ORLEN

ANNUAL REPORT 2004

JUBILEE EDITION:

60 YEARS OF CPN

45 YEARS OF PETROCHEMIA PŁOCK

5 YEARS OF PKN ORLEN

mission statement

Aiming to become the regional leader, we ensure long-term value creation for our shareholders by offering our customers products and services of the highest quality.

All our operations adhere to 'best practice' principles of corporate governance and social responsibility, with a focus on care for our employees and the natural environment.

IN ACCORDANCE WITH IFRS

	2000 PLN m	2001 PLN m	2002 PLN m	2003 PLN m	2004 PLN m
Revenues	**18,602**	**17,038**	**16,902**	**24,412**	**30,565**
EBITDA	2,335	1,706	1,891	2,503	3,987
EBIT	1,425	617	731	1,267	2,750
Net profit	**902**	**376**	**421**	**987**	**2,396**
Total assets	**14,087**	**14,383**	**15,073**	**17,149**	**19,017**
Shareholders' equity	7,596	7,958	8,329	9,510	11,685
Net debt (1)	2,542	2,549	2,341	2,402	168
Net cash provided by operating activities	1,073	2,112	1,292	1,707	3,564
CAPEX (2)	1,459	1,533	967	1,337	1,467

	2000 PLN	2001 PLN	2002 PLN	2003 PLN	2004 PLN
EPS	**2.15**	**0.89**	**1.00**	**2.35**	**5.61**
CF per share	2.55	5.03	3.07	4.06	8.35
Total assets per share	33.53	34.23	35.87	40.10	44.53
Book value per share	**18.08**	**18.94**	**19.82**	**22.23**	**27.36**

	2000 in %	2001 in %	2002 in %	2003 in %	2004 in %
Gearing (3)	33.5%	32.0%	28.1%	25.3%	1.4%
ROACE (4)	10.7%	4.3%	5.0%	8.2%	18.7%

	2000 number	2001 number	2002 number	2003 number	2004 number
Number of employees in PKN ORLEN Group	13,342	17,582	17,818	15,133	14,296

1) Net debt = short and long-term interest-bearing debt – (cash and cash equivalents)

2) Purchase of tangible and intagible assets

3) Gearing = net debt / shareholders' equity

4) ROACE = EBIT after actual tax rate / average (shareholders' equity + net debt)

IN ACCORDANCE WITH IFRS

2004	Refining PLN m	Petrochemical PLN m	Other PLN m
Revenues	25,885	4,000	680
Profit of the segment	2,342	803	14
Non-attributed costs		**409**	
Operating profit		**2,750**	
Assets	11,253	2,948	1,765
Capex	715	609	68

NET PROFIT
PLN m

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

ANNUAL REPORT 2004

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Composition of the Supervisory Board
PKN ORLEN

Jacek Bartkiewicz
Chairman

Raimondo Eggink
Member of the Supervisory Board

Maciej Gierej
Member of the Supervisory Board

Małgorzata Okońska-Zaremba
Member of the Supervisory Board

Piotr Osiecki
Member of the Supervisory Board

Michał Stępniewski
Member of the Supervisory Board

Ireneusz Wesołowski
Member of the Supervisory Board (independent)

Letter from the Chairman of the Supervisory Board

Ladies and Gentlemen,

In 2004 the Supervisory Board of PKN ORLEN effected significant personnel and organizational changes to the Management Board, designed to increase the efficiency and transparency of the Group's management. In the fourth quarter of the previous year, the Company had already begun to operate under new management. In our opinion, the changes were implemented smoothly, transparently and had no detrimental effect on the operational activities of the Company. We believe that the present Management Board will meet the expectations of the shareholders, customers and employees of the Company.

The previous year was of paramount importance for the national economy. In May, Poland joined the ranks of the European Union member states with all the benefits and obligations inherent in participation in the Common Market. PKN ORLEN stands among the companies that can fully harness the potential of new opportunities related to our membership of the EU.

The focus of the Supervisory Board of PKN ORLEN was to chart the strategic objectives of the Company. The analyses revealed the good financial standing of the Company and the ORLEN Group, accompanied by a noticeable slowing down of growth of PKN ORLEN's value in comparison to the growing capitalization of our competitors in the region. The results also revealed the need to restructure our capital assets and the negative trend in retail sales. The crucial task was therefore to chart the new development strategy for PKN ORLEN for the forthcoming years. Starting from October 2004, the Supervisory Board, in conjunction with the Management Board, worked on this document, which was published in February 2005.

The new strategy defines PKN ORLEN's development plans for 2005-2009. The overriding objective is to accelerate the growth of the company's value based on our own capabilities. We have identified the cornerstones of the strategy, which emphasises the internal strengthening of PKN ORLEN and investments yielding the required return rate on the capital employed. The Company should focus on its core business by expanding its presence in key business areas in the domestic markets which, at present is Poland, although we intend that the Czech Republic market will soon also be called "domestic".

One of the key projects of PKN ORLEN in this area has been to finalise the acquisition of a 62.99% stake in Unipetrol – the largest Czech group in the fuel and petrochemical sector. We have approached this transaction with the utmost care, since the acquisition of Unipetrol is Poland's largest foreign investment. We expect that it will further reinforce PKN ORLEN's position in the European refining and petrochemical sector.

In addition, the strategy provides for the active pursuit of development opportunities as regards complementary assets in new geographical markets. We believe that the implementation of those principles will benefit the Company as it assumes the position of regional leader, in accordance with the new corporate mission.

Last year, the Company continued to implement strategic and operational projects directly translating into our financial results. The large volume of crude processing, exceeding 90% of refinery capacity, and the consistent implementation of the Comprehensive Programme for Operational Cost Reduction decisively contributed to the increased efficiency of PKN ORLEN in 2004. In terms of our financial results, last year was the best in the history of PKN ORLEN. Poland's accession to the European Union spurred the economic development of the country, and had a positive impact on the operation of the oil industry. Trends in the world economy were also supportive. Optimum usage of economic factors by PKN ORLEN yielded a record high in net profit, which reached PLN 2.4bn.

However, we need to remember that the current market position has not been given to the Company for life. We must strive with day-to-day, consistent, efforts to keep this high standing in the competitive hierarchy of the market, by implementing development schemes and restructuring our areas of operation. These processes must be carried through skilfully, taking advantage of the fact that good external economic conditions facilitate the employment of measures to alleviate the social cost of such transformations. This opportunity cannot be wasted.

We recognize a move away from the political affiliations of the enterprise as a factor in the success of the development plans of the Company. For most of the previous year the Company had operated in an unfavourable atmosphere, against a media background of economic and political scandals. By assuming the supervision of the Company, the Supervisory Board decided to counteract the impact of such turmoil on the day-to-day operation and development of the Company. The first undertaking was calling a new Management Board that would ensure the transparency of corporate performance. Following the Supervisory Board's recommendation, the Management Board has implemented sound principles of corporate governance and the challenge of reconstructing the severely tarnished image of the Company. Currently, we are implementing an open information policy, both internal and external. An efficient mechanism for the elimination of irregularities has also been implemented. This has translated into greater transparency for decision-making at both the managerial and senior management level.

The Company staunchly opposes any attempts to embroil it in the political atmosphere accompanying the work of the parliamentary investigation committee. Simultaneously, the Company is also taking a keen interest in clearing up all ambiguities and, as a result, is cooperating with the committee within the latter's statutory duties. It is acting via the mass media and opinion leaders in order to prevent any misuse of the ORLEN brand name in the context of scandals and political irregularities which have, in the past, been loosely linked with the committee's work.

We want ORLEN to be the synonym for significant economic potential, success in foreign acquisitions, and a fair, transparent, environmentally-friendly and customer-focused company.

I should like to thank the Management Board and entire staff for every effort they have put into actions to restore the positive image of the Company, for the financial success of the previous year, and for responsible management, which created the foundation for an ever brighter future.

Ladies and Gentlemen,

We want to build the success of PKN ORLEN, measured by the growth in our value for shareholders, by strengthening our market position. We are convinced that only thanks to your confidence and acceptance of our actions will we achieve the goals we have set.

On behalf of the Supervisory Board, I should like to thank the Shareholders for their support thus far.

Jacek Bartkiewicz
Chairman of the Supervisory Board
PKN ORLEN


ORLEN
Koncern Naftow
Spółka Akcyjna

Letter from the President of the Management Board

Ladies and Gentlemen,

It is my pleasure to present the Annual Report, summarizing the activities of PKN ORLEN and the ORLEN Group in 2004.

Last year, ORLEN Group achieved a record high in its five-year history of financial results. This was possible owing to the commitment of our employees and favourable market conditions, i.e. high refinery margins and oil prices, and the positive difference between the prices of Brent and Ural crudes. The consolidated revenue of the ORLEN Group grew by over 21% in comparison with 2003, and reached over PLN 40bn. In the same period, the operational profit of the Group rose by 114.7% to PLN 2.8bn. Consolidated net profit came to PLN 2.6bn, exceeding the 2003 figure by more than 152%. The return on capital employed averaged 20%, an over twofold increase in comparison with the 2003 figure.

In 2004, the volume of crude processing by PKN ORLEN increased by 4%, reaching 90.3% of capacity. Production streamlining projects further increased the yield of white products, which reached 81.6%. Technological improvements assisted the company in introducing higher-quality fuels, which surpass the current requirements of the European Union. Diesel fuels now meet the most stringent European standards in terms of sulphur content, while heating oil meets the quality and environmental requirements for 2008. Our active trading policy boosted domestic wholesale by 7%, despite fuel imports to Poland rising by 23% in comparison to 2003. Towards the end of 2004, PKN ORLEN operated a retail network of 1,906 stations, including 1,319 proprietary facilities. The share in the aggregate market for fuels in the previous year came to 28.6% and was 7 percentage points short of the 2002 result. This was accompanied by sluggish sales of fuels and LPG per proprietary station, amounting to 2.1m litres in 2004. Despite this negative trend in retail sales, the customer base of the loyalty scheme expanded. The number of VITAY card holders exceeded 5m and we supported over 4,000 companies within the FLOTA scheme. As part of the optimization programme for the ORLEN Group, the Company reduced the number of subsidiaries, affiliates and minority entities forming the corporation by 8 companies, to reach the final number of 80 companies. This is the result of the sale of non-core assets and the merging of certain companies, including those operating in the German market.

The best financial results among the subsidiary companies of the ORLEN Group was recorded last year by Zakłady Azotowe Anwil SA. The net profit of the company totalled PLN 196,130,000. In 2004, the company executed the last stage of the investment programme, which involved the upgrading of the technological line for PVC production (polyvinylchloride). Following the completion of the undertaking, Anwil will operate one of the most cutting-edge, integrated systems for the production of PVC in Europe. In addition, Anwil successfully finalized, together with its Korean partner, the launch of its PET granulate production system.

Basell Orlen Polyolefins Sp. z o.o. (BOP) also reported a new high in terms of its results and ended 2004 with a net profit of PLN 103,414,000. Besides its current operations, in the previous year BOP focused on its key investment project. On the premises of the Production Plant in Płock, the company is building the two largest systems in the world for the production of polypropylene and high-density polyethylene, whose production capabilities will be 320,000 tons per year. The project was launched in 2003 and the previous year saw the execution of 52% of all planned tasks. The start of commercial manufacturing with the new systems is planned for the second half of 2005. BOP's investment was awarded the "European Transaction of the Year in the Petrochemical Industry", by Project Finance Magazine, which testifies to the magnitude, importance and complexity of the project. Despite its brief presence in the market, the company has already been granted the ISO 9001 certificate in quality and ISO 14001 in environmental protection as well as PN-N 18001 and OHSAS 18001 in safety.

ORLEN Deutschland closed the previous year with a net loss of over PLN 83 m. This poor result stems from the 'price war' in the German market and a significant drop in retail margins. The German network in its present state and size cannot effectively operate with stiffening price competition and defend itself through the benefits of scale. That is why the Management Board of PKN ORLEN is considering boosting growth in market share to 10% by acquiring new stations. In the event that no long-term solutions can be adopted, PKN ORLEN is considering withdrawing from its investment in the German market.

To match market trends, Rafineria Trzebinia SA, a sector company of the ORLEN Group, launched Central Europe's first comprehensive system for the production of vegetable oil methyl ester and pharmaceutical glycerine. Pure methyl ester can be used for example in the domestic biofuels market and can also be exported to other members of the EU.

Last year, the Management Board of PKN ORLEN, in conjunction with KGHM Polska Miedź SA and Polskie Sieci Elektroenergetyczne SA, took steps to introduce the shares of Polkomtel SA for public trading on the Warsaw Stock Exchange. The Polish shareholders of Polkomtel signed the necessary agreement, obliging them to introduce their assets for trading, this should take place no later than 30 September 2005.

Exploring new business opportunities rewarded PKN ORLEN with winning the tender for the purchase of 62.99% of shares in Unipetrol – the largest Czech group in the fuel and petrochemicals industry. A series of preparatory actions and the fulfilment of formal requirements were necessary for the acquisition of shares to be effective. In October last year, one of the crucial suspending conditions of the agreement was complied with – none of the present shareholders of Ceska Rafinerska decided to exercise their pre-emptive right to the shares. In December 2004, yet another suspending condition of the agreement for the acquisition of Unipetrol shares was fulfilled, namely the decision by the European Union which confirmed that the transaction bears no traces of public aid.

In March 2005, an official notification was submitted in relation to the acquisition of Unipetrol's shares and the necessity to obtain approval for this transaction from the anti-trust body. In April this year, the European Commission issued a positive decision on PKN ORLEN's acquisition of Unipetrol, thus warranting that the last of the conditions stipulated in the agreement between the Czech Republic's National Property Fund and PKN ORLEN had been met. Skilful integration of the companies within the ORLEN Group and Unipetrol holding as well as implementation of all inherent synergies is of paramount importance to us. We expect that the results of these actions will provide a foundation for our future investment projects in the Czech Republic.

In Q4 of 2004, the newly appointed Management Board started to work out the development strategy for PKN ORLEN. This work rested on the expectations of the capital market and the broad environment of the ORLEN Group. The strategy of building the company's value for 2005-2009, as approved by the Supervisory Board in February 2005, is based on the new mission of the Company: "Aiming to become the regional leader, we ensure long-term value creation for our shareholders by offering our customers products and services of the highest quality. All our operations adhere to 'best practice' principles of corporate governance and social responsibility, with a focus on care for our employees and the natural environment.". The strategy names three pillars leading to the achievement of the set financial targets: internal strengthening and greater efficiency of the Company's operations, the development of core businesses in domestic markets, and the active pursuit of new business opportunities in new markets. The strategy stipulates an EBITDA for the ORLEN Group of at least PLN 6bn in 2009. If macroeconomic conditions similar to those prevailing in 2004 are assumed, EBITDA in 2009 should reach PLN 7.9bn, which would mean a doubling of PKN ORLEN's efficiency. Again, assuming macroeconomic conditions similar to those in 2004, we plan to achieve further growth of 14% in EBITDA in 2005. We expect the annual return on average capital employed (ROACE) for the ORLEN Group in 2009 to reach 17.5%.

We want to focus our acquisition plans on potentially high growth markets. Investment projects must aim to strengthen the core businesses of PKN ORLEN and assist in building our position of regional leader. All plans will be subject to strict financial analysis, including in terms of achieving our planned ROACE long-term growth rate. Our sensitivity to different development scenarios of macroeconomic factors will also be assessed.

An important element of the strategy is the potential expansion, by 2009, upstream. This decision will be considered from two different standpoints: security of crude supply and profitability of the investment projects directly related with the supply.

Ensuring uninterrupted raw material deliveries is central to PKN ORLEN and the ORLEN Group. PKN ORLEN has the technical capabilities for processing oil coming not only from our Eastern neighbours, but also from sources in other regions of the world. Despite perturbations at one of our suppliers last year, uninterrupted deliveries were not endangered.

The newly appointed Management Board of PKN ORLEN immediately proceeded with actions to improve the operational efficiency and transparency of the ORLEN Group. The new Cost Management and Information Technology division will prepare a cost cutting programme and initiate the implementation of a centralized purchasing system, which will ultimately operate on behalf of all entities of the ORLEN Group. We have also expended considerable effort on streamlining the ORLEN Group's management and its restructuring as well as implementing new methods of human resource management within PKN ORLEN. The implementation of the segmental management system, comprising all key areas of activity of PKN ORLEN and the ORLEN Group, is designed to serve this purpose.

The Management Board of PKN ORLEN started to operate under my supervision in circumstances characterised by an intensification of factors having the potential for a negative impact on the future of PKN ORLEN. Uncertainty as to the regional consolidation plan, shareholder conflict, the appointment and work of the Investigation Committee and, above all, the omnipresence of political influences on PKN ORLEN are the obstacles we need to challenge. Among the internal factors, the most acute has proved to be the lack of corporate governance principles, management transparency and respect for ethics. We have taken decisive steps to build a new image for ORLEN, by means of an open information policy, both internal and external. We want to restore the good reputation of the Company, and the respect and confidence of shareholders, customers and employees. Our employees are particularly deserving, as they have very often been working for the Company for many years and have displayed the utmost commitment to their work.

In order to achieve our objectives, we have initiated a process of changing our corporate culture. The foundations of the new culture will be the principles of a professional code of ethics, and we wish to see every employee of the ORLEN Group identify with them. We need to be aware, however, that this is a long-term process, requiring significant changes in human resources systems in terms of the assessment, remuneration and motivation of our employees.

In January 2005, our company adopted for implementation the principles of corporate governance, as proposed by the Warsaw Stock Exchange. We would like to extend the application of these principles so that they also cover other companies within the ORLEN Group. We also signed the worldwide "Initiative – Partnership Against Corruption", thus adopting a zero-tolerance attitude to corruption.

Ladies and Gentlemen,

The Production Plant in Płock enjoys a top-ten position in the ranking of European refineries in terms of applied technology. Our participation in the Common Market helps us capitalize on this. At the same time, it entails additional costs, resulting from participation in European energy and environmental security systems. The future of ORLEN depends on how effective we are in facing the current challenges of the regional market. I am positive that the implementation of the new strategy for PKN ORLEN will assist us in assuming the position of a regional leader and secure the growth in value of the Company for our shareholders.

We have received positive feedback from our shareholders on our actions so far, and this has been corroborated by the rising share price of our stock. From the appointment of the new Management Board on 18 October 2004 until the end of Q1 of 2005, the value of our stock on the exchange rose by 31.9%, with the WIG 20 achieving a mere 11.8%.

We take pride in the information that PARKIET, the Polish financial daily, considered PKN ORLEN's stock as "Best investment in a WIG 20 company in 2004".

Last year was exceptional in the Company's history, both for operational reasons and anniversaries. 2004 marked three jubilees. We celebrated the 5th anniversary of PKN ORLEN's establishment and also the 60th anniversary of the establishment of Centrala Produktów Naftowych and 45 years of Petrochemia Płock. The anniversary celebrations serve the purpose of invoking values to guide the generations building the post-war history of the oil industry. These values should be followed today in order not to waste the achievements of their work. To honour all the employees who have contributed their share to the current position of PKN ORLEN, a section of this report is devoted to the history of all three companies and the memories of their employees.

I would like to thank all employees of the ORLEN Group for their sustained effort in building the value of PKN ORLEN. I would also like to thank the Supervisory Board and the Chairman for their strenuous work, essential support, and confidence, which has allowed the Management Board to perform its mission.

The implementation of the strategic tasks for 2005 and subsequent years is before us. We count on the continuing support of our shareholders, Supervisory Board and employees as well as the kindness and loyalty of our customers.

Igor Chalupec
President of the Management Board
PKN ORLEN

Management Board of PKN ORLEN

from the left:

Wojciech Heydel
Vice-President
& Head of Retail Operations

Janusz Wiśniewski
Vice-President
& Chief Operating Officer

Andrzej Macenowicz
Vice-President
& Chief HR Officer

Igor Chalupec
President
& Chief Executive Officer

Paweł Szymański
Member of the Board
& Chief Financial Officer

Cezary Smorszczewski
Vice-President
& Chief Investment Officer

Jan Maciejewicz
Vice-President
Head of Cost Management & IT

Photo: archive

History

HISTORY

ANNIVERSARIES

5th Anniversary of PKN ORLEN

45th Anniversary of PETROCHEMIA PŁOCK

60th Anniversary of CENTRALA PRODUKTÓW NAFTOWYCH

Photo: archive

25 lutego 60.

Mazowieckich Zakładów
Rafineryjno-Petrochemicznych
w Budowie
Płock
ul. Jachowicza 30

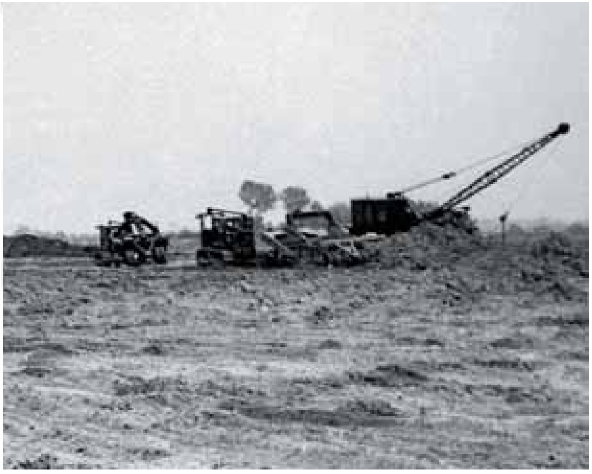
Zaświadczenie lokalizacji szczegółowej Nr

Wydział Architektury i Budownictwa P.W.R.N. w Warszawie

Komisji Planowania przy Radzie Ministrów

Mazowieckich Zakładów Rafineryjno-Petrochemicznych

we wsi Biała Nowa pow. Płock



A good cause does not require a lot of talking

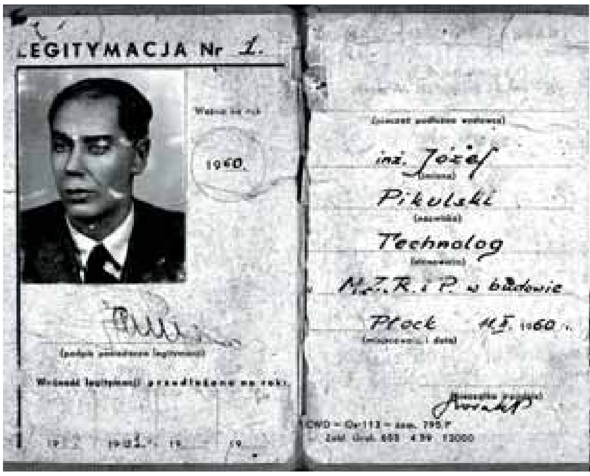
Yet it requires considerable time... This "good cause" is PKN ORLEN and the people who have created it. The history dates back to the first years of operation of Petrochemia Płock and Centrala Produktów Naftowych.

The first idea for establishing a refinery emerged in 1954. The related work was directed by the then Oil Refining Industry Management in Kraków. Since the processing capacity of the five refineries operating at that time in Niegłowice, in the vicinity of Jasło, Jedlicze, in the vicinity of Krosno, Glinik Mariampolski, in the vicinity of Gorlice, Trzebinia and Czechowice--Dziedzice came to an approximate aggregate of only 1 million tons, and which came short of domestic demand, a decision was made to build a large refinery. Originally, the processing capacity of the refinery was planned to reach 1 million tons per year. Subsequently, it was increased to 2 million tons, 4 million tons, and ultimately to 6 million tons per year in 1960. The construction of a new refinery was also motivated by the increasing domestic demand for petrochemical products and the high cost of using hard coal as the raw material. The construction of the new refinery and a large petrochemical plant was deemed to be an imperative.

On 14 October 1958, the Governmental Location Committee decided to locate the refinery in Płock. By virtue of this decision, on 5 January 1959 the Economic Committee of the Council of Ministers adopted, by way of resolution No. 2/59, the decision on the construction of Mazovia Refinery and Petrochemical Plant (Mazowieckie Zakłady Rafineryjne i Petrochemiczne – MZRiP), located in Płock. On 27 January 1960, MZRiP was registered in the Business Registry Office of the Ministry of Finance, thus receiving legal status.

The construction and production programme was presented in resolution No. 419/60 of the Economic Committee of the Council of Ministers, dated 8 December 1960. The resolution stipulated that MZRiP would process 6 million tons of crude per year and develop further, to reach a processing capacity of 9-10 million tons per year. The construction of the facility proceeded in two stages. With the completion of the first stage, the processing capacity of 2 million tons per year was achieved, while the second ensured a yearly processing figure of 4 million tons. When the capacity was further increased to 6 million tons of crude per year, the products on offer were as follows:

1965 saw a dynamic development of the facilities. A number of new investment and production projects were implemented. The line of finished products was expanded. In 1967, the first stage of the construction of the refinery section was complete. Between 1967 and 1974 the first petrochemical systems were commissioned and put in operation along with the development of the refinery section. At that time, the Płock facilities concluded a contract with three general distributors of their products:



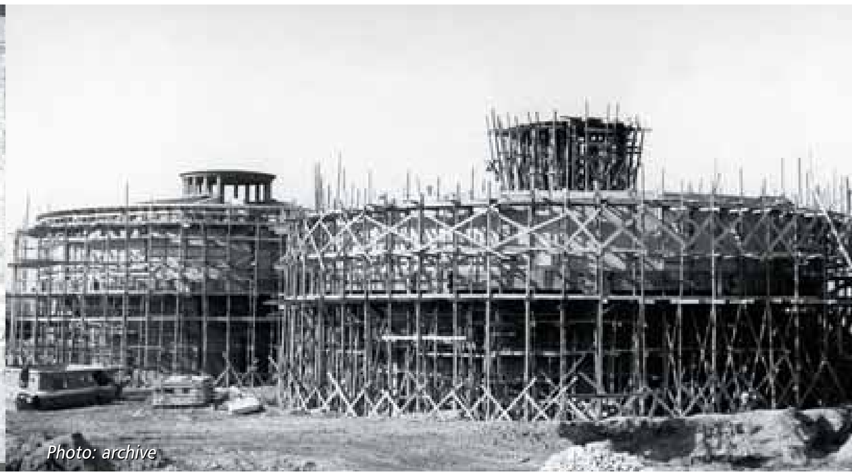


Photo: archive

- refinery products: engine fuels, reactive fuels, xylene mixes, diesel oil, oil coke, bitumens, lubricant oil, hard and soft paraffin;
- petrochemical products: polyethylene, ethylene oxide, ethylene glycol, phenol, acetone, polypropylene, butadiene, isoprene rubber, urea, surface-active agents, sulphuric acid.

The resolution also specified the actual scope of construction for the core production departments and supplementary departments. Construction work began.

On 17 August 1964, at about 19:00, the first load of petrol and diesel oil was pumped into the facility's tanks. Production in the first Crude Oil Distillation Unit (DRW I) began.

