POLSKI KONCERN NAFTOWY ORLEN SPOLKA AKCYJNA

ANNUAL REPORT FOR 2002

PLOCK, MARCH 2003

Below presented PKN ORLEN Annual Report for 2002 consists of:

- President's Letter
- PKN ORLEN financial statements for the year ended 31 December 2002
- Management Board Commentary on Business Operations of PKN ORLEN for 2002
- Auditor's opinion on financial statements for the year ended 31 December 2002

POLSKI KONCERN NAFTOWY ORLEN SPOLKA AKCYJNA

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002

PLOCK, MARCH 2003

(in PLN thousand)

INTRODUCTORY NOTES TO THE FINANCIAL STATEMENT

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

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

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

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

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

Structure of share capital of the Company on 31 December 2002 is as follows:

Issue	Number of shares	Nominal value (PLN)
Series A	336,000,000	420,000,000.00
Series B	6,971,496	8,714,370.00
Series C	77,205,641	96,507,051.25
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Total	420,177,137	525,221,421.25
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On 15 May 2000 Ordinary General Meeting of Shareholders of PKN ORLEN took a resolution concerning capital increase by issuance of 11,344,784 series D ordinary bearer shares. These shares are to be acquired by bearers of series A bonds convertible to shares with exclusion of pre-emptive rights of the owners of the existing shares. The issuance of the shares was conducted within the Motivation Program presented in Note 12.

In June 2001 the Supervisory Board of PKN ORLEN approved the list of persons eligible to buy series A of bonds convertible to PKN ORLEN series D shares. As at 31 December 2002 the eligibility concerns I and II tranche of these bonds. Until the date of preparation of these financial statements the bonds were not acquired. Therefore, the conversion of bonds to series D shares did not take place. Additional information is presented in introduction to the financial statements and in Note 12.

In accordance with the resolution of the General Meeting of Shareholders of the Company dated 19 May 1999 as the result of incorporation of CPN, the Company changed its scope of activities. According to the statutory regulations and its last changes dated 28 June 2002, the Company's activities include production, trade and services, and in particular:

- processing of crude oil and manufacturing of oil-derivative / refinery and petrochemical products and semi-finished products,
- domestic and foreign trade on own account, on commission and as consignee, including in particular: the trade of crude oil, oil-derivative products and other fuel, the sale of motor vehicles, parts and accessories for them as well as sale of consumer and industrial goods,
- research and development activity, project work, construction and production activities on own account and as the consignee, in the areas of manufacturing, storage, packaging and trade in solid, liquid and gaseous oil products, secondary chemical products as well as transportation: by land, by trail, water and by pipeline,
- transportation activity including land transport, trail transport, water and pipeline transport,
- storage of oil and liquid gas, creation and management of oil stock according to the appropriate regulations,
- services connected to the principal activity, especially:
- land and sea reloading,
- refining of gas and oil including ethylisation, dyeing and blending of components,
- purchase, trade and manufacturing of used lubricant oil and other chemical waste,
- manufacturing, transportation and trade in electrical and heating energy
- reconditioning of the appliances used in core activities, especially refinery and petrochemical appliances, oil storage appliances, oil stations and means of transportation,
- metal production and manufacturing of plastic raw materials,
- operation of gas stations, bars, restaurants and hotels,
- capital investment activity, in particular: purchasing and trade of shares and stock in Polish and foreign trade,
- activities in the area of education, professional schooling and internal human capital services.

The activity is designated by Code PKD 2320 (Polish Activity Classification) – processing of crude oil. The Company runs a business within segments of production and distribution of crude oil products as well as petrochemicals and chemicals.

The Company is the biggest refinery and producer of petrochemicals in Poland and after the incorporation of CPN, the leading distributor of motor fuels in Poland.

The operations of the Company are divided into two main segments: Refinery Segment and Chemical Segment.

The refinery segment comprises crude oil processing as well as wholesale and retail trade in refinery products industry, primarily fuels. The chemical segment encompasses production and sales of petrochemicals.

The composition of the Supervisory Board of PKN ORLEN as of 31 December 2002 was the following:

- Maciej Gierej - President of the Supervisory Board
- Edward Grzywa - Member of the Supervisory Board
- Krzysztof Kluzek- Member of the Supervisory Board
- Andrzej Kratiuk - Member of the Supervisory Board
- Ryszard Lawniczak - Member of the Supervisory Board
- Grzegorz Mroczkowski- Secretary of the Supervisory Board
- Krzysztof Szlubowski- Member of the Supervisory Board
- Jan Waga - Vice-President of the Supervisory Board
- Jozef Wozniakowski- Member of the Supervisory Board

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

- Maciej Gierej - President of the Supervisory Board
- Edward Grzywa - Member of the Supervisory Board
- Krzysztof Kluzek - Member of the Supervisory Board
- Andrzej Kratiuk - Member of the Supervisory Board
- Ryszard Lawniczak - Member of the Supervisory Board
- Grzegorz Mroczkowski - Secretary of the Supervisory Board
- Krzysztof Szlubowski - Member of the Supervisory Board
- Jan Waga - Vice-President of the Supervisory Board

The composition of the Management Board of PKN ORLEN as of 31 December 2002 and as of the day of preparation of the financial statements was the following:

- Zbigniew Wrobel - President of the Management Board, General Director,
- Slawomir Golonka - Vice-President of the Management Board, Sales Director,
- Andrzej Macenowicz - Vice-President of the Management Board, Human Resources and Management Systems Director,
- Jacek Strzelecki - Vice-President of the Management Board, Chief Financial Officer,
- Janusz Wisniewski - Vice-President of the Management Board, Production and Development Director .

During year 2002 the following changes in composition of the Management Board took place:

On 8 February 2002 following members were dismissed from the Management Board:
- Andrzej Modrzejewski- President of the Management Board,
- Jaroslaw Tyc- Vice-President of the Management Board,
- Andrzej Dretkiewicz- Member of the Management Board.

On 7 March 2002 following members were dismissed from the Management Board:
- Czeslaw Bugaj- Member of the Management Board,
- Wladyslaw Wawak- Member of the Management Board,
- Wojciech Weiss- Member of the Management Board.

On 28 June 2002 mandate of Vice-President of the Management Board Krzysztof Cetnar has expired.

On the 8 February 2002 the following were appointed to the Management Board:
- Zbigniew Wrobel,
- Slawomir Golonka,
- Andrzej Macenowicz.

(in PLN thousand)

On 7 March 2002 Janusz Wisniewski was appointed to the Management Board.
On 11 July 2002 Jacek Strzelecki was appointed to the Management Board.

During year 2002 the following changes in composition of the Supervisory Board took place:

On 8 February 2002, due to appointment to the Management Board Slawomir Golonka, member of the Supervisory Board, was dismissed. Grzegorz Mroczkowski was appointed to the Supervisory Board instead of Slawomir Golonka (since 7 March Secretary of the Supervisory Board).

On 21 February 2002 the following members were dismissed from the Supervisory Board:

Jerzy Idzik	- Member of the Supervisory Board
Marcin Gizewski	- Secretary of the Supervisory Board
Kalina Grzeskowiak-Gracz	- Member of the Supervisory Board
Stanislaw Kondracikowski	- Member of the Supervisory Board
Aleksander Olasa	- Member of the Supervisory Board
Szczepan Targowski	- Member of the Supervisory Board
Marek Wasowicz	- Member of the Supervisory Board

On 21 February 2002 the following were appointed to the Supervisory Board:

Maciej Gierej	- Member of the Supervisory Board (since 28 June 20002 President of the Supervisory Board)
Edward Grzywa	- Member of the Supervisory Board
Krzysztof Kluzek	- Member of the Supervisory Board
Andrzej Kratiuk	- Member of the Supervisory Board
Ryszard Lawniczak	- Member of the Supervisory Board
Krzysztof Szlubowski	- Member of the Supervisory Board
Jan Waga	- Member of the Supervisory Board (since 7 March 2002 Vice-President of the Supervisory Board)

On 28 June 2002 Andrzej Herman, President of the Supervisory Board was dismissed, Jozef Wozniakowski was appointed to the position of member of the Supervisory Board.

