Office in Plock and Warszawa, Production Department and 12 Regional Organisational Units in Bialystok, Gdansk, Katowice, Krakow, Lublin, Nowa Wies Wielka, Plock, Poznan, Rzeszow, Szczecin, Warszawa and Wroclaw having the status of an employer within the meaning of Art. 3 of the Labour Code. Regional Organizational Units (Regions) are composed of Regional Wholesale and Logistics Offices, Regional Retail Trade Offices, Regional Investment and Maintenance Offices and Regional Financial Offices .

A function of the Board Member and director commanding current operations of the group of organisational units are now separated. The number of directors reporting directly to the Members of the Managements Board was reduced. It allowed clearer definition of areas of responsibility and improvement of internal communication. The Members of the Management Board within monitoring areas assigned to them, define unified standards and procedures of co-operation with selected companies of the Capital Group in order to optimise realisations of tasks defined in the Company's strategy.

According to the new Rules and Regulations the Company is managed by 5-member Management Board: President of Management Board and four Vice-Presidents. President of Management Board is the General Director simultaneously. The deputy General Director is the Director for Production and Technology within the area defined by authorisation given by the General Director. President of the Management Board – General Director leads the activities of the Company with an assistance of Vice-Presidents, who control Reporting Directors and other managers of the remaining departments and supervises the tasks assigned to the appropriate managers and directors. Reporting Directors possess the following duties: they report directly to the Members of the Management Board, they manage the selected areas of the Company, they realise objectives according to authorised operating plans of the Company and strategy approved by the Management Board. There is a consequence of delegating responsibilities and authorisations from the Management Board level to lower levels. Frame Rules and Regulations include areas of responsibility not only of the appropriate Members of the Management Board, but also concerning all managers of the operating units who report directly to the Members.

The Management Board decided to create new regional structure in order to meet sales objectives – Macro-regions. Frame Rules and Regulations comprise general rules of Macro-regions operations. All works related to preparation of functioning and introduction of macro-regions' structure are monitored by steering group, appointed by official order of President of the Management Board – General Director. The president of the Team is Sales Director. According to the Team's guidelines, conception of functioning of macro-regions was prepared, including restructuring of existing regional structures, focused on:

- increase in efficiency of sale structure management,

- increase in efficiency of sales process,
- increase of competence of management in macro-regions,
- increase in responsibility for results of sale segments (margin, costs),
- realisation of budget (quantity of sale, costs),
- facilitation of internal communication in sales structure and structures supporting sales.

Simultaneously with reorganization in regions, deep functional analysis of the Company's mechanisms has started as well as realisation of projects aimed at improvement of its efficiency. Conducted restructuring works involved all areas of the Company's activities and whole Capital Group of PKN ORLEN.

Apart from above mentioned changes in both legal and organisational sphere made during 2002, significant influence on the Company's functioning and results achieved have external factors, as well as internal actions conducted in order to ensure high economic efficiency.

The most important external factors having an impact on the results of PKN ORLEN are the following:

- Economic growth

In 2002 increase in economic growth rate amounted to 1.3% comparing to 1.0% in 2001. The biggest influence on increase of economic growth rate have increase in export and domestic demand. In 2002 domestic demand risen by 0.8% y/y (after fall by 1.17% earlier) mainly as a result of 2.9% increase in consumption (+1.7% in 2001). Majority of current economic forecasts indicate long awaiting economic revival. In the current year, according to Ministry of Finance forecasts, Polish economy should develop in pace 3-3.5% of economic growth rate, and the biggest influence on that dynamics will have corporate investments and gradually increasing domestic demand and further increase of export. The Management Board of PKN ORLEN recognised budget assumptions regarding so significant improvement in economy as being too optimistic. As a result the level of sales in 2003 is planned to maintained at the level of sales realised in 2002.

- Unemployment growth

In 2002 a worsening situation on labour market was observed. From month to month the number of unemployed was increasing. Unemployment rate at the end of December 2002 increased from 18.1% comparing to 17.4% at the end of 2001. Increase in unemployment in Poland is a factor restricting domestic demand and influences the level of sales of the Company's products. In 2002 according to estimates, further decrease by about 2.8% consumption of engine fuels (fuel, diesel) took place in Poland.

- Inflation

At the end of the year 2002 inflation decreased to level 0.8% year to year form 3.6% at the end of 2001. Average yearly inflation went down to 1.9% in 2002 from 5.5% in 2001. Year 2002 was the period of the lowest increase in prices since the beginning of transformation process in Poland.

- Prices of crude oil, refinery products and margins

Financial results of PKN ORLEN depend on the level of margins gained on individual products. The margin gained by the Company depends on fluctuation of prices of finished goods and crude oil. In 2002 there were significant fluctuations of crude oil prices, but average price of Brent increased compared to 2001 only by 2.3% to level 25.04 USD/bbl. Additionally in 2002 a heavy decrease in margins on Company's products occurred, which unfavourably influenced achieved results. Margins on fuel decreased by 15.6% to level 60.80 USD/ton, on diesel by 34.6% to 33.92 USD/ton, on Ekoterm by 39.4% to level 23.06 USD/ton, what adversely influenced results achieved by the Company. There was written down significant decrease in refinery margins from 2.43 USD/bbl to 1.06 USD/bbl (according to PVM study). In 2002 occurred improvement in product sale structure in favour of products generating higher margins (diesel).

- Fluctuation of foreign exchange rate

The exchange rate fluctuations have significant impact on sales revenue (by means of adjusting the prices by the Company on the basis of import parity), costs of crude oil and other raw materials as well as financial costs of debts expressed in foreign currencies.

Most purchases of crude oil and other raw materials realised by PKN ORLEN is denominated in USD and EUR, although the majority of sales is realized in PLN. As a result of above, changes in PLN rate in relation to foreign currencies exert significant influence on Company's results. Average yearly USD rate decreased by 0.5% to level of 4.08 PLN (calculated as arithmetical average of daily NBP exchange rates within period from 1 January to 31 December 2002).

- Changes in fiscal policy and current law regulations

Corporate income tax rate for 2002 equalled to 28%. In year 2003 the corporate income tax rate is set at 27%, not as had assumed previously by the Minister of Finance – to 24%. The higher level of tax rate has an adverse impact on net profit of the Company. During 2002 excise tax rate was increased once, in January. Each increase in excise tax influences the level of the Company prices.

- Mandatory reserves

Owing to obligations, resulting from prospective membership in United Europe, Poland is compelled to reach the level of 90-days mandatory reserves of liquid fuels, constituting the assurance of the energetic safety for the country. Thus, the producers and importers of fuels have been necessitated to create the mandatory reserves. The current schedule of creation the reserves of liquid fuels is specified in the Decree dated on 14 June 2002, implemented on 1 July 2002. The reserves are created on basis of production and import quantities, realised by the specific company in the previous year, less export. In 1999 and each of the following years the level of mandatory reserves required increases by further 2 per cent as to reach the level of 76 days of production or imports of the entity as at the end of 2008 (moreover the Ministry of Economy is responsible for setting of economic fuel reserves: for liquid fuel in quantity equal to 14 fuel consumption days in current year, this responsibility can be transferred to the Company).

PKN ORLEN builds and maintains mandatory reserves of fuels (fuels, diesel, Ekoterm) and crude oil. Mandatory reserves are stored both in warehouses belonging to PKN ORLEN and to other companies, among others Naftobazy Sp. z o.o., PERN “Przyjazn” S.A. and IKS Solino S.A.

- Drop of car sales

In 2002, once again demand on Polish car market decreased. According to companies specialising in the automobiles’ market analysis, sales of the passenger cars dropped by approximately by 6.4% and reached the level of 306 thousand of cars. Drop of car sales resulted from continuously falling disposable income and ascending unemployment rate.

- Interest rates

Exceptionally low inflation rate for year 2002 as well as necessity to revive the economy were conducive to reduction of basic central bank interest rates. During year 2002 Polish Monetary Council eight times lowered the basic interest rates. As a result, the basic bank rate was reduced by 4.75%. The other basic NBP rates were declined in a similar extent. At the end of 2002 Lombard Rate reached the level of 8.75% whereas Discount Rate – 7.50%. The level of basic rates has an impact on cost of the Company’s debt management.

Among internal factors that influenced the results of PKN ORLEN. in year 2002 the following are mentioned:

- Loyalty programs development

Program VITAY is a loyalty scheme designed for the individual clients that visits ORLEN filling stations on regular basis. VITAY was implemented on 14 February 2001. Until 31 December 2002 VITAY has gained almost 3.5 million of participants and 1.397 filling stations, including 1.286 own stations and 111 franchise outlets. The clients, while purchasing under the programme conditions are granted VITAY points, which can be traded later in VITAY gifts. For each zloty spent on fuel, the participants are granted 2 points, whereas for other products – 3 points. In December 2002 the next stage of creating relationships with customers and strengthening their loyalty was implemented. Program VITAY was enriched by quality prizes and partner offers of the companies cooperating with PKN ORLEN. In a new edition of VITAY catalogue a new formula of granting points was applied in order to promote services offered by filling stations (e.g. car wash and hoover).

The Company offer for enterprises possessing their own means of transportation the program “FLOTA POLSKA”. At the end of 2002 the program embraced 2.267 fleets. Fuel Fleet cards are designed for clients that wish to take part in user friendly and financially beneficial system of fuelling and basic car service.

- Rebranding

Change in external visualisation (from CPN brand to ORLEN), described as “rebranding” is one of the most important and complicated projects commenced in year 2002. Rebranding is considered to be one of the most long – term significant projects in PKN ORLEN strategy. Due to large amount of filling stations it is financially demanding. At the end of 2002 there were 258 filling stations under fully rebranding (including 202 under rebranding project) whereas 587 locations were under partial rebranding. In 2003 process of visualisation change will be continued.

- Investment programs

Effectiveness of the Company growth in 2002 was to a great extent influenced by investment processes in production and marketing.

To the largest investment projects being realized and finished belong:

- Activation the DRW III installation in April 2002. Due to this fact, the crude oil processing capacity of the Company increased by additional 3 million tons per year. Moreover processing costs per unit will be lowered.
- The intensification of Polypropylene II installation has been finished. It will enable increasing its production by 27 thousand ton per year.
- Modernisation of Biturox installation – enlarging the storing capacity and improving the system of asphalt distribution.
- Commencing the revamping project for production unit Olefins II, what will facilitate the production of ethylene at the level of 660 thousand ton per year and polypropylene to 315 thousand ton per year.
- The beginning of Hydrocracking installation in order to improve the production capacity by 30%.

Among the market projects may by listed:

- Extension of warehouse in Ostrow Wlkp and Mosciska.
- Finalising work on pipeline Plock – Ostrow Wlkp. as well as fuel and crude oil pipeline to salt mine IKS “Solino” S.A.
- Building of fuel containers of 48 thousand cubic meter capacity
- Realisation of investment at the filling stations:
  - in new locations – 7 stations,
  - in existing locations – 14 stations,
  - partial modernisations – 282.

- Optimisation projects

Implemented with cooperation with company KBC Profit Increase Program brings measurable effects in cost per barrel reduction. The program bases on technological procedures modification and optimisation of production capacity of individual installations what result in decreasing of production costs in the Company. In 2002 Profit Increase Program was realized independently by PKN ORLEN group of employees. The program brings measurable cost cuttings in area of variable production costs.

Contract realized with Aspen Technology Limited Sheraton House will ensure improvement of performance of programme PIMS used for production process optimisation. Entire implementation of modified system is planned for year 2003.

Cooperation commenced with Shell Global Solutions will result in rational decreases in maintenance costs and production time optimisation of installations. The program will ensure methodology harmonization within risk management for entire Production Area and will contribute to increasing work effectiveness of production installations.

- Risk Management System

In 2002 the Management Board of PKN ORLEN made a decision of building and implementing integrated system of risk management. Measurement and Risk Analysis System will be the fundamental element of the system as the level of complexity of exhibition, interference between business risk factors (including the price factor), financing and crediting factors and occurrence of natural hedging. As regards of the level of complexity of exhibition, the presence of interdependence between market risk factors (including price risk), finance risk factors and credit risk factors, as well as the presence of natural hedging, the fundamental element of the system will be Measurement and Risk Analysis System.

Building and implementation of SPiAR system (including IT application allowing risk measurement and analyses using Monte Carlo method in simulation of risk factors changes) will be provided by Deloitte&Touche consulting company. Completion of SPiAR system implementation is foreseen at IIIQ 2003.

- Acquisition of fuel stations in Germany

On 10 December 2003 after a few months negotiations PKN ORLEN reached initial agreement with British Petroleum (BP) regarding acquisition of fuel stations chain located in northern Germany (Jewel package). Purchase price amounted to EURO 140 million and included 494 fuel stations operating under three brands: BP, Aral and EM Eggert. All purchased stations comprise circa 3% of all fuel stations operating in Germany or average 7% at local markets. Annual sale of the stations in 2002 amounted to 1.4 billion of litres – average 2.8 million of litres per station. Under agreement with former owner (BP) current brand will be changed at all stations till the end of year 2003.

- Joint venture company with Basell

In 2002, 3 years lasting negotiations regarding joint-venture company between PKN ORLEN and Basell Europe Holdings N.V. (Basell) for the purpose of polyolefin production, distribution and marketing operations were finished. Under agreement joint venture company was created - 50% of shares were subscribed for PKN ORLEN in exchange for contribution-in-kind (Polymer Block) being its organised part of enterprise and 50% shares were subscribed for Basell in exchange for the license for production of new kind of polymers and cash contribution.