From an employee's perspective*

It is difficult to present in a nutshell the initial stages of development and a total of 43.5 years of my professional career with the Company. *I think that one of the most crucial and best decisions of that period was the selection of Płock as the new centre of the Polish refining and petrochemical industry. It was definitely a huge challenge and inspiring experience. I can only say that we simply made a good start, followed by development programmes and expansion of the scale of production by subsequent governments and managements. At the beginning, our production capacity was roughly 2 million tons a year, later, it came to 6, 9, 12 million, while today it is over 17 million. I am sure that the builders and employees of our Company fulfilled their duties and paid the debt they owed to society and the state.*

Władysław Wawak
designer of numerous systems,
head director of the Plant,
member of several Management Boards

* SOURCE: Orlen Ekspres, No. 26 (159) as of 30.12.2004

- Centrala Produktów Naftowych "CPN" Warszawa – distributor of petrol, diesel oils, heating oils and liquid gas;
- Przedsiębiorstwo Zbytu Produktów Węglopochodnych "Węglopochodne" Gliwice – supplier of bitumens and benzene;
- Przedsiębiorstwo Obrotu Tworzyw Sztucznych "Chemiplast" Gliwice – distributor of polyethylene, polypropylene and other products manufactured in the facilities.

Photo: archive

From an employee's perspective*

When I was building the company, it never crossed my mind that it would become so powerful. *I am proud that I took part in the construction, start-up, operation and, to a certain extent, upgrading of the facilities. This was an enormous investment leap, an honour to the city of Płock and its inhabitants. I had the opportunity to learn good management practices from the Company directors. This was the period of dynamic development of the Company, a rising volume of crude oil processing, and new investment projects. After the initial drive to ever greater production volumes, the time for quality improvement and environmental protection followed. Each month was bringing new experiences. We were happy to see MZRiP deleted from the so-called list of polluters.*

Zdzisław Nycz
former trading director of MZRiP

Subsequent years saw the development of MZRiP with a corresponding growth in the volume of crude oil processed. There was also significant growth in production capabilities, owing to the application of modern technical and technological solutions.

On 1 July 1993, the Płock facility was transformed into a sole proprietor company of the State Treasury, named Petrochemia Płock Spółka Akcyjna.

In 1998, Petrochemia Płock occupied an area of 710 hectares, employed 7,700 people, and its crude oil processing volume reached 11,236,200 tons per year.

The history of Centrala Produktów Naftowych dates back to 27 July 1944.

This day marks the establishment of Polski Monopol Naftowy (Polish Oil Monopoly), tasked with securing the existing oil infrastructure following the war and occupation, and the commencement of distribution. On 3 December 1945, by way of decree by the Minster of Industry, a state-owned enterprise named Centrala Produktów Naftowych (CPN) was established. In 1958, the Management of CPN Refinery Products was transformed into the Management of CPN, operating as a union. On 1 January 1983, a single, nationwide public utility enterprise was formed. The Union of CPN was liquidated and the Management Board of CPN in Warsaw was formed, along with 17 Regional Directorates of CPN and the Directorate for CPN Tanker Operations. By 1982, CPN also comprised the "Friendship" Crude Pipeline Operation, the "Naftoprojekt" Design Office and the Civil Construction and Assembly Enterprise.

* SOURCE: Orlen Ekspres, No. 26 (159) as of 30.12.2004

Between 1944 and 1986, CPN grew to 19,070 employees, while the number of petrol stations reached 1,335. Initially, petrol stations were furnished with manual dispensers, with electrical power-driven dispensers emerging in 1957. The technical standard of the stations and their efficiency were improved on a continuous basis. In 1957, car accessories, spare parts and car care products were introduced for sale at petrol stations. Already at that time, the distribution and technical facilities of CPN were composed of oil bases, a network of fully automated depots, equipped for the wholesale of oil products, a network of petrol stations, a proprietary rolling stock of tankers, a vehicle fleet, and facilities for the production of ready-to-use lubricant oils.

On 1 December 1995, CPN was transformed from a state-owned public utility enterprise into a sole proprietor company of the State Treasury – CPN SA. The operation of CPN ended on 7 September 1999. The closing balance of the company's operation recorded the largest network of petrol stations in the country, amounting to over 1,410 facilities, 156 depots as well as 6 port berths, fit for reloading liquid fuels, as well as a fleet of 600 cutting-edge truck tankers and 22 research labs.

On 7 September 1999, the incorporation of Centrala Produktów Naftowych into Petrochemia Płock resulted in the establishment of Polski Koncern Naftowy Spółka Akcyjna.

On 26 November 1999, Polski Koncern Naftowy Spółka Akcyjna made its debut on the Warsaw Stock Exchange. At the same time, the shares of the Company earmarked for foreign investors in the form of Global Depositary Receipts, were listed on the London Stock Exchange.

Competition in the market required a new image from the Company and the creation of a visual identity, reflecting the current market position of the enterprise and its aspirations. Following research, and over 1,000 proposals, one offer was selected as guaranteeing the required associations, clear interpretation and registration in the necessary product classes. The selected name brings associations with the dominant concepts of PKN ORLEN's strategy to shape its image: worldwide, oil-related, cutting-edge and national.

Photo: archive

From an employee's perspective*

***This was a very difficult period.** At that time the stations sold only fuels, oils and car accessories. I never thought that the development of sales could be as massive as it is today, when you can buy almost anything at petrol stations. Then, the 80s came with the gloomy "rationing" period in our history.*

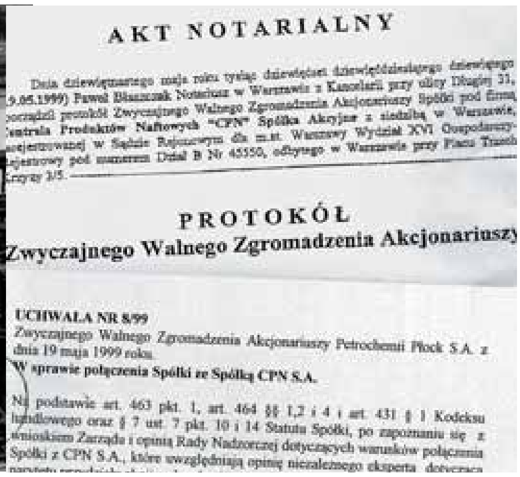
Andrzej Ruta
chief supervisor of CPN stations
in the 70s and 80s

* SOURCE: Orlen Ekspres, No. 26 (159) as of 30.12.2004

On 3 April 2000, the Extraordinary General Shareholders Meeting adopted the resolution on assuming by Polski Koncern Naftowy the trade name of ORLEN. Pursuant to the shareholders' decision, the Company embarked on a new chapter in its operation in the market, from now on as Polski Koncern Naftowy ORLEN Spółka Akcyjna.

The new brand and image became a pillar of all communication activities, which facilitated efficient marketing communication and, as a consequence, the establishment of a consistent message for all activities of the Company.

Photo: archive



AKT NOTARIALNY

PROTOKÓŁ

Zwyczajnego Walnego Zgromadzenia Akcjonariuszy

UCHWALA NR 8/99

Zwyczajnego Walnego Zgromadzenia Akcjonariuszy Petrochemii Płock S.A. z dnia 19 maja 1999 roku

W sprawie połączenia Spółki ze Spółką CPN S.A.

Na podstawie art. 463 pkt. 1, art. 464 §§ 1,2 i 4 i art. 431 § 1 Kodeksu handlowego oraz § 7 ust. 7 pkt. 10 i 14 Statutu Spółki, po zapoznaniu się z wnioskiem Zarządu i opinią Rady Nadzorczej dotyczących warunków połączenia Spółki z CPN S.A., które uwzględniają opinię niezależnego eksperta dotyczącą

From an employee's perspective*

During the war the infrastructure was destroyed. Then came a time of reconstruction and the intent was that the economy could be provided with oil products. *It is true that CPN was a monopolist at that time, but the monopoly carried a commitment with it. I think that CPN stood up to the challenges it was tasked with. There were problems, but we solved them when depots for oil products and petrol stations were built and when the final oil pipeline between the refinery in Płock and the base in Mościski was constructed. Then Warsaw, the capital of the country, could be supplied on a continuous basis with products and we had no problems with railway transportation, no failures. This was a great success in my opinion.*

Roman Sławiński
former director of CPN Division in Warsaw
and member of CPN Management Board

2000 was the first year under the new logo. In the Płock plant, new Reforming VI and Isomerization C_5-C_6 systems were put in place for the production of engine fuel components, along with a system for the hydrodesulphurisation of diesel oil VI and hydrodesulphurisation of the heavy vacuum residue. The restructuring of the ORLEN Group began. At the end of 2000, the Group comprised 166 entities and the Company was managing one of the largest of Central Europe's petrol station networks, consisting of 2,077 stations. In March 2000, the FLOTA fuel card scheme was launched for corporate customers.

One of the most important events of 2001 was putting into operation the most modern fuel depots in Poland, with a capacity of 55,000 m^3 (target of 175,000 m^3), in Ostrów Wielkopolski. On the premises of the "Góra" mine, owned by IKS "Solino" (part of the ORLEN Group), the first stage of construction of an underground fuel storage, holding 1.75 million m^3 (target of approx. 5 million m^3), was completed. In the same year, a new

* SOURCE: Orlen Ekspres, No. 26 (159) as of 30.12.2004

system for sulphur removal from liquid gas was launched, with a processing capacity of 318,000 tons of gas per year. The sales of petrol with admixture of EETB produced by the Group, instead of EMTB as used previously, commenced. On 14 February 2001, the VITAY card scheme was launched for individual customers. PKN ORLEN won the Great Ten Competition 2000, organized by the "Gazeta Bankowa" newspaper and "Prawo i Gospodarka" magazine in the "Best Stock Traded Company" category. The deciding factors in the victory were good financial results, the Company's position on the stock exchange, and its ambitious consolidation agenda in the fuel sector. The FLOTA Polska scheme was awarded with the European Medal for Business Centre Club services and received an award in the loyalty billing cards category in the Nationwide Ranking of Magnetic Cards KARTA 2001 – for the best Polish systemic solution.

Photo: archive

Photo: archive

In the search for new markets to supply, in December 2002 PKN ORLEN finalized the acquisition of 494 petrol stations in Germany, thus reaching an approx. 3% share of the German market and a 7% share of the local market. At the end of 2002, ORLEN had 1,313 proprietary stations and 620 affiliated outlets, which included 845 proprietary stations operating under the ORLEN logo. In the same year, a number of investment projects were completed, improving product quality and bringing the quality parameters close to the EU requirements for 2005. In May 2002, following modernization and intensification, the DRW III unit was put into operation, thus increasing crude oil processing capacity from 3.2 million tons per year to 6.7 million tons. The unit is the largest of its type in Poland and Central Europe.

From an employee's perspective*

At that time, our biggest challenge was to deal with the massive production of fuels coming to the market from, for example, Płock. *To deliver it efficiently to the customers, we opted for pipeline transport: Warsaw, Słotwiny-Koluszki, Nowa Wieś Wielka. These locations became part of the history of the oil industry in Poland.*

Jerzy Banasik
former director-in-chief of CPN in the 70s

* SOURCE: Orlen Ekspres, No. 26 (159) as of 30.12.2004

In 2003 Basell Orlen Polyolefins Sp. z o.o. was formed – a joint venture company with Basell Europe Holdings B.V., the world's biggest manufacturer of polypropylene. This joint undertaking enabled the launch of ORLEN's petrochemical products on world markets. Its pursuit of new business opportunities rewarded PKN ORLEN with the winning bid in the tender for the purchase of 62.99% of Unipetrol – the largest Czech holding in the oil and petrochemical industry.


Photo: archive


Photo: archive

In 2004, four years ahead of the schedule drawn up by the European Union, PKN ORLEN launched the production of a technologically refined brand of light heating oil called Ekoterm Plus. Currently, the fuel contains a marginal 0.10% (m/m) of sulphur. The fuels produced from September 2004 onwards meet the requirements of the European Union which are to apply from 2006. In April 2004, ORLEN occupied 59th position in the Oil&Gas Operations ranking prepared by The Forbes, a prestigious American publishing house. The rankings covered two thousand of the world's largest companies from 51 countries in 27 industry sectors and PKN ORLEN was the only Polish company on the list.

Polski Koncern Naftowy ORLEN SA is currently one of the largest oil corporations in Central Europe, comprising 80 companies at the end of 2004. It possesses the largest network of petrol stations in Poland, amounting to 1,319 proprietary stations, 529 affiliated stations and 58 stations operating under franchise agreements.

The retail network in Germany comprises 485 petrol stations, including 387 owned by the Company and 98 operating under franchise agreements. The retail network of ORLEN is backed by a logistics infrastructure, composed of oil depots and pipelines. The refinery and petrochemical complex of PKN ORLEN ranks among the most modern and effective facilities of this type in Europe.

Several decades of experience and the achievements of the Company and its employees so far entail the need to care for and preserve its good name. Therefore, starting in Autumn 2004, the new management board has undertaken serious efforts to restore the image of ORLEN as a company operating on the basis of the principles of transparency, ethics and respect for corporate governance, as recommended by the Warsaw Stock Exchange. The adoption of these principles will support the change in the perceptions of PKN ORLEN, strengthen the brand and enhance operational transparency. It will also serve as the starting point for the extended application of corporate governance principles in the companies of the ORLEN Group.

In January 2005, at the World Economic Forum in Davos, PKN ORLEN joined the international movement against corruption and financial embezzlement PACI (Partnership Against Corruption Initiative). By signing the accession document, the Company declared zero tolerance for corruption.

Only by acting ethically, as a leader not only in technology but also business, will PKN ORLEN be able to successfully implement the Strategy of Value Building as adopted by the Supervisory Board in February 2005. This marks a new era in PKN ORLEN's history; the era of a modern organization and management as well as effective implementation of the plans related to the position of a regional group.

From an employee's perspective*

I wish to build the image of a new ORLEN, a company trusted and respected by customers, shareholders and public opinion, with an open internal and external information policy and, whenever our or our employees' fault is identified, taking full legal and media responsibility for our actions. I intend to create a positive image based on the principles of transparency, fairness and universally acceptable social values.

Igor Chalupec
President of the Management Board
PKN ORLEN

* SOURCE: Orlen Ekspres, No. 26 (159) as of 30.12.2004

Important dates

Important dates in the history of Centrala Produktów Naftowych, Mazowieckie Zakłady Rafineryjne i Petrochemiczne and Polski Koncern Naftowy ORLEN.

14.08.1944
Official document establishing Polski Monopol Naftowy (beginnings of Centrala Produktów Naftowych)

11.10.1944
Polski Monopol Naftowy changes its name to Państwowe Biuro Sprzedaży Produktów Naftowych (National Sales Office for Petroleum Products)

03.12.1945
Decree by the Minister of Industry and Trade, establishing the state-owned enterprise named Centrala Produktów Naftowych (CPN)

22.04.1948
CPN comes under the direct supervision of the Minister of Industry and Trade and is granted the right to exercise general supervision over the domestic fuel and lubricant economy

19.02.1949
CPN comes under the direct supervision of the Minister of Internal Trade

29.11.1950
CPN comes under the direct supervision of the State Committee for Economic Planning

01.04.1952
Supervision over CPN delegated to the Minister of Mining

19.04.1952
CPN transformed into Centralny Zarząd Obrotu Produktami Naftowymi "CPN" (CZOPN 'CPN')

30.06.1952
Establishment of 17 Petroleum Product Trading Enterprises "CPN" (later directorates and divisions)

05.05.1957
Supervision over CZOPN 'CPN' assumed by the Minister of Mining and Power Industry

19.09.1958
CZOPN 'CPN' transformed into Centrala Produktów Naftowych "CPN", supervised by the Minister of Chemical Industry

14.10.1958
The Governmental Location Committee selects Płock as the site for the facility

05.01.1959
Issue of resolution No. 2/59 of the Economic Committee of the Council of Ministers, specifying Płock-Radziwie as the location of the facility


Photo: archive

24.03.1959
Meeting of experts where the location of the Facility is changed and moved to the village of Biała Nowa

29.12.1959
Resolution No. 167 of the Minister of Chemical Industry, establishing the state-owned enterprise "Mazowieckie Zakłady Rafineryjne i Petrochemiczne w budowie" (Mazovia Refining and Petrochemical Plant under construction" (MZRiP)

27.01.1960
Entry of "Mazowieckie Zakłady Rafineryjne i Petrochemiczne w budowie" to the register of State-Owned Enterprises of the Ministry of Finance

02.02.1960
Construction work commenced on the premises of the facility by "Petrobudowa" – Industrial Construction Enterprise

05.12.1960
Construction of the first road on the premises commenced

28.10.1961
First (trial) train enters the premises of the facility

10.10.1962
Completion and putting into operation of a large hall of Mechanical Workshops – the first production facility in the Plant

28.12.1963
The Polish section of "Friendship" pipeline handed over for operation

21.04.1964
Receipt of crude by MZRiP storages.

17.08.1964
Launch of the first system of core production – Crude Oil Distillation Unit (DRW I) and first petroleum products obtained from the system

23.08.1964
Shipping the first trainload of tankers filled with MZRiP products

11.12.1964
Petrol production begins in Reforming installation

21.12.1964
Official opening of Mazowieckie Zakłady Rafineryjno-Petrochemiczne and start of production

25.02.1968
Cumene obtained at the Production Plant of Phenols and Acetone – first petrochemical installation at MZRiP

31.12.1969
First installation for Pyrolysis of Petrol and Gases handed over for technological start-up


Photo: archive


Photo: archive

21.07.1971
Launch of polyethylene production
– one of the most important bulk plastics

26.10.1972
Change of name of the enterprise to Mazowieckie Zakłady Rafineryjne i Petrochemiczne w Płocku

26.03.1975
Decision No. 2/75 of the Ministry of Petrochemical Industry on increased processing of petroleum to 12m tons per year

12.12.1976
Launch of production from Catalyticl Cracking II installation – the largest facility of the refining section

1978
100 million tons of crude oil processed at the Production Plant

02.03.1983
CPN transformed into Centrala Produktów Naftowych CPN – public utility enterprise, operating nationwide

1987
200 million tons of crude oil processed at the Production Plant

01.07.1993
Transformation of MZRiP in Płock into a sole proprietor company of the State Treasury – Petrochemia Płock Spółka Akcyjna

01.12.1995
Transformation of CPN from a state-owned public utility enterprise into a sole proprietor company of the State Treasury – CPN Spółka Akcyjna

1997
300 million tons of crude oil processed at the Production Plant

07.09.1999
Establishment of Polski Koncern Naftowy Spółka Akcyjna, as a result of merger between Petrochemia Płock and Centrala Produktów Naftowych

26.11.1999
First listing of PKN SA's stock on the Warsaw Stock Exchange

03.04.2000
Adoption by the General Shareholders Meeting of the new name – Polski Koncern Naftowy ORLEN Spółka Akcyjna

17.03.2000
Launch of FLOTA Polska fuel card scheme for corporate customers

Photo: archive

14.02.2001
Launch of VITAY loyalty scheme for individual customers

Q1 2001
Launch of the new installation for sulphur removal from liquid gas

Q1 2001
Launch of sales of petrol with an admixture of EETB manufactured by the Group, replacing EMTB, as used previously

30.09.2002
PKN ORLEN signs an agreement for establishing a joint venture company with Basell Europe Holdings B.V. – the world's petrochemical leader

28.02.2003
Purchase of 494 stations in northern Germany from BP finalised

01.03.2003
Basell Orlen Polyoleofins Sp. z o.o. begins to operate

29.04.2004
Czech government accepts PKN ORLEN's bid for the purchase of 62.99% of Unipetrol – a leading Czech group in the fuel and petrochemical industry

Q4 2004
Appointment of a new Management Board chaired by Igor Chalupec.

21.01.2005
Approval by the Supervisory Board of PKN ORLEN of the Management Board's statement on the adoption of all principles of corporate governance, as recommended by the Warsaw Stock Exchange.

28.01.2005
Signing of the document confirming PKN ORLEN's participation in the movement against corruption and embezzlement (PACI) at the World Economic Forum in Davos.

20.04.2005
Consent of the European Commission for the acquisition of the shares in Unipetrol

24.05.2005
Acquisition by PKN ORLEN of the shares in Unipetrol

September 2005
The production facility of PKN ORLEN will process the 400 millionth ton of crude oil


Photo: archive


Photo: archive

Photo: archive

Who We Are

WHO WE ARE

Polski Koncern Naftowy ORLEN SA, based in Płock, is one of the largest corporations operating in the petroleum industry in Central Europe and comprises 80 commercial companies.

We operate Poland's largest petrol station network as well as the largest refining and petrochemical complex, ranking among the most modern and efficient facilities of its type in Europe. The effective logistics infrastructure, comprising depots and pipeline networks, supports the retail network of ORLEN.

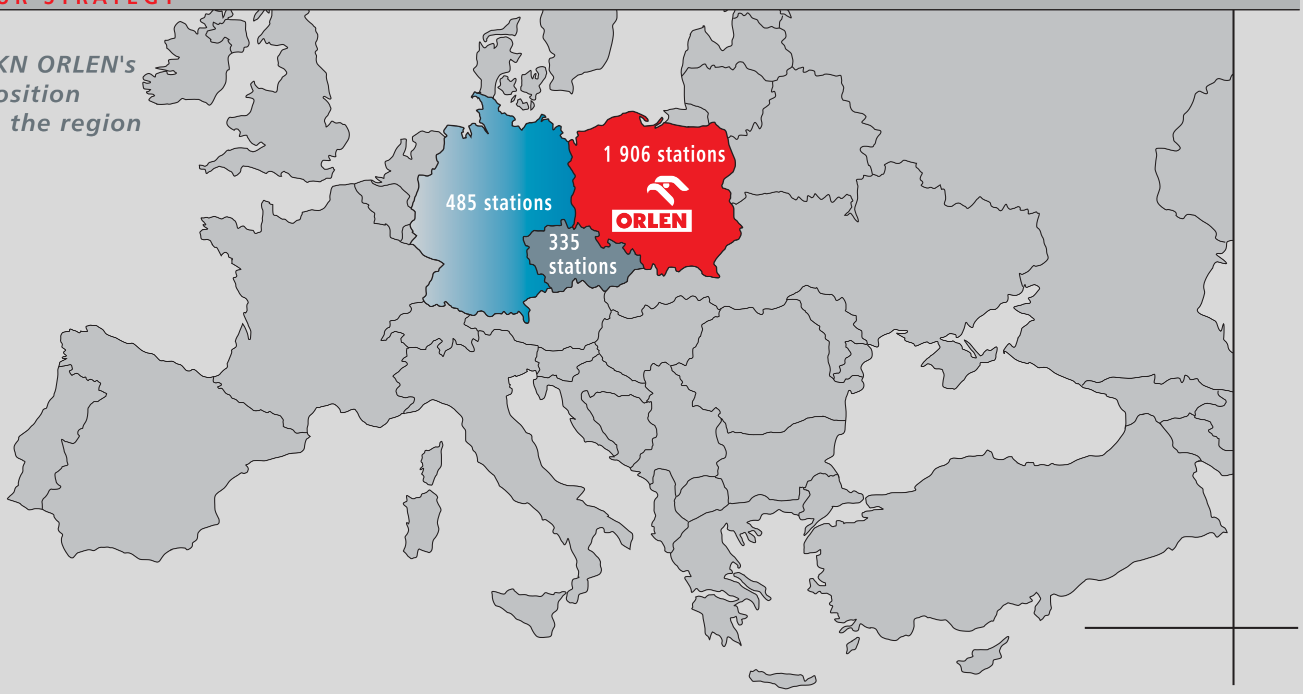
Among the primary companies of the PKN ORLEN Group are: Basell Orlen Polyolefins, ORLEN Deutschland, ZA Anwil, IKS Solino, ORLEN Oil and refineries in Trzebinia and Jedlicze.

MISSION STATEMENT

Aiming to become the regional leader, we ensure long-term value creation for our shareholders by offering our customers products and services of the highest quality. All our operations adhere to 'best practice' principles of corporate governance and social responsibility, with a focus on care for our employees and the natural environment.

OUR STRATEGY

PKN ORLEN's position in the region



PKN ORLEN on the capital market

PKN ORLEN SA is listed on the Warsaw Stock Exchange and, in the form of Global Depository Receipts (GDR), on the London Stock Exchange. Trading in depository receipts also proceeds in the US, on the non-exchange OTC market. The first listing of PKN ORLEN SA took place in November 1999. The company's capital is divided into 427,709,061 ordinary bearer shares with a nominal value of PLN 1.25 each. The agent for the depository receipts of the company is The Bank of New York. The transaction unit on the London Stock Exchange is 1 GDR, made up of 2 shares of PKN ORLEN.

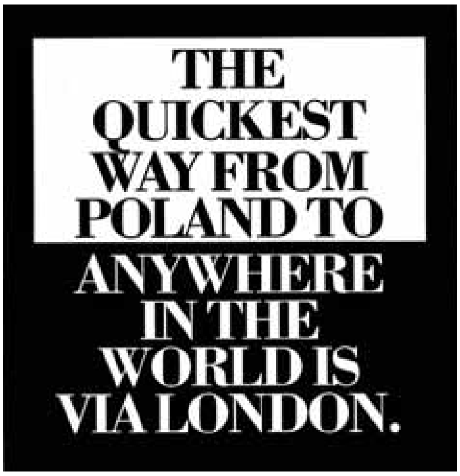
Corporate governance

The concept of corporate governance covers a number of issues related to the operation of the company and an array of intertwining relations typical of business operations.

The purpose of applying the principles of corporate governance is, among others, to limit the risk of infringement on shareholders' rights, such as the right to receive important information regarding the company, the principle of equal treatment of shareholders, and the right to be protected against risks related to the unclear division of powers and responsibilities in the management of the company.

The observance of these rights as well as other principles of corporate governance is vitally important for the security and stability of the Company's presence on the stock exchange as well as for all our major stakeholders: customers, employees and shareholders.


Certyfikat
nadania godła "Spółka Giełdowa"
Polski Koncern Naftowy S.A.

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OUR STRATEGY

PKN ORLEN'S strengths

- Retail and wholesale fuel market leader in Poland

- Modern, large refinery in Płock
  - deep processing capacity of 13.5 million tons per year, Nelson complexity index: 9.6
  - utilization of processing capacity – 96% (forecast for 2005)
  - integrated with petrochemical section
  - ability to process heavy/sour crudes (e.g. Ural crude) as per EU 2005 standards
  - High yield of white products (79.7%)

- Competitive advantage in logistics

- Relatively cheap crude oil supply

- Presence on markets with high growth potential (Poland and Czech Republic)

- Strong brand awareness

Photo: archive

Image among investors

Recognizing the crucial role of corporate governance for the functioning and image of the Company, the new Management Board has decided to adopt for implementation all the principles of corporate governance proposed by the Warsaw Stock Exchange. A statement to that effect was published by PKN ORLEN on 21 January 2005.