On 19 February 2003 PKN ORLEN received information on Jozef Wozniakowski resign on 14 February 2002 from the position of member of the Supervisory Board. Jozef Wozniakowski was appointed to the position of Undersecretary in the Ministry of State Treasury.

B. Format and general rules of preparation of financial statements

The financial statements were prepared in compliance with the Polish Accounting Standards ("PAS") defined by the amended Accounting Act of 29 September 1994 (Journal of Law No 121, pos. 591 with further changes, "the amended Accounting Act") and the Decree of the Council of Ministers of 16 October 2001 on type, form and scope of current and periodic information and published by issuers of securities (Journal of Law No 139, pos. 1569 with further changes, the "Decree") and covers the period from 1 January to 31 December 2002.

The financial statements are prepared for the period from 1 January 2002 to 31 December 2002 while the comparable data comprises: for the balance sheet and balance sheet explanatory notes data as of 31 December 2001, for profit and loss account, cash flow statement and explanatory notes – data for the period from 1 January 2001 to 31 December 2001.

The amended Accounting Act is in force from 1 January 2002. In order to provide comparability of data presented in the financial statements, previously published financial data for 2001 was restated.

The financial data from financial statements for 2001 was restated by application of rules that include regulations concerning presentation of financial statements of the amended Accounting Act with the retrospective effect from 1 January 2001. Changes of the accounting policies introduced by the amendment of the Accounting Act were presented as adjustments of specific captions of the financial statements for 2001 in amount corresponding to the proper period. The effect of changes of accounting policies concerning year 2000 and earlier periods was presented as an adjustment to "retained earnings". Description and material impact of changes in accounting policies resulting from application of the amended Accounting Act, on net profit and the equity of the Company is presented in Note 61.

The accounting rules applied by the Company in 2001 were presented in the financial statements for 2001. The accounting rules applied for financial statements for periods beginning in 2002 and for comparable data for 2001 are presented in point C of the introduction to the financial statements.

The financial statements were prepared under assumption that the Company will continue as a going concern for foreseeable future. As of the date of authorisation of the financial statements the Management Board states, there are no facts or circumstances, indicating any threat of going concern of the Company.

Auditor's opinion to financial statements of the Company for 2001 contained no qualifications.

C. Principal accounting policies

The financial statements were prepared on the historical cost basis concept except for the following items:

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

Accounting polices adopted by the Company are presented below.

Intangible fixed assets

Intangible fixed assets are recognised if it is probable that in the future they will bring economic benefits, which can be attributed directly to these assets. Initially intangible fixed assets are presented at the purchase price or at manufacturing cost. Subsequently, the intangible fixed assets are valued at the purchase price or at manufacturing cost less accumulated amortisation and impairment losses. Intangible fixed assets are amortised using straight-line method over their estimated economic life. Amortisation rates resulting from tax regulations are used only if they correspond with the economic life of the intangible fixed assets. The correctness of applied periods and depreciation rates are verified at regular intervals, at least at the end of the financial year, and any necessary adjustments to amortisation charges are made in subsequent periods. Typical amortisation rates applied in reference to intangible fixed assets:

Licences, patents and similar assets	7- 50%
Computer software	10- 50%

Research and development costs

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

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

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

Tangible fixed assets

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

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

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

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

Buildings and constructions	1.5% - 10%
Plant and machinery	4% - 30%
Transportation vehicles	6% - 20%
Other tangible fixed assets	8.5% - 25%

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

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

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

The Company does not recognise perpetual leasehold of land acquired based on administrative decisions in earlier periods due to the fact that the historical value of such right cannot be reliably determined.

Construction in progress

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

Financial lease

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

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

Real estate investments

Real estate investments may comprise land and real estate, purchased in order to bring benefits such as rent or increase in real estate value. Real estate used to earn the above mentioned economic benefits but not purchased for that purpose are treated as fixed assets. Real estate investments are valued according to the fair value.

Investments in subordinates

Shares in subordinates are presented in unconsolidated financial statements at cost of purchase less impairment losses. In the consolidated financial statements significant subordinates are fully consolidated or consolidated under equity method.

Inventories

Inventories are stated at the net realisable value being the lower of purchase price or manufacturing cost and net selling price. Different types of inventories are valued using weighted average method in a following manner:

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

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

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

Receivables

Receivables are stated at amount due less allowances. Allowances are recognised either based on the analysis of collectibility of receivables from individual debtors or when the contractor goes into bankruptcy or liquidation.

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

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

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

Cash and cash equivalents

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

Prepayments and deferred costs

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

Financial instruments

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

Financial instruments are classified into the following categories:

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

Derivatives and embedded derivatives are also financial instruments.

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

Current financial assets or financial liabilities comprise financial derivatives, except when an entity recognises concluded contracts as hedging instruments.

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

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

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

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

a) loans granted and own receivables not available for sale,
b) financial assets held to maturity,
c) financial assets for which market price set on regulated active market does not exist or for which it is unworkable to measure their fair value reliably,
d) hedged financial assets.

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

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

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

Derivatives and embedded derivatives

Derivatives possessed by the Company are usually not accounted for as hedging instruments and are classified as short term assets and carried at fair value, with any changes to their fair value charged to income statement. Derivatives are among others: forward and futures contracts, options and swap contracts.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

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

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

Equity

Equity is presented in books by category in accordance with rules determined by law and the company’s statute.

Share capital is stated at nominal value in compliance with the statutory regulations and the relevant entry in the Company's Register.

Declared but not paid share capital is accounted for as unpaid share capital. Own shares and unpaid share capital decrease the value of equity of the Company.

The reserve capital is supplied from the share of net profit, transfer of revaluation reserve and share premium.

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

Revaluation reserve was established as result of the fixed assets revaluation as at 1 January 1995. In case of disposal or liquidation of a fixed asset item, the corresponding part of revaluation reserve is transferred to reserve capital. Moreover, reserve capital is increased by the difference between fair value and purchase price, less deferred tax, of the asset if market price set on regulated active market exists or for which it is workable to measure their fair value reliably.

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

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

Provisions for liabilities

Provisions are set for:

1) certain or highly probable future liabilities, amount of which can be reliably estimated, particularly for losses on economic transactions in progress, including guarantees granted, borrowing transactions, results of legal actions,

2) future liabilities resulting from restructuring, if basing on separate rules the Company is obliged to perform it or binding agreements were concluded and the restructuring plans allow to estimate reliably the value of future liabilities.

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

Provision for jubilee and retirement bonuses

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

Equity compensation plan costs

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

Environmental costs

Provisions for certain or highly probable costs or losses resulted from environment protection law are recorded in case of existence of law requirements or Company's policy regarding elimination of pollution of environment or harmful items, simultaneously the amount of future expenses or losses is possible to be estimated.

Credits and loans

Costs of loans and borrowings are recognised in principle at the moment of occurrence. Costs of loans and borrowings are capitalised only in case if they directly refer to acquisition, construction or manufacture of certain element of assets. Costs of loans and borrowings are capitalised until the element of assets is ready for planned use. Providing that the net book value of an asset is greater than the value possible to receive, the net book value is decreased by the write-off resulting from impairment.
Loans are initially recorded at the amount of inflows received, decreased by transaction costs. Subsequently they are presented at the amortised purchase price with use of effective interest method. The difference between net inflows and maturity amount is reflected in net profit or loss in the period of loan.

Foreign currency transactions

At the balance sheet date assets and liabilities denominated in foreign currencies are recorded as follows:

- assets (excluding stakes in subordinates accounted for under equity method) – at the call exchange rate applied by the basic bank which renders services for the company, not higher than average exchange rate set for the given currency by the National Bank of Poland ("NBP") for this date,
- liabilities – at the put exchange rate applied by the basic bank which renders services for the company, not lower than average exchange rate set for the given currency by the NBP for this date.