I. CURRENT AND PROJECTED FINANCIAL POSITION OF THE COMPANY

1.1 Production

In 2002 the volume of crude oil processed was 12,473.9 thousand tones and was by 155.4 thousand tones (by 1.3%) higher than in the previous year. After completion of renovation works (in June) of hydrocracking installation, processing of low sulphur crude oil on DRW II installation was terminated. Termination of processing of low sulphur crude oil is mainly the result of use of potential of gudron hydrodesulphuring and hydrocracking as well as improvements implemented in Department of Lubricating Oils.

Decrease in white products yield from 79.9% in 2001 to the level of 78.4% in 2002 resulted from planned overhaul of hydrocracking installations and HOG.

In additional notes the comparisons of production of basic products are presented for the years 2001-2002.

In the year 2002 main factors determining production processes in the Company were:

- change in structure of processed crude oil (decrease in processing of low-sulphur crude oil),
- change in demand structure for fuel products (change in the direction of increase in production of medium distillates together with decrease in fuels),
- change in structure of mandatory reserves (50% in form of crude oil) and related decrease in finished goods inventory,
- production of unleaded fuel Eurosuper 95 E3 and SuperPlus 98 E3 (including ether EETB min. 3%),
- increase in crude oil prices.

Programs decreasing production costs include:

- conducting the Cost Reduction Program from SGS – MERIT,
- actualisation of program of operational planning PIMS with ASPENTECH company,
- monitoring of implementations within the Profit Improvement Programme with KBC.

1.2 Sales

Sales of finished products, goods for resale and materials in PKN in 2002 amounted to PLN 23,891,830 thousand, which is 101,8% of sales in 2001. Sales of finished products amounted to PLN 22,066,872 thousand and were higher in 2001 by 0.5%, however sales of goods for resale and materials amounted to PLN 1,824,958, which is by 20.5% more than in year 2001.

The main stake in sales of finished products, goods for resale and materials for 2002 constituted:

- Sale of refinery products (83.4%)
- Sale of petrochemical products (8.1%)

Sales of social services amounted to PLN 151,489.6 thousand and was lower than related revenues in 2001 by 3.4%. In 2002 PKN ORLEN. sold 11,166.6 thousand tones of products and goods, which is 1.87% more than in 2001. The biggest volume of sales (wholesale and retail) of products and goods came from:

- Fuels – 3,117.3 thousand tones (28%)
  - Eurosuper 95 – 2,422.4 thousand tones (21.7%)
  - Super Plus 98 –195.5 thousand tones (1.8%)
  - Universal 95 – 499.4 thousand tones (4.5%)
- Diesel – 3.029,9 thousand tones (27%)
- Light heating oil – 1,584.5 thousand tones (14%)
- Heating oil III – 1,047.1 thousand tones (9%),
- LPG – 273.1 thousand tones (2.5%)
- Aviation fuel JET - 265.9 thousand tones (2.4%).

Retail sales of fuels and LPG in 2002 amounted to 2,124.3 thousand tones and was by 4.4% higher than sales in 2001. Retail sales volume of individual kinds of fuel and LPG in 2002 amounted to:

- Fuels – 1,241.7 thousand tones,
- Diesel – 815.1 thousand tones,
- LPG – 67.5 thousand tones.

Dynamics of retail sales of selected fuels and LPG in 2002 in comparison to year 2001 presents following table:

Product	**Dynamics 2002 / 2001**
Unleaded fuels including:	98.6%
Eurosuper 95	103.0%
Universal 95	78.4%
Super Plus 98	133.1%
Diesel	111.7%
LPG	163.8%

In 2002 quantitative structure of sales of products and goods in comparison to year 2001 has changed. Sales of Ekoterm decreased (by 20%) – as a result of fall in usage of light heating oil for vehicles and increase in import of that product, aviation fuel (by 4.5%) and slightly sale of fuels (by 0.9%). Sale of diesel fuel increased by 7.1% - mainly as a result of increase in export, LPG by 6.2% (huge market demand) and heavy heating oil by 13.2% (final product – depending on volume of production).

In the group of petrochemicals in comparison to year 2001 the increase of sale for all products was noticed (by 25.4%) except for insignificant fall in phenol (by 1.9%). Significant level of sale of petrochemical products in year 2002 was mainly the result of two factors:

- introduction in 2002 of new technology of production, which allowed PKN ORLEN to increase production of aromas,
- prolonged idle time of II Olefine Production Unit, which took place in 2001.

1.3 Sales and purchases markets

Main supplies of crude oil to Plock come from Russia crude oil market. Major suppliers are companies active on Russian market. The major share in deliveries of crude oil for Company, which exceed 10% of sales revenue in year 2002, had J&S Service and Investment Ltd.

Contracts signed in December 2002 concerning long term delivery of crude oil for PKN ORLEN should contribute to diversification of supplies in next periods.

In 2002 in comparison to 2001 a change in structure of domestic sales and export occurred. Share of export in total sale increase from 5% to 9% as a result of drop in demand on domestic market.

PKN ORLEN does not have any strategic customers whereas sales exceed 10% of total sales revenue. In comparison to 2001 the changes in customers structure were insignificant, the group of biggest customers remain unchanged.

Individual petrochemical products have their key customers, although value of sale of these products for given customer compared with total sales revenue is not significant. Such situation is applicable to the following products:

- Butadiene – F.Ch. Dwory – 88.8%.
- Ortoksylen – Z.A. Kedzierzyn – 63.1%.
- Paraksylen – Elana Torun – 100.0%.
- Oxide Ethylene – Rokita Brzeg Dolny – 40.8%.
- Ethylene – Anwil S.A. – 91.4%.
- Propylene - Z.A. Kedzierzyn – 54.2%.
- Benzene – Z.A. Pulawy - 52.3%
- Glycol – Elana Torun –46.7%.
- Phenol – Z.A. Tarnow – 28.5%.

1.4 Financial resources management

In 2002 indebtedness of PKN ORLEN has decreased. Net financial debt to equity ratio (credits, loans and debt securities decreased by cash and other cash assets/net assets) decreased from 30.0% at the end of 2001 to 25.5% at the end of 2002. Simultaneously, there were made changes to structure of financial debt, including changes of maturity and currency.

Share of credits and loans :	31.12.2001	31.12.2002
Long term	47%	0%
Short term	53%	100%
w USD	45%	52%
w PLN	55%	48%

Increase in debt denominated in USD is a result of debts repayment in PLN, while USD 200 million credit remained unchanged.

In year 2002 the Company incurred short term credits, both operational credit and overdraft from Polish banks, and issued short term bonds as a part of bonds issue program.

Additional information on maturity dates of credits, loans and debt securities issued by PKN ORLEN are given in Note 19E, 20C and 20D of financial statement PKN ORLEN for 2002.

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

PKN ORLEN in 2002 did not grant from the privatisation fund any loans for purchase of stakes and shares of companies funded as a result of PKN ORLEN restructuring.

Closing balance of loans granted from the Company's Social Fund to employees and pensioners of the Company as at 31 December 2002 amounted to PLN 18,592.8 thousand, and closing balance of loans granted to the employees of consolidated companies from the Capital Group, which signed an agreement with the Dominant Company on having a common social activity, amounted to PLN 3,142.4 thousand.

In year ended 31 December 2002 the Company did not grant to any Capital Group's company loans, guarantees and sureties. As at 31 December 2002 the closing balance of loans, guarantees and sureties amounted to:

- 31.12.2002 – PLN 94,548 thousand,
- 31.12.2001 – PLN 94,623 thousand.

PKN ORLEN in 2002 did not grant any loans, guarantees and sureties and did not signed any agreements obliging to provide benefits on behalf of Company with management and supervisory persons and theirs spouses, relations and kin up to second range of kinship and other personal related persons. As at 31 December 2002 there were no loans granted to Management Board and Supervisory Board members.

1.4.2 Bond issuance

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

In year 2002 Company issued three months bills. On maturity date bills were repurchased or in case the Company needed cash they were rolled (new issue). Under the Bond Issue Program the Dominant Company is able to issue bonds up to the total indebtedness amount not exceeding PLN 700 million. As at 31 December 2002 the indebtedness of the Company from bond issuance amounted to PLN 405 million.

1.4.3 Cash management

Financial situation of the Company remains stable and safe what was confirmed in 2002 through a decrease of financial indebtedness. The Company has high creditability, which enables it to receive quick and inexpensive external financing. Thanks to the long term consortium credit incurred in 2002 the Company opened itself way for effective raise of financial resources from abroad. Bonds issue program allowed the Company use of less expensive financial resources. The Company plans to continue the strategy of raising financial resources of long term nature from abroad as well as increase the scope of domestic bonds issue.

Lack of available cash during the year, resulted in no short term financial investments. Financial resources from current inflows were used for repayments of overdraft and located on “overnights”.

The Company’s concern is to effectively manage cash flows within its own accounts and accounts of Capital Group. Since February 2001 a system of mutual concentration for whole Capital Group is in operation. At the end of 2002 there are 10 companies of the Capital Group active in automatic system. System was improved in November 2002. Companies benefit even more from introduction of automatic cash management. Approved form of documentation authorisation allows companies of the Group to join the agreement and distribute benefits.

1.5 Changes in financial assets PKN ORLEN

PKN ORLEN as at 31 December 2002 possessed directly shares in 116 companies:

- in 67 subsidiary companies (with share above 50%)
- in 5 associated companies (with share in capital between 20% and 50%)
- in 44 minority companies (with share in capital below 20%).

Capital engagement of PKN ORLEN at the end of 2002 amounted to PLN 1,380,897 and increased by PLN 104,395 thousand in comparison to previous year . In 2002 many capital investments were made. In 2002 capital engagement increased in following:

- in December 2002 PKN ORLEN purchased from Orbis S.A. 165,924 shares of Dutch company – AWSA Holland II B.V. (9.218 % of initial capital) for PLN 61,400 thousand, resulting in indirect stake in Autostrada Wielkopolska S.A. According to Licence Agreement Autostrada Wielkopolska runs an activity in building and usage of charged sections of motorway,
- in 2002, Capital Group PKN ORLEN expanded by Poliolefiny Polska Sp z o.o. In first stage PKN ORLEN paid PLN 50 thousand in cash and was the only investor in this company. The company started its operations in 1 Q 2003, after changes in capital structure (50% PKN ORLEN/ 50% Basell). The company produces polypropylene and polyethylene and sales products on European markets. The Company is to reach full production capacity until 2006. The scale of petrochemical production is to be twice as high as presently, and sales is to be EUR 600 million per year.
- On 10 December 2002 PKN ORLEN entered into agreement with British Petroleum buying 494 petrol stations. This was conducted within cross-border fuel station network strategy and plans of Poland to enter EU in 2004. The purchased stations enable to fully utilise production capacity. It is estimated that yearly turnover of German network of PKN ORLEN will amount to EUR 2 billions. These fuel stations will operate under ORLEN and STAR logos depending on classifications. These investment is first stage in the process of building strong and stable presence of PKN ORLEN on energy market in Western Europe.

Major changes in respect to capital relations in 2002 are also following events:

- increase in financial engagement in petrol companies portfolio, which in 2002 amounted to PLN 90,429 thousand, resulted from the purchase of 6 thousand bearer shares and acquisition of 18 thousand registered shares of Ship - Service S.A., which makes up 60.86% shares in share capital of the company and 55,87% votes at General Shareholders Meeting. All shares were paid by PKN ORLEN in cash. Purchase price of shares amounts to PLN 22.8 million,
- contribution-in-kind of 4,492 shares of Sanatorium Uzdrowiskowe “Krystynka” Sp. z o.o. of total value PLN 2,246 to ORLEN Medica Sp. z o.o.. As a result of this share capital of ORLEN Medica (PKN ORLEN owns 100%) increased from PLN 11,027 thousand to PLN 13,273 thousand. PKN ORLEN does not possess any shares in Sanatorium Uzdrowiskowe “Krystynka”,
- increase in equity of Petrotel Sp z o.o. by amount PLN 5 million, designated for investment programme. PKN ORLEN purchased 4,321 new shares with nominal value PLN 1 thousand. The rest of shares was purchased by company’s employees – 679 shares with nominal value PLN 1 thousand. As a result of this PKN ORLEN owns 88.8% shares in share capital. Other shareholders belong to employees.
- changes in capital engagement in ORLEN Gaz Sp. z o.o. as a result of contribution-in-kind in form of LPG

distribution station in Dzierzoniow and Ugoszcz of total value PLN 6,020 thousand. As a result of the increase the share capital reached PLN 21,823 thousand. PKN ORLEN acquired 6,020 shares at PLN 1 thousand each and owns 100% of share capital. In 2002 the next stage of lasting from 2000 consolidation of gas companies was completed , in the form of contribution of stakes in ORLEN Petrogaz Wroclaw Sp z o.o. and Petrogaz Lapy Sp. z o.o. in ORLEN Gaz Sp. z o.o.. As a result of capital increase in ORLEN Gaz from PLN 21,823 thousand to PLN 24,823 thousand, PKN ORLEN acquired 3 thousand shares with nominal value of PLN 1 thousand each and owns 100% shares in share capital. Increased capital was covered in the form of contribution-in-kind: 16 thousand shares of ORLEN Petrogaz Wroclaw of total nominal value of PLN 1,600 thousand and 140 shares of Pertogaz Lapy of nominal value PLN 1,400 thousand. As a result of this transaction PKN ORLEN does not possess any shares in ORLEN Petrogaz Wroclaw and Petrogaz Lapy.

- purchase from Telefonica S.A. 195,612 shares of Zaklady Azotowe Anwil S.A. for PLN 2,347 thousand. As a result of this transaction PKN ORLEN increased its participation in share capital of the company from 74.97% to 76.27%.
- increase of PKN ORLEN financial investments in Serwis Rzeszow Sp z .o.o. from PLN 241 thousand to PLN 338 thousand. PKN ORLEN acquired for cash newly issued 192 shares of PLN 500 each. PKN ORLEN possess 97.26% of shares in share capital of Serwis Rzeszow. Other shareholders are employees.