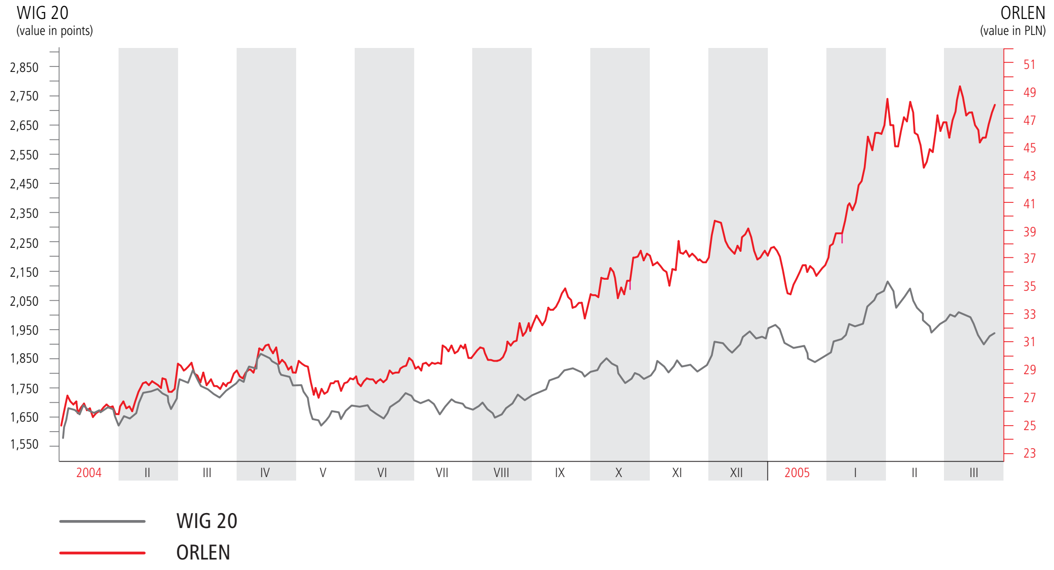
Currently, the Company faces the formidable task of far-reaching transformation, which goes far beyond the strategic development plans for the Company. Efforts to introduce a corporate code of ethics have been initiated. We intend to see its observance as an integral part of our employees' duties. We are also introducing a remuneration system in which bonuses will depend on the function and responsibilities of a given position rather than on the personal ties of the employee working in such capacity. The purpose of this system is to motivate employees to achieve their objectives as well as provide them with wide decision-making competencies. The targets for the Management Board, as adopted by the Supervisory Board, are filtered down to the individual departments and their units. This ensures that all employees work with similar targets. This system is being implemented in all the key companies of the capital group.

The principles of corporate governance involve primarily the bodies of the company and follow the values of fairness, responsibility, co-dependence of rights and obligations, as well as providing the foundation for the development of business ethics. Relying on the above values, we are striving to achieve the targets of competitiveness, efficiency in realizing our objectives, and good management for our Company. A prerequisite here is good and reliable management as well as cooperation at all managerial levels. We will make every effort to see the value of the Company grow by the combined impact of good practice and competent management.

PKN ORLEN has also joined an international movement against corruption and financial embezzlement (PACI – Partnership Against Corruption Initiative). The accession document was signed at the World Economic Forum in Davos in January 2005.

The purpose of PACI is to establish a neutral platform for joint efforts in the fight against corruption. The transformations in the area of purchase and tendering policy serve the purpose of practical implementation of this concept.

PKN ORLEN's share price (WSE)

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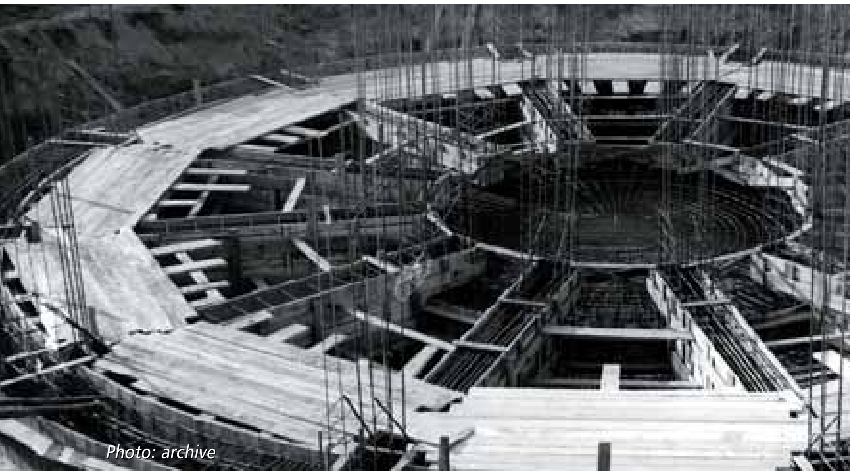
Strategy

STRATEGY

The priority of the new Management Board, appointed in October 2004, was to draw up a strategy providing development directions for PKN ORLEN for the period 2005-2009. Following the necessary analysis and research, the Management Board presented the new strategy to investors on 3 February 2005.

The focus of the new strategy is to build the value of the Company relying on the maximum utilization of the Company's potential. We will improve efficiency by zeroing in on our core businesses. We will strengthen our presence in key business areas in our domestic markets and continue to restructure our asset portfolio. We will also monitor the opportunities for expansion in new markets and areas, and carefully select the relevant transactions.



PKN ORLEN's strategy covers all aspects of our operations. The most important element of the strategy is the acquisition of Unipetrol, the Czech holding company. One of the most important actions will be to optimize the retail network, taking into consideration the role of the petrol station network in Germany. We have also announced the continuation of cost cutting and a new programme for further savings. In addition, we intend to reorganize the ORLEN Group and sell Polkomtel. The overriding rule is to proceed only with investment projects that are carefully selected in terms of the profitability criterion. One of the new aspects of our development is the commencement of an analysis of the opportunities and profitability of engagement in crude oil and gas extraction.

The strategy charts our key financial objectives to be achieved by 2009:

- EBITDA at over PLN 6bn;
- ROACE of 17.5%;
- CAPEX in 2005-2009 (annual average) PLN 1.7bn;
- financial gearing of 30 to 40%;
- dividend rate of 30%;
- two-fold improvement in efficiency – EBITDA at PLN 7.9bn (2004 basis).

We intend to realize the above objectives within the three basic areas of value growth:

- enhanced efficiency and investments;
- enhancement of core business in domestic markets;
- monitoring opportunities for expansion into new areas and markets.

Enhanced efficiency and investment as part of organic growth

The chief priority of PKN ORLEN's Management Board is to enhance efficiency and generate the maximum rates of return from the current asset portfolio. The Management Board plans to achieve this objective by:

- continuation of the cost cutting programme;
- restructuring of the ORLEN Group and implementation of segment management;
- restructuring and optimizing the retail network;
- implementation of a value management system;
- application of strict criteria to potential investment projects.

The cost cutting programme focuses on cost optimization throughout the supply chain. The process combines the continuation of the present programme, providing for a lasting cost reduction of PLN 800 million in 2005 in comparison with the cost base of 2002, with the launch of a new programme of further cost reduction. The new programme will be implemented through: purchase centralization, margin optimization, enhanced efficiency of production assets, cost reduction in operation of retail network and the introduction of service centres for the entire ORLEN Group.

Restructuring of the retail network is primarily concerned with the reversal of the downward trend of recent years and achieving a 30% share in the market as a minimum. It further stipulates increasing the share of the retail market by the acquisition of selected stations and station networks.

In order to boost the efficiency of the petrol station network, we will reorganize the sales division. We will strive to achieve annual growth in average fuel sales per station by 5% to approx. 2.5 million litres per year and growth of the share of the non-fuel retail sales margin by an aggregate of 10 percentage points. This will be by means of product category management, purchase centralization and price control.

Other actions cover the implementation of the value management and remuneration systems linked with the performance achieved, as well as the application of strict assessment criteria for new investment projects.

Within the restructuring of the ORLEN Group, we expect further disposals of non-core assets, to include the shares in Polkomtel. An important aspect here is the implementation of segment management and the introduction of a clear corporate structure.

OUR STRATEGY

Growth areas

- Enhanced efficiency and investments
- Enhancement of core activity in domestic markets
- Monitoring the opportunities for expansion into new areas and markets

Strengthening core business activities in domestic markets

We also intend to develop our core business activities in the areas of production, wholesale and logistics, retail, petrochemicals and arranging the asset structure of the ORLEN Group.

In the areas of production, wholesale and logistics in the Polish market, our priority is to enhance logistics as an important element of the competitive advantage of the Company. We are also considering PKN ORLEN's participation in the privatization process of the Lotos Group provided the State Treasury is interested in having a strategic partner for the Lotos Group. In the Czech market, the most important issue will be to increase the impact on Ceska Rafinerska as the key asset of Unipetrol. We are also considering the acquisition of additional logistics assets in order to enhance our presence in this market.

In retail sales, in order to optimize the network and increase sales per station, our activities in the Polish market will focus on continued investment in the station network. In the Czech market, PKN ORLEN intends to employ the sizeable production resources of Unipetrol to increase the scale of operation in the retail segment.

The current cooperation between PKN ORLEN and Basell, through the latter's engagement in Basell Orlen Polyolefins (BOP), enables us to have a stake in the robust growth of the polymer market in Poland. The acquisition of Chemopetrol within the Unipetrol holding enables the integration of the petrochemical operations, which will facilitate integration with polymer production at BOP.

In the remaining business areas of the ORLEN Group, the actions undertaken aim at achieving less complexity by disposals of assets in non-core areas.

OUR STRATEGY

Key financial targets (2009)

• EBITDA	> PLN 6bn
• ROACE	17.5%
• CAPEX (average for 2005 - 2009)	PLN 1.7bn
• Financial gearing	30-40%
• Dividend policy (dividend rate)	30%


Photo: archive

Monitoring opportunities for development in new areas and markets

In the area of regional development, we plan:

- to focus on markets with high growth potential;
- to identify emerging opportunities;
- to search for attractive asset acquisition opportunities.

The implementation of investment projects and acquisitions, which will form the basis of further growth in value, will depend on meeting strict profitability criteria, and all projects will undergo rigorous investment assessment. In accordance with the above criteria, all investment projects should achieve at least the target ROACE. Each project will undergo a detailed sensitivity analysis, in order to evaluate its future profitability under various macroeconomic assumptions.

OUR STRATEGY

Monitor expansion opportunities in new areas and markets	New markets in the region	• Monitor market for availability of possible development opportunities
	Crude & gas upstream	• Consider strategic options and potential development directions


Photo: archive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Retail sales

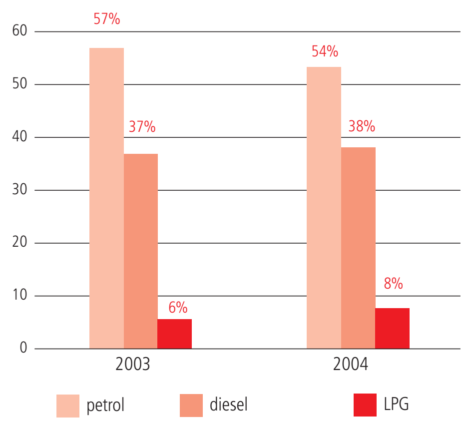
RETAIL SALES

The share of PKN ORLEN in the domestic retail market contracted in 2002-2004, from 35.4% to 28.6%. The sales volume also dropped correspondingly and the average quantity of fuel sold per station remained at a level far below that of our Western competitors.

At the turn of 2004 and 2005, the management team drafted a new strategy for the development of the retail sales segment, based on the restructuring of the proprietary and franchising network. The strategy aims to strengthen our market position by introducing a more attractive business offer for individual and corporate customers:

- large enterprises;
- current customers within loyalty schemes;
- medium and small enterprises.

Structure of fuel sales in 2003-2004



One of the crucial targets for the present Management Board is to increase the volume of sales to 4.9bn litres by 2009 and to achieve an increase in ROACE to more than 17.5%.

2004 Volumes

- In 2004, we sold a total of 2.7bn litres of engine fuel from proprietary petrol stations, a 1.5% fall in comparison with the 2003 figure.

- The average sales per station within the proprietary network came to 2.1m litres of fuels and LPG, matching the 2003 level.

- Last year, we recorded growth in diesel oil and LPG sales and a fall in petrol sales. These changes were reflected in the structure of fuel sales and are in line with the retail fuel consumption trends in the country.

- The value of non-fuel product sales in 2004 exceeded PLN 815 million and was 6% higher than the value realized in 2003.

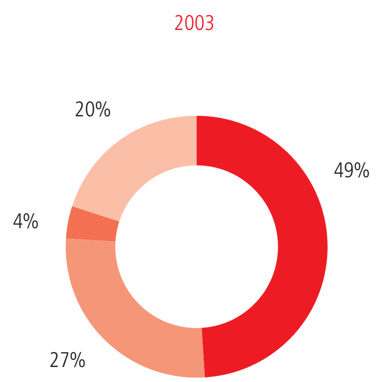
2004 Margins

- In 2004, we achieved a total margin of PLN 1.037 billion, similar to the 2003 level.

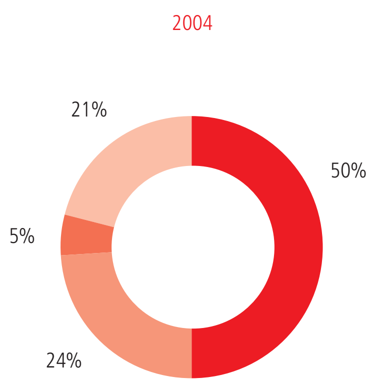
- The margin on retail sales of petrol, diesel oil and LPG totalled PLN 820m and was 1.9% short of the 2003 level.

- The margin on non-fuel products and services sales rose by 3.1%, to reach PLN 217m.

Margin structure in 2003



Margin structure in 2004



Number of stations

As at the end of 2004 we operated:

- 1319 proprietary stations;
- 529 affiliated stations;
- 58 franchised stations.

In 2004, we built 10 new stations and upgraded a further 130. The network of franchised stations grew, as compared against 2003, by 39 facilities.

As at the end of 2004, 469 proprietary stations operated as fully branded, while 846 were subject to a partial visual image modification.

Market share in 2004

The share of PKN ORLEN of the retail fuel market in 2004 totalled some 28.6%*, based on estimated domestic retail consumption.

Photo: archive

* The difference between the present share and 40% in 2003 comes from the fact that the percentage figure was calculated by P.B.S. Autoscan, based on the questionnaires filled in by drivers of passenger cars with the highest refueling volumes (no truck drivers). In the new method, the market share is determined as a ratio of retail sales at PKN ORLEN and total domestic retail sales, which is calculated as the sum of 75% of diesel consumption + 100% of petrol consumption + 100% of LPG consumption.

Efficiency of petrol stations

The sales per proprietary petrol station totalled 2.1 million litres in 2004, while each fully rebranded station accounted for 3.4 million litres.

Card schemes

VITAY

The VITAY scheme is a loyalty scheme for individual customers. Each purchase from our network stations entitles the customer to a number of points, which may then be redeemed by card holders for prizes (fuel or other gifts).

By the end of 2004, over 5 million customers were participating in the VITAY scheme.

SUPER VITAY

The Super VITAY scheme is a scheme for supporting loyal PKN ORLEN station network customers who participate in the VITAY scheme and collect the greatest number of points. The Super VITAY cards entitle their owners to additional benefits and prestigious, individual golden cards.

FLOTA

The FLOTA scheme is a scheme for corporate customers who operate their own means of transportation and wish to take advantage of an easy-to-use, friendly and economical fuelling system and basic road service to vehicles. Participants of the FLOTA scheme are specialized shipping companies and commercial and service companies, public institutions, e.g. banks, diplomatic posts and state offices.

Fleet cards support non-cash transactions for the purchase of fuel,goods and services at our stations.

At the end of 2004, we supported approximately 4,000 active participants in the scheme.

Major FLOTA scheme customers include the Police, Telekomunikacja Polska, General Directorate for Priority Roads and Motorways, and the largest financial institutions.

In 2003, a foreign entity – the Association of Transportation Companies in Lithuania "Linavos Service" joined the scheme. The members of the association are the largest Lithuanian carriers.

DKV/ORLEN co-branded card system

In September 2004, PKN ORLEN and DKV EURO SERVICE GmbH signed an agreement, the purpose of which was to introduce new, co-branded DKV/ORLEN cards.

The DKV/ORLEN card is the first fuelling card in Europe which combines processor card technology and the magnetic card technology of the DKV network. As a result, the card is both a charging card for drivers and a tool to control costs and billing operations within a company.

Holders of DKV/ORLEN fuel cards are corporate customers. The card supports non-cash purchases of fuel, goods and vehicle accessories as well as a wide array of road services.

The card is accepted at over 1600 petrol stations of the ORLEN network in Poland and over 20 000 petrol stations and 6 000 service points of the DKV network in more than 40 European countries.

Pre-paid cards

Pre-paid cards are offered to corporate customers. We have issued some 66,000 cards of this type. Participating companies include Unilever, PepsiCo, Gillette, Citroen, Fiat, Chrysler and Nestle.

Service quality

High quality service is an important criterion when selecting a petrol station, and this is a target for the PKN ORLEN retail network.

The goal of the employees of ORLEN's gas stations is to build the image of the station in compliance with company standards as well as to maintain good relations with customers. The pursuit of these goals is based on the process of service quality management in the retail station network, covering the following aspects:

- drawing up service standards and training materials for employees of the petrol station;
- constant training for station employees at training stations within the Eagles' Academy scheme, in accordance with the "train the trainer" principle;
- periodic evaluation of the customer service level by the staff managing the petrol stations and by the external "Secret Client" research carried out by a specialized research company;
- organization of the "Eagles League" incentive scheme aimed at service quality, with attractive prizes for the employees of the top stations;
- application of responsible sales principles – participation in "18 STOP" scheme, in order to limit the accessibility of cigarettes to minors;
- application of marketing research results to maximize customer satisfaction.

High quality management standards at the ORLEN retail network rank the Company among the top network stations in terms of the quality of customer service.

Promotional and advertising campaigns

In 2004, we carried out numerous promotional and advertising campaigns supporting our retail operations.

DKV/ORLEN card promotion

The campaign introducing the card communicated the benefits of the product, such as the possibility to:

- to make use of two leading offers for non-cash road services with one card;
- to get an immediate refund for VAT in the fuel price as well as products and services purchased abroad;
- to receive simplified and ordered billing of transactions in both systems.

Promotion of "ORLEN – Good Energy" image

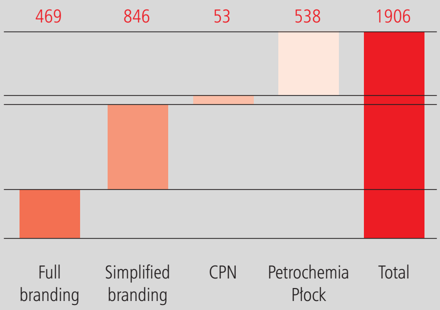
The image and product campaign underscore such values of the ORLEN brand as innovation, quality, service. PKN ORLEN presents itself as a Company that cares for its customers and ensures good energy in every conceivable meaning of the word "good".

New VITAY catalogue

In December 2004, a new VITAY scheme catalogue, designed for car lovers, appeared at PKN ORLEN stations. In the new edition of the catalogue, issued under the name "The Passion of Four-wheels", we present an extended proposal by our Partners, offering attractive discounts and new prizes. Lovers of four wheels will receive a special supplement devoted to the history of the automotive industry with photos and descriptions of cult car lines.

OUR STRATEGY

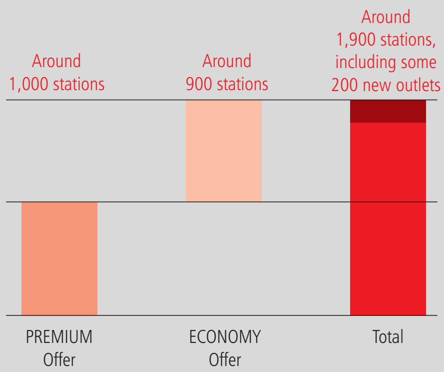
Present structure of our stations



OUR STRATEGY

Target structure of our stations

Building of two standardized offers



OUR STRATEGY

Financial and operating targets (2009)

- Share of Flota scheme in sales volume of at least 20%
- Share of non-fuel margin in total retail margin of 30% (Premium segment)
- Average fuel sales at proprietary stations > 2.5 m tonnes / y

- Sales volume of 4.9 bn litres
- ROACE >17.5%

- Efficient organization

We are already up to the fourth edition of the VITAY scheme catalogue, which has proved to be increasingly popular with participants whose number is constantly growing.

Strategic targets and plans

2005

- planned investment outlays on proprietary network of petrol stations – PLN 480 million;
- new proprietary stations to appear – 40;
- upgraded proprietary stations – 110;
- target number of franchised stations at the end of 2005 – 188;
- target number of proprietary stations at the end of 2005 – 1,365.

Targets by 2009

- division of station network into two standardized offers:
  - "Premium" – 1,000 petrol stations of higher standard;
  - "Economy" – 900 petrol stations of lower standard;
- share in the Polish retail market – minimum of 30%;
- increased annual average sales at proprietary stations to approx. 2.5 million litres per year;
- share of FLOTA scheme to rise to 20% of the aggregate sales volume;
- share of non-fuel margin in the overall margin figure to rise by 10 percentage points by means of product category management, centralization of purchases and price control;
- sales volume of approx. 4.9bn litres;
- ROACE to exceed 17.5%, starting from 2006.

Foreign sales

As of today, the retail network in Germany has not been generating the financial results anticipated when the network was purchased. An extremely low margin on fuels resulted in a net loss last year of PLN 52m. Germany is one of the most competitive markets in Europe and ORLEN, with a current share of only 3%, cannot effectively compete with other groups. If the program for greater efficiency does not yield the required results by 2007, the Management Board will consider the disposal of all our stations in Germany.

Germany – ORLEN Deutschland

2004 Volumes

- In 2004, we sold 1.46bn litres of fuel through our retail network in Germany, which is 5.9% more than in the previous year.

- Average sales per station exceeded 3 million litres.

- Value of non-fuel sales exceeded EUR 126 million.

2004 Margins

- In 2004, the margin on fuel sales came to EUR 73.3 million.

- Average retail margin was Eurocent 5.02 per litre of fuel.

Station Network

Number of stations

Our retail network in Germany consists of 485 stations, of which:

- 387 stations are proprietary;
- 98 stations operate on a franchise contract basis

OUR STRATEGY

Strategic options for ORLEN Deutschland	Expansion of the network	• Opportunity to gain critical mass and improve operating performance by 2007
	Sale of ORLEN Deutschland	• If growth strategy proves not feasible. Disposal would be in line with PKN ORLEN's stricter, returns-based, approach to capital efficiency within the Group

Two brands in Germany

At present, out retail network in Germany operates:

- 119 stations under the brand name of ORLEN:
- 340 stations under the brand name of STAR;
- 26 stations on the premises of superstores.

The presence of two brands on the German market is consistent with the marketing strategy of PKN ORLEN.

Photo: archive

Wholesale

WHOLESALE

2004 Volumes

- In 2004, we sold a total of 6,355,200 litres of fuels on the wholesale market (domestic and foreign), representing 8% more than in 2003.

A remarkable growth in sales was also achieved through the regular distribution channels:

- over-threefold growth in sales to franchised stations as a result of the incorporation of some affiliated stations and new previously independent stations into the network.
- sales to affiliated network stations rose by 34% in comparison with the previous year

Wholesale of fuels in 2003-2004 (thousand tons)

	2003	2004	change (%) 2004/2003
Petrol	1,674.1	1,755.0	4.8
Diesel	2,379.4	2,552.5	7.3
Ekoterm Plus	1,538.8	1,702.4	10.6
Jet A-1	293.9	345.3	17.5
Total	5,886.3	6,355.2	8.0

- We increased the wholesale volume of all light products.

- Fuel sales on the domestic market came to 5,849,000 tons and were 7% higher than in 2003.

- Increased sales of engine fuels (petrol and diesel) were achieved owing to increased contract sales to foreign groups, which, in comparison with 2003, increased their purchases from PKN ORLEN by 37%.

Exports

The export sales of fuels in 2004 accounted for 8% of the aggregate fuel wholesale volumes.

Last year, we sold 506,600 tons of fuels abroad, which is 19.4% more than in 2003. We increased export sales of diesel by 47.7% and aviation fuel Jet A-1 by 163.4%. On the other hand, export sales of petrol shrank by 24.3%.

Recipients of exported fuels included the Czech Republic, Hungary, Slovakia and Austria.

Export sales of fuels in 2003-2004 (thousand tons)

	2003	2004	change (%) 2004/2003
Petrol	226.5	171.5	-24.3
Diesel	160.9	237.7	47.7
Jet A-1	37.0	97.4	163.4
Total	424.4	506.6	19.4

2004 Margins

In 2004, the value of the inland premium was at PLN 442 million, 4.4% higher than in the previous year.

Market environment

On the basis of preliminary estimates, the consumption of fuels[1] in Poland in 2004 was 13.52 million tons, which corresponds to a 7% increase in comparison to 2003. As opposed to the previous years, no drop in consumption of any type of fuel was recorded in 2004:

- petrol – consumption as in 2003, at 4.26 million tons;
- diesel – growth by some 12%, to 6.47 million tons;
- light heating oil – growth by some 6%, to 2.80 million tons.

The largest domestic competitor of PKN ORLEN in 2004 was the LOTOS Group, whose share in the market was 20% (22% in 2003).

In 2004, the import of fuels into Poland grew by approximately 23%:

- petrol – growth by some 14%, to 0.7 million tons;
- diesel – growth by 28% (over 2 million tons);
- light heating oil – growth by 18%, to 0.3 million tons.

It is estimated that, as a result of high fuel prices, 2004 was yet another year in which the grey area of light heating oil consumption for combustion engines grew.

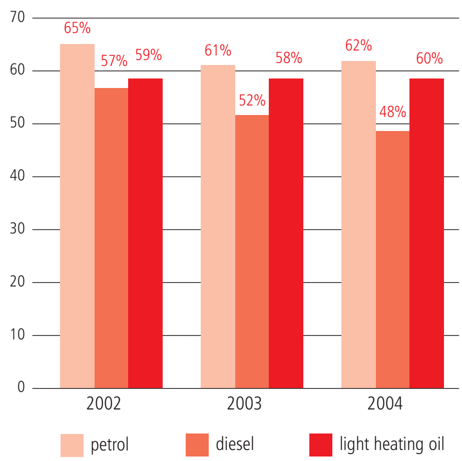
As with previous years, 2004 saw the dynamic development of the auto gas market (growth of approx. 35%, to some 1.4 million tons) which had a significant (negative) impact on petrol consumption.

Market share in 2004

Preliminary estimates indicate that in 2004 PKN ORLEN's share of the domestic fuel market was 55%, whereas in terms of individual fuel types, it can be broken down as follows:

- petrol – 62%
- diesel – 48%
- Ekoterm Plus – 60%.

Share of the domestic fuel market in 2002-2004



The sales figure realized on fuel sales by PKN ORLEN led to:

- an increased share in the petrol market (by approx. 1 percentage point – to 62%);
- a decreased share in the diesel market (by approx 4 percentage points – to 48%);
- an increased share in the light heating oil market (by approx. 2 percentage points – to 60%).

Currently, the market is marked by strong competition, both from the LOTOS Group and importers – fuels from all directions are being brought to Poland. The majority of the imported fuel comes from Belarus, Slovakia, Germany and Lithuania. Fuels of the LOTOS Group and imported fuels are available across the country.

[1] Petrol, diesel, light heating oil

Considering this fierce competition, the increase in the share of the petrol market represents a remarkable success, made possible thanks to the development of contracted sales and regular distribution channels.