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

Exchange rate differences concerning other assets and liabilities denominated in foreign currencies, arising at the date of their valuation and on settlement of receivables and liabilities denominated in foreign currencies are classified respectively to financial gains or expenses and in legitimate cases to purchase price or manufacture costs of fixed assets.

Sales

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

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

Costs

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

Dividends

Dividends receivable are accounted for as financial income as of the day when the proper body learns about profit division resolution, unless the resolution does not determine an other day of right to the dividend acquisition.

Net profit or loss

- Net profit or loss is constituted by:
- operating profit or loss, including this resulting from other operating income and costs,
- financial operations result,
- extraordinary operations result,
- compulsory amounts reducing profit resulting from income tax, the payer of which is the entity, and payments equal to it, on the basis of separate regulations.

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

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

Result on extraordinary items is the difference between extraordinary profits and losses.

Taxation

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

Due to temporary differences between value book values and tax values of assets and liabilities the Company set up provisions and recognise assets resulting from deferred tax.

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

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

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

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

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

Impairment

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

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

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

Contingent liabilities and receivables

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

Related party transactions

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

Investment allowance

In accordance with Decree of Ministry of Finance dated 25 January 1994 on investment allowance and reductions of income tax (”Investment Expenses Decree”) and with article 18a of the Corporate Income Tax Act, being in force till 31 December 1999 and with article 3.1 of the Act dated 20 November 1999 on Changes of Corporate Income Tax Act being in force from 1 January 2000, PKN ORLEN benefited from investment allowance in period 1997-2002. The fixed assets affected by the investment allowance are depreciated for accounting purposes according to normal depreciation rates applied for particular types of fixed assets. The effects of the investment allowance are recorded off-balance sheet and considered only in relation to taxable profits and deferred tax provision purposes.

Management Board estimates

The preparation of the financial statements requires Management to make estimates and assumptions that affect the amounts reported in the financial statements and notes to these financial statements. Actual results may differ from those estimates. Management estimates concern among the others provision setting, accruals and depreciation rates. During 2001 the Company has changed the estimate of environmental clean-up and remediation costs further presented in Note 18.

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

	2002
NBP average exchange rate at the end of period	4.0202
Arithmetic average of exchange rates (last day of the month)	3.8697
Maximum exchange rate during the period (last day of the month)	3.5910
Minimum exchange rate during the period (last day of the month)	4.0810

SELECTED FINANCIAL DATA	PLN thousand	EURO thousand	PLN thousand	EURO thousand
	Cumulative period: 01.01.2002 - 31.12.2002		Cumulative period: 01.01.2001 - 31.12.2001	
I. Net sales of finished products, goods for resale and materials	23,891,830	6,174,078	23, 460,991	6,062,742
II. Operating profit	585,261	151,242	541,382	139,903
III. Profit before taxation	616,301	159,263	355,200	91,790
IV. Net profit	382,270	98,785	260,860	67,411
V. Assets (as at the balance sheet date)	12,590,537	3,131,819	11,982,186	2,980,495
VI. Liabilities and provisions for liabilities (as at the balance sheet date)	5,326,946	1,325,045	5,049,801	1,256,107
VII. Long term liabilities (as at the balance sheet date)	233,648	58,119	1,075,557	267,538
VIII. Short term liabilities (as at the balance sheet date)	4,300,823	1,069,803	3,246,681	807,592
IX. Equity (as at the balance sheet date)	7,263,591	1,806,774	6,932,385	1,724,388
X. Share capital (as at the balance sheet date)	525,221	130,645	525,221	130,645
XI. Number of shares (as at the balance sheet date)	420,177,137	420,177,137	420,177,137	420,177,137
XII. Net profit for the year ended 31 December 2002 per share (PLN/EURO)	0.91	0.24	0.62	0.16
XIII. Net book value per share (PLN/EURO)	17.29	4.30	16.50	4.10
XIV. Net cash flow from operating activities	1,053,275	272,185	1,709,117	441,666
XV. Net cash flows used in financing activities	(668,605)	(172,780)	(1,183,411)	(305,815)
XVI. Net cash flow used in investing activities	(404,803)	(104,608)	(543,915)	(140,557)

Selected financial data were calculated into EURO according to the following rules:

- particular captions of assets and liabilities– at the average exchange rate published as at 31 December 2002 – 4.0202 PLN/ EURO,
- particular captions of profit and loss account and cash flow statement– at the exchange rate being an arithmetic mean of average rates published by the National Bank of Poland for the last day of each month in the period from 1 January 2002 to 31 December 2002 – 3.8697 PLN/ EURO.

E. Financial statements according to International Financial Reporting Standards

The Company will prepare financial statements in accordance with Polish Accounting Standards ("PAS"). Detailed information concerning differences between Polish Accounting Standards and International Financial Reporting Standards ("IFRS") will be disclosed in consolidated financial statements. The quantitative reconciliation of basic figures of consolidated financial statements and explanation of the differences will be presented there.

Due to requirements of the Accounting Act these financial statements were prepared in accordance with Polish Accounting Standards and accounting practices applied by companies in Poland and differ from financial statements that would have been prepared in accordance with IFRS in following areas:

a) Distribution from profit

According to Polish business practice shareholders of the Company have the right to distribute the profit for the employees benefits, i.e. for bonus payment or for the Company's social fund. Such distributions are presented in statutory financial statements, similarly to dividend payments, through the change in capital. In the financial statements prepared in accordance with IFRS such payments are charged to operating costs of the year, that the distribution concerns.

b) Capitalisation of borrowing costs

According to PAS, borrowing costs are charged into the profit and loss account when incurred after reduction of amounts capitalised in investment expenditures, resulting from liabilities specifically referring to a project. Borrowing costs concerning general indebtedness are expensed wholly when incurred. Borrowing costs related directly to investment projects are capitalised until the fixed assets are brought into usage and are expensed with depreciation.
In financial statements prepared according to IFRS, the borrowing costs are capitalised pursuant to the alternative treatment allowed by IAS 23 "Borrowing costs".

c) Goodwill on the purchase of CPN employee shares

The shares purchased from employees of CPN in 1999 were presented according to IFRS on the basis of acquisition method. As a result, goodwill in the amount of PLN 107 million was recognised on purchase of 19.43% of CPN shares held by its employees.
For the purposes of the financial statements according to PAS the merger, including purchase of shares from minority shareholders, was conducted under pooling interest method.

d) IFRS treatment of negative goodwill from consolidation

Pursuant to PAS, before the amended Accounting Act came into effect, negative goodwill from consolidation was written off to incomes over 2-5 year period. In financial statements prepared under IFRS, the negative goodwill is charged over period calculated as weighted average economic useful life of the depreciable assets acquired.

e) Changes in estimates

In accordance with the Accounting Act, as amended on 1 January 2002, changes arising from the amendment which relate to prior periods are reported by adjusting the opening balance of the "accumulated profit" item. Changes in estimates predominantly concern changes in the foreign exchange rates used for the revaluation of assets and liabilities at the balance sheet date. Under IFRS, changes in estimates are included in corresponding costs and revenues of the period when the change was made.

f) Deferred tax

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

g) Sales revenues in financial statements according to IFRS

According to PAS sales revenues and selling costs include excise tax charged on the products subject to excise tax. According to IFRS excise tax will be eliminated from sales revenues and selling costs.

h) Scope of financial statements

The captions of financial statements prepared according to PAS and IFRS may differ significantly. The scope of disclosures according to PAS is different from than the scope according to IFRS.