In 2002 the strategy in relation to holiday resort companies PKN ORLEN was to make several contribution-in-kind (real estate). Following the strategy:

- in Dom Wczasowy Mazowsze Sp. z o.o. share capital increased from PLN 150 thousand to PLN 1,649 thousand as result of contribution in kind of total value of PLN 1,499 thousand 2,499 shares with value of PLN 0.6 thousand were constituted. All new shares were acquired by PKN ORLEN, which owns at present 98.75% shares in capital.
- in SAMRELAKS Machowice Sp. z o.o. share capital increased from PLN 1,377,500 to PLN 6,724,500 - that is by PLN 5,347 thousand through issue of 10,694 shares with nominal value of PLN 500 each. All shares were acquired by PKN ORLEN and covered in form of contribution-in-kind.
- in Zawitaj Swinoujscie Sp. z o.o. increase in capital from PLN 530,500 thousand to PLN 4,109,500 as a result of contribution-in-kind (real estate of total value 3,579). All new 7,158 share with nominal amount PLN 500 each were acquired by PKN ORLEN.
- in Zespol Wypoczynkowy Mazowsze Sp. z o.o. increased from PLN 456 thousand to PLN 3,932 thousand. All new 3,476 share with nominal amount PLN 1 thousand each were acquired by PKN ORLEN.

Increases in capital being results of contribution-in-kind took place in other companies being subject to restructuring process: Zaklad Urzadzen Dystrybucyjnych Sp. z o.o. and ORLEN Transport Lublin Sp. z o.o..
PKN ORLEN acquired 6,824 new shares of Zaklad Urzadzen Dystrybucyjnych Sp. z o.o with nominal value PLN 500 each. Share capital increased from PLN 3,124.5 thousand to PLN 6,536.5 thousand, after PKN ORLEN made a contribution-in-kind of PLN 3,412 thousand. PKN ORLEN possess 99.94% of shares in share capital of the company.

Share capital of ORLEN Transport Lublin Sp. z o.o. increased from PLN 10,139 thousand to PLN 16,173.50 thousand by PLN 6,034.1 thousand through issue of 60,345 shares (PLN 100 each). New issued shares with total value of PLN 6,034,100 were acquired by PKN ORLEN in form of contribution-in-kind. Shares with value PLN 400 each were purchased by employee of the company and covered with cash. As a result of capital increase the financial investment of PKN ORLEN went up from 97.53% to 98.45%.

As a result of consolidation strategy of oil assets in Capital Group, oil department of Rafineria Trzebinia S.A. was transferred into ORLEN OIL Sp. z o.o. In return of transferred property Rafineria Trzebina S.A. acquired 29,558 new shares with value of PLN 1 thousand each. Share capital of ORLEN OIL increased from PLN 14,000 thousand to PLN 43,558 thousand. Rafineria Trzebinia owns 75.58% votes at General Shareholders Meeting.
Other shares are owned by:

– Rafineria Nafty Jedlicze S.A. – 7.71%,
– Rafineria Czechowice S.A. – 7.71%,
– PKN ORLEN – 9.00%.

Financial investment of PKN ORLEN related not only to purchase of shares being basis for development and growth of value of Capital Group, but also on sales of assets, on which considerable profit was recognised, for example:

- sale of all shares in LG Petro Bank S.A. valued at cost PLN 35 million, with profit on transaction of PLN 58 million,
- sale of shares in CIECH S.A. valued at cost almost PLN 2 million, with realised profit of PLN 1,5 million.

In 2002 the following changes in ownership structure of Capital Group took place:

- sale of all shares in Deutsche Bank S.A. valued at cost PLN 8,320 thousand;
- sale of shares to employees in transport companies: ORLEN Transport Kedzierzyn-Kozle Sp. z o.o., ORLEN Transport Nowa Sol Sp. z o.o., ORLEN Transport Lublin Sp. z o.o. and ORLEN Automatyka Sp. z o.o., Zaklad Urzadzen Dystrybucyjnych Sp. z o.o. for total amount of PLN 6,300;
- in order to adjust value of shares to Commercial Code redemption of shares followed in: ORLEN Medica Sp. z o.o., Zaklad Urzadzen Dystrybucyjnych Sp. z o.o. – for total amount PLN 0.7 thousand and increase in share capital in Serwis Krakow Sp. z o.o. by PLN 0.3 thousand,

- PKN ORLEN purchased from employees of transport companies: ORLEN Transport Kedzierzyn-Kozle Sp. z o.o., ORLEN Transport Lublin Sp. z o.o. and ORLEN Transport Olsztyn Sp. z o.o for total amount of PLN 68,390.

1.6 Profit and Loss Statement

1.6.1 Sales

In 2002 PKN ORLEN sales of finished products, goods for resale and materials amounted to PLN 23,891,830 thousand, which is 1.8% more than in 2001. The increase in sales value was mainly caused by increase of total sales volume (by 1.9%) in comparison to year 2001. Rise in sales was realised despite unfavourable macroeconomic factors. In analysed period sloping down trend of crude oil prices on the markets world-wide (fuel by 2.7%, diesel by 5.8% and Ekoterm by 4.8%) occurred. In 2002 average exchange rate USD was 4.08 PLN/USD and was slightly lower than in 2001 (by 0.5%). In mentioned period the Company faced a decrease in demand of fuel in Poland (fuel, diesel). Along with decreasing demand for fuels (by 2.8% - estimates based on dates of Nafta Polska S.A.) the Company recorded an increase in sales of products by 3.0%.

1.6.2 EBIT

Profit on sales of PKN ORLEN in year 2002 amounted to 604,929 thousand PLN and was higher by 36.9% in comparison to the profit on sales earned in 2001. Such high increase in sales was possible due to intensification of sales activities, mainly in the area of retail sales and optimisation of production costs and logistics. In 2002 the Company recorded growth in retail sale of fuels (fuels, diesel and liquid gas) by 4.4%. During 2002 an effectiveness of sales increased (volume of sales per station) by 11.5%. Changes in respect of non-fuel products sales (sale on own account) resulted in an increase (by 32.9%) in sales of non-fuel products.

In 2002 loss on other operational activity amounted to PLN 19,668 thousand in comparison to profit of PLN 99,362 thousand in 2001. Such considerable differences between 2002 and 2001 are result of lower operational revenues.

– lower release of environmental provisions by PLN 74,475 thousand,
– release of provisions of PLN 40,000 thousand for administrative decisions (Consumers and Competition Protection Department),
– lower level of impairment write-offs on tangible fixed assets by PLN 18,569 thousand.

Operating profit (EBIT) for 2002 amounted to PLN 585,261 thousand and was higher then in corresponding period of previous year by 8.1%.

1.6.3 Financial activity

In 2002 profit on financial activities amounted to PLN 31,161 thousand, comparing to loss of PLN 184,531 thousand in 2001. Lower interest in financial costs (by PLN 162,414 thousand) is most of all a result of interest rate fall during the year. In 2002, higher profit on sales of investment (by PLN 14,266 thousand) resulted mainly from sales of shares of BOS S.A. in year 2001 and shares of LG Petro Bank S.A. in 2002.

1.6.4 Extraordinary gains and losses

Balance of the extraordinary gains and losses amounted to PLN (-) 121 thousand, whereas in 2001 it was PLN (-) 1,651 thousand. In 2002 both extraordinary gains and losses were on significantly lower level in comparison to year 2001 and had insignificant influence on Company's net profit.

1.6.5 Gross profit, tax and net profit

PKN ORLEN gross profit is of PLN 616,301 thousand for 2002 (increase in comparison to 2001 by 73.5%). The increase in gross profit resulted in significant increase in income tax. Increase in income tax is caused not only by higher gross profit but also from different treatment of costs and revenues according to Accounting Act and corporate tax regulation. The revaluation of deferred tax of PLN 49.4 million (change of rate in year 2003 to 27%) and lower level of allowances and investment bonuses had a significant influence on income tax in 2002.
The Company in 2002 earned a net profit of PLN 382,270 thousand and it was higher by 46.5% in comparison to previous year. In relation to increasing trend of crude oil prices LIFO in 2002 amounts PLN (-) 208 million and influenced net income of the Company calculated using this method in amount of PLN 174 million.

1.7 Balance sheet

1.7.1 Total assets

As at 31 December 2002 total assets of PKN ORLEN amounted to 12,590,537 PLN thousand and increased by PLN 608,351 thousand (by 5.1%) in comparison to 31 December 2001. Within the fixed assets value decreased by 0.5% (40.763 PLN thousand) in comparison with year 2001, main part was constituted by fixed assets, of which in total assets amounts to 66.0% (69.7% at the end of 2001). In equity and liabilities, the major part is shareholders equity constituting 57.7% of total assets as at 31 December 2002 (57.9% as at 31 December 2001). Following conclusions result from comparison of certain balance sheet captions as at the end of 2002 and as at the end of 2001:

– drop in fixed assets by 0.5% to the level of PLN 8.306.427 thousand as a result of a decrease in tangible fixed assets – higher depreciation than increase in new assets,

– increase of current assets by PLN 649,114 thousand to the level of PLN 4,284,110 thousand (by 17.9%), mainly as a result of increase in inventories by PLN 638,599 thousand. The above increase is an outcome of growth in materials as a result of higher crude oil prices (increase in value of crude oil by 367 million PLN) and semi-products and finished goods. Short term receivables increased by 0.3% in 2002 (receivables turnover ratio remained in 2002 on the same level as in 2001 and amounted to 20 days), whereas cash and other cash assets decreased by 24.6% to the level of PLN 61,639 thousand
– increase in level of shareholders equity by PLN 331,206 thousand to the level of PLN 7,263,591 thousand as a result of net profit earned by the Company within 2002. Lower growth than the profit earned results from dividend payment from previous year's profit. In 2002 dividend for the 2001 amounting to PLN 50,421 thousand was paid (in 2001 PLN 21,009 thousand)
- increase in liabilities and provisions for liabilities by PLN 277,145 thousand to the level of PLN 5,326,946 thousand resulting mainly from increase in trade liabilities (more expensive crude oil). In 2002 within liabilities structure long term loans were reclassified to short term. As a result of this entry the Company did not present any long term liabilities relating loans.

1.7.2 Net financial indebtedness

As at 31 December 2002 the loans and borrowings, loans and issued securities in PKN ORLEN amounted to PLN 1,916,089 thousand and were lower by 11.5% in comparison to the end of the year 2001. The level of financial indebtedness as at the end of 2002 (calculated as financial indebtedness minus cash and other cash assets) in comparison to 2001 decreased by 10.9% to PLN 1,854,450 thousand. Increase in shareholders equity and coincident drop in net financial indebtedness lead to decrease in the shareholders equity financial indebtedness ratio (loans, borrowings and securities less other cash assets / net assets) from the level of 30.0% as at 31 December 2001 to 25.5 % as at 31 December 2002.

1.8 Cash-flow statement

1.8.1 Operating activities

In the year ended 31 December 2002 net cash flows from operating activities amounted to PLN 1,053,275 and were lower by 38.4% than cash flows from operating activities in year 2001.

The most important factors influencing cash flows in 2002 in comparison to 2001 were:

- increase in net profit by PLN 121,410 thousand,
- increase in depreciation by PLN 44,775 thousand,
- increase in inventory PLN 638,599 thousand, decrease in 2001 by PLN 611,280 thousand
- increase in receivables PLN 34,565 thousand, decrease in 2001 by PLN 151,366 thousand.

As at 31 December 2002 the working capital (current assets less short term payables) was negative and amounted to PLN (-) 16,713 thousand. The main reason for that is increase in short term liabilities by PLN 1,054,142, was caused by reclassification of long term loan to short term liabilities at the end of the year (maturity in year 2003). Negative working capital is a temporary event.

1.8.2 Investing activities

Net cash flows used in investing activities amounted to PLN (-) 668,605 thousand, and in the corresponding period amounted to PLN (-) 1,183,411 thousand. This level of cash flow used in investing activities results from lower expenditures both capital expenditures for fixed assets and capital investments.

1.8.3 Financing activities

In 2002 ended as at 31 December 2002 net cash flows used in financing activities amounted to PLN (-) 404,803 thousand whereas in year 2001 – PLN (-) 543,915 thousand. The major reason for improvement cash flows from financing activities was lower amount connecting with repayments of loans. Additionally reduction of interest rates results in lower financial burden from interests payments.

In year 2002 in comparison with previous year one can observe:

- considerably lower level of inflows from operating activities,
- lower net outflows from investing and financing activities.

The above cash flows resulted in decrease in cash by PLN 20,133 thousand to PLN 61,639 thousand at the end of 2002.

1.9 Employment

As at 31 December 2002 the employment in the Company amounted to 7,298 people, which represents decrease in comparison to 2001 by 35 individuals. This movement is a result of natural staff motion.

1.10 Description of material off-balance sheet items

As at 31 December 2002 total value of guarantees and sureties granted to subordinated entities amounted to PLN 94,548 thousand by PLN 94,623 thousand in previous year.

1.11 Forecasted financial situation

The following factors should be considered while assessing financial projections of Company:

- fluctuations of crude oil prices which affect the costs incurred by PKN ORLEN and margins realised on products in companies dealing with crude oil processing and fuels production,
- fluctuations of prices of finished products on worldwide markets, which by import parity affects prices of products made by the Company and simultaneously its revenues,
- noticed lower demand for fuels caused by slow economy growth, unemployment increase and decrease in population's income in real terms,
- fluctuations of exchange rates which could cause changes in costs of debt, purchase cost of crude oil and other raw materials and changes in value of prices and margins,
- economic effects reached as a result of continued and newly commenced optimising programmes and benefits from implemented savings and effectiveness programmes (Holistic Program of Operating Costs Reduction, Risk Management System and Value Based Management System),
- effectiveness of fuel retail business in Germany,
- State's strategy of privatisation of oil sector (acquisition of Rafineria Gdanska) and heavy-chemical sector,
- activity of a joint venture company with Basell Europe Holdings B.V. which produces petrochemicals based on existing installation, from year 2005 production of petrochemicals based on new technologies,
- changes in fiscal policy in field of decreasing corporate income tax rate and excise duty (especially LGP and Ekoterm)
- further work on bio-fuels act – amendments resulting from refusal of primal act vetoed by President of RP.
- necessity of adjusting standards of produced fuels to European Union norms (content of sulphur on level of 50 ppm in year 2005 and in year 2009 – 10 ppm) and related to it increase of capital expenditure.