Despite growing sales, PKN ORLEN's share in the rapidly developing diesel market dwindled. This was caused by stiff competition from significantly cheaper diesel, imported chiefly from Belarus and Lithuania. In 2004, the share of non-refinery imports in diesel consumption grew by approx. 3.5 percentage points (from 20.5 to 24%).

In 2004, PKN ORLEN significantly increased its share in the light heating oil market. This was possible owing to a new trade offer appealing to the customers which, in conjunction with the remarkable quality of Ekoterm Plus, led to sales growth of 17%.

Fuel quality

In September 2004 we launched the production and sale of a new grade of unleaded petrol, with reduced aromatics content (from 42% to 35% of volume) and reduced sulphur content (from 150 ppm to 50 ppm).

In October, we launched the production and sales of a new type of Ekoterm Plus, with sulphur content below 0.1%. Currently, Ekoterm Plus' parameters comply with the norm which will apply in Europe starting in 2008. The product is also compliant with the German DIN 51603-1:2003 standard.

Petrochemicals

In 2004, PKN ORLEN sold 1,060,900 tons of petrochemicals, which is a slight drop in sales (by 0.5%), compared to the 2003 figure.

Export sales of petrochemicals in 2003-2004 (thousand tons)

	2003	2004	change (%) 2004/2003
Phenol	52.8	53.4	1.1
Acetone	33.2	34.2	3.0
Ethylene	246.8	265.5	7.6
Propylene	201.2	217.8	8.3
Glycols	99.3	105.6	6.3
Ethylene oxide	19.1	17.9	-6.3
Butadiene	44.6	45.5	2.0
Benzene	76.4	77.0	0.8
Orthoxylene	24.6	23.5	-4.5
Paraxylene	36.8	31.1	-15.5
Other petrochemicals	176.4	189.5	7.4
Total	1,066.2	1,060.9	-0.5

In 2004 we recorded:

- sales decline (e.g. paraxylene) – due to lower demand in the domestic market;
- decline in sales of ethylene oxide and orthoxylene – due to lower exports. Determination of the volume of petrochemicals for export is results-based, after the quantities for domestic customers have been secured. Any potential growth or drop in the export figure results from demand fluctuations of a given product in the Polish market or the opportunity to obtain a better price when trading abroad;
- growth in sales of e.g. ethylene and glycols – due to increased demand by domestic customers, and propylene – due to rising supply;
- in addition, we finally ceased to produce plastics, as a result of the take-over of PE and PP production by Basell Orlen Polyolefins

Targets and Plans

Sales of engine fuel:

- maximum utilization of synergies in wholesale trading, following the acquisition of the Unipetrol Group;
- increased volume of sales to foreign companies under annual contracts and margin optimization through SWAP contracts;
- launch of new offers, providing more sales dynamics and optimizing transaction costs;
- dynamic reaction to changing market conditions in order to acquire new customers and keep the present ones;
- implementation of a coherent trading strategy based on regional structures of PKN ORLEN and RMPs[2];
- increased sales of engine fuel to loyal customers:
  - introduction of new components of the proposal to enhance competitiveness of our trading offer;
  - development of EPHL[3];
  - further development of the affiliated stations network.

Heating Oil Sales:

- keep the 2004 market share and sales volume – approx. 60% of the market;
- continuous monitoring of quality requirements with a view to providing the customer with the best product on the light heating oil market;
- preserve the image of Ekoterm Plus as the best product in the market category;
- successful fight with low-quality, cheap substitutes for light heating oil;
- strengthen and link ADHLs[4] with the Company by continuous modification of trading terms in line with the dynamically changing light heating oil market;
- continuous improvement of target customer service through the ADHL network.

OUR STRATEGY

Enhanced investment efficiency	Efficiency	• Enhanced efficiency as a priority
	Investment	• Implementation of investment projects marked by a high return rate in order to strengthen the position at key points of the supply chain (retail, petrochemicals)

Photo: archive

[2] RMP – Regional Market Operator

[3] EPHL – Exclusive Purchase of Heating Oil

[4] ADHL – Authorized Distributor of Heating Oil

Photo: archive

Logistics

LOGISTICS

Depots

At the end of 2004, PKN ORLEN's logistics structure comprised 20 depots. The target network will comprise 13 proprietary depots.

The network optimization plan was drawn up based on the following criteria:

- utilization of depots marked by top processing capacity and best locations;
- level of outlays expended and future outlays on upgrading;
- utilization of only the most effective, in terms of operation and cost, external depots.

Cost and employment restructuring actions have been carried out at all depots, along with their adjustment to environmental regulations.

Restructuring

Restructuring of the proprietary network of depots is one of the elements of the Logistics Strategy by 2009.

Main principles of the new strategy:

- maintaining the competitive advantage in the market and opportunities for impacting the prices of services offered by other logistics operators;
- securing the necessary storage volumes to support wholesale and retail sales and mandatory reserve levels;
- unit cost reduction at proprietary depots;
- streamlining the expenditure on upgrading;
- improved utilization of fixed assets.

Upgrading

Upgrading and development has been finalized at the Ostrów Wielkopolski and Mościcki depots. At present, the depots meet all the requirements of the EU regulations.

Upgrading has continued at 7 other depots, in order to align them with EU regulations.

Photo: archive

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As early as the second quarter of 2005, the Management Board is expected to take a decision on upgrading the remaining 4 operationally active depots.

Naftobazy – the petroleum bases

PKN ORLEN cooperates with Naftobazy Sp. z o.o. in commercial trading and the storage of mandatory reserves. The cooperation is planned to continue in terms of storage and loading operations at 5 Naftobazy bases, at pipeline terminals, and in regard to the purchase of services at other locations, on condition that fair rates apply.

In 2004, PKN ORLEN used only 6 out of the 22 bases owned by Naftobazy. Commercial trading at these facilities grew from 4,140,000 tons in 2003 to 4,207,000 tons in 2004.

Mandatory Reserves

They are stored at proprietary depots of PKN ORLEN and fuel bases of Naftobazy, in multiple locations around the country as well as in salt caverns of the IKS Solino Salt Mines.

Pursuant to the Regulation of the Ministry of the Economy of 14 June 2002 on the schedule of collecting liquid fuel reserves, before the end of 2008, PKN ORLEN is required to reach a reserve level equivalent to 76 days of average daily output, together with imports and intracommunity purchases, reduced by exports and intracomumnity sales. At the end of 2004, PKN ORLEN reached a reserve level of 51 days, as provided by the above mentioned schedule, and by the end of 2005, the Group is required to expand the reserve to the level of 58 days. The mandatory reserve equivalent to 14 days is collected by the Agency for Material Reserves.

Photo: archive

Photo: archive

The gathering and maintenance of the reserve by PKN ORLEN is supervised by the Agency for Material Reserves, authorized by the Ministry of the Economy to perform inspections at manufacturers, importers and storage operators. Once a month PKN ORLEN submits a report to the Agency on the current level of mandatory reserves, specifying their quantity and locations.

Underground petroleum and fuel storage – IKS Solino

In 2004, we continued to increase the capacity of petroleum storage at salt caverns. At the end of 2004, PKN ORLEN's storage volume for fuels and crude oil came to approx. 3 million cubic meters.

Pipeline system

PKN ORLEN uses 232 kilometres of proprietary pipelines and 570 kilometres of PERN "Przyjaźń" pipelines for fuel transportation purposes. Under the strategy adopted by the company, concerning the construction of the proprietary pipeline system for the distribution of fuel in Lower Silesia and incorporation of Depot 111 in Wrocław into the system, preliminary works began on the pipeline construction project, concerning 94 km of pipeline along the route Ostrów Wielkopolski – Oleśnica – Wrocław. PLN 145 million has been allocated for the implementation of this task.

Pipeline is the safest and cheapest means of fuel transportation and therefore PKN ORLEN strives to harness the maximum potential of long-range pipelines. The share of this type of transportation in the fuel shipping structure exceeded 60% in 2004.

Proprietary railway transport

Last year, we recorded an almost threefold increase in the share of proprietary railway transportation in the aggregate volume of refinery and petrochemical products transported by rail, from 5.3% in 2003 to 15.1% in 2004. We opened five new railway connections.

Photo: archive

Photo: archive

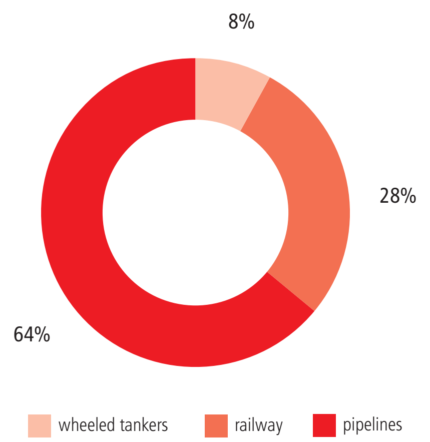
Plans and targets for 2005-2009

Decrease of the number of storage depots

The target number of proprietary depots will include 11 trading and 2 reloading depots. This will be achieved by the following actions in 2005:

- putting 5 depots into the intangible assets account;
- spinning off 1 depot within the ORLEN Group.

Structure of the shipping of liquid fuel from the Production Plant in Płock, 2004



OUR STRATEGY

Logistics	Completion of internal restructuring, including:	• optimization of the number of depots in the distribution network; • cost reduction for fuel storage and shipments; • better use of existing logistics infrastructure.
	Acceleration of upgrading:	• adjustment of storage depots to EU requirements; • improved client service; • improved workplace safety.
	Development of a strategy for Czech logistics.	
	Development of a concept for integrated logistics within the Group.	

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Manufacturing

MANUFACTURING

Refinery

2004 Volumes

- In 2004, we recorded a growth in crude processing of over 4%, in line with the economic recovery in the country.
- At the same time, improved reliability of operations and streamlining solutions boosted the white product yield to 80.61%.
- Market demand permitted the utilisation of the increased yield by increasing fuel production to 68.43%.

Photo: archive

Fuels

Fuel Quality

The reality of stricter standards for engine fuels, introduced in the EU from 1 January 2005, necessitated the production and launch of new engine petrol types and diesel in 2004.

Since June last year, we have been manufacturing a special City Diesel Oil – ONM Super, with a sulphur content of 10mg/kg, which will gradually replace ONM Standard 25.

Besides the basic diesel fuel, we launched the production of Ekodiesel Ultra, with a sulphur content below 10mg/kg, which meets the most stringent quality and environmental requirements imposed by the European Union on diesel engines.

At the beginning of October, we launched the production of a new variety of Ekoterm Plus heating oil, with a sulphur content of no more than 0.1% (m/m). The production of this fuel was launched well ahead of the effective date of the EU requirements, which stipulate the launch of this product as late as 2008. This variety is marked by enhanced usability and environmental properties and was designed for state-of-the-art, low-emission heating systems.

In August we launched the production of two new petrol grades: unleaded 95 and unleaded 98 with a sulphur content of 50 mg/kg and aromatics content of 35% (vol.).

Also in August, we launched the production of a new, Jet A-1 fuel for turbine air engines (code MPS F-34), designed by the Military Research and Development Centre. Jet A-1 contains a special anti-corrosive and lubricating admixture.

Production volume of selected refinery products in 2003-2004 (thousand tons)

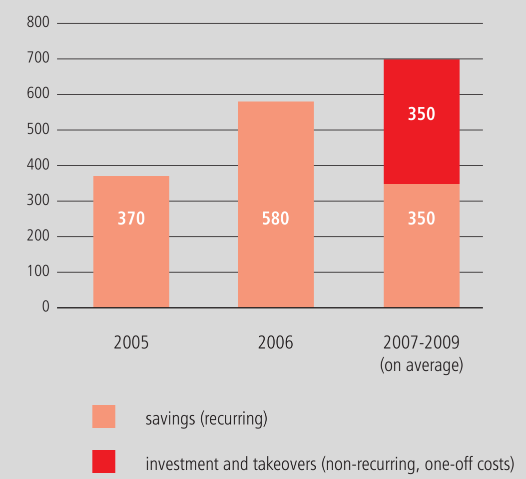
	2002	2003	2004	change (%) 2004/2003
Crude processing	12,474	11,724	12,194	4.00
Fuels total	8,175	7,886	8,344	5.81
Engine petrol	2,979	2,767	2,753	-0.51
Diesel oils	3,020	3,071	3,347	8.99
Jet A-1 aviation fuel	263	301	337	11.96
Light heating oil – Ekoterm Plus	1,705	1,531	1,707	11.50
Liquefied gas	206	209	199	-4.78
Fuel yield in %	65.5	67.26	68.43	1.74
White products yield in %	78.4	79.73	80.61	1.10
Refinery utilisation	92.4%	86.8%	90.3%	4.03


Photo: archive


Photo: archive

Investment programme

- Yield of middle distillates and improved quality to meet growing demand, plus export stimulation in order to utilize growth possibilities in neighboring markets
- Higher distillate volume as a necessary feedstock for olefin production

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Modernisation

Within the framework of adjusting engine fuels to the new quality standards and changing structure of demand for individual fuels, in particular the growing demand for diesel, the following investment tasks are being or will be implemented:

- Sulphur removal from cracked petrol, where the main target is to enable the production of petrol compliant with Directive 98/70/EC of the European Union at the lowest possible cost. The Directive requires from the fuel manufacturers to sell, from 2005 fuels with a sulphur content up to 50 ppm with 10 ppm sulphur content fuels available on the market, and after 2009, below 10 ppm for the entire pool of fuels containing sulphur. The planned launch of the system is the turn of 2005 and 2006.
- Hydrorefining of diesel oil from hydrodesulphurisation of the heavy vacuum residue (HOG), whose target is to optimize the diesel fraction from the HOG system and production within this system of heating oil with marketable properties. Investment to be launched in 2006.
- Upgrading of aromatics extraction, whose target is to optimize the management of the aromatics streams of the refinery and petrochemical origin at the Production Plant in Płock. The investment will be implemented in June 2005 and will enable an increase in the production of aromatics, such as benzene and toluene.
- In July 2004 we implemented a project concerning routing the heavy residue from the HOG system as an additional raw material to the Catalytic Cracking 2 system. The planned profit on applying this solution in 2005 will come to approx. PLN 40 million.
- Upgrading and development of a storage park for liquid fuels, where the target is to increase storage capacity and at the same time adjust the storage park to the legal requirements in place.
- As part of the Company's restructuring actions, in 2004 the Oil Department was incorporated into ORLEN Oil Sp. z o.o.

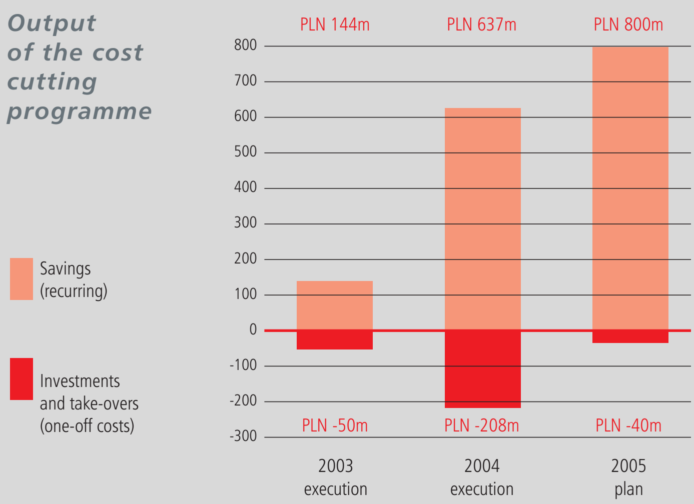
Petrochemicals

The production of petrochemicals remained at a similar level to last year's figures.

Within the plan to increase the production capabilities for the olefin system in 2005, intensive investment actions were undertaken, covering both the pyrolysis unit and related facilities.

Due to the planned polyolefin production growth in the capital-related Basell Orlen Polyolefins, from 2005 onwards we expect a sharp increase in revenues from the sale of ethylene and propylene. The upgraded ethylene unit will ultimately be able to generate up to 700,000 tons of ethylene per year and our aggregate production capabilities for propylene will rise to 500,000 tons per year.

OUR STRATEGY



Production volume of selected petrochemicals in 2003-2004 (tons)

	2003	2004	change (%) 2004/2003
Ethylene	350,672	348,379	-0.65
Propylene	257,479	245,786	-4.54
Butadiene	44,055	45,997	4.41
Benzene	75,289	76,855	2.08
Toluene	58,814	73,449	24.88
P-xylene	36,398	31,550	-13.32
Phenol	52,577	52,967	0.74
Acetone	33,277	33,828	1.66
Glycols	96,665	104,982	8.60
Coolants	16,619	17,349	4.40
Solvents	18,082	17,461	-3.43
Aromatics	236,618	239,654	1.28
Sulphur	104,331	106,614	2.19


GRUPA ORLEN

The ORLEN
Group

THE ORLEN GROUP

Structure of the ORLEN Group

At the end of 2004, PKN ORLEN had a stake, through shares or stock, in 80 commercial companies, including:

- 47 subsidiaries
  (capital share of over 50%)
- 2 co-subsidiaries
  (capital share of 50%)
- 4 affiliated companies
  (capital share from 20% to 50%)
- 27 minority companies
  (capital share below 20%)

OUR STRATEGY

Improved efficiency within the Group – new procurement scheme

- Cost optimization through a centralized system of purchases
- New purchase structure supports the preparation of a new cost cutting programme
- New Procurement Department as a direct executor of the programme

OUR STRATEGY

Segments and areas of operation

Petrochemicals area:	
BOP	• Present cooperation with Basell facilitates a share in the robust growth in the polymer market
Chemopetrol	• Preservation and integration of the petrochemical business • Chance to integrate with BOP polymer production
Other	
Polkomtel	• Disinvestment within the agreed action plan
Other	• Continued streamlining of the Capital Group through disposal of assets from non-core businesses

Disposal of shares in companies

In 2004, we continued to restructure the ORLEN Group. The objective of this process is to enhance our core business and disinvest from the areas unrelated directly to the refinery and petrochemical businesses and the sale of petroleum products (non-core business).

The revenues from disinvestment will finance and increase the efficiency of the core businesses.

In 2004, the profit from the sale of shares in companies belonging to the group came to PLN 12 million, with a revenue figure of over PLN 35 million.

The sale of our assets included:

- the sale of a 100% stake in ORLEN Polimer
  – total transaction value of PLN 11.5 million,
  profit from the sale amounted to PLN 9.5 million;
- the sale of a 40% stake in Flexpol
  – total transaction value of PLN 7.2 million,
  profit from the sale amounted to PLN 2.4 million;
- the sale of a 98% stake in ORLEN Transport Lublin
  – total transaction value of PLN 16 million,
  profit from the sale amounted to PLN 77,500.

New investments

The Płock Industrial and Technological Park

On 14 July 2004 Płocki Park Przemysłowo--Technologiczny, head office in Płock, was registered. The founders are PKN ORLEN SA and the City of Płock. PKN ORLEN took up a 50% stake in the company's capital. The business aim of Płocki Park Przemysłowo-Technologiczny is to create the optimum conditions for the dynamic development of new technologies, new industrial profiles, and innovative research and educational programmes.

ORLEN EKO Sp. z o.o.

Following its restructuring, and on the basis of the property held by the Department of Sewage and

Recycling of PKN ORLEN, ORLEN Eko Sp. z o.o. was established. The company operates in the area of the collection and disposal of waste as well as the management, recovery and thermal neutralization of waste, including hazardous waste contaminated with petroleum derivatives.

ORLEN Eko Sp. z o.o. primarily deals with the thermal neutralization of hazardous and other waste generated in the technological systems of PKN ORLEN's production plant and their collection from other entities.

We estimate that the incineration plant of ORLEN Eko Sp. z o.o. has a 23% share of the Polish market of the thermal neutralization of hazardous waste.

ORLEN Oil Sp. z o.o.

An important asset of the ORLEN Group is ORLEN Oil Sp. z o.o., whose business aim is to produce and sell chemicals, lubricant oils, oil bases and liquid fuels.

In July 2004 the capital of ORLEN Oil Sp. z o.o. was increased by PLN 31,535,000. The shares in the increased capital were paid up in cash by PKN ORLEN.

The rationale behind increasing the company's capital was to generate resources for the partial financing of the acquisition by ORLEN Oil Sp. z o.o. of the property within the Oil Department of PKN ORLEN. The actions undertaken serve the strategy of the Group's consolidation of oil assets around ORLEN Oil Sp. z o.o., in order to create a uniform centre for managing the oil segment of PKN ORLEN's business.

Fuel companies

In the previous year, restructuring actions had taken place, aimed at assuming control over a number of fuel companies (Regional Market Operators). Capital changes were made by means of a buyout of minority stakeholders' shares in ORLEN Morena Sp. z o.o. and ORLEN Petroprofit Sp. z o.o. The strategy towards the fuel companies stipulates a target 100% stake of PKN ORLEN in the five fuel companies.

Consolidation processes

Zakład Urządzeń Dystrybucyjnych Sp. z o.o.

Another measure undertaken in 2004 to streamline the ORLEN Group was the merger of Zakład Urządzeń Dystrybucyjnych Sp. z o.o. with its five servicing subsidiaries, by means of a transfer of the entire property of the acquired companies.

The consolidation of servicing companies within ZUD Sp. z o.o. will contribute to the establishment of a robust company providing complex services in servicing petrol stations.

2005 Plans

In 2005, we plan shareholding changes in 17 companies.

In order to implement the strategy for fuel companies, negotiations concerning the acquisition by PKN ORLEN of the stake in ORLEN PetroZachód Sp. z o.o. will be finalized.

In 2005, we also plan the merger of ORLEN Transport Płock with its two subsidiaries – ORLEN Transport Warszawa and ORLEN Transport Poznań, to form one strong transportation company, dealing with, for example, the supply of fuel to PKN ORLEN stations in Central Poland (Mazowieckie, Łódzkie, Wielkopolskie, and Kujawsko-Pomorskie voivodships).

ORLEN Group's Financial Results

In 2004 the companies of the ORLEN Group recorded a total revenue from sales of PLN 18,770.3 million, a 24% growth compared to the previous year.

The generated net profit totalled PLN 266.5 million, 56% higher than the 2003 figure.

Selected Companies of the ORLEN Group

Zakłady Azotowe Anwil

The company is a leading enterprise in the chemical industry and the country's largest producer of polyvinylchloride (PVC), as well as one of the largest producers of nitric fertilizers.

The business aim of the Company is to produce:

- nitric fertilizers and half-products;
- polyvinylchloride;
- polyethylene packaging.

Zakłady Azotowe Anwil is the largest receiver of ethylene (the main component for PVC production) from PKN ORLEN.

The advanced technological line for VC and PVC, the advanced nitro-chalk system, and other systems in the line (ammonia, nitric acid, ammonium nitrate) have secured for the company the position of one of the world's leaders in the chemical industry.

Shareholding structure as at 31.12.2004	
PKN ORLEN	76.27%
Zakład Energetyczny Toruń SA	3.73%
State Treasury	5.00%
Other	15.00%

Financial data*	
Revenue from sales	PLN 1,608,318,000
Company capital	PLN 150,000,000
Employment as at 31.12.2004	2,414 persons
Net profit	PLN 196,130,000
Equity	PLN 1,047,199,000

* Consolidated data on the Zakłady Azotowe Anwil Capital Group

The company has a stake in 10 subsidiaries and affiliates.

PKN ORLEN's plans in relation to the company
Owing to its strong links with the core business of the Group, the company is planned to remain within the ORLEN Group.

Basell Orlen Polyolefins Sp. z o.o.

Basell Orlen Polyolefins Sp. z o.o. (BOP) is a joint-venture company, formed by PKN ORLEN and Basell Europe Holdings B.V. – the world's largest producer of polypropylene and leading producer of polyethylene.

BOP is a co-subsidiary company, in which PKN ORLEN has a 50% stake. PKN ORLEN contributed technological systems (polyethylene and polypropylene production plants), to the joint undertaking, along with qualified staff.

The business aim of the company is to produce polypropylene, polyethylene and advanced polyolefin materials and sell them on the European and domestic markets. The products are manufactured by production plants in Płock and the international network of Basell.

The Basell Group provides BOP with modern technology, global access to customers and offers high--quality operating procedures.

BOP's sales operations are supported by three key distributors: Brenntag, Polimer Centrum and Krakchemia, which acount for over 82% of the market.

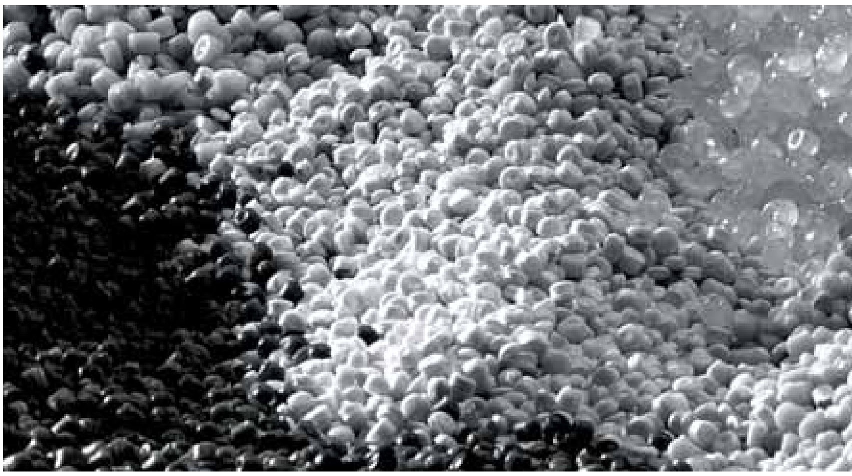
Shareholding structure as at 31.12.2004	
PKN ORLEN	50%
Basell Europe Holdings B.V.	50%

Financial data	
Revenue from sales	PLN 1,074,864,000
Company capital	PLN 907,398,000
Employment as at 31.12.2004	390 persons
Net profit	PLN 103,414,000
Equity	PLN 1,022,908,000

BOP is building in Płock two of the world's largest polypropylene and polyethylene production plants. The launch is planned for Q3 of 2005. The investment cost is EUR 500 million.

The production capabilities of the new plants will be 400,000 tons for Spheripol and 320,000 tons for Hostalen and will put the company on a par with the giants of polyolefin production in Europe.

PKN ORLEN's plans in relation to the company
PKN ORLEN intends to keep the company in the Capital Group (core business company).



Rafineria Trzebinia

One of the oldest refineries in Poland and number four in terms of processing capacity, after the refineries in Płock, Gdańsk and Czechowice.

Rafineria Trzebinia SA's operations focus on:

- crude processing;
- production of high-value specialized products, notably a full array of lubricant oils, industrial oil (hydraulic oils, hardening oil) and paraffin products;
- provision of fuel storage services and their release at the request of PKN ORLEN;
- storage of fuels, establishment and maintenance of fuel reserves.

Rafineria Trzebinia is implementing investment tasks with a view to diversifying or upgrading the operations of the Rafineria Trzebinia Capital Group. This applies to, for example, the paraffin hydro-refining system and biodiesel production system. The launch of the biodiesel production line took place in December 2004. In 2005, it is estimated to generate a net profit of PLN 41 million.