(in PLN thousand)

Note 39. Method of calculation of earnings and diluted earnings per ordinary share for year 2002 and 2001

		2002	**2001**
Net profit for 12 months (in PLN)	(A)	382,269,825.11	260,860,280.15
Weighted average number of ordinary shares	(B)	420,177,137	420,177,137
Earnings per ordinary share (in PLN)	(A/B)	0.91	0.62
Weighted average expected number of ordinary shares	C	-	-
Diluted earnings per ordinary share (in PLN)	(A/C)	-	-

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

Note 40. Suggested distribution of profit for 2002 and distribution of profit for2001

Distribution of profit and undistributed profit from previous years	
Dividend (PLN 0.09 per share)	37,815,942.33
Reserve capital	420,346,460.50

Total	458,162,402.83
	============

In accordance with resolution of General Meeting of Shareholders profit for year 2001 was distributed in the following way:

Dividend (PLN 0.12 per share)	50,421,256.44
Reserve capital	197,605,162.56

Total	248,026,419.00
	===========

Note 41. Method of calculation of net book value and diluted net book value per share as at 31 December 2002

		2002	**2001**
Net book value (in PLN)	(A)	7,263,590,988.20	6,932,385,584.33
Number of shares	(B)	420,177,137	420,177,137
Net book value per share (in PLN)	(A/B)	17.29	16.50
Expected number of shares	C	-	-
Diluted net book value per share (in PLN)	(A/C)	-	-

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

(in PLN thousand)

NOTES TO CASH FLOW STATEMENT

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

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

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

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

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

Receivables:	Year 2002
Balance sheet change in net value of long- and short-term receivables	(879)
Changes in investment receivables	(10,505)
Change in financial fixed assets receivables	(11,008)
Change in financial instruments receivables	(6,336)
Other	(5,837)
Change in receivables within cash flow statement	(34,565)

Liabilities:	Year 2002
Balance sheet change in short- and long-term liabilities	212,233
Change in short term loans and borrowings	263,143
Change in investment liabilities	(24,839)
Change in interest resulting from issued securities	(15,000)
Change of liabilities from financial fixed assets	(29,196)
Other	5,899
Change in short and long-term liabilities within cash flow statement	412,240

Accruals:	Year 2002
Balance sheet change in accruals	54,076
Other	(2,426)
Change in accruals within cash flow statement	51,650

Provisions:	Year 2002
Balance sheet change in provision	36,834
Adjustment of deferred tax influencing equity	466
Change in provisions within cash flow statement	37,300

(in PLN thousand)

b) Other captions in cash flow statement

In cash flow statement for 2002 in an item B.I.4 in investing activities an amount of 15,653 is presented. This amount includes:

Change of receivables from financial fixed assets	4,417
Lease agreement payments	4,227
Other	7,009

Total	15,653
	========

In cash flow statement for 2002 in an item B.I.15 in investing activities an amount of (79,443) is presented. This amount includes:

Change in prepayments for fixed assets	(78,178)
Other	(1,265)

Total	(79,443)
	========

ADDITIONAL EXPLANATORY NOTES CONCERNING REPORTING BY INDUSTRY AND GEOGRAPHICAL SEGMENTS

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

Business segments

The operations of the Company are divided into two main segments: Refinery Segment and Chemical Segment.

- The refinery segment comprises crude oil processing as well as wholesale and retail trade in refinery products industry, primarily fuels,
- The chemical segment encompasses production and sales of petrochemicals.

The other operations include among others support functions, as well as repair-maintenance.

Net results and assets in particular segments had been established before the inter-segment eliminations were done. Internal prices in transactions between segments are similar to market prices.

(in PLN thousand)

Segment:	**Refining and Marketing**		**Chemicals**		**Other operations**		**Eliminations**		**Total**	
	For the year ended 31 December 2002	**For the year ended 31 December 2001**	**For the year ended 31 December 2002**	**For the year ended 31 December 2001**	**For the year ended 31 December 2002**	**For the year ended 31 December 2001**	**For the year ended 31 December 2002**	**For the year ended 31 December 2001**	**For the year ended 31 December 2002**	**For the year ended 31 December 2001**
Revenue										
External sales	21,777,263	21,565,425	1,954,565	1,702,129	160,002	193,437	-	-	23,891,830	23,460,991
Inter-segment sales	2,474,748	2,076,135	1,291,412	1,107,653	690,317	662,300	(4,456,477)	(3,846,088)	-	-
Total revenue	24,252,011	23,641,560	3,245,977	2,809,782	850,319	855,737	(4,456,477)	(3,846,088)	23,891,830	23,460,991
Result										
Segment result	761,007	637,496	135,210	180,093	(7,557)	7,390	-	-	888,660	824,979
Unallocated corporate expenses									(303,399)	(283,597)
Profit from operations									585,261	541,382
Financial income									199,021	230,549
Financial costs									(167,860)	(415,080)
Gross profit									**616,422**	**356,851**
Extraordinary gains									17	539
Extraordinary losses									(138)	(2,190)
Profit before taxation									**616,301**	**355,200**

(in PLN thousand)

Segment:	**Refining and Marketing**		**Chemicals**		**Other operations**		**Eliminations**		**Total**	
	For the year ended 31 December 2002	**For the year ended 31 December 2001**	**For the year ended 31 December 2002**	**For the year ended 31 December 2001**	**For the year ended 31 December 2002**	**For the year ended 31 December 2001**	**For the year ended 31 December 2002**	**For the year ended 31 December 2001**	**For the year ended 31 December 2002**	**For the year ended 31 December 2001**
Income taxes									(234,031)	(94,340)
Other obligatory charges on profit									-	-
Net profit									**382,270**	**260,860**

(in PLN thousand)

	Refining and Marketing		Chemicals		Other operations		Eliminations		Total	
	as at 31 December 2002	as at 31 December 2001	as at 31 December 2002	as at 31 December 2001	as at 31 December 2002	as at 31 December 2001	as at 31 December 2002	as at 31 December 2001	as at 31 December 2002	as at 31 December 2001
Other information										
Segment assets	8,401,710	7,942,293	1,054,994	906,676	1,164,401	1,192,893			10,621,105	10,041,862
Unallocated corporate assets									1,969,432	1,940,324
Total assets									**12,590,537**	**11,982,186**
Segment liabilities	2,523,262	2,083,092	92,032	72,415	173,432	207,952			2,793,274	2,363,459
Unallocated corporate liabilities									2,533,672	2,686,342
Total liabilities									**5,326,946**	**5,049,801**

	Refining and Marketing		Chemicals		Other operations		Total	
	For the year ended 31 December 2002	For the year ended 31 December 2001	For the year ended 31 December 2002	For the year ended 31 December 2001	For the year ended 31 December 2002	For the year ended 31 December 2001	For the year ended 31 December 2002	For the year ended 31 December 2001
Property, plant, equipment and intangible assets expenditure	427,615	565,200	134,792	75,014	111,260	57,929	673,667	698,143
Property, plant, equipment and intangible assets expenditure unallocated to segments							27,804	46,263
Total property, plant, equipment and intangible assets expenditure							**701,471**	**744,406**
Segment depreciation	580,861	547,697	77,754	75,809	129,538	127,042	788,153	750,548
Unallocated assets depreciation							31,731	24,561
Total depreciation							**819,884**	**775,109**
Non-cash expenses other than depreciation	92,817	54,987	13,461	9,091	19,435	37,521	**125,713**	**101,599**

(in PLN thousand)

Geographical segments

The Company operates primarily in Poland. The table below presents the Company's sales by geographical markets for the year ended 31 December 2002 and 31 December 2001.