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

The year 2002 was the first year in which the Company operated under the new ecological laws which were introduced at the end of 2001. A number of regulations has also been issued during this year which regulate in detail both the current and future operations of the Company. Therefore, in addition to the fulfilment of its everyday responsibilities, the activities of the Environmental Protection Department included an identification and correct interpretation of the new requirements as well as their implementation in accordance with the ISO 14001 Environment Management System.

Changes in the ecological priorities introduced by the new law were reflected in the „Environmental Policy" of PKN ORLEN, which was adopted by the Company in October 2002. One of the objectives stated in this document is to develop an integrated system of preventing environmental pollution. The most important task in order to achieve this goal, and a statutory requirement at the same time, is to obtain an integrated permit for the Plock production plant.

The ecological requirements for the functioning of Company's plants have been defined in a number of decisions relating to individual aspects of the environment. In 2002, there were a few instances of exceeding the permitted parameters stated in these decisions, which were, however, rectified on a regular basis. The total amount of fines paid by the Company decreased by over 50% in comparison with 2001.

The Company's impact on natural environment is also reflected by the amount of environmental charges paid by the Company. These charges decreased from PLN 24.5 million in 2001 to PLN 21 million in 2002. This decrease was mainly due to changes in legal regulations, one of which was a significant reduction of the charges for pollutions contained in sewage.

The Company's operations were subject to a number of inspections, both by appropriate administrative authorities and external auditors. In May and November 2002, Bureau Veritas Quality International (BVQI) conducted an audit of supervision over the Environment Management System at the Main Plant of PKN ORLEN. As a result of this audit, the Company maintained its certificate of compliance with ISO 14001 which it first received in 2000. This certificate is valid until March 2003 and has been accredited by two organisations: the British UKAS and the Dutch RvA. In order to extend the validity of the certificate, a re-certification audit will be conducted on the Environment Management System in April 2003. The Environment Management System of PKN ORLEN is subject to continuous supervision and improvement.

In June 2002, BVQI conducted an audit of the compliance of Quality Management System with the requirements of ISO 9002. Following the expiry of validity of the certificate, a re-certification audit was conducted in October 2002 which covered the Company's Head Offices in Plock and Warsaw, the Production Plant in Plock and the Regional Organisational Units. The audit confirmed the compliance of the Quality Management System with the requirements of ISO 9002 and resulted in PKN ORLEN receiving a certificate for production, wholesale and retail activities. Due to changes in the ISO 9000 norms, the System is now being aligned with the requirements of the new norm PN – EN ISO 9001:2001.

In addition, an Environment Management System is being implemented in the Regional Organisational Units of PKN ORLEN. In the first stage, the System will be implemented in warehouses. It is expected that the certification of this System will take place in the second quarter of 2003. Furthermore, the Quality System AQAP 120 required under the NATO standards is being implemented at the Head Office in Plock. Certification audit is planned to take place in the first half of 2003.

The achievements of PKN ORLEN in the area of environmental protection have been recognised by the Jury of the fourth edition of the Ecological Contest „*Przyjazni Srodowisku*", organised under the patronage of the President of Poland, which entitled PKN ORLEN to use the title of an „Environment Friendly Company" during 2002. The right to use this title was also extended to 2003.

PKN ORLEN does not conduct any research and development activities on its own. Such work is outsourced to external institutions (research centres and institutes, higher education schools and various companies engaged in this type of activities).

The main tasks carried out in 2002 include:

1. Optimisation of production (contract with the English company KBC for the profit improvement program).
2. Contract with Shell for the „Program of Profit Improvement through reasonable reduction of the costs of maintenance of operations and optimisation of the timing of utilisation of production equipment".
3. Special project with KBN and Warsaw Technical University for the „Development of the system of monitoring materials degradation and combinations of components of the Polyethylene II installation".
4. Contract with Aspen Tech. Ltd. for the „Improvement of the PIMS program".
5. „Optimisation of the production of the heating oil Ekoterm Plus after the launching of brand new installations (HOG, HON VI)". This document will provide the basis for the optimisation of the production of diesel and light heating oil. – The Institute for Crude Oil Technology in Krakow.
6. „Optimisation of utilisation of the fractions of heavy diesel from HOWK installation including the winter period" - The Institute for Crude Oil Technology in Krakow.
7. „Evaluation of the effects of the use of ethanol and the composition of mixed petrol on the volatility parameters for finished products." – Central Oil Laboratory in Warsaw.
8. Research on: „Antifreeze fluids and concentrates for the cooling system in combustion engines, aligning technology to production and trade requirements (QAL)" – Warsaw Technical University – Faculty of Construction, Mechanics and Petrochemistry in Plock.
9. „The quality of the antifreeze fluid for radiators produced by PKN ORLEN in the light of the requirements of norm NO-91-A233 and the French military norm DC SEA 615/B" – The Military Centre for Research and Development in Warsaw.

The main areas of the extension of the Company's IT infrastructure in 2002 include:

- Implementation of new solutions and projects:
    1. Design and implementation of the "Stations on Lakes" [„*Stacje na Jeziorach"*] project
    2. Implementation of the repair system SAP R/3 PM in fuel stations, enabling the detailed recording of repair activities and the recording and settlement of the related costs.
    3. Electronic exchange of invoices with suppliers.
    4. Design and implementation of training management system.
    5. Implementation of the PSW (own station personnel) contract registration system.
    6. Implementation of the OML (oil movement) production flows management system.
    7. Design and implementation of a new system for VITAY loyalty cards.
    8. Implementation of a new application for card terminals services.
    9. Implementation of new BW functions (wholesale data base): sale of retail goods with inventory control, sale and distribution.

- Significant changes to system functions:
    1. Development of new functions performed by the petrol station cash management system: changes in bonuses management, fuel delivery settlement support, competition prices management, system strengthening.
    2. Development of the FLOTA system: services relating to prepaid cards, electronic settlement of third party fleets (UTA, DKV, EuroShell), changes in the discount system.

- General design of projects to be implemented in 2003:
    1. Client Relationship Management System,
    2. Card systems (sale of tele-codes, On-Line points, security, Super VITAY, co-branded card),
    3. Servicing payments made at petrol stations,
    4. Optimisation of telecommunications expenses.

III. ANTICIPATED DEVELOPMENT OF THE COMPANY

The following issues must be taken into account when considering the anticipated developments of the Company:

- Development of the Company's petrochemical operations

In connection with the forecasted significant growth in the demand for plastics, PKN ORLEN, as the only centre in Poland for the production of ethylene, propylene, polyethylene and polypropylene, took certain steps in 1999 to increase the effectiveness of this part of its activities. The planned development of the Company's petrochemical operations envisaged an intensification of the existing olefin installations and an increase in polyethylene and polypropylene production capacities, which was justified both technologically and economically and met with the interest of polyolefin manufacturers with a global reputation.

A new company, Poliolefiny Polska Sp. z o.o. located in Plock, was registered on 19 December 2002; 100% of the shares in this company are held by PKN ORLEN. Poliolefiny Polska Sp. z o.o. is engaged in the production of plastics and the wholesale of chemical products. A joint venture was created on the basis of this company with Basell Europe Holdings B.V. in the first quarter of 2003. The value of the investments to be made in this joint venture is estimated at approximately EUR 500 million. These investments are to be primarily financed on the basis of the project finance principle i.e. without direct recourse to the venturers. The main reasons for this undertaking was the possibility of integrating the company with a leading polyolefin manufacturer and its strong distribution network as well as increased polyolefin production in factories complying with the highest technological standards, integrated with the olefin production plant located in Plock. The production capacities of the factories and the production plant have been adapted to market conditions.

- Purchase of petrol stations in Germany

In June 2002, BP proposed selling part of its marketing assets located in Slovakia, Hungary and in the north and south of Germany to PKN ORLEN. BP was forced to sell part of its petrol stations as a result of the requirements of the German office of fair trading (Bundeskartellamt) which were imposed on this company in 2001 to reduce BP's share in the German fuels market.

Having reviewed the documentation for the assets covered by the proposal (due diligence), PKN ORLEN submitted a preliminary proposal for the purchase of assets comprising the Northern Germany Package in August 2002. From August to December 2002, intensive work was conducted on the project with the assistance of external legal, financial and tax advisors, in order to agree the final provisions of the sale and purchase agreement to be signed with BP. In addition, the WS Atkins environmental advisors conducted an environmental audit to determine the potential risk relating to environmental protection.

The agreement for the purchase of marketing assets by PKN ORLEN was signed on 10 December 2002. Formally, the 494 petrol stations in Northern Germany are owned by two companies registered in Germany, ORLEN

Deutschland GmbH and ORLEN Deutschland Real Estate GmbH, which are 100% subsidiaries of the Company. Of the 494 petrol stations, 323 belong to the BP and ARAL chains, whilst the remainder belong to the Eggert chain. The price paid for the acquisition of the so-called Northern Package is EUR 140 million. This transaction represents an important step towards the implementation of the Company's strategy of regional expansion. Through the acquisition of 494 stations in North Germany, PKN ORLEN will acquire a 2.4% share in the German retail fuels market in terms of sales quantity and a 3% share in terms of the number of petrol stations. The Company's target is to systematically increase the share of PKN ORLEN in the North German market. The Company estimates that this venture will generate losses during the first two years of its functioning due to costs relating to promotion and changing the logo. In addition, once the intensification of the Olefins II installation has been completed, there may be some excess fuel production, which could potentially be directed to the German market.

- Negotiations regarding the purchase of Rafineria Gdanska S.A.

As part of its investments in the core business ventures, during the second half of 2002 PKN ORLEN took steps to purchase shares in Rafineria Gdanska S.A. On 25 September 2002, the Company was invited by Rotch Energy to enter into negotiations for the purchase of 75% of the shares in Rafineria Gdanska S.A. as part of a Consortium. This invitation was issued after the Polish government had announced its changes in the plan of restructuring and privatisation of the Polish oil sector, which now allows PKN ORLEN to take part in the privatisation of Rafineria Gdanska S.A. The consortium agreement was signed by the parties on 30 October 2002. The Board of Nafta Polska S.A. adopted a resolution in which conditional consent was given for the creation of the consortium and on the basis of which PKN ORLEN was allowed to conduct a due diligence of Rafineria Gdanska S.A. Negotiations are now being conducted with the seller i.e. Nafta Polska S.A., together with a review which will provide a basis for the development of a company valuation model, creation of a detailed investment plan and calculation of the potential effects of synergy for the parties to the transaction. As a result of the integration of the supply systems of PKN ORLEN and Rafineria Gdanska S.A. it will be possible to benefit from the effects of synergy in the form of a reduction in transport costs, optimisation of inventory and a reduction in the cost of storing obligatory inventories. In addition, the increased amount of purchased oil will make it possible to negotiate more favourable prices with suppliers.

- Results of optimisation plans

The systematic implementation of production optimisation plans will brings real benefits in the form of a reduction in the per barrel costs of processed oil (2nd stage of the Profit Improvement Plan – KBC).

In addition, the contract realised with Aspen Technology Limited Sheraton House will ensure a more efficient operation of the PIMS program used to optimise production processes. Complete implementation of a modified system is planned for 2003.

The co-operation begun with Shell Global Solutions will lead to a reasonable reduction in the costs of maintaining operations and optimise the working hours of the production installations. The most visible effect of this plan will be a reduction in the total costs of maintaining operations. It is estimated that three years after its implementation, the plan will give savings of 28% of these costs. The main savings relate to improvements in the reliability of production installations, a reduction in the amount of repairs and a shorter duration of planned repairs.

- Risk management system

In 2002, the Board of PKN ORLEN decided to start work on the design and implementation of an integrated risk management system. Given the complexity of the exposure, the interdependencies between market risk (including price risk), finance risk and credit risk factors, as well as the existence of natural hedging, the core part of this system will be the Risk Measurement and Analysis System (RMAS).

The design and implementation of RMAS (including an application enabling risk measurement and analysis through the simulation of changes in risk factors using the Monte Carlo method) was commissioned to Deloitte & Touche in December 2002.

Risk measurement will be based on the CfaR (cash flows exposed to risks) and EaR (earnings exposed to risks) methodologies, which are an extension of the generally applied VaR methodology. The specific design of PKN ORLEN's finance and business model, which takes into account the specific nature of the given project, will enable an examination of the effects of changes in external factors on the results of operations and cash flows in future periods.

The project also covers the implementation of a transaction system and the creation of a risk management framework based on global best practice i.e.:

- segregation of the decision making, transaction execution and settlement processes,
- close linking of hedging transactions with core activities,
- regular daily monitoring and control of hedge effectiveness,
- integration of risk management with the planning and evaluation of the Company's performance,
- integration of risk management with company value management (to be implemented in the future).

The implementation of the Risk Measurement and Analysis System is to be completed in 3 Q 2003.