Shareholding structure as at 31.12.2004	
PKN ORLEN	77.07%
State Treasury	9.18%
Other	13.75%

Financial data*	
Revenue from sales	PLN 1,177,878,000
Company capital	PLN 43,042,000
Employment as at 31.12.2004	732 persons
Net profit	PLN 26,567,000
Equity	PLN 339,774,000

* Consolidated data on the Rafineria Trzebinia Capital Group

The company has a stake in 6 subsidiaries and affiliates.

PKN ORLEN's plans in relation to the company

Owing to its strong links with the core business of the Group, the company is planned to remain within the ORLEN Group.

Work is under way on a new concept of "Restructuring the southern assets of the ORLEN Group". The project provides for optimization and consolidation of the production and sales of fuels, engine and lubricant oils, and paraffins within the ORLEN Group. The project involves the following companies: Rafineria Trzebinia, Rafineria Nafty Jedlicze and ORLEN Oil Sp. z o.o.

rafineria trzebinia
GRUPA ORLEN

Rafineria Nafty Jedlicze

Rafineria Nafty Jedlicze is a major company in Poland in terms of heating and lubricant oil production. Located in Podkarpacie, it is one of the oldest refineries established in Poland, with over 100 years of tradition.

The business aim of the company is:

- to regenerate and purchase used oils;
- to produce lubricant oils (of well-known brands, such as Hipol, Hydrol, Velol, Freol, Amortyzer) and lubricants;
- to produce and sell fuels.

Rafineria Jedlicze is known as an environmental leader. For almost 40 years the company has specialized in the regeneration of used oils.

Shareholding structure as at 31.12.2004	
PKN ORLEN	75.00%
State Treasury	10.01%
Other	14.99%

Financial data*	
Revenue from sales	PLN 592,214,000
Company capital	PLN 78,000,000
Employment as at 31.12.2004	805 persons
Net profit	PLN 12,985,000
Equity	PLN 146,115,000

* Consolidated data on the Rafineria Nafty Jedlicze Capital Group

The company has a stake in 6 subsidiaries and affiliates.

PKN ORLEN's plans in relation to the company

Work is being continued on the new concept of "Restructuring the southern assets of the ORLEN Group". The project provides for optimization and consolidation of the production and sale of fuels, engine and lubricant oils, and paraffins within the ORLEN Group. The project involves the following companies: Rafineria Trzebinia, Rafineria Nafty Jedlicze and ORLEN Oil Sp. z o.o.

JEDLICZE
GRUPA ORLEN

Inowrocławskie Kopalnie Soli "Solino"

The largest producer of salt in Poland, and one of the largest in Europe.

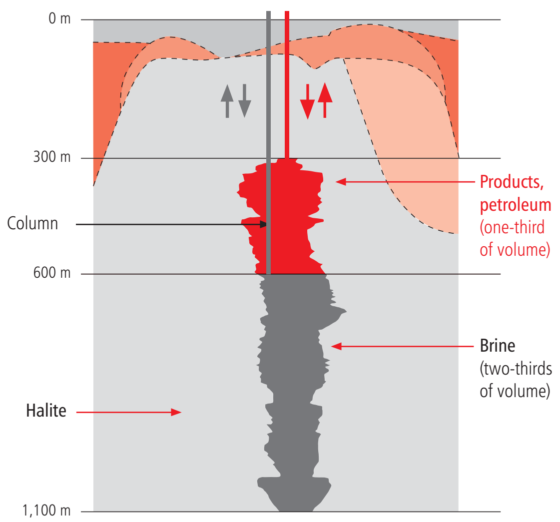
The only market supplier of brine to JANIKOSODA, SODA MĄTWY, Zakłady Azotowe Anwil and ZACHEM Bydgoszcz.

The business aim of the Company is to mine and process salt – to obtain industrial brine and table salt.

Inowrocławskie Kopalnie Soli "Solino" uses the post-exploration space in salt deposits as non-conventional storage for the petroleum and fuels of PKN ORLEN.

To meet the demand for increased storage space, the company undertook an investment project called "Construction of Underground Storage for Petroleum and Fuels". The completion of the last stage of the investment project is planned for 2006. Upon completion, the facility will be one of the largest underground storage providers in Europe.

Diagram of the underground storage chamber at IKS "Solino"



Shareholding structure as at 31.12.2004	
PKN ORLEN	70.54%
State Treasury	25.19%
Other	4.27%

Financial data	
Revenue from sales	PLN 112,134,000
Company capital	PLN 19,146,000
Employment as at 31.12.2004	310 persons
Net profit	PLN 10,210,000
Equity	PLN 83,533,000

PKN ORLEN's plans in relation to the company

Owing to its strong links with the core business of the ORLEN Group, primarily consisting of the storage of fuels and petroleum, the company is planned to remain within the ORLEN Group.

ORLEN Oil Sp. z o.o.

ORLEN Oil Sp. z o.o. is one of the leaders on the lubricant market in Poland.

The business aim of the company is to:

- produce and sell chemical products;
- produce and sell lubricant oils and oil bases;
- sell, both on the domestic and foreign markets, chemical, refinery and petrochemical products.

In 2004, ORLEN Oil Sp. z o.o. acquired the property of the Oil Department at PKN ORLEN. The actions undertaken serve the strategy for the consolidation of the Group's oil assets around ORLEN Oil Sp. z o.o., in order to create a uniform centre for managing the oil segment of PKN ORLEN's business.

Shareholding structure as at 31.12.2004	
PKN ORLEN	47.22%
Rafineria Trzebinia	43.84%
Rafineria Nafty Jedlicze	4.47%
Rafineria Czechowice	4.47%

Financial data*	
Revenue from sales	PLN 558,089,000
Company capital	PLN 75,093,000
Employment as at 31.12.2004	356 persons
Net profit	PLN 13,694,000
Equity	PLN 124,994,000

* Consolidated data on the Rafineria Trzebinia Capital Group

The company has a stake in 11 subsidiaries and affiliates.

PKN ORLEN's plans in relation to the company

Work is being continued on the new concept of "Restructuring the southern assets of the ORLEN Group". The project provides for optimization and consolidation of the production and sales of fuels, engine and lubricant oils, and paraffins within the ORLEN Group. The project involves the following companies: Rafineria Trzebinia, Rafineria Nafty Jedlicze and ORLEN Oil Sp. z o.o.

ORLEN OIL

ORLEN Deutschland AG

ORLEN Deutschland AG is a company under German jurisdiction, established as a result of the merger between ORLEN Deutschland GmbH and ORLEN Deutschland Immobilien GmbH, through which in 2003 PKN ORLEN finalized the purchase of 494 petrol stations in Germany. Owing to the acquisition of stations under the BP, Aral and EM Eggert logos for EUR 140 million, PKN ORLEN took over some 3% of the German market and 7% of the share in the fuel market of Northern Germany. The 2010 target for ORLEN Deutschland AG is to achieve a 10% stake in the fuel market of Northern Germany.

The business aim of the company is to acquire, build, let and hire, operate and manage real estate, in particular petrol stations.

ORLEN Deutschland AG sells fuel through a network of petrol stations (387 proprietary stations, 98 affiliated stations).

In the first six months of 2004, the merger of ORLEN Deutschland's companies into one joint stock company, named ORLEN Deutschland AG, took place.

Financial data	
Revenue from sales	PLN 8,633,635,000
Company capital	PLN 283,020,000
Employment as at 31.12.2004	112 persons
Net loss	PLN 51,759,000
Equity	PLN 447,160,000

The cause of the negative net result at the end of 2004 was the revaluation of selected fixed assets and lower than expected margins on the sale of fuels in the German market.

PKN ORLEN's plans in relation to the company

Decisions on further plans of PKN ORLEN in relation to ORLEN Deutschland AG will be taken this year, following an analysis of the probability of achieving an appropriate economy of scale on the Germany market. If this target is not feasible, a decision on the sale of the company may be taken.

ORLEN Deutschland

ORLEN Asfalt Sp. z o.o.

ORLEN Asfalt Sp. z o.o. is the largest company in Poland producing and selling road and industrial bitumens.

The business objective of the company is to produce and process the products of crude refining. The production offer covers: road bitumen, ORBITON – modified bitumen, as well as binders and bitumen--related products.

ORLEN Asfalt Sp. z o.o. has two production and trading centres – in Płock and Trzebinia. It is estimated that at present the company has a 57% share of the domestic bitumen market.

One of the key elements in the company's development is the launch of modified bitumen under the trade name of ORBITON. Manufacturing of the new product proceeds on the basis of an original recipe and components.

In January 2005, ORLEN Asfalt Sp. z o.o. received an award for ORBITON – modified asphalts at the EUROPRODUKT contest, which corroborates the highest, European-standard, quality of the product.

Shareholding structure as at 31.12.2004	
PKN ORLEN SA	82.46%
Rafineria Trzebinia	17.54%

Financial data	
Revenue from sales	PLN 454,682,000
Company capital	PLN 60,635,000
Employment as at 31.12.2004	137 persons
Net profit	PLN 42,567,000
Equity	PLN 125,938,000

PKN ORLEN's plans in relation to the company

PKN ORLEN intends to keep the company in the ORLEN Group (core business company).

ORLEN Asfalt

Structure of the ORLEN Group as at 31.12.2004

Core business entities

Gas Fuel		Sector	
ORLEN Deutschland AG	100%	ORLEN Asfalt Sp. z o.o.	100%
ORLEN Gaz Sp. z o.o.	100%	ORLEN Oil Sp. z o.o.	95.5%
ORLEN Morena Sp. z o.o.	100%	Rafineria Trzebinia SA	77.1%
ORLEN PetroCentrum Sp. z o.o.	100%	ZA Anwil SA	76.3%
ORLEN PetroProfit Sp. z o.o.	100%	Rafineria Nafty Jedlicze SA	75%
ORLEN PetroTank Sp. z o.o.	90%	IKS "Solino" SA	70.5%
SHIP-SERVICE SA	60.9%	Basell Orlen Polyolefins Sp. z o.o.	50%
ORLEN PetroZachód Sp. z o.o.	51.8%	Naftoport Sp. z o.o.	48.7%
Petrolot Sp. z o.o.	51%		

Supplementary business companies

Other

Centrum Komercjalizacji Technologii Sp. z o.o.	100%	ORLEN Budonaft Sp. z o.o.	100%
ORLEN Eko Sp. z o.o.	100%	ORLEN Medica Sp. z o.o.	100%
ORLEN Ochrona Sp. z o.o.	100%	ORLEN Powiernik Sp. z o.o.	100%
SAMRELAKS Mąchocice Sp. z o.o.	100%	WISŁA Płock SSA	100%
ZAWITAJ Świnoujście Sp. z o.o.	100%	Z.W. Mazowsze Sp. z o.o.	100%
D.W. Mazowsze Sp. z o.o.	98.7%	Zakład Budowy Aparatury SA	96.6%
ORLEN Laboratorium Sp. z o.o.	94.9%	BHT Dromech SA (in liquidation)	81.1%
Petrotel Sp. z o.o.	80.7%	Centrum Edukacji Sp. z o.o.	69.4%
Petromor Sp. z o.o.	51.3%	ORLEN Projekt SA	51%
Płocki Park Przemysłowo-Technologiczny SA	50%	Motell Sp. z o.o.	35%
Poilen Sp. z o.o.	25%	Chemiepetrol Sp. z o.o.	20%
Other companies	27 companies		

Supplementary business companies

Maintenance	Servicing	Transportation	Financial investment
ORLEN Automatyka Sp. z o.o. 52.4%	ZUD Sp. z o.o. 99.9%	ORLEN KolTrans Sp. z o.o. 99.9%	Polkomtel SA 19.6%
ORLEN Wir Sp. z o.o. 51%	Serwis Nowa Wieś Wielka Sp. z o.o. 99.3%	ORLEN Transport Szczecin Sp. z o.o. 99.6%	
	Serwis Mazowsze Sp. z o.o. 88.5%	ORLEN Transport Kraków Sp. z o.o. 98.4%	
		ORLEN Transport Płock Sp. z o.o. 97.6%	
		ORLEN Transport Słupsk Sp. z o.o. 97.1%	
		ORLEN Transport Nowa Sól Sp. z o.o. 96.8%	
		ORLEN Transport Olsztyn Sp. z o.o. 94.8%	
		ORLEN Transport Kęd.-Koźle Sp. z o.o. 94.3%	

Photo: archive

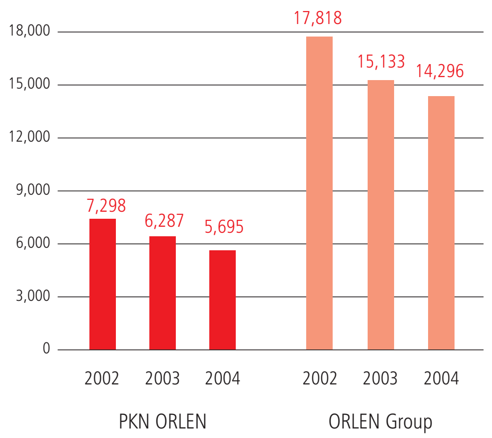
Employees

EMPLOYEES

Employment

As at the end of 2004, the total number of persons employed by the ORLEN Group was 14,296, of which 5,695 worked at PKN ORLEN. From 1 January to 31 December 2004, 732 employees left PKN ORLEN, of which over 479 persons (65%) came within the Voluntary Retirement Scheme.

Employment at PKN ORLEN
and the ORLEN Group in 2002-2004



In relation to 2003, the employment level at the ORLEN Group dropped by 837 persons (approx. 6%).

ORLEN Deutschland, a subsidiary operating in Germany, employed 112 persons at the end of 2004.

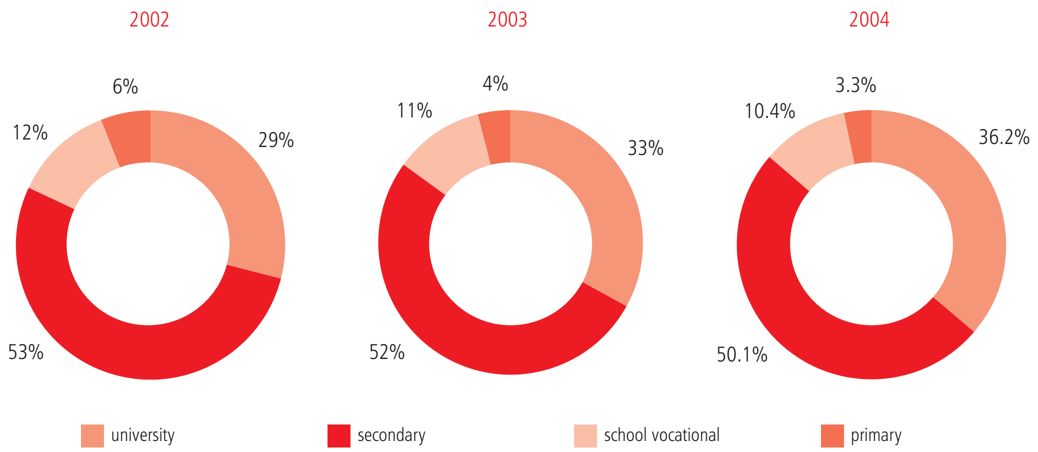
Education

In 2004, the largest group of employees at PKN ORLEN were those with a secondary education, where the number dropped by 1% from 2003, to 2,852 persons. The second largest group of employees was university graduates, whose number rose compared to the 2003 figure by 3%, to 2,061 persons. The majority of newly employed staff in 2004 were specialists in economics and chemistry.

In 2004, some 4,800 employees of the company were covered by all types of training and education.

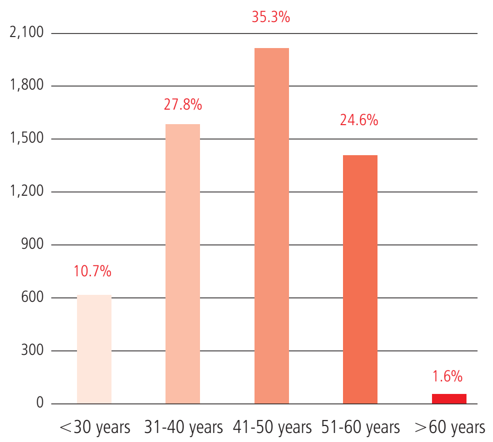
The employment structure at PKN ORLEN in recent years has recorded a consistent reduction in the number of employees between 51 and 60 years of age and over. The largest group in 2004 in terms of age were employees between 41 and 50 (2,010 persons) and between 31 and 40 (1,583 persons). These groups recorded numerical growth of by 1% and 2% respectively compared to the 2003 figure.

Education of employees in 2003-2004



As a proportion of all employees at PKN ORLEN in 2004, women accounted for 30% (1,710 persons), and men for 70% (3,985 persons). In comparison with the 2003 figure, the proportions remained approximately the same (31% of women and 69% of men in 2003).

Employment structure by age group



- < 30 years = 611 persons (10.7%)
  – a fall by 1% in relation to the end of 2003
- 31-40 years = 1583 persons (27.8%)
  – a rise by 2% in relation to the end of 2003
- 41-50 years = 2010 persons (35.3%)
  – a rise by 1% in relation to the end of 2003
- 51-60 years = 1402 persons (24.6%)
  – a fall by 2% in relation to the end of 2003
- > 60 years = 89 persons (1.6%)
  – the same as at the end of 2003

Implementation of SAP HR

As of 1 January 2004, we launched the basic SAP HR modules, supporting record keeping of all HR events as well as the calculation and payment of employees remuneration. Throughout the year, we also launched remuneration planning modules as well as a manager desktop, providing current information on employees.

The SAP HR module in the recruitment field is in the final stages of testing the functionality of the system. At the end of the year Internet applications were tested, which enable the rapid registration of job offers from inside and outside the Capital Group.

Recruitment

In 2004, the company implemented new competency tests for the evaluation of prospective employees. The scheme implemented creates personality profiles of potential employees and compares them against the required profile. Currently, the assessment centre methodology is being prepared for implementation.

Corporate Fund for Social Benefits

We continued to pay social benefits to the employees of PKN ORLEN, the companies, old-age and disability pensioners, as well as their family members. Under the "agreement on joint social actions", in 2004 we supported the employees of 38 companies of the Capital Group. Within the earmarked resources and based on the Regulations of the company's Social Actions, we paid a total of 35,948 social benefits.

Photo: archive

The ORLEN Brand

THE ORLEN BRAND

The ORLEN Brand

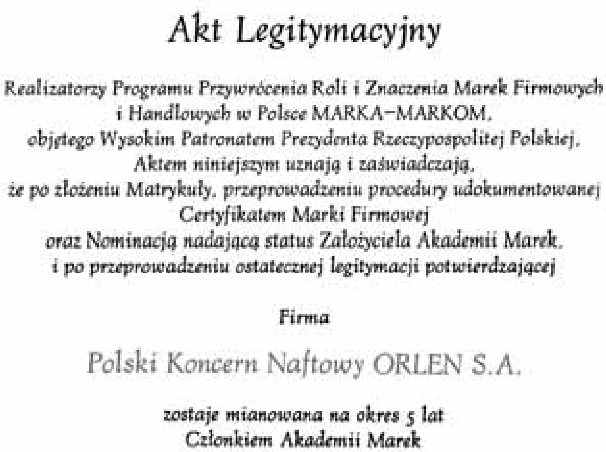
Several decades of experience and the achievements of the Company and its employees, bring with it the need to care for and preserve our good name. That is why we constantly embark on new challenges. We also appreciate the confidence in our Company that has been displayed by our customers and partners. Once again, PKN ORLEN has received the European Trusted Brand award from the largest European consumer opinion poll, and the golden statuette for ORLEN was awarded in the "Petrol Station" category.

At the beginning of 2005, PKN ORLEN was honoured with the Superbrands Polska award in the Automotive Industry category. The Superbrands statuette, referred to as the Marketing Oscar, is awarded by the Independent Brand Council, a body which is composed of the top Polish marketing names.

General public opinion polls indicate a 93% guided ORLEN brand awareness and 73% spontaneous brand awareness. In the case of drivers, the awareness is even higher – 99%* of guided brand awareness and 83%* of spontaneous awareness. ORLEN is currently the best known brand in Poland and is associated with a huge economic potential, is seen as a modern corporation caring for the natural environment, and also as a customer-friendly station network offering top quality products and services.

The ranking of the most valuable Polish brands – prepared in June 2004 by the daily, Rzeczpospolita, Ernst & Young and AC Nielsen Polska – revealed that among 150 brands present on the market, ORLEN came in second, and the brand value was estimated at PLN 1.5bn. Among the brands most often selected by customers, ORLEN ranked third, coming behind Telekomunikacja Polska and Onet only.

The actions we have undertaken are aimed at the continuous building of a uniform image for the Company and companies of the ORLEN Group and, as a consequence, of the ORLEN brand. ORLEN's logo supports high-standard gas stations in Poland and Germany, as well as fuel and petrochemical products and operational fluids. The name "ORLEN" is also present in over forty companies belonging to the ORLEN Group.



Akt Legitymacyjny

Realizatorzy Programu Przywrócenia Roli i Znaczenia Marek Firmowych i Handlowych w Polsce MARKA–MARKOM, objętego Wysokim Patronatem Prezydenta Rzeczypospolitej Polskiej, Aktem niniejszym uznają i zaświadczają, że po złożeniu Matrykuły, przeprowadzeniu procedury udokumentowanej Certyfikatem Marki Firmowej oraz Nominacją nadającą status Założyciela Akademii Marek, i po przeprowadzeniu ostatecznej legitymacji potwierdzającej

Firma

Polski Koncern Naftowy ORLEN S.A.

zostaje mianowana na okres 5 lat Członkiem Akademii Marek

* source: Pentor – Instytut Badania Opinii i Rynku SA Warszawa, December 2004

Economic leader

In 2004, PKN ORLEN sponsored numerous conferences and sessions devoted to macroeconomics, economic policy, fuel and energy sector issues, business and management. Among our most notable undertakings within the Economic Leader scheme last year were the 9^{th} International Oil and Gas Industry Fair NAFTA i GAZ, the European Economic Summit and the 14^{th} Economic Forum in Krynica.

ORLEN TEAM

In 2004, the ORLEN TEAM members yet again confirmed their position on the international arena. In the Rally Argentina held in November as the last round of the Motorcycling World Championship, Marek Dąbrowski came in fourth and Jacek Czachor fifth in the overall rally classification. The Poles secured their outstanding, runner-up trophy by ranking second in the World Championships 2004.

In October 2004, Krzysztof Hołowczyc, one of the most famous Polish rally drivers, joined the ORLEN TEAM and formed a rally crew together with his Belgian navigator, Jean-Marc Fortin. During the Dubai Rally, struggling for points to the general classification of the World Championships, nicknamed "Hołek", he tested the new version of the Mitsubishi Pajero, as part of the preparations for the Dakar Rally.

233 motorcycles, 166 car crews and 69 trucks ventured out to Dakar. Only 104 motorcyclists, 75 cars and 37 trucks managed to get to the finish line. Among them, there were Poles again.

Despite the presence of all top racers on the starting line, Jacek Czachor and Marek Dąbrowski managed to keep leading positions throughout the rally. Finally, the motorcyclists of ORLEN TEAM came in 12^{th} and 11^{th} respectively.

The Krzysztof Hołowczyc – Jean Marc Fortin team had their ups and downs at the Dakar Rally. In the end, the ORLEN TEAM finished 60th. Infortunate car failures that haunted our drivers in the early sections entailed heavy time losses. For a rookie, however, Krzysztof Hołowczyc had a remarkable success at the individual specials, by finishing eighth on the fifteenth stage of the Dakar Rally. This was the all-time best for Polish car drivers in the Dakar Rally.

Industrial expert

Being an Industrial Expert, we have developed our commitment to automotive sports in Poland. In 2004 we supported the events most popular with the fans, such as the Rally of Poland, the Cormorant Rally and the ORLEN TROPHY 4x4.

Social Responsibility

SOCIAL RESPONSIBILITY

Cultural Patronage

For a number of years, PKN ORLEN has been participating in Polish cultural events. We offer our support to both organizers of cultural events and directly to artists. Within the Cultural Patronage programme in 2004 we supported such projects as the the 8th Ludwig van Beethoven Easter Festival, the International Integration Arts Open Air Event in Łąck and the publication of the "Small Encyclopaedia of the Art Market – Polish Painters of the 19th and 20th centuries". We have continued our cooperation with the National Museum in Warsaw and co-financed the purchase of the extremely valuable manuscript of the cis-moll etude, op. 10 No. 4 by Frederic Chopin, put up for auction at Sotheby's Auction House in London. The purchased manuscript was donated to the Frederic Chopin Museum in Warsaw.

Sports Patronage

ORLEN is a member of the exclusive sponsors' club of the Polish Olympic Movement. In 2004, we supported the Polish Olympic Team at the Olympic Games in Athens.

2004 was a year of remarkable success for Wisła Płock, a sports club owned by PKN ORLEN. The men's handball team won their third national championship, whereas the football team finished the season as the fifth-place holder in the first division football league, the best result in the club's history. This sporting success was rewarded with 13 call-ups to the national team for Wisła players, with 4 of them having the honour to play for the national team striving to qualify for the Football World Championship Germany 2006.

Manuscript of the cis-moll etude, op. 10 No. 4 by Frederic Chopin

Good Citizen

We take great satisfaction in committing our resources to solving important social problems and assisting people in need, thus fulfilling the mission of a Good Citizen and Local Partner.

Employee voluntary service. In 2004, the Corporate Voluntary Service of PKN ORLEN began to operate. In the summer, 66 employees of the Company, in cooperation with Caritas, organized a 10-day holiday for a group of Polish children living in the Ukraine, Belarus and Lithuania. The campaign of Szczecin volunteers was directed at the children of the orphanage in Mosty. The employees of RBHD in Szczecin, franchise agents for petrol stations, commercial partners and people of good will – 120 people in total, carried out repairs, organized holidays and delivered Christmas gifts to the children.

As a Local Partner, PKN ORLEN took an active part in initiatives designed to help the local community. Among these, the most important are:

- Forum for Płock – an innovative way of co-managing the city based on full confidence, openness and agreement between the local government, citizens and businesses.
- Grant Fund for Płock – founded by PKN ORLEN and the City of Płock. It is designed to assist civic initiatives and enhance social commitment to implement the strategy of sustainable development. The priority objective of the Fund is to promote actions that improve the living conditions and standards for Płock inhabitants.
- So far, 90 large projects have been co-financed within three editions of grant competition, along with 31 microgranted awarded to youth initiatives. The total support came to PLN 2,155,500.

- Academic Centre for Talent Support. PKN ORLEN participates in the work of Płock educators, teachers, and representatives of the City Office, the regional board of education, Płock universities and school principals, which is aimed at improving the level of education provided to Płock's inhabitants. Within this initiative, the Ambitious Schools' Club and Teaching Excellence Academy will start to operate.
- Cultural cooperation – the city of Płock and PKN ORLEN cooperate in organizing important cultural events, such as the celebration of the Płock History Days and Chemist Day. For three days, the Old Town Square was the scene for cultural events, and the accompanying fair, exhibitions, regatta, laser shows, balloon competition, performances, traditional Polish cuisine competitions and knights tournament impressed the city's inhabitants and visitors alike and provided an opportunity to get closer to the history of the city, which is inextricably linked with the Company.