	Refining and Marketing		Chemicals		Other operations		Total	
	for the year ended 31 December 2002	for the year ended 31 December 2001	for the year ended 31 December 2002	for the year ended 31 December 2001	for the year ended 31 December 2002	for the year ended 31 December 2001	for the year ended 31 December 2002	for the year ended 31 December 2001
Export sales	808,130	514,206	422,967	295,316	1,817	1,390	1,232,914	810,912
Domestic sales	20,969,133	21,051,219	1,531,598	1,406,813	158,185	192,047	22,658,916	22,650,079
Total external sales	**21,777,263**	**21,565,425**	**1,954,565**	**1,702,129**	**160,002**	**193,437**	**23,891,830**	**23,460,991**

(in PLN thousand)

ADDITIONAL EXPLANATORY NOTES

Note 44. Financial instruments

a. Changes of financial instruments by categories

Changes of particular categories of financial assets (except for cash and cash equivalents) and financial liabilities of the Company for the year ended 31 December 2001 and 31 December 2002 are the following:

Balance sheet value, net	Financial assets held for trading	Financial assets held to maturity	Financial assets available for sale	Loans granted and own receivables	Financial liabilities held for trading
1 January 2001	-	1	424,927	-	-
- changes in accounting policies	7,859	-	-	-	-
1 January 2001 restated for comparative data	7,859	1	424,927	-	-
-increases	23,531	26,000	110,503	102,783	-
-decreases	16,512	(26,001)	(54,983)	-	-
31 December 2001	14,878	-	480,447	102,783	-
Balance sheet items					
Long term investments	-	-	480,447	98,050	-
Short term receivables	-	-	-	4,733	-
Short term investments	14,878	-	-	-	-
Short term liabilities	-	-	-	-	-
Total	14,878	-	480,447	102,783	-

(in PLN thousand)

Value of long term financial assets available for sale valued at adjusted purchase price as at 31 December 2002 was equal PLN 480,447 thousand and included mainly shares with no active market and fair value of could not be reliably measured. As at 31 December 2002 the Company did not possess significant financial assets held for trading valued at adjusted purchase price.
The Company presents derivatives of positive fair value as financial assets held for trading, whereas derivatives of negative fair value as financial liabilities held for trading.

Balance sheet value, net	Financial assets held for trading	Financial assets held to maturity	Financial assets available for sale	Loans granted and own receivables	Financial liabilities held for trading
1 January 2002	14,878	-	480,447	102,783	-
-increases	13,900	-	119,618	15,464	708
-decreases	7,564	-	(98,853)	(17,040)	(112)
	------------	-----------	------------	------------	------------
31 December 2002	21,214	-	501,212	101,207	596
	=======	======	=======	=======	=======
Balance sheet items					
Long term investments	-	-	501,212	98,050	-
Short term receivables	-	-	-	3,157	-
Short term investments	21,214	-	-	-	-
Short term liabilities	-	-	-	-	596
	------------	-----------	-----------	-----------	-----------
Total	21,214	-	501,212	101,207	596
	=======	======	======	======	======

The value of long term financial assets available for sale valued at adjusted purchase price as at 31 December 2002 was equal PLN 501,212 thousand and comprised mainly shares, for which an active market exists. As at 31 December 2002, the Company did not have any significant financial assets held for trading valued at adjusted purchase price.

(in PLN thousand)

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

for the year ended 31 December 2001	realised	Unrealised with maturity				interest total
		to 3 months	3-12 months	above 12 months	total	
Interest from financial assets held for trading	-	-	-	-	-	-
Interest from financial assets held to maturity	-	-	-	-	-	-
Interest from financial assets available for sale	-	-	-	-	-	-
Interest from loans granted and own receivables	-	-	4,733	-	-	4,733
Total			**4,733**			**4,733**

for the year ended 31 December 2002	realised	Unrealised with maturity				interest total
		to 3 months	3-12 months	above 12 months	total	
Interest from financial assets held for trading	-	-	-	-	-	-
Interest from financial assets held to maturity	-	-	-	-	-	-
Interest from financial assets available for sale	-	-	-	-	-	-
Interest from loans granted and own receivables	12,307	-	3,157	-	-	15,464
Total	**12,307**		**3,157**			**15,464**

(in PLN thousand)

c. Interest from financial liabilities

for the year ended 31 December 2001	realised	unrealised with maturity				interest total
		to 3 months	3-12 months	above 12 months	total	
Interest from financial assets held for trading	-	-	-	-	-	**-**
Interest from other short term financial liabilities	189,594	8,706	-	-	8,706	**198,300**
Interest from long term financial liabilities	90,007	6,074	-	-	6,074	**96,081**
Total	**279,601**	**14,780**	**-**	**-**	**14,780**	**294,381**

for the year ended 31 December 2002	realised	unrealised with maturity				Interest total
		to 3 months	3-12 months	above 12 months	total	
Interest from financial assets held for trading	-	-	-	-	-	**-**
Interest from other short term financial liabilities	92,496	4,062	-	-	4,062	**96,558**
Interest from long term financial liabilities	38,026	1,827	-	-	1,827	**39,853**
Total	**130,522**	**5,889**	**-**	**-**	**5,889**	**136,411**

d. Put/call options of shares/stakes

The Company owns following put options of shares/stakes, which are not presented in the balance sheet as at 31 December 2002.

- **Put option of Niezalezny Operator Miedzystrefowy Sp. z o.o. (“NOM”) stakes**

The Company owns a put option of NOM stakes to Polskie Sieci Energetyczne S.A. (“PSE”) – according to agreement selling price of stakes will be based on purchase price plus interest. The option can be exercised within four years from the date of entering the agreement (till year 2004). Management of the Company believes that the option is fully realisable.

Stakes in NOM are not traded on an active market and their fair value being base for the option valuation cannot be reliably measured. Therefore, the option has not been valued and is not recognised in the balance sheet of the Company.

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

The Company owns a put option of AWSA shares to Kulczyk Holding S.A., at purchase price not lower, than balance sheet value as at 31 December 2002 (according to agreement selling price of shares will be based on the purchase price plus interest). Management of the Company believes that put option is fully realisable. The option can be exercised not later than in year 2038.

Shares in AWSA are not traded on an active market and their fair value being base for the option valuation cannot be reliably measured. Therefore the option has not been valued and is not recognised in the balance sheet of the Company.

e. Information on interest rate risk

- Company’s liabilities are held until the date of maturity.
- Effective interest rate is similar to nominal interest rate (the Company is not charged with bank provisions for most of loans and loan margins are at very low level).
- Management of the Company believes there is no potential risk of not settling obligations (borrowings granted).
- Though 26% of the Company loans are incurred in one bank, in the view of the Management of the Company the risk of loans concentration in one bank does not exist. No loan covenants on loans and on borrowings agreements are present. The only exception is a consortium loan, but financial ratios are at secure level.

(in PLN thousand)

Note 45. Contingent liabilities and risks

a) Guarantees and other contingent liabilities

Type of liability as at 31 December 2002	
Guarantees granted, including:	94,548
– to subsidiaries	94,548
Other contingent liabilities, including:	46,689
– complaint of Enerco – Industrie (i)	23,649
– complaint of individuals (ii)	23,040
Total	141,237

(i) Contingent liability concerning complaint of Enerco – Industrie of PLN 23,649 thousand includes amounts due for not contributed share capital (PLN 5,000 thousand) and interest (PLN 18,649 thousand).

(ii) Contingent liabilities concerning: - complaint of individuals of PLN 22,140 thousand. The amount relates to the fee for an inventive project, complaint of an individual against three parties of PLN 900 thousand due to an accident of a family member and.