- Value based management

Company's value management requires that all operating strategies be focused on maximising the company's market value, expressed – in simplest terms – by the price of its shares and its relation to the prices of other companies on the stock exchange. Accordingly, at the end of 2002, the Board of PKN ORLEN decided to commence the project relating to the design and implementation of PKN ORLEN's company value management system. The aim of this project is to realise the Company's mission i.e. „creating value for shareholders", to examine how value is created in PKN ORLEN and Group companies and to adapt company management processes and tools to company value management methodology. The implementation of this system will enable the introduction of modern management methods ensuring that optimum decisions are taken, and will raise management's competence in and dedication to the improvement of value and effectiveness. It will also contribute to a strengthening in the financial position of the Company and the Group, which will enable them to maintain their leading market position in the long term and improve how investors assess the Company. The completion and implementation of the project is planned for years 2003 and 2004.

- Comprehensive Plan for the Reduction of Operating Expenses

At the beginning of 2003, the Board of PKN ORLEN decided to commence work on the Comprehensive Plan for the Reduction of Operating Expenses of PKN ORLEN, which aims to eliminate a significant portion of the operating expenses of PKN ORLEN in all areas of its activity (production, logistics, wholesale, retail, overheads). The planning phase commenced in March 2003, and will last 3.5 months. Once the planning phase has been completed, a special team assisted by advisors will assess the savings that the Company will be able to make within the next two years. The implementation phase is expected to take approximately 2 years. The implementation of this program will lead to the elimination of a significant portion of operating expenses in all areas of activity, a reduction in working capital requirements, the development of an organisation focused on an ongoing optimisation of cost levels as well as an improvement in the results of operations.

- Optimisation of accounting system based on process mapping

Given the changes both in the Company's business environment as well as within the Company itself, individual parts of the Company or the Company as a whole will perform a periodic review of internal procedures and methods by which individual functions are performed within its organisational units. A formal review of such processes will include:

- a description of the processes used in the individual organisational units of the Company,
- an assessment of the reasonableness of these processes,
- a comparison of the effectiveness of PKN ORLEN's processes and market effectiveness,
- recommendations regarding potential changes in the organisational structure.

Mapping will enable the Company to compile a full inventory of the processes used in its organisational units, develop a complete system, hierarchy and terminology as well as prepare the final documentation of the processes. In addition, it will make it possible to determine and eliminate any inefficiencies in the individual areas of the Company's activity.

- Development of market infrastructure

The Company's aims in the area of market investments are as follows:

- construction and modernisation of a network of petrol stations,

– re-branding,
– development of a customer loyalty card system,
– modernisation of warehouses,
– construction of new storage tanks at the Main Plant for wholesale purposes,
– construction of long-distance pipelines,
– modernisation and expansion of transportation capacities,
– investments in PKN ORLEN petrol stations,
– franchising.

- Loyalty programs

PKN ORLEN's loyalty programs for the retail market, FLOTA POLSKA and VITAY, have been a great success for the Company. They are very popular among million of drivers. By the end of 2002, the VITAY program had attracted some 3.5 million customers, whilst the FLOTA POLSKA program numbered some 2,267 client fleets. One of the aims of these programs was to establish long-lasting relations between the clients and the Company.

The introduction of the so-called „W" cards strengthened the Company's position as the leader of loyalty card programs in Poland. Prepaid cards are characterised by a high level of security and have the advantage of being an "electronic purse".

In the future, the loyalty programs of PKN ORLEN will focus on the continuous acquisition of new clients as well as on the development of new services and more attractive forms of sales.

IV. IMPORTANT EVENTS THAT WERE SUBJECT OF CURRENT REPORTS IN THE YEAR ENDED 31 DECEMBER 2002 AND AFTER THAT DATE UNTIL THE DAY OF FINANCIAL STATEMENTS AUTHORISATION.

1. On 4 January 2002 Fitch Ratings Limited (”Fitch”) gave credit rating for PKN ORLEN at the level of BBB for long term liabilities and F3 for short term liabilities. It is the highest level of rating given to the Polish production company. Rating reflects strong market position of PKN ORLEN, quite low level of indebtedness and good indices of its servicing. Modernisation of refinery part proved to be significant, thanks to which refinery in Plock is presently one of the most modern in the region. The rating involves also shares in Polkomtel and plans of the Company as to production of polymers and Joint Venture with Basell NV, the world leader in production of polyolefins. This investment decreases a possible risk connected with development of petrochemical part by PKN ORLEN. In the rating, lack of investment of PKN ORLEN in upstream crude oil sector was involved and focus of the processing mainly on production complex.

2. On 23 January 2002 Management Board of PKN ORLEN informed about changes in agenda of Extraordinary Shareholders Meeting of PKN ORLEN and beyond agenda described in point 4, decided to introduce the following point:
“ Resolutions expressing appropriate agreements resulting from law and Company Statute for creating joint venture with Basell Europe Holdings BV and bringing into this company organised part of the Company of PKN ORLEN in the form of Polymers Block”

3. On 25 January 2002 after a tax audit in Rafineria Trzebinia S.A., the Fiscal Control Inspector issued a decision denoting the amount of liabilities concerning excise and VAT taxes, due taxes and interest of PLN 113.6 million. An inspector of the Tax Control Office questioned the level of accounted excise tax relief on production of Diesel fuel with a component from used oil.
The Management Board of Rafineria Trzebinia S.A. undertook activities in order to analyse precisely the amounts of liabilities resulting from decisions of the inspector of the Tax Control Office. The Management Board of Rafineria Trzebinia S.A submit an annulling claim to the Tax Office in Krakow together with a claim to cease effecting of the decision of the Tax Control Office. A similar proceeding took place in relation to Rafineria Nafty Jedlicze S.A, which had a positive outcome for this company. PKN ORLEN owns 77.06% of shares in Rafineria Trzebinia S.A.

4. Supervisory Board of PKN ORLEN on 8 February 2002 dismissed Andrzej Modrzejewski from the position of the President of the Management Board. The decreasing ability to manage the Company was among the reasons connected with reduced trust of the shareholders and significantly deteriorated financial results. Supervisory

Board declared that decision form 8 February 2002 does not have any connection with press information about detainment of Andrzej Modrzejewski by the intelligent forces of UOP (State Protection Office) on 7 February 2002. Moreover the Supervisory Board of PKN ORLEN dismissed Jaroslaw Tyc from the position of the Vice-President, Wholesale Trade Director and Andrzej Dretkiewicz from the position of the Board Member as a result of a claim issued by the State Treasury Minister from 8 February 2002 based on paragraph 9 section 1 point 3 of PKN ORLEN's Statute. On 8 February Supervisory Board of PKN ORLEN appointed Zbigniew Wrobel, the President of the Management Board and General Director, Slawomir Golonka, a Member of the Board and Andrzej Ernest Macenowicz a Member of the Board.
Slawomir Golonka was therefore dismissed from the Supervisory Board of PKN ORLEN. On 8 February 2002 State Treasury Minister appointed Grzegorz Mroczkowski to the Supervisory Board of PKN ORLEN.

5. On 11 February resulting from the claim lodged by Rafineria Trzebinia S.A on 25 January 2002 Fiscal Office in Chrzanow on the basis of decision from 7 February 2002 ceased the execution of the decision of the Tax Control Inspector concerning liabilities from excise and VAT tax and interest of PLN 113.6 million. The Fiscal Office issued the above-mentioned which is force until decision whether claim was substantial is made by the Tax Chamber in Krakow.

6. On 13 February the Supervisory Board of PKN ORLEN agreed to planned joint venture with Basell Europe Holdings B.V. in form of commercial law company and contribution in kind to cover its shares. The resolutions concerning this joint venture will be accepted by the Extraordinary Shareholders Meeting on 21 February 2002.

7. On 21 February 2002 the Extraordinary Shareholders Meeting of PKN ORLEN was held and passed 25 resolutions, which except for organisational issues, included:
   - concerning approval for creation of joint venture company with Basell Europe Holdings BV and contribution in kind in form of organised part of the company (real estates of PKN ORLEN – Polymers Block. Extraordinary Shareholders Meeting approved disposal of these estates or perpetual lease contract of the areas and property rights of the buildings located thereon). If until 30 June 2002 the Company does not sign the agreement of joint venture creation on conditions accepted by the Management Board, the agreements are no longer valid.

   Agreements described above require positive opinion of the Supervisory Board of PKN ORLEN on the conditions of the negotiated contracts.
   - dismissal from the Supervisory Board of the following members:
     - Jerzy Idzik
     - Marcin Gizewski
     - Marek Wasowicz

- Kalina Grzeskowiak-Gracz
- Stanislaw Kondracikowski
- Aleksander Olas
- Szczepan Targowski

Nomination of the following members:

- Edward Grzywa
- Andrzej Kratiuk
- Maciej Gierej
- Krzysztof Kluzek
- Ryszard Lawniczak
- Krzysztof Szlubowski
- Jan Waga

Permission for disposal:

- of the organised part of the Company (30 Refining Products Plants)
- of estate connected with excluded part of the Company of Refining Products Plants No. 1 in Kielce for the sake of VISPOL International Ltd. sp. z o.o.

8. On 21 February 2002 the Supreme Court in a verdict No. CKN 1041/99 cancelling the annulling claim of Office for Protection of Consumer and Competition "OPCC" and Polish Chamber of Liquid Fuels "PCLF" from the verdict of the Anti Trust Court from 23 June 1999 which annulled the decision concerning an order for Petrochemia Plock S.A. (presently PKN ORLEN) to cease practices of fuel sales at equal prices in Plock and Regional Trade Offices of PKN ORLEN. The Court stressed that despite the dominant position exercised by PKN ORLEN in the liquid fuels market and despite the fact that PKN ORLEN operates in the production sector, wholesale and retail sales sector, the way of wholesale prices calculation by the Company is not against the regulations of the antimonopoly act.

9. On 22 February 2002 PKN ORLEN signed Purchases Agreement concerning 6,000 shares of Przedsiebiorstwo Uslug Morskich Ship - Service S.A. As a result of this transaction PKN ORLEN possesses 30.4% in initial capital and 25.8% of votes at the General Shareholders Meeting.

10. The Bank of New York decreased possessed number of shares by 2.19%. As at 6 February 2002, The Bank of New York was in possession of 106,282,258 shares of PKN ORLEN which gave 25.29% of votes at the General Shareholders Meeting.

    On 26 February 2002 The Bank of New York possessed 97,077,976 shares of PKN ORLEN, which gave

23.10% in initial capital and the same percentage of voices at the General Shareholders Meeting.

11. Supervisory Board of PKN ORLEN on 7 March 2002 made changes in the composition of the Management Board decreasing the number of members from 7 to 5. Presently the Board operates in the following composition: President, four Vice-Presidents. On 7 March 2002 the Supervisory Board dismissed Czeslaw Bugaj (Production Director), Wladyslaw Wawak (Development and Technology Director) and Wojciech Weiss (Human Resources and Restructuring). All dismissed members received proposals of exposed positions in the Company. The Supervisory Board Director did not present reasons for the above-mentioned dismissals. On 7 March 2002 Janusz Wisniewski was appointed Member of Management Board – Vice-President and Andrzej Macenowicz was appointed a Vice-President, as well. After these changes, the composition of the Management Board was as follows:
    - Zbigniew Wrobel - President
    - Krzysztof Cetnar – Vice-President
    - Slawomir Golonka – Vice-President
    - Andrzej Macenowicz – Vice-President
    - Janusz Wisniewski – Vice-President

12. On 13 March 2002 Management Board of PKN ORLEN appointed the following people with the proper responsibilities:
    - Slawomir Golonka – Vice-President - Sales
    - Krzysztof Cetnar – Vice-President - CFO
    - Janusz Wisniewski – Vice-President - Development and Production
    - Andrzej Macenowicz – Vice-President - Human Resources and Management Systems

    President of the Management Board Zbigniew Wrobel is a General Director, responsible for establishing and implementation of the strategy.

13. On 18 March 2002 PKN ORLEN was informed by Emerging Markets Growth Fund. Inc. (”EMGF”), that EMGF located in Los Angeles, USA decreased number of possessed shares of PKN ORLEN and owns 20,932,800 shares of PKN ORLEN, which is 4.98% of votes at the General Shareholders Meeting.

14. On 19 March 2002 PKN ORLEN declared acquisition of 3,000 shares of Petrogaz Plock S.A. located in Plock worth PLN 1,000 each, due to increase in share capital from PLN 21,823 thousand by PLN 3 million to the amount of PLN 24,823 thousand. The increased capital will be covered by non-cash contribution in form of 16,000 stakes in ORLEN Petrogaz Wroclaw Sp. z o.o. located in Wroclaw of total par value PLN 1,600 thousand and 140 stakes in Petrogaz Lapy located in Lapy of total par value PLN 1,400 thousand, the book

value of the disposed shares is equal to par value. PKN ORLEN owns 100% of shares in ORLEN Petrogaz Plock Sp. z o.o. Until disposal of the shares the Company possessed 51.61% of shares of ORLEN Petrogaz Wroclaw Sp. z o.o. (the remaining 48.39% is owned by Eco-Gaz Sp.z o.o.) and 39.55% of Petrogaz Lapy Sp. z o.o.(the remaining part is owned by: ORLEN Petrogaz Plock Sp. z o.o.- 50.84% and Zaklad Naprawy Taboru Kolejowego Lapy S.A. – 9.61%). After the increase the Company will not possess any shares of ORLEN Petrogaz Wroclaw Sp. z o.o. and Petrogaz Lapy Sp. z o.o. The transaction was performed as a part of the restructuring program of the Group including LPG distribution.

15. The Management Board of Rafineria Trzebinia S.A. learned about registration on 25 March 2002 by the Regional Court for Krakow - Srodmiescie in Krakow, XI Economic Department of Domestic Court Register, increase in share capital of Petro-Oil Sp. z o. o. The share in the increased capital was fully covered by Rafineria Trzebinia S.A. in form of contribution in kind (oil department) worth PLN 23,719 thousand and PLN 5,839 thousand in cash.