The Płock Industrial and Technological Park. The goal of the Park is to stimulate the economic and social development of the city and the region and local and regional entrepreneurship, thus creating new jobs – in accordance with the set objectives. The planned investment tasks provide for approx. 200 new jobs. This initiative harnesses the economic and material potential of PKN ORLEN as well as scientific and research potential of the City of Płock. The philosophy of the Park is to act based on the "all at one place" principle. The Płock Industrial and Technological Park has received European Union funding, totalling PLN 45 million.

In June 2004, as part of the Park's activities, the international research and scientific workshop "MSRAS 2004" was held, focusing on techniques of monitoring, security and emergency in multiagenda systems", organized under the auspices of UNDP, PKN ORLEN and the City of Płock.

UNITAR. PKN ORLEN and the City of Płock initiated cooperation with the United Nations Institute for Training and Research, UN Development Programme for Poland (UNDP) and the European Foundation for the Development of the Regions (FEDRE). As a result of this cooperation, in June 2004 Płock was officially selected as the seat of the International Centre for the Training of Local Leaders (CIFAL). This is the first city in this part of Europe incorporated into the CIFAL network.

PKN ORLEN actively pursues a charitable policy, primarily through the ORLEN Dar Serca Foundation, whose goal is to disseminate the national tradition by developing education and science. In 2004, similarly to previous years, the foundation provided financial and material support to individuals, non-governmental organizations, health care, recreation and handicap--rehabilitation institutions. For the last three years the foundation has been providing assistance to Family Orphanages and financed holiday trips for the charges of the Family Orphanages as well as organizing psychological and educational training for educators.

In 2004, the ORLEN Dar Serca Foundation joined the Coalition for Family Foster Care and initiated cooperation with the National Centre for Adoption and Care. Within the assistance scheme for the disabled, the Foundation provided financial support to 25 organizations working for improved living standards for such people.

An important area of the Foundation's activity is support for the development of education. The main beneficiaries of the scheme are secondary schools of general education, student sports clubs and integrative kindergartens. Sizeable support was also provided to the National Fund for Children, earmarked for the organization of workshops for gifted children and to the Institute of the United Europe, for the organization of language courses for youth from impoverished rural areas. The Foundation provided the schools with the financial and material resources to set up computer labs and furnish them with the necessary equipment.

DAR SERCA
FUNDACJA ORLEN

Environmental

Protection

ENVIRONMENTAL PROTECTION

The environmentally-friendly status of the refinery and petrochemical complex in Płock and other units of the Company has been one of the foundations of the production and trading activities of PKN ORLEN for many years. We perceive environmental protection as an important competitive asset and a crucial element of the social responsibility of the business.

Directions governing the environmental activities of the Company in 2004 were set out by the internal environmental policies, based on full respect for the environment. 2004 was the third successive year of PKN ORLEN's operation as a company fully compliant with the environmental laws introduced towards the end of 2001.

Following our statements in October 2004, we submitted an application to the Environmental Protection Department of the Mazowieckie Voivodship Office for the issue of the Integrated Permit, authorizing us to use the environment by the Production Plant in Płock. The method and scope of impact of production processes was the subject of a detailed, internal analysis, carried out as part of the application process, constituting the "environmental passport", necessary for further operations of the Company. The environmental impact analysis revealed that we met all quality requirements. Moreover, we also claim that ORLEN's production systems meet all the criteria of BAT (Best Available Techniques), warranting that the impact on the environment will be limited to the minimum. We expect that the Integrated Permit for the Plant in Płock will be issued at the turn of the first and second quarter of 2005 and will establish our position in terms of environmental protection for the next 10 years.

Photo: archive

It is worth remembering, that three companies of the ORLEN Group – ZA Anwil, Rafineria Nafty Jedlicze and Basell Orlen Polyolefins already hold the Integrated Permit for using the environment by some of their systems.

In 2004, we subjected to scrutiny the environmental impact of our depots which form a part of the logistics structure of PKN ORLEN. The extension of the Environmental Management Certificate, awarded in 2000, to cover also depots was confirmation of the appropriateness of actions carried out in this respect.

In 2004, the Voivodship Chief of the Fire Department approved two documents of importance to the Production Plant in Płock, namely the Safety Report and Internal Operation and Emergency Plan. They specify safety management measures, threat identification systems, and preventative measures as well as describe the actions to be taken in the case of serious industrial failures.

Environmental Policy

Being aware of ORLEN's impact on the environment, we undertake systematic adjustment of both planning and actual execution of industrial processes to the environmental protection requirements. Our objective is to achieve the maximum-possible environmental--friendliness, both for the production activities of the ORLEN Group and for manufactured products. This is the overriding principle around which our mission, as well as any present or future development programmes, revolve.

Care for the environment is part and parcel of our actions based on the ISO 14001 Environmental Management System, implemented in Płock. In 2004, the ISO 14001 environmental management system was implemented by as many as 6 companies from the ORLEN Group, which received the relevant certificate, while applications are pending for another two. We are committed to its expansion to cover the remaining units of the Group in Poland and the establishment of an integrated system, ensuring continuous limitation of the environmental impact in all areas of ORLEN's operation.

Investments for the natural environment

The 2004 investment expenditure on tasks linked to environmental protection in the refinery and petrochemical complex in Płock totalled over PLN 52 million. 636 environmental tasks were executed at ORLEN network stations, depots and separate sites of the Group, at a total cost of over PLN 48 million. We estimate that the total investment outlays by PKN ORLEN on environmental protection in 2004 came to approx. PLN 100 million.

Responsible care

2004 was the eighth successive year of implementing the "Responsible Care" programme, initiated by the Canadian Association of Chemical Industry. Within the programme, we have carried out the following actions:

- cooperation with non-governmental organizations and local administration in environmental protection;
- actions implementing the Occupational Health and Safety Management System at individual units of the refinery and petrochemical complex in Płock;
- environmental education of PKN ORLEN employees and the local community, to include ongoing updates to the "Environmental Guidelines for PKN ORLEN Employees";
- health prophylaxis for the Group's employees and their families.

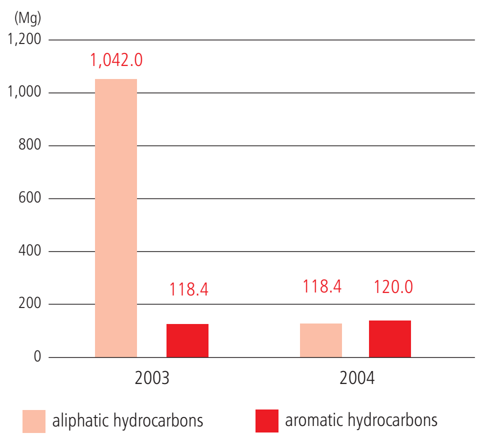
A series of investment actions will also be implemented, such as the construction of a new sewage pumping station, reduction of sulphur content in fuels used for process furnaces (to 0.4%) and increased insulation of the ethylene feed pipeline and, as a result, reduced discharge of ethylene into the air.

In 2004, two companies of the ORLEN Group – Basell Orlen Polyolefins and ORLEN Asfalt, joined the Responsible Care programme.

Site Environmental Inspection

The operation of the Site Environmental Inspection, colloquially referred to as the "Green Police", reflects the Group's care for the control and smooth monitoring of all production processes that may impact the environment (notably, in cases of deviations from regular operation of the systems). The task of the Green Police is also to monitor the operation of the refinery and petrochemical complex by receiving reports and investigating complaints by Płock inhabitants relating to temporary inconveniences. The number or reported complaints by local people dropped by 30% compared with the 2003 figure, which testifies to further improvements in emission parameters, notably odours.

Hydrocarbon emissions in 2003-2004



Content of harmful substances in engine petrol in 2002-2004

Variety		Average content of sulphur [weight %]	Average content of benzene [% V/V]
Eurosuper 95	2002	0.0220	1.20
	2003	0.0103	0.73
	2004	0.0053	0.68
Eurosuper 95 with EETB	2002	0.0150	1.00
	2003	0.0114	0.72
	2004	0.0078	0.64
Super Plus 98	2002	–	–
	2003	–	–
	2004	0.0010	0.65
Super Plus 98 with EETB	2002	0.0060	0.90
	2003	0.0036	0.54
	2004	0.0028	0.64
Uniwersalna 95	2002	–	–
	2003	0.0103	0.73
	2004	0.0053	0.68
Uniwersalna 95 with EETB	2002	0.0150	1.00
	2003	0.0114	0.72
	2004	0.0078	0.64
Eurosuper 95 with Ethanol (4.6% V/V)	2004	0.0079	0.50
Total	2002	0.0200	1.17
	2003	0.0105	0.71
	2004	0.0379	4.43

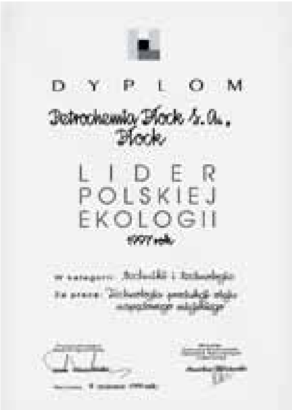
Air Protection

Control measurements carried out in 2004 did not reveal any values in excess of the applicable standards. The growth in the volume of processed crude (by 4%) led to a marginal increase in air discharge rates of some substances. At the same time, a drop in hydrocarbon emissions was recorded in 2004, due to systematic upgrading of the tank farm in the Płock refinery and petrochemical complex.

A drop in pollution rates was also recorded in the distribution and commercial section of the Group, resulting from further air sealing of petrol stations, as well as greater supply of diesel at the expense of petrol. A fact worth noting is the drop in the average sulphur and benzene content in the petrol manufactured by ORLEN. As a result, the volume of harmful substances discharged to the environment by petrol-engine cars recorded a corresponding fall.

Green Project

During the next five years, the Group's environmental protection services plan to plant several thousand trees on the areas directly adjacent to the Production Plant in Płock. This is compensation for the trees cut down in the process of preparing the sites for investment projects or repairs of underground infrastructure. We also plan to forest open areas. We have selected several species of trees (rowan, linden and oak), which are resistant to low temperatures and adapt to industrial neighbourhoods. Currently, the preparations for this project are pending. In 2005, we wish to plant 2,000 seedlings, while the long-term target may be as many as 10,000.



Awards

Our achievements in environmental protection have been recognized by the jury of the 6th edition of "Environmentally Cleanest Petrol Station 2004". The ORLEN gas station at Królewska, Milanówek, was presented with the Gold Medal. The efforts of the companies of the ORLEN Group were also recognized. Orlen Oil Sp. z o.o. won the prize for Platinum Oils in the "Recommended Product" category of the prestigious contest under the auspices of Aleksander Kwaśniewski, the President of the Republic of Poland. In November 2004, ORLEN Transport Płock received a prize in the contest "Pantheon of Polish Environmental Protection" for the drawing up and implementation of environmental management, while the Płock company Centrum Edukacji earned a distinction from Socrates Comenius Agency for the project on monitoring the condition of waters in and around Płock.

Plans

In 2004 we commenced preparation for the implementation of new projects and environmental management mechanisms, directly resulting from Poland's accession to the European Union. One of them is the system of trading in carbon dioxide emissions. The Kyoto Protocol, providing the operational rules for the system, obliges 141 countries, including Poland, to reduce emissions of CO_2 by 5.2% by 2012. In order to achieve this target, the largest companies, notably from the energy sector, must be persuaded to limit carbon dioxide emissions through economic incentives. A company that invests in technology and reduces the emission of carbon dioxide to the level below the target, will be able to sell the surplus to another company at a profit. On the other hand, a company that, at a particular period of time, is not able to reduce emissions, for technical or economic reasons, will be allowed to purchase the necessary quantity of emissions. ORLEN will consider its presence on this market. Our initial estimates reveal that, based on the solutions and practices in other countries, the limits for ORLEN should allow our unconstrained operation and development of the facility and perhaps even trading in CO_2 emission quotas.

Consolidated Financial Statements

FOR THE ANNUAL PERIODS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2003 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS TOGETHER WITH AUDITOR'S OPINION

(amended on 5 May 2005 in relation to the issued on 20 April 2005 prepared on 19 April 2005 consolidated financial statements, "amended consolidated financial statements")

INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board of Polski Koncern Naftowy ORLEN SA

1. We have audited the accompanying consolidated balance sheet of Polski Koncern Naftowy ORLEN SA ("the Company") as of 31 December 2004, and the related consolidated statements of income, cash flows and changes in equity for the year then ended constituting the accompanying consolidated financial statements for the year ended 31 December 2004 prepared in accordance with International Financial Reporting Standards ("IFRS"), (amended on 5 May 2005 in relation to the financial statements issued on 20 April 2005 prepared on 19 April 2005, "the amended consolidated financial statements"). These amended consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these amended consolidated financial statements based on our audit.

2. As disclosed in the notes to the accompanying amended consolidated financial statements, the Management Board made an adjustment for an allowance for a receivable from PSE SA to the standalone financial statement of the Company prepared on 31 March 2005 in accordance with Polish Accounting Standards ("PAS"). The impact of this adjustment to the accompanying amended consolidated financial statements was to decrease by 54 million zlotys the Company's profit available for appropriation as disclosed in note 20 in these accompanying amended consolidated financial statements.

3. Except for the matters discussed in paragraphs 4 and 5 below, we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

4. The International Accounting Standards Board has issued International Financial Reporting Standard no 1 ("IFRS 1") "First-time Adoption of International Financial Reporting Standards", which is effective for financial statements for periods beginning on or after 1 January 2004. In accordance with the pronouncements of IFRS 1 the Company is considered a first time adopter of IFRS. IFRS 1 requires, among other matters that an entity recognises in its financial statements all assets and liabilities whose recognition is required by IFRSs. In addition to IFRS 1 an entity may elect to measure an item of property, plant and equipment at the date of transition to IFRSs at its fair value and use that fair value as its deemed cost at that date.

Perpetual usufruct rights granted to the Company in the past based on administrative decisions meet the definition of an asset. Accordingly these perpetual usufruct rights should be recognised in the Company's amended consolidated financial statements. As discussed in Note 2 to the accompanying amended consolidated financial statements, no fair value estimation of the above assets was performed by the Company, to determine deemed cost. As a result, we are not able to assess the potential effect of the aforementioned issue on the amended consolidated financial statements.

5. International Accounting Standard No. 29 ''Financial Reporting in Hyperinflationary Economies'' ("IAS 29") requires that the carrying amounts of assets and liabilities reported in a period of hyperinflation should be expressed in the measuring unit current at the end of the hyperinflationary period and constitute the basis for the carrying amounts in the subsequent financial statements. The Polish economy was hyperinflationary until the end of 1996 and ceased to be hyperinflationary in 1997. The Company last revalued its fixed assets as of 1 January 1995 to reflect the effects of inflation, in general by applying price indices determined by the Central Statistical Office for individual groups of assets. This revaluation was not performed in accordance with the provisions of IAS 29 since the Company did not use a general price index and did not subsequently revalue its fixed assets as of 31 December 1996. As a result, the cumulative balances of property, plant and equipment, which existed prior to 31 December 1996, have not been expressed in the measuring unit current at the end of 1996. The revaluation was also not compliant with International Accounting Standard No 16 "Property, Plant and Equipment" requiring that the revalued amount of fixed assets approximate their fair value as at the date of revaluation. The Company has not determined fair value as deemed cost in relation to the fixed assets discussed above, which would result from the requirements of IFRS 1.

6. In our opinion, except for the matters referred to in paragraphs 4 and 5 above, the amended consolidated financial statements present fairly, in all material respects, the consolidated financial position of Polski Koncern Naftowy ORLEN SA as of 31 December 2004, and of the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

7. As a result of the matters explained in paragraph 2 above, this opinion on the amended consolidated financial statements replaces our qualified opinion issued previously on 19 April 2005 in relation to the consolidated financial statements of the Group prepared on 19 April 2005 in accordance with International Financial Reporting Standards. Therefore the previously issued opinion should not be taken into account for any assessment of the accompanying amended consolidated financial statements.

8. Without further qualifying our opinion, we draw attention to the following:

   a) We also reported separately on the amended consolidated financial statements of the Company for the year ended 31 December 2004 prepared in accordance with PAS. The significant differences between PAS and IFRS as far as they concern the consolidated financial statements are summarized in note 35 to the accompanying amended consolidated financial statements.

b) As discussed in note 30c to the accompanying amended consolidated financial statements, there is a tax inspection underway in the Company's subsidiary Rafineria Trzebinia SA. This inspection is being carried out by the Tax Inspection Office in Krakow and its scope covers the verification of excise tax and value added tax calculations and payments for the years 2002 and 2003. The results of this tax inspection and its potential impact on the accompanying amended consolidated financial statements are unknown as of the date of this opinion. Additionally on 5 April 2005, as a result of the proceeding carried out by the Customs Office, Rafineria Trzebinia SA received decisions issued by the Director of the Customs Office in Krakow in which an additional excise tax liability was determined for the period May-June 2004 for a total amount of approximately PLN 60 million and which were appealed by the company. On 5 May 2005 Rafineria Trzebinia SA received a decision of Custom Office in Krakow on suspending the execution of the above mentioned decisions. As discussed in the above note, as at the date of this opinion the final results of the above proceedings and their potential impact, as well as any potential impact of the extension of the above proceedings to other periods, on the accompanying amended consolidated financial statements are not known.

As discussed in notes 30c, 30m, 30n to the accompanying amended consolidated financial statements the Supervisory Boards of Rafineria Trzebinia SA, Rafineria Nafty Jedlicze SA and ORLEN Oil Sp. z o.o. passed resolutions to have tax audits and forensic procedures performed in their respective companies. As it was discussed in the above notes as at the date of this opinion these works were not finished and the potential impact on the accompanying amended consolidated financial statements is not known.

Ernst & Young
Warsaw, Poland
5 May 2005

CONSOLIDATED BALANCE SHEETS
as of 31 December 2004 and 31 December 2003

	Note	31 December 2004	31 December 2003
		(in PLN million)	
ASSETS			
Non-current assets			
Property, plant and equipment	5	9,681	9,807
Negative goodwill	6	(245)	(273)
Intangible assets	7	113	121
Financial assets	8	537	534
Investments accounted for using equity method	9	550	493
Deferred tax assets	25	42	15
Other non-current assets		9	18
Total non-current assets		**10,687**	**10,715**
Current assets			
Inventories	10	3,273	3,058
Trade and other receivables	11	2,957	2,513
Income tax receivables		23	65
Short-term investments	12	1,124	67
Deferred costs	13	92	80
Cash and cash equivalents	14	707	562
Other financial assets		154	89
Total current assets		**8,330**	**6,434**
Total assets		**19,017**	**17,149**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity	**20**		
Common stock		534	534
Capital reserve		1,359	1,359
Hedge accounting-cash flow hedges		56	–
Revaluation reserve		855	856
Foreign exchange difference on subsidiaries		(7)	62
Retained earnings		8,888	6,699
Total shareholders' equity		**11,685**	**9,510**
Minority interests	**15**	**378**	**427**
Non-current liabilities			
Interest bearing borrowings	16	1,757	1,836
Provisions	17	900	616
Deferred tax liabilities	25	229	293
Total non-current liabilities		**2,886**	**2,745**
Current liabilities			
Trade and other payables and accrued expenses	18	3,787	3,231
Income tax liabilities		1	–
Interest bearing borrowings	16	242	1,195
Deferred income	19	17	14
Other liabilities		21	27
Total current liabilities		**4,068**	**4,467**
Total liabilities and shareholders' equity		**19,017**	**17,149**

The accompanying notes are an integral part of these consolidated financial statements (amended consolidated financial statements).

CONSOLIDATED INCOME STATEMENTS
for the years ended 31 December 2004 and 31 December 2003

	Note	For the year ended 31 December 2004	For the year ended 31 December 2003
		(in PLN million)	
Revenue		**30,565**	**24,412**
Cost of sales	23	(24,444)	(19,986)
Gross profit		**6,121**	**4,426**
Other operating income		361	422
Distribution costs	23	(2,187)	(2,259)
Administrative expenses	23	(846)	(934)
Other operating expenses	23	(699)	(388)
Profit from operations		**2,750**	**1,267**
Financial income	24	425	279
Financial expenses	24	(258)	(377)
Income from investments accounted for using equity method		99	50
Profit before income tax and minority interests		**3,016**	**1,219**
Income tax	25	(565)	(198)
Profit after tax		**2,451**	**1,021**
Minority interests		(55)	(34)
Net profit		**2,396**	**987**
Basic earnings and the diluted earnings per share for the period (in zloty per share)		**5.60**	**2.35**

The accompanying notes are an integral part of these consolidated financial statements (amended consolidated financial statements).

CONSOLIDATED CASH FLOW STATEMENTS
For the years ended 31 December 2004 and 31 December 2003

	For the year ended 31 December 2004	For the year ended 31 December 2003
	(in PLN million)	
Cash flows from operating activities		
Net profit for the period	2,396	987
Adjustments for:		
Minority interests	55	34
Net income from investments accounted for under equity method	(99)	(50)
Depreciation and amortisation	1,219	1,207
Interest and dividend charges, net	(52)	29
Income tax on current period profit	565	198
Losses/(gains) on investing activities	41	59
(Increase) in receivables	(478)	(114)
(Increase) in inventories	(250)	(158)
Increase/(decrease) in payables and accrued expenses	645	(111)
Increase in provisions	311	25
Other adjustments	(149)	14
Net income tax paid	(640)	(413)
Net cash flows from operating activities	**3,564**	**1,707**
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(1,467)	(1,337)
Proceeds from sales of property, plant and equipment	63	40
Proceeds from sales of shares and stakes	41	17
Acquisition of shares and stakes	(28)	(56)
Acquisition of the business activity in Germany, net of cash acquired	–	(279)
Acquisition of short term securities	(1,233)	(62)
Proceeds from sales of short term securities	130	55
Dividends received	81	60
Interest received	24	25
Loans granted/repaid	7	83
Other	31	73
Net cash flows (used) in investing activities	**(2,351)**	**(1,381)**
Cash flows from financing activities		
Proceeds from long-term and short-term loans and other borrowings	864	4,452
Repayment of long-term and short-term loans and other borrowings	(1,582)	(4,207)
Interest paid	(59)	(116)
Dividends paid	(278)	(59)
Other	(13)	(12)
Net cash flows from / (used) in financing activities	**(1,068)**	**58**
Net increase in cash and cash equivalents	**145**	**384**
Cash and cash equivalents at the beginning of the year	**562**	**178**
Cash and cash equivalents at the end of the year	**707**	**562**

The accompanying notes are an integral part of these consolidated financial statements (amended consolidated financial statements).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2003
(in PLN million)

	Common stock	Capital reserve	Hedge accounting--cash flow hedges	Revaluation reserve	Foreign currency translation	Retained earnings	Total share-holders' equity
1 January 2003	**525**	**1,174**	**–**	**859**	**–**	**5,771**	**8,329**
Issue of shares	9	–	–	–	–	–	9
Share premium	–	185	–	–	–	–	185
Foreign exchange gain on consolidation	–	–	–	–	62	–	62
Dividend	–	–	–	–	–	(59)	(59)
Net profit	–	–	–	–	–	987	987
Non-current assets impairment	–	–	–	(3)	–	–	(3)
Hedge accounting--cash flow hedges	–	–	–	–	–	–	–
31 December 2003	**534**	**1,359**	**–**	**856**	**62**	**6,699**	**9,510**

CONSOLIDATED STATEMENT
OF CHANGES IN EQUITY
for the year ended 31 December 2004
(in PLN million)

	Common stock	Capital reserve	Hedge accounting--cash flow hedges	Revaluation reserve	Foreign currency translation	Retained earnings	Total share-holders' equity
1 January 2004	**534**	**1,359**	**–**	**856**	**62**	**6,699**	**9,510**
Foreign exchange on consolidation	–	–	–	–	(69)	–	(69)
Dividend	–	–	–	–	–	(278)	(278)
Net profit	–	–	–	–	–	2,396	2,396
Non-current assets impairment	–	–	–	(1)	–	–	(1)
Hedge accounting--cash flow hedges	–	–	74	–	–	–	74
Deferred tax resulting from the hedge accounting	–	–	(18)	–	–	–	(18)
Increase of shares in net assets of the company Anwil SA resulting from the purchase of own shares to redeem	–	–	–	–	–	71	71
31 December 2004	**534**	**1,359**	**56***	**855**	**(7)**	**8,888**	**11,685**

* Including the amount of PLN (17) million, taking into account the deferred tax, resulting from hedge accounting in subsidiaries accounted for using the equity method

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AMENDED CONSOLIDATED FINANCIAL STATEMENTS) (in PLN million)

These consolidated financial statements are financial statements amended on 5 May 2005 in relation to the issued on 20 April 2005 prepared on 19 April 2005 consolidated financial statements for the year 2004 as a consequence of the information received by the Company on 19 April 2005 concerning a negative result of the arbitration procedure in relation to the receivable from PSE SA in the amount of PLN 111.5 million (Note 30k) and as a consequence of the above mentioned amendment made to the standalone financial statements. As a result of the above event the Management Board made an adjustment concerning an allowance for the receivable from PSE SA in the standalone financial statements prepared in accordance with Polish Accounting Standards. Following the above mentioned adjustment, the Company's net financial result for the year 2004 according to the Polish Accounting Standards was decreased by the amount of PLN 54 million in comparison to the data presented in the Company's standalone financial statements prepared on 31 March 2005. The consequence of the above mentioned events is a change in Note 20 in relation to the consolidated financial statements issued on 20 April 2005. In addition the following notes were also amended in relation to other significant events after the balance sheet date till the date of the preparation of these financial statements: 30c, 30e, 30k, 33.4, 34c.

1. Principal activities

The dominant company of the capital group of Polski Koncern Naftowy ORLEN (further referred to as "the Group") is Polski Koncern Naftowy ORLEN SA (further referred to as "the Company", "PKN ORLEN") located in Płock, Poland, 7 Chemikow Street.

The Company was established by the Notary Deed of 29 June 1993 as Mazowieckie Zakłady Rafineryjne i Petrochemiczne "Petrochemia Płock" SA as a State Treasury owned Joint Stock Company, and registered in the Companies Register in Plock on 1 July 1993. In accordance with the resolution of the General Meeting of Shareholders held on 19 May 1999, which became effective on registration in the District Court of Plock on 20 May 1999, the Company changed its name to Polski Koncern Naftowy SA. Further, following the General Meeting of Shareholders resolution dated 3 April 2000, registered in the Plock District Court on 12 April 2000 the Company changed its name to Polski Koncern Naftowy ORLEN SA.

The Company is engaged in processing of crude oil into a broad range of petroleum products and petrochemicals and in the transportation and wholesale and retail distribution of such products. The other companies in the Group operate primarily in related downstream activities including further production and distribution as well as in production and sales of chemicals.

Until the second public offering, completed in July 2000, the Company was primarily owned, directly and indirectly, by the Polish State Treasury. The employees and others had a minority shareholding. The State Treasury supervised the Company through its control of the Company's majority shareholder, and ultimate parent company Nafta Polska SA. As at 31 December 2004 Nafta Polska SA owned directly or indirectly 17.32% of the Company shares, the Polish State Treasury 10.2%, Bank of New York (as a depositor) held 10.62% shares and other shareholders owned 61.86% of the Company shares.