(in PLN thousand)

b) Tax allowance

According to the Decree of Ministry of Finance dated 25 January 1994 concerning deductions of taxable income with investment expenses and decreases of tax on profits as well as according to Art.18a of the Corporate Income Tax Act (being in force from 31 December 1999, from 1 January 2000 article 3.1 of Changes to Corporate Income Tax Act), corporate taxpayers were allowed to offset their taxable basis for a specified tax year with investment expenditure incurred in that year, and then offset its taxable basis for next tax year with a "tax bonus", i.e. half of the investment expenditure incurred in previous tax year. The Company benefited from the investment incentives in the following amounts for the 1997-2002 financial years (deductions from taxable income):

	Tax allowance	Tax bonus
Year 1997	428,303	121,386
Year 1998	294,689	168,397
Year 1999	258,662	129,331
Year 2000	167,444	107,538
Year 2001	98,444	40,485
Year 2002	13,845	49,222
	------------	---------
Total	1,261,387	616,359
	=======	======

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

1) the taxpayer has outstanding tax liabilities exceeding 3% of particular taxes due for specific tax years, in relation to taxes constituting the state budget's income and insurance pension premiums; in case of VAT, any outstanding payments may not exceed 3% of output VAT;

2) the taxpayer transfers, in any form, the ownership of items that were subject to investment deductions; this does not concern the transfer of ownership resulting from the change of an entity's legal form or the merger or diversion of companies, performed on the basis of the Commercial Code;

3) the legal basis for the treatment of leased fixed assets as a component of the lessee's property ceases to exist;

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

5) the taxpayer is reimbursed for investment expenses in any form.

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

The Act on the amendment of the Corporate Income Tax Act dated 20 November 1998 (Journal of Law no 144, position 931,being in force from 31 December 1999, from 1 January 2000 article 3.1 of Changes to Corporate Income Tax Act) stipulates that taxpayers do not lose such right to investment allowance (according to the article 18 a of Corporate Income Tax Act) if they adjust their tax returns and settle the outstanding payments with penalty interest due within 14 days. In this case, the above implications, described in point (1) are not applicable.

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

On 9 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 tax for the period firm June to December 1998 of PLN 55 million and liabilities resulting from penalty interest of PLN 58 million. The decision was subject to an appeal to Fiscal Chamber and a request to suspend the execution of the decision.
On 7 February 2002 Fiscal Office in Chrzanow suspended execution of the decision. At the same time the Fiscal Office set pledge on shares constituting financial fixed assets of Rafineria Trzebinia S.A. and on plant and equipment owned by Rafineria Trzebinia S.A. of total value equal to the tax liability. The right annotation was made in Fiscal Pledge Register.
On 12 February 2002 Fiscal Office in Chrzanow submitted to Mortgage Department of Regional Court a request for an annotation on enforced mortgage on real estates owned by Trzebinia Refinery.
On 4 July 2002 Fiscal Office in Krakow waived all decisions, which were subject to an appeal. The case was referred to the first court for further inspection. As of the date of preparation of these financial statements the result of the appeal proceedings in this case is not known.
On 15 November 2002, based on the act on restructuring of some budget receivables from entrepreneurs, Rafineria Trzebinia S.A. applied for the restructuring of budget receivables concerning excise duty and VAT for the period from June to December 1998, of total value of PLN 55 million and liabilities resulting from interest charge of total value PLN 58 million. On 30 December 2002 fiscal authorities issued a decision on restructuring conditions, stating the restructuring charge in the amount of PLN 5 million.
At the date of preparation of these financial statements, a tax audit on similar case in Rafineria Trzebinia S.A. in relation to periods from 1999 to 2001 has been in progress and its results are not yet known. In case of sustaining similar qualifications, in the course of further proceeding, a risk of setting other amount of tax liabilities for the periods form 1999 to 2001 exists. In the Company's management view, considering strong merit background (being base for possible appeal) and obtained legal opinion, likelihood of an unfavourable result of the tax audit is low.

d) Power transfer fee – ZEP S.A.

Under the Decree of Ministry of Economy dated 14 December 2000 relating to detailed methods of determination and computation of tariffs and electricity settlement regulations (Journal of Law No. 1 dated January 15, 2001), the power transfer fee, calculation method has changed according to paragraph 36 of above mentioned decree. PKN ORLEN is in the process of negotiating different power transfer fee settlement with Zaklad Energetyczny Plock S.A. according to paragraph 37 of the Decree. The disputed amount was provided for reliably based on best possible estimate made by PKN ORLEN Management.

e) Anti-trust proceedings

The Company was subject to four anti-trust proceedings.

In two proceedings Office for Protection of Competition and Consumer ("OPCC") issued a decision setting cash penalty. These proceedings concern:

1. Prices of fuels – the Company appealed to Anti-Trust Court against the negative decision of OPCC setting a penalty of PLN 5 million. Anti-Trust Court repealed the decision of OPCC concerning monopolistic practice of PKN ORLEN and therefore the cash penalty was repealed. In 2000 provision of PLN 5 million, set in year 1999, was released. On 21 February 2001 OPCC applied to the Supreme Court to annul the positive verdict for the Company. As of the date of preparation of these financial statements the Supreme Court has not appointed any date for the annulling lawsuit.
2. Methods of setting prices for antifreeze liquid to radiators „Petrygo" and prices for monoethylene glycols – the Company appealed to Anti-Trust Court against the negative decision of OPCC setting penalty of PLN 40 million. On 13 August 2001 the Anti-Trust annulled fully the decision the decision of OPCC, which blame PKN of applying monopolistic practice, annulling at the same time cash penalty, in 2001 due to this fact the provision was fully released. OPCC applied on 4 October 2001 to the Supreme Court to annul the verdict. As of the date of preparation of these financial statements the Supreme Court has not appointed any date for the annulling lawsuit.

Until the date of preparation of these financial statements two remaining proceedings have still been pending. These financial statements does not include provisions relating to the above proceedings as in the opinion of the Company's Management charging the Company with these penalties is not probable.
In case of two remaining proceedings mentioned below, ultimate decisions were made in year 2002. The proceedings concerned::

– Practices limiting competition – on 10 October 2001 President of OPCC commenced legal proceedings to command following companies: PKN ORLEN S.A., BP EXPRESS Sp. z o.o., KAPBROL-Bis Sp. z o.o. and Klemens Imiola Firma KI to cease monopolistic practices, limiting competition by concluding agreements concerning prices for fuels on gas stations that belong to these firms in Koszalin. On 31 July 2002 President of OPCC decided, that no practices limiting competition by means of agreements setting the prices for fuel on gas stations by the charged companies took place at the local market of Koszalin.
– Refusal to sale fuels to certain group of customers – the Company appealed to the Supreme Court against the negative verdict of the Anti-trust Court, concerning cessation of monopolistic management practice. On 22 December 1999 Anti-trust Court set the verdict overruling the appeal of the Company, that was subject to cessation. The Supreme Court on 4 July 2002 overruled cessation of the Company, which sustains decision of OPCC from 13 January 1999. That decision urged to stop refusing sales of liquid fuels to certain groups of customers, because of anti-trust character of these actions.

On 7 February 2002 the Supreme Court issued the verdict (published on 12 February 2002) in which it dismissed the annulling request submitted by Office for Protection of Competition and Consumer ("OPCC") and Polish Chamber of Liquid Fuels ("PCLF") concerning the verdict of Anti-Trust Court from 23 June 1999. In the verdict to which OPCC and PCLF submitted annulling request, the Anti-Trust Court dismissed the decision of OPCC from 11 December 1998, issued at the request of PCLF ordering PKN ORLEN to cease practice of selling liquid fuels at the same price in Plock and regional trade offices of PKN ORLEN.

The Court stressed out that although PKN ORLEN dominates on the liquid fuels market and acts on both wholesale and retail market, wholesale prices setting policy does not interfere with anti-trust act.

f) Employees compensation plan

On 23 December 2002 an agreement between the company and trade unions operating within the Company was signed. The goal of this agreement was regulating the situation of employees in case of introducing restructuring actions in PKN ORLEN. The Company guarantees employment for employees up to final stage of restructuring process (the period is not clearly defined). If the obligation is not settle by the Company, dismissed employees will be paid compensation according to the following rules:

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

g) Polish taxation

Poland currently has a number of laws related to value added tax, excise tax, corporate income tax and payroll (social) taxes. Regulations regarding these taxes were implemented not long ago, and may be often unclear or inconsistent. Often, differing opinions regarding legal interpretations exist both among and within government ministers and organisations, creating uncertainties and areas of conflict. Tax settlements, together with other legal compliance areas (for example: customs and currency control matters) are subject to review and investigation by a number of authorities, which are reinforced by law to impose severe fines, penalties and interest charges. These facts create tax risks in Poland that are substantially higher than those typically found in countries with more developed systems.