    After the capital injection the share capital of Petro-Oil Sp. z o. o. amounted to PLN 43,558 thousand and is divided into 43,558 stakes of PLN 1 thousand each. After the increase in share capital of Petro-Oil Sp. z o. o. the share of Rafineria Trzebinia in shareholders capital of the company amounts to 75.58%. The other shareholders posses:

    - Rafineria Nafty Jedlicze S.A. – 7.71%
    - Rafineria Czechowice S.A. – 7.71%
    - PKN ORLEN – 9 %

    Each stake gives right to one vote at the Shareholders' Meeting. The major activity of ORLEN-Oil Sp. z o.o. is production and sales of lubricating oils. Net book value of the assets contributed by Rafineria Trzebinia to increase the shareholders capital of ORLEN-Oil Sp. z o.o. amounts to PLN 22,723 thousand and cash in the amount of PLN 5,839 thousand. The net book value that will be disclosed in the books of ORLEN-Oil Sp. z o.o. accounts for PLN 23,719 thousand and was valued according to cash flow method plus cash of 5,839.

    The contribution in kind of the capital results from consolidation of oil activities in PKN ORLEN Group.

16. The Bank of New York decreased possessed number of shares by 2.03%. As at 26 February 2002 The Bank of New York was in possession of 97,077,976 shares of PKN ORLEN which gave 23.10% of votes at the General Shareholders Meeting.

    On 23 April 2002 The Bank of New York posses 88,529,062 shares of PKN ORLEN and 88,529,062 votes at General Shareholders Meeting, which gave 21.07% in initial capital and the same amount at General Shareholders Meeting.

17. On 5 May 2002 ignition of crude oil in storage container occurred at Rafineria Trzebinia S.A. Despite of fire of

one of the fuel storage tanks, the refinery operates without any interruption. The situation is controlled by specialist and no danger exists since the fire has been extinguished. Also, no environmental pollution has been detected at the adjacent area. Special inspection searches the cause of the fire, which caused damage initially assessed at about 8 million of zloty. Rafineria Trzebinia S.A. belongs to the PKN ORLEN Group. PKN ORLEN owns 77.07% of shares in Rafineria Trzebinia S.A. The storage tank at Rafineria Trzebinia was fully insured, so as all devices and installations in the company and in the companies of the Capital Group, are. The damage shall be covered by the insurance policy and shall not affect PKN ORLEN's financial position. The fire did not impact production and commercial operations of Rafineria Trzebinia S.A.

18. On 18 June 2002 the Management Board of PKN ORLEN announced that the number of its shares held by The Bank of New York decreased by 2.23%. The Bank of New York was in possession of 88,529,062 shares of PKN ORLEN, which assured 21.07% of votes at the General Shareholders' Meeting as reported on 24 April 2002. As of 17 June 2002 the Bank of New York was in possession of 79,158,086 shares of PKN ORLEN, that constitutes 18.84% stake in the share capital as well as percentage of votes at the General Shareholders' Meeting.

19. On 20 June 2002 the Company informed that Warsaw-based Kulczyk Holding S.A. and its affiliates are in possession of 23,911,206 bearer shares of PKN ORLEN, the amount that accounts for 5.69% of the initial capital and assures 23,911,206 votes at the general meeting of shareholders and 5.69% of the votes at the general meeting of shareholders of PKN ORLEN.

20. On 28 June 2002 the Ordinary General Meeting of Shareholders decided to change regulation concerning respective legal and statutory consent for setting up a joint venture with Basell Europe Holdings BV and contribution of organised part of the Company to that entity in form of Polymers Block by means of setting 30 September 2002 as an ultimate date for concluding a contract forming joint venture with Basell Europe Holdings BV on the conditions accepted by the Management Board.

21. On 1 July 2002 the Company informed that on the day of the Ordinary Shareholders Meeting of PKN ORLEN, which was on 28 June 2002, approving Financial Statement for the year 2001, expired a seat of a member of Management Board – Krzysztof Cetnar, in the position of Vice President and CFO, because of the end of his three year term, for which he was elected.

22. On 1 July 2002, the Company informed that the Ordinary Meeting of Shareholders on 28 June 2002 dismissed from the Supervisory Board
    - Andrzej Herman

    From 28 June 2002 the Ordinary Meeting of Shareholders appointed to the Supervisory Board

- Jozef Wozniakowski

and moreover the Ordinary Meeting of Shareholders appointed Mr Maciej Gierej to hold position of the Chairman of the Supervisory Board.

23 On 8 July 2002 PKN ORLEN reported that Rafineria Trzebinia S.A. has been notified by its law advisors, Marciniak i Partnerzy Sp. z o.o., of decisions issued by the Fiscal Office in Krakow concerning:

- completely called off decisions of the first court by which Rafineria Trzebinia S.A. had been charged with underpaying excise tax, underpaying VAT and fiscal impropriety. This, together with interest charges, totals PLN 113,6m as of the day of decision;
- referring of the case to the first court - Chrzanow Tax Office for further inspection.

PKN ORLEN owns 77.07% shares in Rafineria Trzebinia S.A.

24 On 11 July 2002 the Supervisory Board of PKN ORLEN appointed Mr Jacek Strzelecki to the position of the Vice-President of the Management Board & CFO.

25 On 24 July 2002 PKN ORLEN announced that it has signed a Letter of Intent with Prague-based Agrofert Holding a.s. (AGH) in Czech Republic to conduct a joined due diligence of Unipetrol a.s. (Unipetrol) and possibly express common interest in the acquisition of 62.99% of Unipetrol.

26 On 30 July 2002 Management Board of PKN ORLEN announced that the number of its shares held by the Bank of New York decreased by 2.03%. The Bank of New York, as of 29 July 2002, owned 70,634,050 shares of PKN ORLEN which assured 70,634,050 votes the General Shareholders' Meeting, that constituted 16.81% stake in the share capital as well as share in the number of votes at the General Shareholders' Meeting.

27. On 29 August 2002 the Management Board of PKN ORLEN informed that on 28 August 2002 ORLEN POWIERNIK Sp. z o.o, a company where PKN ORLEN holds 100% shares, within the incentive management option programme - addressed the Board members of PKN ORLEN with a purchase invitation of series A convertible bonds to be then converted into series D shares of PKN ORLEN. Board Members of PKN ORLEN are entitled to receive 428,564 (four hundred twenty eight thousand five hundred sixty four) bonds at the purchase price equal to average shares price at Warsaw Stock Exchange from 30 quotation days before the day of applying the Board Member increased by 10%. The price cannot be lower than issue price of PLN 20.30.

28. On 18 September 2002 the Management Board of PKN ORLEN announced that the Supervisory Board of PKN ORLEN authorised the Management Board of PKN ORLEN to undertake activities relating to the purchase of the Gdansk Refinery shares.

On 25 September 2002 PKN ORLEN informed that UK based Rotch Energy officially invited PKN ORLEN to enter negotiations with them in respect of their bid for 75% stake in Gdansk Refinery, the second largest refinery in Poland. The invitation was received, following an announcement by the Polish Government on amendments to its programme of restructuring and privatisation of the Polish oil sector. Presently this amendment allows participation of PKN ORLEN in privatisation of Gdansk Refinery.

29. On 20 September 2002 the Management Board of PKN ORLEN announced that it signed a Letter of Intent and Initial Agreement with Orbis S.A. to conduct negotiations regarding the acquisition of 9.22% of shares in AWSA Holland II BV by PKN ORLEN. AWSA Holland II BV is the exclusive partner of AWSA Holland I BV, a Dutch company, which holds a 98.85% stake in Autostrada Wielkopolska S.A.
In light of the above, PKN ORLEN has committed itself to paying PLN 20 million in advance to Orbis S.A., which is to be returned if the agreement is not signed by 25 October 2002. The return of this advance is guaranteed and secured at a bank account.
On 24 October 2002 it has been agreed to extend the negotiations in respect of PKN ORLEN's acquisition until 15 November 2002.

30. On 2 October 2002 PKN ORLEN announced that, following the annulling decisions of the Government of Czech Republic of the bid for Unipetrol a.s., the Letter of Intent between PKN ORLEN and Agrofert Holding was terminated by mutual agreement. Despite this development PKN ORLEN confirmed that it has a continuing interest in Czech market.

31. On 22 October 2002 PKN ORLEN informed of the registration on 10 October 2002 by a District Court in Kielce (Poland) of the initial capital increase in SAMRELAKS Machocice Sp. z o.o. ("SAMRELAKS"). The initial capital of SAMRELAKS was raised by the issuance of 10,694 shares of par value PLN 500, from PLN 1,377.5 thousand to PLN 6,724.5 thousand. The capital was increased through a contribution-in-kind from PKN ORLEN (book value PLN 11,421 thousand).
The company's activities are tourist and recreation services.

32. On 22 October 2002 PKN ORLEN informed of the registration on 11 October 2001 by a District Court in Szczecin of the initial capital increase in Zawitaj Swinoujscie Sp. z o.o. ("Zawitaj").
The initial capital of Zawitaj was raised by the issuance of 7,158 shares of par value PLN 500 from PLN 530. thousand to PLN 4,109 thousand. The capital was increased through a contribution-in-kind from PKN ORLEN (book value PLN 5,851.17 thousand). PKN ORLEN owns 100% of the total shares in Zawitaj. The company is operates in tourist services.

33. On 22 October 2002 PKN ORLEN informed of the registration on 16 October 2001 by a District Court in Lublin of the initial capital increase in ORLEN Transport Lublin Sp. z o.o. in Lublin. The initial capital was raised from 10,139 thousand PLN to 16,174 thousand PLN, that is by 6,035 thousand PLN. The capital was increased through a contribution-in-kind from PKN ORLEN (book value 6,034 thousand PLN). Evidence value of assets transferred into ORLEN Transport Lublin by PKN ORLEN in form of contribution in kind, amounts to 3,024 thousand PLN. The company is operates in transport touristy.

34. On 22 November 2002 PKN ORLEN announced that the number of its shares held by the Bank of New York decreased by 2.11%. As at 21 November 2002 the Bank of New York owned 61,779,572 shares of PKN ORLEN authorising to 61,779,572 votes at the General Shareholders Meeting, which constituted 14.70% share in the share capital and the same number of votes at the General Shareholders Meeting.

35. On 6 December 2002 PKN ORLEN purchased:
    - shares in Einhundertzweiunddreissigste Vermoegensverwaltungsgesellschaft mbH with its registered office in Hamburg, Germany, of the nominal value 12,500 EURO each share (the name of the company changed to ORLEN Deutschland GmbH),
    - shares in Einhundertdreiunddreissigste Vermoegensverwaltungsgesellschaft mbH with its registered office in Hamburg, Germany, of the nominal value 12,500 EURO per share (the name of the company will be changed to PKN ORLEN Deutschland Real Estate GmbH)

    The purchased shares represent 100% of the share capital of each company. The objective of the acquired companies is the management of their own assets.

36. On 19 December 2002 as a result of realisation of the project concerning a joint venture with "Basell" a registration of a new company, Poliolefiny Polska Sp. z o.o., based in Plock took place on 19 December 2002 in a District Court in Warsaw (Poland). PKN ORLEN acquired 100% of the shares with a nominal value of PLN 500 for each share, representing 100% of the eligible votes at a shareholders' meeting. The purchase was executed by means of cash to the amount of PLN 50,000. The objects of the company are polyolefin production and the wholesale of chemical products. Poliolefiny Polska Sp. z o.o. will, in the future, be the base upon which the JV with Basell Europe Holding B.V will be created. The acquisition has been financed from the internal resources of the issuer

    On 15 January 2003 PKN ORLEN and Basell Europe Holdings B.V. signed an amendment to the joint venture agreement. According to the amendment to the agreement the Polish Office for the Protection of Competition and Consumers shall give assent for the realisation of the transaction regulated by the agreement not later than until 24 February 2003. The commence of the operation of the joint venture company was postponed but not later than until the end of February 2003.

On 7 February 2003 the Management Board of PKN ORLEN announced that on 6 February 2003 it received a letter from the Polish Office for the Protection of Competition and Consumers ("UOKiK"), in which UOKiK gives its assent for the acquisition by Basell Europe Holdings B.V. of 50% of Poliolefiny Polska Sp. z o.o., a limited liability company, which will result in gaining 50% of votes at the shareholders meeting of the company.

37. The Management Board of PKN ORLEN announced on 19 February 2003 that on 14 February 2003 Mr Jozef Wozniakowski resigned from his position as a member of the Supervisory Board of PKN ORLEN Mr Jozef Wozniakowski has been appointed to the position of Undersecretary of State in the Ministry of State Treasury.

ADDITIONAL NOTES

1. Information on significant agreements

1. On 3 January 2002 a service agreement between PKN ORLEN and the British company KBC was signed Process Technology Ltd. The agreement is the continuation of completed Profit Improvement Programme conducted in period 1999-2001. The service agreement is valid till the end of 2002. The objective of the Profit Improvement Program was generating and implementation of process improvements reducing production costs by 0.4 USD per barrel of processed crude oil. The Profit Improvement Program was realised in accordance with its assumptions. Forecast effect of the realisation of service agreement is reduction of production costs by 0.10 to 0.15 USD per barrel of crude oil.

2. On 4 January 2002 PKN ORLEN entered into agreement with ABB Lumus Global GmbH based in Mainz-Kastel in Germany for complex carry out of intensification of Olefins II factory in Plock. Investment will help to increase production of ethylene from 360 thousand to 660 thousand tonnes and propylene from 130 thousand tonnes per year to 315 thousand tonnes per year. Till the end of that investment, i.e. till the end of 2004, works undertaken will not interrupt the current level of production and final works will be performed during planned overhaul break in the end of 2004. Agreement amounts to at about EUR 190 million.