On 4 July 2003 the Company announced that Commercial Union OFE BPH CU WBK is in possession of 21,533,539 bearer shares of PKN ORLEN which account for 5.035% of the votes at the General Meeting of Shareholders of PKN ORLEN. On 2 March 2005 Commercial Union the stake of PKN ORLEN's shares possessed by OFE BPH CU WBK decreased and amounted to 21,040,915 shares which constituted 4.92% of voting rights at the General Shareholders Meeting.

2. Basis of presentation

(a) Accounting standards

The Group applied for these consolidated financial statements the International Financial Reporting Standards ("IFRS") effective for respective accounting periods. IFRS include standards and interpretations approved by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC").

In 2003 the IASB issued IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), which is valid for preparing financial statements for the periods starting 1 January 2004 or after that date. IFRS 1 concerns, apart from these entities, that prepare for the first time financial statements according to IFRS, also companies such as the Group of PKN ORLEN, that apply IFRS, but in whose financial statements there are statements on incompliance with certain standards, particularly accounting for hyperinflation under International Accounting Standard No 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29") and revaluation of fixed assets under International Accounting Standard No 16 "Property, Plant and Equipment" ("IAS 16"). Particularly IFRS requires from the entity to present, in its opening balance prepared in compliance with IFRS, all assets and liabilities for which presentation is called for by IFRS so the Company also recognized perpetual usufruct rights according to IFRS 1. According to IFRS 1 the entity can perform valuation of a part of non-current assets at the fair value as at the day of IFRS adoption and recognize arisen value as its purchase cost on that day. The Group did not perform non-current assets valuation as at 31 December 2004 to present it as new purchase cost of the above mentioned assets which would result from IFRS 1.

Perpetual usufruct rights granted in past to the Group's companies on the basis of administrative decisions do meet definition of an asset. In relation to that they should be recognized in the Group's financial statements based on their fair value. The Group have not assessed fair value of these perpetual usufruct rights because until now it was not practically possible. The Group plans to perform adequate valuations in 2005, so in the balance sheet as at the end of 2005 all assets and liabilities are presented according to IFRS. In the opinion of the Management Board the assumed result of recognition of the effect of the potential adjustments concerning fulfilling the above requirements will not have a pervasive impact on the value of assets, equity and financial results of the Group for the year 2004.

The measurement and the reporting currency of these consolidated financial statements is Polish Zloty ("PLN").

The consolidated financial statements were prepared under assumption that the Group entities will continue as going concerns for foreseeable future. As of the date of authorisation of the financial statements there are no facts or circumstances, indicating any threat of Group's entities continuation as going concerns.

(b) Change of the estimate of foreign currency differences

In 2004 the Group has changed the estimate of the closing rate used for reporting of monetary assets and liabilities expressed in foreign currencies. Until 31 December 2003 monetary assets expressed in foreign currencies were translated with the lower of: a commercial bank's purchase rate and average exchange rate of the National Bank of Poland while liabilities were translated with the higher of: a commercial bank's selling rate and average exchange rate of the National Bank of Poland. Starting from 1 January 2004, for monetary assets and liabilities expressed in foreign currencies as at balance sheet day the same, average National Bank of Poland rate is applied as announced on the balance sheet day. The effect of this change amounted to PLN 26 million and had a positive impact on the net result of the current period.

(c) Changes in accounting standards

Since 1 January 2005 the Group companies will be applying international standards actualized by the International Accounting Standards Board. Presently the Group companies are assessing effects of applying new actualized standards.

In March 2004 International Accounting Standards Board published IFRS 3 "Business combinations" ("IFRS 3") with revised provisions of IAS 36 and IAS 38. The new standard is applicable for the financial years beginning on or after 31 March 2004.

(d) Reorganisation of the Group

In connection with the Polish Government's restructuring and privatisation program for the Polish oil sector companies, the Polish State Treasury, through its holding in Nafta Polska SA reorganised the Polish oil sector in the years 1997 through 1999. The existing Group is a result of this reorganisation of several significant operating companies, which were all under the common control of Nafta Polska SA and the Polish State Treasury. In particular, this reorganisation included the following transactions:

- before the merger of Centrala Produktów Naftowych "CPN" SA ("CPN") with Petrochemia Płock
  - separation from CPN of Dyrekcja Eksploatacji Cystern Sp. z o.o. – the entity dealing with exploration of railway tanks for crude oil products transportation
  - sales of stakes in Naftobazy Sp. z o.o by CPN – operator of big warehouse facilities used to store crude oil products
- acquisition rafineries: Rafineria Trzebinia SA and Rafineria Nafty Jedlicze SA,
- merger of Petrochemia Płock with Centrala Produktów Naftowych "CPN" SA – the main distributor in the area of retail sales of fuels in Poland.

To the extent of the Polish State Treasury's common control, this reorganisation was accounted for as a transaction under common control using the uniting of interests' method of accounting in analogy to the rules of International Accounting Standards No 22 "Business Combination" (IAS 22).

(e) Entities included in consolidated financial statements

These consolidated financial statements for the years ended 31 December 2004 and 31 December 2003 include following entities within the Group located in Poland and Germany, ie.:

	Share in total voting rights[1)] 31 December 2004	31 December 2003
	(in full %)	
PKN ORLEN	Dominant Company	
ORLEN Deutschland AG [3)]	100%	–
ORLEN Deutschland GmbH	–	100%
ORLEN Deutschland Immobilien GmbH	–	100%
ORLEN Gaz Sp. z o.o.	100%	100%
ORLEN PetroCentrum Sp. z o.o.	100%	100%
ORLEN Medica Sp. z o.o.	100%	100%
ORLEN Budonaft Sp. z o.o.	100%	100%
ORLEN Powiernik Sp. z o.o.	100%	100%
ORLEN KolTrans Sp. z o.o.	100%	100%
ORLEN Transport Szczecin Sp. z o.o.	100%	100%
ORLEN ASFALT Sp. z o.o. (formerly Bitrex Sp. z o.o.) [2)]	100%	100%
Capital Group of ORLEN Petroprofit Sp. z o.o. [9)]	100%	85%
including Petro-oil LCS Sp. z o.o.	100%	100%
Petrooktan Sp z o.o.	51%	51%
ORLEN Morena Sp. z o.o. [10)]	100%	51%
Raf Trans Sp. z o.o. [6)]	99%	99%
ORLEN Transport Lublin Sp. z o.o. [5)]	–	98%
ORLEN Transport Kraków Sp. z o.o.	98%	98%
ORLEN Transport Płock Sp. z o.o.	98%	98%
ORLEN Transport Nowa Sól Sp. z o.o.	97%	97%
Zakład Budowy Aparatury SA	97%	97%
ORLEN Transport Słupsk Sp. z o.o.	97%	97%
ORLEN Transport Poznań Sp. z o.o.	96%	96%
ORLEN Laboratorium Sp. z o.o.	95%	95%
ORLEN Transport Olsztyn Sp. z o.o.	95%	95%
ORLEN Transport Warszawa Sp. z o.o.	94%	94%
Capital Group of ORLEN Oil Sp. z o.o. [7)]	92%	92%
ORLEN Petro-Tank Sp. z o.o.	90%	90%
ORLEN Transport Kędzierzyn-Koźle Sp. z o.o.	89%	89%
Petrotel Sp. z o.o.	89%	89%
Capital Group of Anwil SA [8)]	84%	76%
including: Przedsiębiorstwo Inwestycyjno-Remontowe Remwil Sp. z o.o.	100%	100%
Przedsiębiorstwo Produkcyjno-Handlowo-Usługowe Pro-Lab Sp. z o.o.	99%	99%
Przedsiębiorstwo Usług Specjalistycznych i Projektowych Chemeko Sp. z o.o.	56%	56%
Capital Group of Rafineria Trzebinia SA	77%	77%
including: Energomedia Sp. z o.o.	100%	100%
Euronaft Sp. z o.o.	100%	100%
Nafto Wax Sp. z o.o.	100%	100%
Ekonaft Sp. z o.o.	99%	99%
Capital Group of Rafineria Nafty Jedlicze SA	75%	75%
including: RAF-LAB Sp. z o.o.	100%	100%
RAF-ENERGIA Sp. z o.o.	100%	100%
RAF-KOLTRANS Sp. z o.o.	100%	100%
RAF-REMAT Sp. z o.o.	96%	96%
RAF-EKOLOGIA Sp. z o.o.	93%	93%
Konsorcjum Olejów Przepracowanych – Organizacja Odzysku SA	81%	81%
Inowrocławskie Kopalnie Soli "Solino" SA	71%	71%

(AMENDED CONSOLIDATED FINANCIAL STATEMENTS) – in PLN million

	31 December 2004	31 December 2003
	(in full %)	
Capital Group of Ship-Service SA	56%	56%
including: Bor-Farm Sp. z o.o.	100%	100%
ORLEN Automatyka Sp. z o.o.	52%	52%
ORLEN PetroZachód Sp. z o.o.	52%	52%
Petrogaz Wrocław Sp. z o.o.	52%	52%
Petrolot Sp. z o.o.	51%	51%
ORLEN Projekt Sp. z o.o.	51%	51%
ORLEN Wir Sp. z o.o.	51%	51%
Petrogaz Łapy Sp. z o.o. [4)]	–	100%
ORLEN Polimer Sp. z o.o. [5)]	–	100%

1) Voting rights equals share in equity except for share in equity in Ship Service Capital Group which is 61%.

2) Since 2Q 2003 entity has been directly controlled by PKN ORLEN (previously Rafineria Trzebinia SA has directly controlled subsidiary).

3) In 2004 ORLEN Deutschland GmbH and ORLEN Deutschland Immobilien were transformed into ORLEN Deutschland AG. As the result PKN ORLEN owns shares in one organized company.

4) The entity was taken over by ORLEN Gaz Sp. z o.o. in 1Q 2004.

5) The entity was sold in 2Q 2004.

6) The entity previously consolidated by Rafineria Nafty Jedlicze SA

7) The entity previously consolidated by Rafineria Trzebinia SA

8) Possessed share changed due to purchase own shares by Anwil SA for redemption purposes

9) In 2004 the Group purchased additionally 15% of shares in Petroprofit Sp. z o.o.

10) In 2004 purchased additionally 49% of shares in Morena Sp. z o.o

3. Measurement and reporting currency

The measurement of the Dominant Company and the reporting currency of these consolidated financial statements is Polish Zloty. For assets and liabilities expressed in foreign currencies as at the balance sheet day the same, average National Bank of Poland rate is applied as announced on the balance sheet day.

The financial statements of foreign entities are translated into Polish currency in the following way:

– balance sheet items are valued at average National Bank of Poland rate announced on the balance sheet day;

– profit and loss items at arithmetic average of average rates announced by National Bank of Poland for each day ending a month.

Exchange rate gains/losses resulted from such calculations are presented directly in equity as a separate element.

4. Statement of principal accounting policies

The financial statements were prepared on the historical cost basis concept except for the fixed assets being subject to revaluation and certain financial instruments.

(a) Principles of consolidation

– Subsidiaries

The consolidated financial statements of the Group include financial data of Polski Koncern Naftowy ORLEN SA and the companies that it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheets and income statements, respectively, proportionally to share capital not belonging to the Dominant Company directly or indirectly through its subsidiaries.

The acquisition method of accounting is used for acquired businesses. Accounting for reorganisations is discussed in Note 2(c). Companies acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

– Associates

Investments in associated companies (generally investments of between 20% to 50% in a company's equity) where significant influence is exercised by the Group are accounted for using the equity method. An assessment of the carrying value of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

– Joint ventures

Investments in joint ventures, where joint control is exercised by the Group are accounted for using the equity method. An assessment of the carrying value of investments in joint ventures is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

All other investments are accounted for in accordance with IAS 39, "Financial Instruments: Recognition and Measurement" as further disclosed in Note 4(m).

Financial statements of subsidiaries, joint-ventures and associates were prepared for the year ended 31 December 2004.

(b) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment loss, except where stated at revalued amounts. Revaluations of property, plant and equipment were performed in Poland as mandated by the Ministry of Finance and were designed to reflect the level of inflation. Revaluations were in general performed using the price indices determined by Central Statistical Office ("GUS") for individual groups of fixed assets. This is a departure from IAS 29, which requires application of a general price index. The revaluation was also not performed in accordance with the provisions of IAS 16 since the revaluation method did not assure that the revalued amount of fixed assets was approximate to their fair value as at the date of revaluation.The last revaluation took place on 1 January 1995 and was designed to reflect the specific price level as of September 1994.

As a result of this revaluation both the carrying amount and tax base of the assets subject to revaluation have been increased with a resulting increase in the revaluation reserve and therefore in shareholders' equity. The Group has not revalued its property, plant and equipment as of 31 December 1996, which is a departure from IAS 29, which requires that assets are restated to a measurement unit current as of the end of hyperinflationary period. According to Polish law, the Group companies performed the revaluations, which increased net book value of property, plant and equipment by a total of PLN 859m. The amount equal to the difference between the depreciation on a revalued asset and the depreciation based on the cost of that asset is not transferred from revaluation reserve to retained earnings. Construction-in-progress was not subject to revaluations. Depreciation is based on the revalued amounts.

Property, plant and equipment are depreciated over their useful lives using a straight-line method. The following depreciation rates are used:

Buildings and constructions	1.5 - 10.0%
Plant and machinery	4.0 - 30.0%
Transportation vehicles and others	6.0 - 25.0%

The useful lives and depreciation methods are reviewed periodically to ensure that the method and period of depreciation is consistent with the expected pattern of economic benefits from items of property, plant and equipment.

No depreciation is provided on land and construction-in-progress.

The Group companies review the net carrying value of property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

(c) Financial lease

Assets used on the basis of a rental, tenancy, lease agreement or other meeting appropriate criteria of IAS 17 "Leases" are included into non-current assets and recognized in the value lower of: fair value of the leased asset on inception of the lease agreement and carrying value of minimal lease payments.

Assets put to operational use on the basis of a rental, tenancy, lease agreement or other meeting appropriate criteria of IAS 17 are recognized as long term receivables equal to net value of the lease investment.

d) Goodwill and negative goodwill

Goodwill / negative goodwill arises from the purchase of an entity. Goodwill represents the excess of the purchase consideration over the Company's interest in the fair value of the net assets acquired. Negative goodwill represents the excess of the Company's interest in the fair value of the net assets acquired over the purchase consideration. Goodwill is recognised at the date of acquisition and amortised on a straight-line basis over the expected period of benefit. The Group amortises goodwill, which arose on the merger of CPN in year 1999, over a period of ten years. The amortisation period reflects the best estimate of the period during which future economic benefits are expected to flow to the Company.

Negative goodwill is recognised in the income statement as follows: to the extent that negative goodwill relates to expected future losses and expenses that are identified in the company's plan for the acquisition and can be measured reliably but which cannot be accrued for the date of acquisition, that portion of negative goodwill is recognised as income when the future losses and expenses are recognised; the amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets; the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognised as income. The amortisation period for the presented negative goodwill is 10-12 years from the date of purchase of shares.

All business combinations taking place after 31 March 2004 are accounted for in accordance with IFRS 3 "Business Combinations" where goodwill is not amortized but annually tested for impairment and negative goodwill is recognised in income statements. In relation to business combinations that took place before 31 March 2004 the Company starting from 1 January 2005 will stop depreciate goodwill removes from books the balance sheet value of the accumulated depreciation of goodwill and will test yearly its impairment. Negative goodwill will be removed from books, starting 1 January 2005, with simultaneous adjustment of the opening balance of the undistributed profit for previous years.

(e) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised using the straight-line method over their estimated useful economic life. The amortisation rates applied in relation to intangible assets range from 7% to 50%.

The Group companies review the value of intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may indicate impairment.

In accordance with IAS 38, an acquirer of an entity recognises at the acquisition date separately from goodwill an intangible asset of the acquiree if the asset's fair value can be measured reliably.

In all business combinations taking place after 31 March 2004 intangibles are separated into indefinite and definite lives. Indefinite are not amortised but are subject to a yearly impairment test.

(f) Inventories

Inventories are valued at the lower of purchase price and cost and net realisable value less impairment. Net realisable value is the selling price in the ordinary course of business, less the costs of completion and distribution. Cost is determined on the basis of weighted average cost. For finished goods, cost includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity.

(g) Receivables

Trade receivables are initially stated at the fair value of the consideration given and are subsequently carried at amortised cost, less allowance for doubtful debts.

(h) Cash and cash equivalents

Cash includes cash on hand and cash in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

(i) Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. Revenue is recognised net of value added tax ("VAT"), excise tax, fuel charge and discounts. Revenue from sales of goods is recognised when delivery has taken place and transfer of risks and rewards has been completed. Income from realisation of cash flow hedge adjust the revenue.

(j) Borrowings

Borrowing costs, including exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs are recognised as an expense in the period in which they are incurred, except for those which are directly attributable to the acquisition, construction or production of an asset and therefore capitalised. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Average capitalisation rates are calculated as a ratio of incurred borrowing costs and average balance of construction in progress. Borrowing costs are incurred until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Borrowings are initially recognised at the fair value of consideration received, net of transaction costs. They are subsequently carried at amortised cost using the effective interest rate method. The difference between net proceeds and redemption value is recognised in the net profit or loss for the period over the life of the borrowings.

(k) Jubilee and retirement bonuses

Certain Group companies provide defined jubilee bonuses and retirement benefits for their employees. Jubilee bonuses are paid to employees upon completion of a certain number of years in service whereas retirement allowances are one-off payments on retirement, both depending on employee's average remuneration and length of service. Companies do not separate assets in order to settle liabilities resulting from the jubilee and retirement benefits. The jubilee and retirement bonus obligations are accounted for on an accrual basis. Jubilee benefits are other long-term employee benefits, while retirement bonuses are post-employment defined benefit plans according to IAS 19. An independent actuary has determined the net present value of these obligations using discount rate of 5% p.a. and an average wage inflation rate up to 3% p.a. Accrued obligations are those future discounted payments, adjusted by employee salary increase rates, which were earned by the employees prior to the balance sheet dates. Demographic and attrition profiles are based on the historical data. Actuarial gains and losses are recognised in the profit and loss account. During the 12 month periods ended 31 December 2004 and 31 December 2003 the Group companies paid the same amount of PLN 27m of jubilee and retirement bonuses combined.

(l) Foreign exchange transactions

Transactions denominated in foreign currencies are translated in measurement currency at actual exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the income statement, except for amounts capitalised in accordance with Note 4 (j).

(m) Financial instruments

Financial assets are classified into the following categories: held-to-maturity, held-for-trading, available-for-sale and granted loans and own receivables. Financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than loans and receivables originated by the Group are classified as held-to-maturity financial assets. Financial assets acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held-for-trading. All other financial assets, other than loans and receivables originated by the Group, are classified as available-for-sale.

Held-to-maturity financial assets are included in non-current assets unless they mature within 12 months of the balance sheet date. Financial assets held-for-trading are included in current assets. Available-for-sale financial assets are classified as current assets if management intends to realise them within 12 months of the balance sheet date.

All purchases and sales of financial assets are recognised on the trade date. Financial assets are initially measured at purchase price, which is the fair value of the consideration given for them, including transaction cost.

Held-for-trading financial assets are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the balance sheet date.

Changes in the fair values of held-for-trading financial assets are included in financial income or financial expense. Held-to-maturity financial assets are carried at amortised cost using the effective interest rate method.

Available-for-sale financial assets are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the balance sheet date unless they do not have a quoted market price in an active market and their fair value cannot be reliably measured by alternative valuation methods. Such available-for-sale financial assets are measured at cost less impairment.

Changes in fair value are recorded on the revaluation account if market price set on regulated active market exists or for which the fair value can be reliably determined. The decrease in the value of available-for-sale financial assets, below the original purchase cost, resulting from impairment is recognized in the income statement as financial costs.

Loans granted are carried at amortised cost.

Derivative financial instruments which are not designated as hedging instruments and are classified as held-for-trading and carried at fair value, with changes in fair value included in the income statement.

Derivative financial instruments which are designated as cash flow hedging instruments are carried at fair value, with changes in the fair value:

– recognised directly in equity through the statement of changes in equity for portion determined as an effective hedge;
– recognised in the income statement for ineffective portion;
– cash flows from the settlement of hedge instruments being result of their periodical depreciation adjust the hedged position.

As a result of implementation in 2004 the the hedge accounting the Group presents the effective part (till the moment of realization and non-effective part of changes of fair value of financial instruments satisfying requirements of hedge accounting and constituting instruments hedging cash flows respectively in equity and income statement.

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;
- the hybrid (combined) instrument is not measured at fair value with changes in fair value reported in net profit or loss.

Embedded derivatives are accounted for similarly to derivative financial instruments that are not designated as hedging instruments.

The carrying value of cash, receivables, payables and accruals approximate their fair value.

Financial instruments are derecognised in the consolidated financial statements if control or right to them has been lost. Usually it occurs while selling a derivative instrument or in case when all cash flows from this derivative were transferred to the independent third party.

(n) Income tax

The income tax charge is based on profit for the year including deferred taxation. Deferred taxes are calculated using the balance sheet method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. For the purpose of deferred tax calculation the investment tax allowance bonus is treated as a temporary difference and is recognised as a deferred tax asset in the period the investment tax allowance deduction is taken.

Deferred tax liabilities are recognised for all taxable temporary differences, unless the deferred tax liability arises from goodwill for which amortisation is not deductible for tax purposes.

Deferred tax assets and liabilities are recognised regardless of when the timing difference is likely to realise.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets (liabilities) in the balance sheet.

(o) Earnings per share

Basic earnings per share for each period are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during that period.

Diluted earnings per share for each period is calculated by dividing the net profit for the year adjusted for any changes in the net profit resulting from the conversion of the dilutive potential ordinary shares by the weighted average number of shares outstanding taking into account the conversion of all dilutive potential ordinary shares.

(p) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate may be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation.

(q) Environmental provisions

The Group companies accrue for environmental clean-up and remediation costs when they have a legal or constructive obligation to do so. Environmental provisions are periodically reviewed based on reports prepared by independent environmental specialists. The Company continuously performs land remediation that decreases the provision by its utilization.

(r) Management use of estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Actual results could differ from those estimates.

5. Property, plant and equipment

	31 December 2004	31 December 2003
Land	366	365
Buildings and constructions	5,274	5,385
Machinery and equipment	2,485	2,886
Vehicles and other	311	314
Construction in progress	1,245	857
Total	**9,681**	**9,807**

The movements in each year were as follows:

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Cost						
1 January 2003	137	8,631	8,899	977	486	19,130
Additions at cost	27	403	417	138	1,301	2,286
Acquisition of subsidiaries	210	418	334	11	–	973
Disposal of subsidiaries	–	–	(16)	(17)	–	(33)
Reclassifications	–	4	(2)	(2)	–	–
Disposals, including:	(9)	(194)	(739)	(61)	(930)	(1,933)
Transfers to other groups of PPE	–	–	–	–	(868)	(868)
31 December 2003	**365**	**9,262**	**8,893**	**1,046**	**857**	**20,423**
1 January 2004	365	9,262	8,893	1,046	857	20,423
Additions at cost	29	428	323	112	1,290	2,182
Disposal of subsidiaries	–	(9)	–	(12)	–	(21)
Reclassifications	–	4	(4)	–	–	–
Disposals, including:	(28)	(165)	(216)	(46)	(902)	(1,357)
Transfers to other groups of PPE	–	–	–	–	(824)	(824)
Exchange rate differences from ORLEN Deutschland valuation	(28)	(60)	(56)	(2)	–	(146)
31 December 2004	**366**	**9,520**	**8,996**	**1,100**	**1,245**	**21,227**
Accumulated depreciation						
1 January 2003	–	3,500	5,870	671	–	10,041
Depreciation charge	–	389	700	106	–	1,195
Other charges	–	4	4	–	–	8
Impairment	–	48	5	–	–	53
Acquisition of subsidiaries	–	59	140	8	–	207
Disposal of subsidiaries	–	–	(11)	(13)	–	(24)
Reclassifications	–	3	(1)	(2)	–	–
Disposals	–	(126)	(700)	(38)	–	(864)
31 December 2003	**–**	**3,877**	**6,007**	**732**	**–**	**10,616**
1 January 2004	–	3,877	6,007	732	–	10,616
Depreciation charge	–	421	673	102	–	1,196
Other charges	–	1	2	–	–	3
Impairment	–	39	19	–	–	58
Disposal of subsidiaries	–	(1)	–	(6)	–	(7)
Reclassifications	–	2	(2)	–	–	–
Decreases, including:	–	(93)	(188)	(39)	–	(320)
Exchange rate differences from valuation of ORLEN Deutchland	–	(10)	(24)	(2)	–	(36)
31 December 2004	**–**	**4,246**	**6,511**	**789**	**–**	**11,546**
Net book value						
31 December 2003	**365**	**5,385**	**2,886**	**314**	**857**	**9,807**
31 December 2004	**366**	**5,274**	**2,485**	**311**	**1,245**	**9,681**

Transfers from construction in progress to other groups of PPE are presented in additions at cost.

(AMENDED CONSOLIDATED FINANCIAL STATEMENTS) – in PLN million

According to IFRS 1, applicable from 1 January 2004, perpetual usufruct granted to the entities of the Group by virtue of law meets the definition of an asset. In accordance with the Framework for the Preparation and Presentation of Financial Statements prepared by the International Accounting Standards Board an asset is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise. Accordingly the asset should be recognized at its historical cost.

As at 31 December 2004 and 31 December 2003 the carrying amount of property, plant and equipment pledged as security for liabilities were PLN 167 million and PLN 464 million, respectively.

Impairment losses presented in the movements of property, plant and equipment are the amounts by which the carrying amounts of the assets exceeded their estimated recoverable amounts. The impairment losses are charged to other operating expenses. Impairment losses recognised during the year 2003 and the year 2004 resulted from the restructuring process of the Company (integration with former CPN units) and mainly relate to idle gasoline warehouses and retail sites.

Fixed assets of the Group are not considered to be investment property under IAS 40.

As of 31 December 2004 and 31 December 2003 construction in progress included:

	31 December 2004	31 December 2003
Revamping of Olefins II production unit	864	471
Infrastructure of Olefins II	94	48
Intensification of IFP, Pyrotol, Butadiene	80	33
Intensification of Aromatics Extraction Installation	46	8
Infrastructure PP III and PE III	41	–
Change in technology of production of chlorine from diaphragme to membrane	28	–
Construction of installation of disoiling of paraffins	24	–
Construction of underground crude oil and petrol storage	17	9
Construction of desulfurization of petrol installation Cracking	16	–
Modernization of the sewing installation	10	–
Construction of biodiesel plant	8	–
Construction of installation of candle production	8	–
Increase of production capacity of Biturox installation	–	66
Construction in petrol warehouse in Ostrów Wielkopolski	–	38
Modernisation of wholesale site in Mościska	–	26
Other construction in progress	9	158
Total	**1,245**	**857**

The Group companies record all scheduled maintenance and repairs as expenses when incurred.