There are no formal procedures in Poland to agree the final level of tax charge for a period. Tax settlements may be subject of review during the subsequent 5 years. There is a risk that the authorities may have a different opinion from that presented by the Company as to the interpretation of the law, which could have significant effect on the Company’s stated tax liabilities.

h) Fixed assets located on the land with unsettled ownership issues

Net book value of fixed assets on land with unsettled ownership issues as at 31 December 2002 amounts to PLN 29,169 thousand. Those assets are located mainly on fuel stations of former CPN. The necessity to leave or return these assets can have an adverse influence on the financial position or activity of the Company.

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

As at 31 December 2002 there were no significant amounts due to the State or local government budgets as a result of obtaining the right of ownership to buildings.

Note 47. Discontinued operations

In 2002 the Company did not discontinue any core activity and do not plan to discontinue any area of core activity in the following 12 months.

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

Cost of construction in progress and fixed assets constructed by the Company itself amounted to PLN 8,975 thousand in 2002.

Note 49. Capital expenditures planned and incurred after 31 December 2002

Capital expenditures planned by the Company in year 2003 amount to PLN 1,761,019 thousand including capital expenditures related to protection of environment amounting to PLN 164,852 thousand. Capital expenditures incurred until the end of February 2003 amounted to PLN 96,134 thousand, including expenditures related to protection of environment amounting to PLN 15,131 thousand.

Note 50. Information concerning significant transactions with related parties

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

Transactions with members of the Management Board and Supervisory Board are described in Note 55.

As at 31 December 2002 there were no borrowings granted by the Company to managing and supervising persons and their relatives.

In 2002 members of Management Board, Supervisory Board, their spouses, siblings, descendants and their other relatives have not entered any significant transactions with the Company.

(in PLN thousand)

b) Transactions with related entities in the period between 1 January 2002 and 31 December 2002 and account balances as at 31 December 2002

Capital Group PKN ORLEN

	Consolidated subsidiaries 1)	Consolidated associates 2)	Unconsolidated subsidiaries 1)	Unconsolidated associates 2)	Total of related entities
Sales	3,164,530	37,851	10,482	92,890	3,305,753
Purchases	578,703	26,818	125,232	45,606	776,359
Interest receivable	5,115	21	396	65	5,597
Interest payable	3,950	712	-	-	4,662
Gross short-term receivables	346,134	5,111	1,906	6,440	359,591
Short-term payables	155,645	12,368	16,046	7,596	191,655
Long-term receivables	258,378	-	24	-	258,402
Long-term payables	230,299	-	-	-	230,299

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

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

Information about share in common stock and number of votes in subsidiaries and associates is presented in Note 4E.

Note 51. Unconsolidated joint ventures

In 2002 the Company did not participate in join ventures.

Note 52 Information on significant shares and stakes

a) Polkomtel S.A.

As at 31 December 2002 the Company owned 4,019,780 shares of Polkomtel S.A. and had 19.61% share in Polkomtel share capital. Total purchase price amounted to PLN 436,495 thousand.
Polkomtel S.A. activities mainly include:

- designing, installation, exploitation and managing of GSM system on Polish territory in accordance with conditions of license given to the company,
- services connected with GSM cellular telecommunication on Polish territory,
- sales of products and services related to GSM system.

Shares are presented in the balance sheet at purchase price, as they have no active market and their fair value cannot be reliably measured.

Moreover in 2001 PKN ORLEN granted the loan for financing UMTS expenses amounting to PLN 98,050 thousand.

b) Niezalezny Operator Miedzystrefowy Sp. z o.o.

As at 31 December 2002 the Company owned 168,000 shares and 35% of votes on General Meeting of Shareholders of Niezalezny Operator Miedzystrefowy Sp. z o.o. Share capital of the company amounts to PLN 240 million. The other shareholders are Polskie Sieci Elektroenergetyczne S.A. in Warsaw (50%) and Telekomunikacja Energetyczna Tel-Energo S.A. in Warsaw (15%).

The company's activities include: interregional telecommunication services, installation, exploitation, modernisation and usage of telecommunication systems.

The Company owns put option for shares in Niezalezny Operator Miedzystrefowy Sp. z o.o. at price not lower, than balance sheet value as at 31 December 2002.

c) AWSA Holland II B.V.

As at 31 December 2002 the Company had 9,22% share in AWSA Holland II B.V. share capital at total purchase price of PLN 61,400 thousand.

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

Shares are presented in the balance sheet at purchase price, as they have no active market and their fair value cannot be reliably measured.

(in PLN thousand)

d) Telewizja Familijna S.A.

As at 31 December 2002 PKN ORLEN owned 220,000 shares of Telewizja Familijna S.A which represents 11,96% of share capital and 9,61% votes on General Meeting of Shareholders.

The company's activities include: radio and television activity, activity connected with movie and video industry, reproduction and recording, telecommunication, advertising and agency activity.

On 14 March 2000 a contract was signed between the Company, Telewizja Familijna S.A., KGHM Metale S.A., PSE S.A., Prokom Investments S.A., PZU na Zycie S.A. and Monastery "Prowincja Zakonu Braci Mniejszych Konwentualnych". The parties of this contract became the shareholders of Telewizja Familijna S.A. The value of capital investment of PKN S.A. amounts for PLN 26 million. Above shares were fully provided for. On 18 July 2001 PKN ORLEN acquired 260 bonds amounting to PLN 26 million. Repurchase of bonds is going to take place on 12 March 2005. Above bonds were fully provided for.

Note 53. Average employment information

Average employment by category in 2001 and 2002 was as follows:

Category of employment	Year 2002	Year 2001
Blue collar workers	3,201	3,376
White collar workers	4,048	4,116
	- - - - -	- - - - -
	7,249	7,492
	======	=====

Note 54. Remuneration of the Company's Management and Supervisory Boards, including distribution of profits paid out in the period between 1 January 2002 and 31 December 2002

Remuneration of the Company's Management includes contract remuneration, bonuses, annual bonus and cash equivalents for the unused vacations set by the Supervisory Board in management contracts. Additionally, the Company pays life insurance for the members of the Management Board.

Remuneration	Year 2002	Year 2001
Management Board*	11,052	6,359
Supervisory Board	859	755
	- - - - -	- - - -
Total	11,911	7,114
	======	=====

* including the remuneration of former members of Management Board

(in PLN thousand)

Remuneration in subsidiaries	Year 2002	Year 2001
Management Board*	338	315
Supervisory Board	-	-
	------	------
Total	338	315
	====	====

* including remuneration of former members of Management Board

Remuneration in associates	Year 2002	Year 2001
Management Board	49*	56
Supervisory Board	-	-
	------	------
	49	56
	====	====

* including the remuneration of former members of Management Board

As at 31 December 2002 Board Management is entitled to purchase bonds convertible to shares described in Note 12.

Note 55. Information about loans, borrowings and guarantees granted to the Management and Supervisory Board members

The Company did not grant loans, borrowings and guarantees to the Management and Supervisory Board members in 2002.

Note 56. Significant events from previous years included in the financial statements for the period beginning from 1 January to 31 December 2002

No significant events concerning previous years were included in the financial statements for 2002.