3. On 22 January 2002 service agreement between PKN ORLEN and Shell Global Solutions International B.V. (Shell GSI) based in Hague (Holland). The aim of that agreement is implementation of the company's Profit Improvement Program through rational reduction of running cost and optimising the timing of the production installations. The service agreement is valid till the end of the works, but not later than till 1 August 2005. Savings, which are predicted to be brought by the programme are estimated after 3 years period for about PLN 100 million per year.

4. On 20 May 2002 the Company informed that Inowroclawskie Kopalnie Soli Solino S.A., included in the Capital Group PKN ORLEN, concluded an agreement for an investment credit with Bank Handlowy w Warszawie S.A. Bydgoszcz branch. The credit is incurred to finance the second part of construction of Underground Crude Oil and Fuel Tank Warehouse. The credit accounts for PLN 31,850 thousand. The credit is secured by cession of receivables from the Company for renting the Underground Crude Oil and Fuel Tank Warehouse and by cession of property rights of fixed assets, which will be constructed under the investment.

5. On 23 September 2002 PKN ORLEN entered into agreement with Nordea Bank Sweden AB. According to the agreement Nordea is going to purchase from PKN ORLEN 4,450,708 shares of LG Petro Bank S.A. public offer, that is 19.99% of initial capital LG Petro Bank S.A. Purchase price agreed in Public Offering amounts to PLN 21 per share LG Petro Bank S.A.

On 28 October 2002 as a result of Public Offering PKN ORLEN sold all owned shares of LG Petro Bank S.A. At present PKN ORLEN does not possess any shares of LG Petro Bank S.A.

6. On 30 September 2002 Management Board PKN ORLEN informed, that Company entered into agreement concerning creation of joint venture with Basell Europe Holding B.V. ("Basell"), dependent company, acting according to Dutch law, based in Holland.
   New company, in which both investors possess 50% of shares, begins activity in the first quarter 2003. Both shareholders possess 50 % in the company, initial capital amounts to 217 million EUR. According to agreement between both shareholders, in February 2003 PKN ORLEN brought an organised part of the company in form of Polymers Block, office sale of plastic and current assets, Basell covered its part in form of licence for new kind of polymers and cash payment. Investment in the company, estimated to amount of ca 500 million EUR, are going to be financed primary by project finance, without direct regress to shareholders. On 17 October 2002 Management Board informed, that both sides agreed to postpone deadline forecast for entering into new trade agreements concerning creation of joint venture, until 23 October 2002. According to information received form the Management Board on 24 October 2002, lately agreed deadline was kept.

7. On 27 September 2002 PKN ORLEN signed agreement with Rotch Energy Limited concerning rules of negotiations in order to create consortium intended to buy 75% of shares of Raineria Gdanska S.A. As a result of the consultation on 30 October 2002 PKN and Rotch Energy Limited signed agreement, in which they decided to form a consortium for jointly purchase of 75% shares of Rafineria Gdanska S.A., within the confines by Nafta Polska S.A. to make the shares available. According to agreement, crated consortium depends on written agreement from Nafta Polska S.A. allowing creation of consortium. Above agreement was presented to Nafta Polska S.A.

8. On 30 October 2002 PKN ORLEN and Rotch Energy Limited signed an agreement creating consortium for realisation of joint purchase of 75% shares of Rafineria Gdanska S.A. within the confines of offering these shares by Nafta Polska S.A. According to the agreement, creation of consortium depends on obtaining written agreement from Nafta Polska S.A. allowing creation of consortium. Above agreement was presented to Nafta Polska S.A..
   On 12 November 2002 Management Board of PKN ORLEN informed, that it has received letter from Nafta Polska S.A. which includes information from Management Board of Nafta Polska S.A. about conditional agreement for creating consortium between PKN ORLEN and Rotch Energy Limited.
   According to the above the Management Board of Nafta Polska S.A. allowed PKN ORLEN to perform due diligence of Rafineria Gdanska S.A.
   On 11 December 2002 PKN ORLEN and Rotch Energy Limited, acting in consortium created in order to buy

shares of Rafineria Gdanska S.A. from Nafta Polska S.A. represented 75 % of Rafineria’s capital, turned completion to primary offer of purchasing Rafineria Gdanska S.A. shares, turned originally in March 2001 by Rotch Energy Limited.

9. On 15 November 2002 Conditional Sale of Shares Agreement with Orbis was signed, under which Company should buy 165,924 shares of Holland based company AWSA Holland II B.V. for 61.4 million PLN. Transfer of shares agreement should be signed after meeting conditions contained in Sales Agreement until 10 December 2002.

   According to the above PKN ORLEN and shareholder of the company – Kulczyk Holding signed on 14 November 2002 Additional Agreement, under which Kulczyk Holding committed to buy shares of AWSA Holland II B.V. from PKN ORLEN on request of PKN ORLEN until 31 December 2006, and until 7 January 2038 in case of withdrawing by Kulczyk Holding from investment in AWSA Holland II B.V. Kulczyk Holding additionally made a commitment in relation to PKN ORLEN, in connection with being a shareholder in AWSA II Holland B.V. In return for this liabilities, Company committed to pay Kulczyk Holding fee of 6.140 thousand PLN. PKN ORLEN committed to sale of shares in AWSA Holland II B.V. on request of Kulczyk Holding within period from January 2005 and 31 December 2006.

   On 10 December 2002 as a result of meeting conditions of Sale Agreement of Shares, PKN ORLEN signed Agreement of AWSA Holland II B.V. Shares Management with Orbis S.A. according to which the Company purchased 165,924 shares in the above mentioned company for 61 million PLN.

10. On 10 December 2002 PKN ORLEN and company Einhundertdreiunddreissigste Vermoegensverwaltungsgesellschaft mbH entered into Sales Agreement with Deutsche BP Aktiengesellschaft based in Hamburg. According to this agreement Company bought:

   - 1 share in initial capital of AMF Service GmbH Company based in Bochum, with nominal value 25,000 EUR, representing 100% of initial capital AMF Service GmbH and entitled to 100% voices on shareholders meeting,
   - 15,100 shares in initial capital Norddeutsche Tankstellen Aktiengesellschaft Company based in Elmshorn, with nominal value 1.000 DEM per share, representing 100% of initial capital of Norddeutsche Tankstellen Aktiengesellschaft and entitled to 100% of voices at shareholders meeting,
   - plots and buildings used for detail sale made by BP and ARAL,
   - other components (such as inventory, receivables, etc.),
   - definite receivables from companies from capital group.

   Above mentioned components are subject of purchasing so-called “North Packet”. Purchase price amounts to 140 million EUR, with reservation of possibility for making changes results from agreement. Executing this agreement depends on many suspending conditions, including approving transactions by Competition Protection

Institutions in Germany and European Union. Based on this agreement Company buys indirectly 494 retail petrol stations offered for sale by BP. Transactions was completed on 28 February 2003, after suspending conditions were met.

11. On 20 December 2002 PKN ORLEN and J&S Service & Investments Ltd, company of Cypriot law, based in Larnace signed future contract for supplies of petroleum ("Agreement"). According to agreement J&S Services Ltd is obliged to deliver petroleum to the company until the year 2007 in quantities amounting to 5.4 million tonnes a year. Price paid for purchased petroleum by Company will be calculated by mean of formula related to URAL petroleum quotation on international markets.

12. On 21 December 2002 PKN ORLEN and Petroval S.A., Swiss company based in Geneva associated with YUKOS Group, singed future contract for supplies of petroleum ("Agreement"). According to agreement Petroval is obliged to deliver petroleum for the Company until the year 2009 with possibility of extension for the following 3 years. Petroval S.A. is obliged, according to the agreement, to deliver petroleum in quantities amounting to 3 million tonnes yearly with opportunity to increase the amount to 3.6 million tonnes a year from 2004, and than from year 2006, by next 1.6 million tonnes yearly. Price paid by the Company will be calculated by using formula related to quotations of specific sorts of petroleum basket on international market.
Above agreement is realised after receipt on 13 January 2003 from OJSC "YUKOS OIL CORPORATION", Russian company, put guarantee of liability execution by Petroval S.A. resulting from the agreement.

13. On 31 December 2002 PKN ORLEN entered into yearly contracts:
   a) with BP Polska Spolka z o o. Sales of petrol to BP Polska GmbH is the subject of this agreement in year 2003. Estimated value of this transaction amounts to about 1,437 million PLN (gross). In case when PKN ORLEN does not fill its duty it will pay financial penalty in the height of 8% of net value (gross) of undelivered petrol.
   b) with BP Polska Spolka z o.o.. The subject of this agreement is sale of Diesel to BP Polska GmbH in year 2003. Estimated value of the transaction amounts to about 681 million PLN (gross). In case when PKN ORLEN does not fulfil its duty it will pay financial penalty in height of 8% of net value (gross) of undelivered Diesel.
   c) with SHELL Produkty Polska Spolka z o.o. Sales of petrol to SHELL Produkty Polska Spolka z o.o. in year 2003 is the subject of this agreement. Estimated value of the transaction amounts to about 962 million PLN (gross). In case when PKN ORLEN does not fill its duty it will pay financial penalty in the height of 8% of net value (gross) of undelivered petrol.
   d) with SHELL Produkty Polska Spolka z o.o.. Sales of Diesel to SHELL Produkty Polska Spolka z o.o. in year 2003 is the subject of this agreement. Estimated value of the transaction amounts to about 603 million

PLN (gross). In case when PKN ORLEN does not fill its duty it will pay financial penalty in the height of 8% of net value (gross) of undelivered petrol.

e) with ORLEN PetroCentrum Spolka z o.o.. Sales of petrol to ORLEN PetroCentrum Spolka z o.o. in year 2003 is the subject of this agreement. Estimated value of the transaction amount to about 553 million PLN (gross). In case when PKN ORLEN does not fill its duty it will pay financial penalty in the height of 8% of net value (gross) of undelivered petrol.

f) with ORLEN PetroTank Spolka z o.o.. Sales of Diesel to ORLEN PetroCentrum Spolka z o.o. in year 2003 is the subject of this agreement. Estimated value of the transaction amount to about 1,104 million PLN (gross). In case when PKN ORLEN does not fill its duty it will pay financial penalty in the height of 8% of net value (gross) of undelivered petrol.

2. Production

Petroleum processing in years 2001-2002

No	Basis product	Petroleum processing in tonnes		Dynamics
		2001	2002	2002/2001
1.	REBCO	11,022,636	12,094,417	109.7%
2.	Low sulphur crude oil	1,295,867	379,449	29.3%
	Total	**12,318,503**	**12,473,866**	**101.3%**

Petroleum production in years 2001-2002

No	Product	Production/tonnes/		Dynamics
		2001	2002	2002/2001
1.	Petrol total	3,175,400	2,978,729	93.8%
2.	Diesel total	2,759,004	3,019,887	109.5%
	Petroleum total	**5,934,404**	**5,998,616**	**101.1%**
3.	Jet A-1	283,164	262,938	92.9%
4.	Ekoterm	1,973,590	1,704,638	86.4%
	Total	**8,191,158**	**7,966,192**	**97.3%**

Production of crude oil associated products in years 2001-2002

No	Product	Production /tonnes/		Dynamics
		2001	2002	2002/2001
1.	Asphalts	424,066	487,025	114.8%
2.	Heating oil "3"	938,589	949,516	101.2%
3.	Base oils	126,487	122,335	96.7%
4.	Gas	22,653	27,210	120.1%
5.	Solvents	62,601	73,271	117.0%
	Total	**1,574,396**	**1,659,357**	**105.4%**

Production of petrochemicals in years 2001-2002

No	Product	Production /tonnes/		Dynamics
		2001	2002	2002/2001
1.	Liquid gas	215,528	206,064	95.6%
2.	Ethylene	92,299	116,111	125.8%
3.	Propylene	70,358	81,551	115.9%
4.	Butadiene	37,837	51,377	135.8%
5.	Benzene	45,823	75,562	164.9%
6.	Toluene	25,838	58,493	226.4%
7.	Orthoxylene	9,212	21,585	234.3%
8.	Paraxylene	27,027	32,238	119.3%
	Total aroma	**107,900**	**187,878**	**174.1%**
9.	Phenol	51,311	50,726	98.9%
10.	Acetone	31,716	31,430	99.1%
11.	MEG	81,765	103,786	126.9%
12.	DEG	9,192	11,730	127.6%
13.	TEG	258	354	137.2%
14.	Petrygo	14,665	15,828	107.9%
15.	Paraflu	864	835	96.6%
16.	Liquid Qal	58	75	129.3%
	Total glycols + radiator liquids	**106,802**	**132,608**	**124.2%**
17.	Polyethylene	137,761	157,663	114.4%
18.	Polypropylene	121,994	142,818	117.1%
19.	Sulphur	101,524	111,032	109.4%
20.	Oxide Ethylene	13,846	18,942	136.8%
	Total	**1,088,876**	**1,288,200**	**118.3%**

3. Sale

Quantity structure of products sold (in thousand tonnes)