Note 57. Events occurring after the end of the reporting period

a) Joint venture company PKN ORLEN - BASELL

On 7 February 2003 Management Board of PKN ORLEN announced that it received a letter from the Office for the Protection of Competition and Consumers ("OPCC"), in which OPCC gives its assent for the acquisition by Basell Europe Holdings B.V. of 50% of Poliolefiny Polska Sp. z o.o. Poliolefiny Polska Sp. z o.o. will be a basis for establishing JV company with Basell Europe Holdings B.V.
On 28 February 2003 the extraordinary meeting of the shareholders of the Joint Venture Company took resolution concerning increase in the share capital of JV Company from the amount of PLN 50 thousand up to the amount of PLN 907,398 thousand by creation of 1,814,696 new shares with the nominal value of PLN 500 each. In such increased share capital: 907,298 new shares were subscribed for by PKN ORLEN in exchange for the in-kind contribution being its organized part of enterprise, and 907,398 shares were subscribed for by Basell Europe Holdings B.V. in exchange for the cash contribution. Following the registration of the increase in the share capital PKN ORLEN and Basell Europe Holdings B.V. shall held the same number of shares in the Joint Venture Company.

On 24 February 2003 the Company received information of the signing by a group of international banks of a mandate and underwriting letter setting out the conditions upon which the banks are ready to secure financial resources for the joint-venture company. The two loans, which are still subject to the signing of the relevant individual loan agreements (not later than by 31st May 2003), will be utilised for the undertakings of the joint-venture, which are mainly for the construction of new polyolefin plants.
The signing of the mandate and underwriting letter by the above-mentioned banks fulfilled the last remaining condition as set out in the JV Agreement. In the light of the above PKN ORLEN informed that all the conditions mentioned in the JV Agreement have now been fulfilled.
On 1 March 2003 JV Company, located in Plock, commenced its polyolefin production and distribution operations.

b) Long term investments in Germany

On 28 February 2003 the Company acquired within the Northern Package 494 retail stations (323 stations under the name BP-Aral and 171 stations under the name Eggert – company previously acquired by ARAL). The initial price paid for the Northern Package amounts to EURO 100,900 thousand.
On 27 February 2002 EURO 90,000 thousand Bridging Guarantee Facility and EURO 25,000 thousand Bridging Revolving Credit Facility Agreement was executed. The parties to the Agreement are: the Company as guarantor, the company incorporated under German law dependant from the PKN ORLEN under the name Einhundertzweiundreissigste Vermoegensverwaltungsgesellschaft mbH (EV mbH) as borrower, and Bank Austria Creditanstalt AG as creditor. In the Agreement the Bank agreed, subject to satisfaction of certain conditions precedent set forth in the Agreement, to grant bridging financing to EV mbH in the form of the guarantees and in the form of revolving credit. The financing will be used for the purpose of the working capital of the borrower.
The Bank's receivables for repayment of the financing will be secured in particular by the guarantee granted by the Company. The liability of the Company to the Bank under the Company's Guarantee is limited to EURO 57,500 thousand. Additionally, the Agreement provides that other security interests will be established in favor of the Bank upon shares and/or assets of certain companies in Germany.

Note 58. Information on relations between legal antecedent and the Company concerning overtaking of assets and liabilities

On 29 June 1993 the Minister for Privatisation representing State Treasury transformed the State-owned enterprise Mazowieckie Zaklady Rafineryjne i Petrochemiczne "Petrochemia" located in Plock into State-owned joint stock company. The Company share capital resulted from transformation of the former state enterprise funds: enterprise fund and start-up fund. The share capital of the Company at the day of transformation amounted to PLN 420,000 thousand, with the remaining part of the funds of state-owned enterprise presented as the capital reserve of the Company. The State Treasury took up all of the Company's shares. The special funds of the state-owned enterprise, in the amounts presented in the closing balance sheet, became special funds of the Company in accordance with their previous use.

Note 59. Hyperinflationary accounting and reporting

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

(in PLN thousand)

Note 60. Differences between data disclosed in the financial statements and previously prepared and published financial statements

Changes introduced to the financial statements for the fourth quarter of year 2002

	Net profit	Equity
Financial data disclosed in 4 Q 2002 report	386,461	7,267,782
1. Impairment of receivables	(1,950)	(1,950)
2. Other	(3,254)	(3,254)
3. Income tax/ deferred income tax from above adjustments	1,013	1,013
Financial data disclosed in the financial statements for 2002	382,270	7,263,591

The above adjustments did not impact the cash flow from operating activities.

(in PLN thousand)

Note 61. Changes in the accounting policies

In 2002 the Company introduced changes, resulting from introducing the amended Accounting Act on 1 January 2002, in the applied accounting policies in comparison to policies according to which the financial statements for previous years were prepared, described in point C of introduction to the financial statements.

A reconciliation of equity of the Company presented in the annual report for 2001 and net profit of the Company presented in the annual report for 2001 to the comparable data presented in these financial statements, is presented below.

	31 December 2001
Equity – (previously published data)	6,859,092
Unrealised foreign exchange gains	105,117
Changes resulting from assets and liabilities valuation	(15,100)
Embedded derivatives valuation	23,558
Costs of the Motivation Program	(18,865)
Other adjustments	2,792
Deferred tax on adjustments	(24,209)
Equity – comparable data	6,932,385

	Year 2001
Net profit – (previously published data)	248,026
Unrealised foreign exchange gains	27,513
Changes resulting from assets and liabilities valuation	(6,460)
Embedded derivatives valuation	15,699
Costs of the Motivation Program	(18,865)
Other adjustments	(379)
Deferred tax on adjustments	(4,674)
Net profit – comparable data	260,860

a) Unrealised foreign exchange gains

Unrealised foreign exchange gains are recorded as financial income of the reporting period in which the change of foreign exchange rate occurred. According to the Accounting Act before the amendment the differences were accounted for as deferred income.

b) Valuation of assets and liabilities as at balance sheet date

At the balance sheet date foreign currency assets and liabilities are valued in the manner presented in point C of introduction to the financial statements. According to the Accounting Act before amendment the above items were valued at the average exchange rate set by NBP as at the balance sheet date.

(in PLN thousand)

c) Embedded derivatives

Embedded derivatives are separated from contracts and treated as standalone derivatives in the manner presented in point C. The Accounting Act before amendment did not refer to the embedded derivatives so the embedded derivatives were not separated.

d) Equity compensations plan costs

Right to convertible bonds issued by the Company under the equity compensations plan is accounted for in the manner presented in point C. Before the amendment to the Accounting Act had been introduced the result of granting the right to purchase the bonds was not presented.

Note 62. Impact of valuation of significant subordinates consolidated under equity method on net profit

If taking into account an effect of applying equity method for valuation of stakes and shares in consolidated subordinates in consolidated financial statements the Company's net profit would increase by PLN 96,998 thousand.

Net profits/losses of subordinates for 2002 are presented in Note 4M.

Note 63. **Change in the methods of preparation of financial statements**

Apart from changes resulting from application of rules of amended Accounting Act and Decree no other significant changes in the methods of preparation of financial statements were made. Comparable financial data for 2001 were prepared in accordance with Decree.

Note 64. Liabilities secured on the Company's assets

As at 31 December 2002 the Company had following liabilities secured on the assets

Type of collateral at 31 December 2002	Liabilities secured on assets	Amount of collateral
Mortgage	-	-
Collaterals on other fixed assets	-	-
Pledge on goods	-	-
Assignment of receivables	120,590	12,450
Other	-	-
	--------	--------
Total	120,590	12,450
	=======	=======

Note 65. Mandatory reserves of liquid fuels

Pursuant to the Act on State Reserves and Mandatory Fuel Reserves of 30 May 1996 (Journal of Law no 90. position 404 with further amendments) the Company and some of its subsidiaries are subject to an obligation to create and maintain mandatory reserves of liquid fuels. As at 31 December 1998 the reserves should amount to 2 per cent by volume of the production or imports realised by entity in the previous year. 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).

SIGNATURES OF THE MEMBERS OF THE MANAGEMENT BOARD

....
President - Zbigniew Wrobel

....
Vice President – Jacek Strzelecki

....
Vice President – Slawomir Golonka

....
Vice President – Andrzej Macenowicz

....
Vice President – Janusz Wisniewski

Plock, 25 March 2003