Prices of products and goods	Realisation (whole sale and retail)		Structure %		Dynamics %
	2001	2002	2001	2002	2001
Petrol	3,147	3,117	28.7%	27.9%	99,1%
- leaded petrol	5	0,01	0.0%	0.0%	0,1%
- unleaded petrol	3,142	3,117	28.7%	27.9%	99,2%
Eurosuper 95	2,314	2,422	21.1%	21.7%	104,7%
Super Plus 98	185	195	1.7%	1.8%	105,9%
Universal 95	643	499	5.9%	4.5%	77,7%
Diesel	2,829	3,030	25.8%	27.1%	107,1%
Light heating oil	1,984	1,585	18.1%	14.2%	79,9%
Aviation Petroleum JET A-1	278	266	2.5%	2.4%	95,5%
Light products	**8,238**	**7,998**	**75.2%**	**71.6%**	**97,1%**
Liquid gas	257	273	2.3%	2.4%	106,2%
Heating oil III	925	1,047	8.4%	9.4%	113,2%
Sulphur	103	110	0.9%	1.0%	106,6%
Other refinery products	571	652	5.2%	5.8%	114,1%
Refinery Products Total	**10,094**	**10,079**	**92.1%**	**90.3%**	**99,9%**
Polyethylene	140	161	1.3%	1.4%	115,1%
Polypropylene	122	143	1.1%	1.3%	117,5%
Phenol	51	50	0.5%	0.5%	98,1%
Acetone	31	32	0.3%	0.3%	100,6%
Ethylene	92	116	0.8%	1.0%	125,8%
Propylene	69	83	0.6%	0.7%	120,1%
Glycol	92	117	0.8%	1.1%	128,0%
Oxide Ethylene	14	19	0.1%	0.2%	139,7%
Butadiene	37	52	0.3%	0.5%	141,1%
Benzene	46	75	0.4%	0.7%	163,4%
Orthoxylene	9	20	0.1%	0.2%	223,8%
Paraxylene	29	32	0.3%	0.3%	112,6%
Other petrochemical products	135	185	1.2%	1.7%	137,3%
Petrochemical Products Total	**867**	**1,087**	**7.9%**	**9.7%**	**125,4%**
Total	**10,962**	**11,167**	**100.0%**	**100.0%**	**101,9%**

Valuable structure of sales divided by major customers

Major customers	% participation in net incomes	
	2002	2002
BP (POLAND)	5.7	5.3
SHELL (POLAND)	5.6	-
ORLEN PETRO-TANK	4.8	2.0
STATOIL (POLAND)	2.5	3.5
PETROLOT	1.9	1.7
RN CZECHOWICE	1.8	0.8
RAFINERIA GDANSKA	1.2	0.6
ANWIL	1.0	0.9
ORLEN GAZ	0.8	1.0
RAFINERIA TRZEBINIA	0.8	2.1
PETROZACHOD	0.7	1.3
AGENCJA REZERW MATERIALOWYCH	0.7	0.5
ELANA	0.5	0.5
ORLEN OIL	0.5	0.6
ORLEN PETROPROFIT	0.5	0.9

Participation of other customers did not exceed 0.5% of total sales income.

4. Procurement

Structure of suppliers of petroleum in year 2002

Counterparty	Amount (tonnes)	Participation
Arcadia	78,602	0.6%
BMP Trading	2,083,800	15.3%
J&S	9,027,393	66.1%
Petraco	6,371	0.0%
Petrobaltic	109,575	0.8%
Total Intern	627,179	4.6%
Veba Oil	686,950	5.0%
Wincor	1,036,670	7.6%

5. Transaction with related entities

Transactions with related entities, where value of single transaction or cumulative value of transactions during year 2002 exceeds a PLN equivalent of EUR 500 thousand.

No	Part of transaction	Sales in PLN thousand	Purchases in PLN thousand
1.	ORLEN Gaz Plock Sp. z o.o.	204 728.2	72 829.3
2.	ORLEN PetroProfit Sp. z o.o.	117 200.8	12 991.7
3.	ORLEN Petro-Tank Sp. z o.o.	1 148 015.1	57 155.8
4.	IKS Solino S.A.	608.8	22 112.7
5.	ORLEN PetroCentrum Sp. z o.o.	99 395.8	5 707.5
6.	Petrolot Sp. z o.o.	451 201.1	44.6
7.	ORLEN Petrogaz Wroclaw Sp. z o.o.	1 202.8	2 156.3
8.	Petrotel Sp. z o.o.	1 765.4	10 199.4
9.	Wisla Sportowa S.A.	980.1	30 778.1
10.	Rafineria Trzebinia S.A.	439 693.3	18 674.6
11.	ORLEN Medica Sp. z o.o	137.3	5 464.8
12.	ORLEN PetroZachod Sp. z o.o.	177 265.3	6 632.6
13.	ORLEN Polimer Sp. z o.o.	57 175.7	31.1
14.	ORLEN Projekt S.A.	419.2	18 052.9
15.	ORLEN Ochrona Sp. z o.o.	907.5	25 431.6
16.	Zaklad Budowy Aparatury S.A.	3 011.0	17 225.0
17.	ORLEN Transport Plock Sp. z o.o.	39 267.3	20 089.0
18.	Rafineria Nafty Jedlicze S.A.	61 489.9	3 041.8
19.	ORLEN EnergoRem Sp. z o.o.	547.6	20 069.8
20.	ORLEN Atomatyka Sp.z o.o.	629.2	24 702.9
21.	ORLEN Remont Sp. z o.o.	2 413.9	26 259.3
22.	ORLEN WodKan Sp. z o.o.	1 253.7	17 172.5
23.	ORLEN Mechanika Sp. z o.o.	1 538.5	39 870.7
24.	ORLEN Eltech Sp. z o.o.	1 127.8	32 742.8
25.	ORLEN Wir Sp. z o.o.	742.3	10 818.2
26.	ORLEN Budonaft Sp. z o.o. Krakow	720.9	19 689.6
27.	Serwis Wroclaw Sp. z o.o.	206.2	7 580.9
28.	Serwis Lodz Sp. z o.o.	119.3	2 817.5
29.	Naftoport Sp. z o.o.	0.0	7 611.9
30.	Przeds. Uslug Morskich Ship - Service S.A.	69 443.5	422.6
31.	Zaklady Azotowe Anwil S.A.	242 909.5	3 293.6
32.	Serwis Kedzierzyn-Kozle Sp. z o.o.	58.4	2 270.2
33.	Serwis Szczecin Sp. z o.o.	174.5	3 170.7
34.	Serwis Krakow Sp. z o.o.	181.7	3 013.6

No	Part of transaction	Sales in PLN thousand	Purchases in PLN thousand
35.	Serwis Mazowsze Sp. z o.o.	5 414.6	8 424.0
36.	Serwis Katowice Sp. z o.o	209.7	2 694.1
37.	Serwis Poznan Sp. z o.o.	292.7	4 131.1
38.	Serwis Rzeszow Sp. z o.o.	87.5	2 921.1
39.	Serwis Slupsk Sp. z o.o.	217.6	3 433.8
40.	Centrum Edukacji Sp. z o.o.	307.7	5 043.3
41.	Flexpol Sp. z o.o.	34 155.3	25.5
42.	SERWIS PODLASIE Sp. z o.o.	170.0	2 673.9
43.	Serwis Gdansk Sp. z o.o.	157.1	3 533.7
44.	Serwis Zachod Sp. z o.o.	207.6	5 818.7
45.	Serwis Nowa Wies Wielka Sp. z o.o.	240.8	3 193.3
46.	ORLEN Transport Olsztyn Sp. z o.o.	4 045.2	8 554.2
47.	ORLEN Transport Lublin Sp. z o.o.	2 762.9	13 178.9
48.	ORLEN Transport Szczecin Sp. z o.o.	364.2	4 883.6
49.	ORLEN Transport Kedzierzyn-Kozle Sp. z o.o.	2 437.8	9 161.7
50.	ORLEN Transport Poznan Sp. z o.o.	1 974.4	14 526.2
51.	ORLEN Transport Slupsk Sp. z o.o.	8 463.2	9 869.5
52.	ORLEN Transport Krakow Sp. z o.o.	20 504.0	12 477.2
53.	ORLEN Transport Warszawa Sp. z o.o.	1 993.5	7 838.0
54.	ORLEN Transport Nowa Sol Sp. z o.o.	2 512.3	17 072.1
55.	Z-d Urzadzen Dystrybucyjnych Sp. z o.o.	430.6	5 370.5
56.	ORLEN KolTrans Sp. z o.o.	3 562.1	11 055.3
57.	ORLEN Morena Sp. z o.o.	40 197.9	1 466.5
58.	Petro-Oil Wielkopolskie Centrum Sprzedazy Sp. z o.o.	12.6	6 992.0
59.	Piast Sp. z o.o.	42 330.5	4.5
60.	Petro-Oil-Slaskie Centrum Sprzedazy Sp. z o.o.	1.3	5 345.5
61.	Petro-Oil-Podlaskie Centrum Sprzedazy Sp. z o.o.	0.0	3 032.3
62.	Petro-Oil-ZachodnioPomorskie Centrum Sprzedazy Sp. z o.o.	141.6	4 353.0
63.	Petro-Oil Dolnoslaskie Centrum Sprzedazy Sp. z o.o.	9.8	8 784.3
64.	Petro-Oil-Pomorskie Centrum Sprzedazy Sp. z o.o.	0.0	12 133.3
65.	Petro-Oil-Malopolskie Centrum Sprzedazy Sp. z o.o.	3 681.5	6 842.9
66.	Petro-Oil SEEWAX Sp. z o.o.	1 004.4	15 216.6

Transactions with related entities were valued using the arithmetic average of the exchange rates published by the National Bank of Poland for the last day of each month in the period from 1 January 2002 to 31 December 2002 - equal to 3.8697 PLN/ EUR.

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

year

Following persons were members of the Management Board of PKN ORLEN from 1 January 2002 to 31 December 2002:

Andrzej Modrzejewski	President of the Management Board CEO until 8 February 2002
Jaroslaw Tyc	Vice-President of the Management Board Retail Sales Director until 8 February 2002
Czeslaw Bugaj	Member of the Management Board Production Director until 7 March 2002
Andrzej Dretkiewicz	Member of the Management Board until 8 February 2002 Wholesale and Logistics Director
Wladyslaw Wawak	Member of the Management Board until 7 March 2002 Development and Technology Director
Wojciech Weiss	Member of the Management Board until 7 March 2002 HR and Restructuring Director
Krzysztof Cetnar	Vice-President of the Management Board – CFO until 28 June 2002.
Zbigniew Wrobel	President of the Management Board CFO from 8 February 2002.
Slawomir Golonka	Vice-President of the Management Board from 8 February 2002. Vice-President of the Management Board responsible for Sales from 12 March 2002 .
Andrzej Macenowicz	Member of the Management Board from 8 February 2002 Vice-President of the Management Board from 7 March 2002 Vice-President of the Management Board responsible for Human Resources and Management Systems from 12 March 2002
Janusz Wisniewski	Vice-President of the Management Board since 7 March 2002 . Vice-President of the Management Board for Development and Production from 12 March 2002.

Jacek Strzelecki	Vice-President of the Management Board CFO since 11 July 2002

During the reporting period, the operations of the Company were monitored by the Supervisory Board represented by:

Aleksander Olas	Member of the Supervisory Board until 21 February 2002.
Szczepan Targowski	Member of the Supervisory Board until 21 February 2002.
Kalina Grzeskowiak-Gracz	Member of the Supervisory Board until 21 February 2002.
Marcin Gizewski	Secretary of the Supervisory Board until 21 February 2002.
Marek Wasowicz	Member of the Supervisory Board until 21 February 2002.
Jerzy Idzik	Vice-Chairman of the Supervisory Board until 21 February 2002.
Andrzej Herman	Chairman of the Supervisory Board until 28 June 2002.
Stanislaw Kondracikowski	Member of the Supervisory Board until 21 February 2002.
Slawomir Golonka	Member of the Supervisory Board until 8 February 2002.
Grzegorz Mroczkowski	Member of the Supervisory Board since 8 February 2002. Secretary of the Supervisory Board since 7 March 2002.
Maciej Gierej	Member of the Supervisory Board since 21 February 2002 till 28 June 2002. Chairman of the Supervisory Board since 28 June 2002.
Edward Grzywa	Member of the Supervisory Board since 21 February 2002.
Krzysztof Kluzek	Member of the Supervisory Board since 21 February 2002.
Andrzej Kratiuk	Member of the Supervisory Board since 21 February 2002.
Ryszard Lawniczak	Member of the Supervisory Board since 21 February 2002.
Krzysztof Szlubowski	Member of the Supervisory Board since 21 February 2002.

Jan Waga	Member of the Supervisory Board since 21 February 2002. Vice-Chairman of the Supervisory Board since 7 March 2002.
Jozef Wozniakowski *)	Member of the Supervisory Board since 28 June 2002.

*) on 14 February 2003 he resigned

7. Total number of all shares of the Parent Company and Capital Group being held by Management and Supervisory Board members.

As at 31 December 2002 Management and Supervisory Board Members did not hold any shares or stakes in PKN ORLEN and other Capital Group's companies.

8. Shareholders of PKN ORLEN

The structure of the shareholders of PKN ORLEN as at 31 December 2002:

Shareholder	Number of shares	Number of votes	Nominal value of shares	% of the capital stock
Nafta Polska S.A	74,076,299	74,076,299	92,595,374	17.63%
State Treasury	43,633,897	43,633,897	54,542,371	10.38%
The Bank of New York	56,932,910	56,932,910	71,166,138	13.55%
Others*	245,534,031	245,534,03	306,917,539	58.44%
Total	420,177,137	420,177,137	525,221,421	100.00%

* According to the current report 56/2002 dated 20 June 2002, Kulczyk Holding S.A. together with its subsidiaries owns 239 911 206 shares of PKN ORLEN, which constitutes 5,69% of votes at General Shareholders Meeting of PKN ORLEN.

The Management Board of PKN ORLEN has no information on agreements concluded during 2001 which may result in future changes in the proportions of shares held by the existing shareholders.

Management Board Commentary on Business Operations
of Polski Koncern Naftowy ORLEN Spolka Akcyjna

for the year 2002

submitted by the Management Board composed of:

..
President of the Management
Board - Zbigniew Wrobel

..
Vice - President of the Management
Board – Jacek Strzelecki

..
Vice - President of the Management
Board – Slawomir Golonka

..
Vice - President of the Management
Board - Janusz Wisniewski

..
Vice - President of the Management
Board- Andrzej Macenowicz

Plock, 25 March 2003