The amounts of borrowing costs capitalised (including foreign currency gains/losses) for the year ended 31 December 2004 were PLN (132) million and for the year ended 31 December 2003 were PLN (1) million. The average capitalisation rate in the year ended 31 December 2004 was (7)% and in the year ended 31 December 2003 was (1)%.

6. Negative goodwill net

	31 December 2004	31 December 2003
Centrala Produktów Naftowych "CPN" SA*	51	61
Anwil SA	(237)	(276)
ORLEN Deutschland A.G.	(70)	(75)
Other	11	17
Total	**(245)**	**(273)**

* Goodwill appeared by merger of Petrochemia Plock with CPN, in relation to the purchase of 19.43% of shares possessed by CPN employees.

Net changes in negative goodwill for the 12 months period ended 31 December 2004 and for the 12 months period ended 31 December 2003 were as follows:

	Year ended 31 December 2004	Year ended 31 December 2003
Gross amount, opening balance	**(402)**	**(322)**
Increase of negative goodwill on acquisition of German activities	–	(71)
Foreign exchange gains/losses on negative goodwill valuation of German activities as at balance sheet date	(4)	(9)
Other additions of goodwill/(negative goodwill)	14	–
Gross amount at the end of the period	**(392)**	**(402)**
Accumulated amortisation, opening balance	**129**	**100**
Charge for the period, net	18[1)]	29[2)]
Accumulated amortisation at the end of the period	**147**	**129**
Net book value at the end of the period	**(245)**	**(273)**

Negative goodwill does not relate to expected future losses and costs and it is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets.

1) PLN (16) million relates to goodwill amortisation and PLN 34 million relates to negative goodwill write-off both presented in other operating income/(expenses), net in the consolidated income statement

2) PLN (16) million relates to goodwill amortisation and PLN 45 million relates to negative goodwill write-off both presented in other operating income/(expenses), net in the consolidated income statement.

(AMENDED CONSOLIDATED FINANCIAL STATEMENTS) – in PLN million

7. Intangible assets

	31 December 2004	31 December 2003
Software	15	12
Patents and trademarks	61	66
Other	37	43
Total	**113**	**121**

The movements of intangible assets in each period were as follows:

	Software	Patents and trademarks	Other	Total
Gross amount				
1 January 2003	16	175	33	224
Additions	7	15	15	37
Acquisition of subsidiaries	7	–	21	28
Disposals	(2)	(2)	(3)	(7)
31 December 2003	**28**	**188**	**66**	**282**
1 January 2004	28	188	66	282
Additions	11	26	15	52
Disposals	(4)	(1)	(12)	(17)
31 December 2004	**35**	**213**	**69**	**317**
Accumulated depreciation				
1 January 2003	13	91	13	117
Amortization charge	3	32	6	41
Acquisitions of subsidiaries	2	–	5	7
Disposals	(2)	(1)	(1)	(4)
31 December 2003	**16**	**122**	**23**	**161**
1 January 2004	16	122	23	161
Amortization charge	5	30	6	41
Impairment	–	–	6	6
Disposals	(1)	–	(3)	(4)
31 December 2004	**20**	**152**	**32**	**204**
Net book value				
31 December 2003	**12**	**66**	**43**	**121**
31 December 2004	**15**	**61**	**37**	**113**

8. Financial assets

(a) available for sale investments

	31 December 2004	31 December 2003	Group interest in capital as at 31 December 2004	Group voting rights	Principal activity
Polkomtel SA	436	436	19.61%	19.61%	GSM mobile operator
AWSA Holland II B.V.	61	61	9.22%	9.22%	Dominant company of Autostrada Wielkopolska SA
Telewizja Familijna	26	26	11.96%	9.61%	Radio and television related activities
Other	55	29			
Total at cost	578	552			
Impairment	(52)	(40)			
Net value of available for sale investments	**526**	**512**			

(b) loan granted

Other loans	11	22
Total	**11**	**22**

(c) financial assets held to maturity

Telewizja Familijna SA bonds[1)]	26	26
Impairment	(26)	(26)
Net value of financial assets held to maturity	–	–
Total net value of financial assets	**537**	**534**

1) On 8 April 2003 the bankruptcy of Telewizja Familijna SA was announced; net book value of shares and bonds as at 31 December 2004 and 31 December 2003 is subject to an impairment for the total amount of the assets

Available for sale investments as shown above are carried at cost less impairment charges since they do not have quoted market prices in an active market and their fair value cannot be reliably measured by alternative valuation methods.

Shares of Polkomtel SA, a Polish GSM mobile operator, are presented at historical cost of PLN 436m (19.61% interest) as at 31 December 2004. according to the Management Board of the Company on the basis of the analysis PKN ORLEN does not exercise influence on Polkomtel SA, so Polkomtel SA is not an associate of PKN ORLEN.

(AMENDED CONSOLIDATED FINANCIAL STATEMENTS) – in PLN million

As at 31 December 2004 PKN ORLEN had 9.22% share in AW SA Holland II B.V. ("AWSA") share capital at total purchase price of PLN 61 million. AWSA is the dominant holding company of Autostrada Wielkopolska SA that bears a licence to develop motorways in Poland. The Company owns a put option for shares of AW SA exercisable on each demand of PKN ORLEN till 31 December 2006 and call option valid till 7 January 2038 if Kulczyk Holding withdraws from the investment. Management of the Company believes that both options are fully exercisable. Additionally PKN ORLEN SA provided Kulczyk Holding SA with a call option on AWSA Holland II B.V. realisable on each demand between 1 January 2005 and 31 December 2006.

Shares of AWSA have no active market and, according to the Management Board, their fair value cannot be reliably measured, so both put option, as well as call option was not valuated. Shares were presented in the balance sheet at purchase price. The value of purchase of option was charged against costs of the period in which the option was purchased.

9. Investments accounted for using equity method

As at 31 December 2004 and 31 December 2003 the Group's investments accounted for using equity method were as follows:

	Recorded value using equity method as at 31 Dec 2004	Recorded value using equity method as at 31 Dec 2003	Group interest in equity as at 31 Dec 2004	Principal activity
Basell Orlen Polyolefins Sp. z o.o.	444	384	50%	production, distribution and sales of polyolefin
Naftoport Sp. z o.o.	52	52	48.71%	construction, operation and maintenance of loading station for liquid fuel
Other	54	57		
Total	**550**	**493**		

PKN ORLEN SA possesses a 50% stake in a joint venture – Basell Orlen Polyolefins Sp. z o.o., producing, distributing and selling polyolefins.

As at 31 December 2004 and years ended that date, the stakes of the Group in the assets, liabilities, revenues and costs of a joint venture were as follows:

	31 December 2004	31 December 2003
Current assets	154	173
Fixed assets	861	526
Short term liabilities	98	179
Long term liabilities	347	–
Revenues	537	363
Own costs of sales	(444)	(319)
Administration costs	(9)	(6)
Financial costs	(4)	–
Profit before taxation	66	29
Income tax charges	(14)	(7)
Net profit	**52**	**22**

Basell Orlen Polyolefins does not prepare financial statements in accordance with International Financial Reporting Standards and does not possess an opinion from the audit of financial statements prepared in accordance with International Financial Reporting Standards.

10. Inventories

	31 December 2004	31 December 2003
Finished goods	1,094	971
Work in progress (semi-products)	324	285
Goods for resale	204	260
Materials and production supplies	1,651	1,542
Net inventories	**3,273**	**3,058**

The inventory write-offs to net realisable value amounted to PLN 7 million in the year ended 31 December 2004 and PLN 1million for the year ended 31 December 2003.

As at 31 December 2004 the carrying amount of inventories valued at net realisable value was PLN 26 million whereas at 31 December 2003 the carrying amount of inventories valued at net realisable value was PLN 71 million.

As at 31 December 2004 and 31 December 2003 the carrying amounts of inventories pledged as security for liabilities were PLN 14 million and PLN 37 million, respectively.

Starting from year 2002 the level of mandatory reserves is created on the basis of a schedule defined by the Decree of Ministry of Economy dated 14 June 2002 (Journal of Law no 84. position 756) as to reach the level of 76 days of production or imports less export of the entity as at the end of 2008 (moreover the Ministry adequate for economy is responsible for setting economic fuel reserves: for liquid fuel in the quantity equal to 14 fuel consumption days in the current year). As at 31 December 2004 and 31 December 2003 the value of obligatory inventory reserves in the Group amounted to PLN 1,304 million and PLN 1,064 million.

11. Trade and other receivables

	31 December 2004	31 December 2003
Trade receivables	2,430	2,027
Tax receivables	213	226
Receivables due to disposal of stake in NOM	112	112
Other receivables	675	465
Gross receivables	**3,430**	**2,830**
Less allowance for doubtful debts	(473)	(317)
Net receivables	**2,957**	**2,513**

Total receivables include PLN 383 million of amounts in foreign currencies as at 31 December 2004 and PLN 421 million of amounts in foreign currencies as at 31 December 2003. Trade receivables relate primarily to the sales of finished goods and sales of goods bought for resale.

Concentrations of credit risk relating to trade receivables are limited due to the large number of customers comprising the Group's customer base and their dispersion across many different industries principally in Poland and Germany.

The normal repayment periods of receivables related to sales is 14 to 30 days.

Maximum credit risk amounts to PLN 2,957 million. The Management believes that risk of doubtful receivables is reflected by the set allowance for doubtful accounts.

(AMENDED CONSOLIDATED FINANCIAL STATEMENTS) – in PLN million

The impairment charges and changes therein for the years ended 31 December 2004 and 31 December 2003 were as follows:

	Year ended 31 December 2004	Year ended 31 December 2003
Allowance		
Beginning of year	317	292
Increase	259	118
Released	(96)	(84)
Written off	(7)	(9)
End of the period	**473**	**317**

12. Short-term securities

Short-term securities as at 31 December 2004 and 31 December 2003 included treasury bonds and treasury bills amounting to PLN 1,124 million and PLN 67 million respectively, including:

	31 December 2004	31 December 2003
Held-for-trading	85	52
Held-to-maturity	1,039	14
Loans granted and own receivables	–	1
Total	**1,124**	**67**

13. Deferred costs

	31 December 2004	31 December 2003
Prepayments	39	37
Insurance	22	20
Other	31	23
Total	**92**	**80**

14. Cash and cash equivalents

	31 December 2004	31 December 2003
Cash on hand and in bank	663	514
Cash in transit and cash equivalents	44	48
Total	**707**	**562**
Including: with limited possibility to dispose*	276	117

* Including: as at 31 December 2004 – the amount of PLN 174,987 thousand constituting equivalent of CZK 1,304,900 thousand – cash on a restricted deposit account in Prague in relation to the planned purchase of UNIPETROL according to the Escrow Agreement signed on 21 June 2004 between the Czech National Property Fund, the Czech Consolidation Agency, PKN ORLEN and Komercni Banka.

Total cash and cash equivalents denominated in foreign currencies amount to PLN 472 million as at 31 December 2004 and to PLN 331 million as at 31 December 2003.

Taking into account cooperation of the Group's companies mainly with well-established Polish and international banks the risk relating to allocating cash and cash equivalents is significantly limited.

15. Minority interests

The minority interests represent part of the net assets of subsidiaries attributable that is not owned, directly or indirectly by the Company.

	31 December 2004	31 December 2003
Minority interests		
Beginning of the period	427	412
Decrease in equity of minority interest	(104)	(19)
Minority interest in the profit/loss of the Group's entities	55	34
End of the period	**378**	**427**

Minority interests by subsidiaries:

	31 December 2004	31 December 2003
Capital Group Anwil SA	162	207
Capital Group Rafineria Trzebinia SA	78	75
Capital Group Rafineria Nafty Jedlicze SA	37	33
Inowrocławskie Kopalnie Soli "Solino" SA	25	22
Petrolot Sp. z o.o.	25	25
Other	51	65
Total	**378**	**427**

In relation to the transactions of purchase of subsidiaries concluded after 31 March 2004 minority interest of subsidiaries are presented in compliance with IFRS 3. In relation to the purchase transactions dated before 31 March 2004 minority interests were presented in compliance with the benchmark treatment of IAS 22. The Group will restate those transactions in the financial statements for the year ended 31 December 2005 in accordance with IFRS 3.

16. Interest bearing borrowings

	Note	31 December 2004	31 December 2003
Bank loans	(a)	1,974	2,918
Other loans and borrowingsi	(b)	25	36
Short terms bonds	(c)	–	77
Total		**1,999**	**3,031**
Less:			
Short-term portion		242	1,195
Long-term portion		1,757	1,836

As at 31 December 2004 principal repayments fall due on:

	31 December 2004	31 December 2003
up to 1 year	242	1,195
from 1 year to 5 years	1,679	1,728
above 5 years	78	108
Total	**1,999**	**3,031**

(AMENDED CONSOLIDATED FINANCIAL STATEMENTS) – in PLN million

The value of loans raised by the Group decreased by PLN 1,032m in the year ended 31 December 2004.

Change of the indebtedness results mostly from:

- drawing proceeds from syndicated loan:
  EUR 57m within the dual currency loan agreement*
  USD 19m within the dual currency loan agreement*
- issuance of bonds
  PLN 158m
- raising of a loan in PLN
  192m in Bank Pekao SA
  84m in PKO BP SA
  52m in BPH PBK SA
  37m in BH SA
  6m in Bank Millennium SA
- repaying of loans denominated in foreign currencies
  EUR 25m in Bank Pekao SA
- repayment of loans denominated in PLN
  53m in Millennium Bank SA
  441m in PKO BP SA
  105m in Bank Pekao SA
  284m in BH SA
  11m in Natinal Fund for Environmental Care
  12m in BPH PBK SA
  6m in ING Bank Śląski SA
- repayment of loans in German companies
  EUR 63m
- redemption of bonds
  PLN 239m
- PLN (335)m results from foreign exchange rate differences.

* The Syndicated Agreement on dual currency for the amount of EUR 500m was signed on 29 July 2003. The loan will be repaid in total in 2008. The loan can be utilized in EUR as well as in USD.

(a) Bank loans analysed by currency are as follows:

		31 December 2004	31 December 2003
Polish Zloty	(1)	427	897
U.S. Dollar	(2)	719	839
Swiss Franc	(3)	13	22
EUR	(4)	815	1,160
Total		**1,974**	**2,918**

As at 31 December 2004 and 31 December 2003 the level of fixed rates and margins relating to loans with floating rates was as follows:

Polish Zloty (1)

31 December 2004	Amount due	Lowest rate (%)	Highest rate (%)
Floating rate	427		
T/N WIBOR		0.09%	1.00%
1M WIBOR		0.07%	3.20%
3M WIBOR		0.40%	1.00%
Total Polish Zloty	**427**		

U.S. Dollar (2)

31 December 2004	Amount due	Lowest rate (%)	Highest rate (%)
Floating rate	719		
1M LIBOR		–	0.45%
3M LIBOR		–	0.40%
Total U.S. Dollar	**719**		

Swiss Franc (3)

31 December 2004	Amount due	Lowest rate (%)	Highest rate (%)
Floating rate	13		
3M LIBOR		–	1.00%
Total Swiss Franc	**13**		

EUR (4)

31 December 2004	Amount due	Lowest rate (%)	Highest rate (%)
Fixed rate	113	4,17%	7.90%
Floating rate	702		
1M LIBOR		–	1.00%
3M EURIBOR		–	0.40%
Total EUR	**815**		
Total	**1,974**		

(AMENDED CONSOLIDATED FINANCIAL STATEMENTS) – in PLN million 135

Polish Zloty (1)

31 December 2003	Amount due	Lowest rate (%)	Highest rate (%)
Floating rate	897		
T/N WIBOR		0.15%	1.00%
1T WIBOR		0.60%	2.50%
1M WIBOR		0.02%	3.20%
3M WIBOR		0.40%	1.00%
6M WIBOR		–	0.95%
Total Polish Zloty	**897**		

U.S. Dollar (2)

31 December 2003	Amount due	Lowest rate (%)	Highest rate (%)
Floating rate	839		
1W LIBOR		–	0.60%
1M LIBOR		–	1.00%
3M LIBOR		–	0.45%
Total U.S. Dollar	**839**		

Swiss Franc (3)

31 December 2003	Amount due	Lowest rate (%)	Highest rate (%)
Floating rate	22		
3M LIBOR		–	1.00%
Total Swiss Franc	**22**		

EUR (4)

31 December 2003	Amount due	Lowest rate (%)	Highest rate (%)
Fixed rate	163	4.17%	7.90%
Floating rate	997		
3M LIBOR		0.45%	1.00%
1M EURIBOR		0.16%	0.50%
3M EURIBOR		–	0.45%
6M EURIBOR		–	0.30%
Total EUR	**1,160**		
Total	**2,918**		

As at 31 December 2004 and 31 December 2003 interest rates for selected basis were as presented:

	31 December 2004	31 December 2003
O/N WIBOR	6.64%	5.33%
T/N WIBOR	6.67%	5.33%
1W WIBOR	6.66%	5.35%
1M WIBOR	6.66%	5.41%
3M WIBOR	6.64%	5.60%
6M WIBOR	6.61%	5.69%
1M EURIBOR	2.128%	2.101%
3M EURIBOR	2.155%	2.124%
6M EURIBOR	2.215%	2.168%
1M LIBOR (USD)	2.3363%	1.0888%
1M LIBOR (USD)	2.4000%	1.1200%
3M LIBOR (USD)	2.5644%	1.1519%
1M LIBOR (EUR)	2.1281%	2.1001%
3M LIBOR (EUR)	2.1544%	2.1230%
3M LIBOR (CHF)	0.7167%	0.2600%
NBP discount rate	**7.00%**	**5.75%**

In 2004 and 2003 the average effective interest rate for loans denominated in PLN amounted respectively to 6.43% and 6.04% and for loans denominated in other currencies amounted respectively to 2.37% and 2.14%.

As at 31 December 2004 PLN 358 million of Group's assets were pledged as a collateral for loans, compared with PLN 554 million as at 31 December 2003.

(b) Other loans and borrowings

	31 December 2004	31 December 2003
Voivodship Fund for Environmental Carej	–	1
National Fund for Environmental Care	25	35
Total	**25**	**36**

As at 31 December 2004 loans and borrowings were subject to floating interest rates at the level of 2.80% - 9.00% and as at 31 December 2003 1.44% - 9.00%

(c) Bonds issued by PKN ORLEN

As at 31 December 2004 there were no liabilities in the Group relating to issued financial instruments.

The Group continuously monitors opportunities to obtain loans based on more favourable terms in the aspect of changes in market conditions.

The Group is granted loans both in PLN and foreign currencies, being subject mainly to floating rates.

As at 31 Decmeber 2004 according to the agreements concluded with banks the Group had unused floating rate loan facilities in the amount of PLN 617 million.

Fair value of loans and borrowings is similar to their balance sheet value because the loan terms mainly reflect current market conditions.

(AMENDED CONSOLIDATED FINANCIAL STATEMENTS) – in PLN million

17. Provisions

	31 December 2004	31 December 2003
Environmental provisions	490	407
Jubilee awards and retirement bonuses	195	159
Penalties, compensation, other	88	22
Employee compensation plan	70	–
Other provisions	57	28
Total	**900**	**616**

The Group companies have a legal or constructive obligation to restore contaminated sites of production facilities, fuel stations and warehouses bases. In years 2000-2004 an assessment of the contaminated objects and estimation of future expenditures on land reclamation were conducted by independent experts. The amount of the environmental provision was reassessed by the Management Board on the basis of independent professional consultants' analysis. The amount of the provision is comparable with the best assessment of the Management Board concerning future expenditures taking into account the average level of necessary costs to remove contamination, by facilities constituting the grounds of creating the provision.

The movements in provisions in particular period were as follows:

	Environmental provision	Jubilee awards and retirement bonuses	Penalties and claims, other	Employee compensation plan	Other provisions	Total
1 January 2003	380	150	29	–	17	576
Charge	51	62	1	–	21	135
Use of provision	(13)	(27)	(1)	–	(30)	(71)
Release	(13)	(13)	(7)	–	(9)	(42)
Purchase of ORLEN Deutschland	2	–	–	–	29	31
Sales of companies	–	(13)	–	–	–	(13)
31 December 2003	**407**	**159**	**22**	**–**	**28**	**616**
1 January 2004	407	159	22	–	28	616
Charge	137	71	74	70	41	393
Use of provision	(24)	(25)	(8)	–	(6)	(63)
Release	(30)	(10)	–	–	(6)	(46)
31 December 2004	**490**	**195**	**88**	**70**	**57**	**900**

18. Payables and accrued expenses

Payables and accrued expenses consist of the following:

	31 December 2004	31 December 2003
Trade payables	2,035	2,172
Taxes and social security	1,485	836
Social funds	46	46
Holiday pay accrual	25	23
Wages and salaries	14	14
Loyalty program VITAY	54	48
Accruals and other liabilities	128	92
Total	**3,787**	**3,231**

The Social Fund ("the Fund"), classified as a short-term employee benefit, is an obligatory fund based on the government mandated its calculation is based on the number of employees and the monthly minimum wage in Poland. The amounts calculated under this formula must be used for the benefits of the employees.

The diffrence between liabilities of the social fund and cash of the Fund stands for receivables from employees (borrowings). Cash on bank accounts of the Fund is escrowed and cannot be used by the Group for its own benefit.

Trade and other payables and accrued expenses denominated in foreign currencies amount to PLN 1,269 million as at 31 December 2004 and PLN 1,986 million as at 31 December 2003. Balance sheet value of short-term trade payables approximates their fair value due to their short-term character.

VITAY program is a loyalty program created for individual customers. Vitay program is present on the Polish market since 14 February 2001. Customers making purchases within the program obtain Vitay points that can be later exchanged for fuel or Vitay presents. For unrealized but existing on customers accounts number of points the provision is charged in the period in which points are granted. The provision is estimated on the basis of the amount of points and current cost of one point in the Vitay program in the amount of 75% of the value of unrealized points (75% is a ratio of realizability of points).

19. Deferred income

	31 December 2004	31 December 2003
Grants	10	8
Other	7	6
Total	**17**	**14**

20. Shareholders' equity

The share capital as at 31 December 2004 is represented by the PKN ORLEN's share capital and amounts to PLN 534m. It is divided into 427,709,061 shares with nominal value of PLN 1.25 each.

The share capital as at 31 December 2004 and 31 December 2003 consisted of the following share series:

Share series	Number of shares issued as at 31 December 2004	Number of shares issued as at 31 December 2003	Number of shares authorised as at 31 December 2004	Number of shares authorised as at 31 December 2003
A series	336,000,000	336,000,000	336,000,000	336,000,000
B series	6,971,496	6,971,496	6,971,496	6,971,496
C series	77,205,641	77,205,641	77,205,641	77,205,641
D series	7,531,924	7,531,924	7,531,924	7,531,924
	427,709,061	**427,709,061**	**427,709,061**	**427,709,061**

In Poland, each new issuance of capital is labelled as a new series of shares. All of the above series have the exact same rights.

During the year 2003 7,531,924 bonds were converted into shares of PKN ORLEN as an effect of the execution of the management options program. On 20 November 2003 District Court for capital city of Warsaw registered an increase in PKN ORLEN's share capital. As at 31 December 2003 the program was closed.

(AMENDED CONSOLIDATED FINANCIAL STATEMENTS) – in PLN million

Revaluation reserves result from the obligatory revaluation of fixed assets. Revaluations of property, plant and equipment were generally performed as mandatory based on rates set by the Central Statistics Office ("GUS") and were designed to reflect the level of inflation.

The balance of revaluation reserves is decreased by impairment of fixed assets, which previously was subject to revaluation, up to the amount of the part of equity, that concerns this element of equity, and in case when an impairment exceeds this equity, the difference is charged against costs of the reporting period in which an impairment was made. Moreover the equity is influenced by the difference between fair value and purchase price after deferred tax, assets available for sale, if a market price exists fixed on the active regulated market or if their fair value may be fixed in another realiable way as well as an impact of the effective valuation of hedge instruments hedging cash flows.

The balance of the hedge accounting cash flow hedges results from valuation of derivatives satisfying requirements of hedge accounting hedging cash flows.

The balance of foreign translations is adjusted by differences resulting from recalculation of the financial statements of the company ORLEN Deutschland from EUR to PLN.

The ground for creating the Privatization Fund of Petrochemia Plock SA ("Fund") in the amount of PLN 53 million were resolutions of the Legal act from 13 July 1990 concerning privatization of the state-owned entities. In order to enable employees of the Mazowieckie Zaklady Rafineryjne i Petrochemiczne purchasing shares of Petrochemia Plock SA the Employees' Board of the Company by the resolution No 178/93 dated 14 April 1993 entitled the General Director to create the Privatization Fund, from which financial resources had to be allocated for granting employees loans for purchasing shares of the Company. In the former CPN SA the Restructuring Fund was established by the resolution of the General Shareholders' Meeting dated 24 May 1996, and on 18 July 1997 it was additionally increased.

The Legal act from 30 August 1996 concerning commercialization and privatization of the state-owned companies replaced former Legal act concerning privatization of the state-owned entities from 1990. According to a new act employees purchased shares of the Company without payment, as a result granting loans from the sources of the Fund for purchasing shares at a preferential price became aimless.

As a result there was a change of the destination of the sources from the Privatization Fund for the purposes connected with the realization of the processes of the internal restructuring.

According to the resolution of the Supervisory Board No 20/III/98 from 18 December 1998 the Privatization Fund was allocated for supporting in the form of loans granted to employees allocated to separated companies for the purchase of shares or stakes in these companies.

In relation to an implemented project concerning establishment of Park Technologiczny in Plock significant changes were introduced in the area of extending group of entitled to benefit from the sources of the Fund.

Presently loans from the Fund can be granted also to the companies participating in the program of establishing Park Technologiczny, which arise in result of restructuring PKN ORLEN SA. Changes concerning destination of the source of the Privatization Fund were introduced on the grounds of the Resolution No 26 of the Extraordinary Shareholders' Meeting of PKN ORLEN dated 8 April 2004 concerning changes in the Regulations of using loans from the sources of the Privatization Fund.

Accumulated profits being subject to distribution according to Polish law (Commercial Code set certain restrictions in relation to periods for which dividends can be paid) as at 31 December 2004 amounted to PLN 4,276 million (period between 2000-2004) compared to PLN 2,204 million as at 31 December 2003 (period 1999-2003). PKN ORLEN is authorised to pay dividends to the extent of distributable reserves available under Polish Accounting Standards on a stand-alone reported basis.

On 24 June 2004, the General Shareholder's Meeting approved a resolution to pay dividend in September from profit generated in 2003 in September 2004 in the amount of PLN 278 million, which represented PLN 0.65 zloty per share. During the year ended 31 December 2003 the Company paid dividend in the amount of PLN 59 million related to the year 2002, which represents PLN 0.14 zloty per share.

In March 2004 the Management Board of PKN ORLEN proposed payment of dividend for the year 2004 in the amount of PLN 684 million, which represents PLN 1.60 per share.

Earnings per share calculation and diluted earnings per share calculation are presented below:

	Year ended 31 December 2004	Year ended 31 December 2003
Weighted average common stock outstanding	427,709,061	420,804,797
Net profit and diluted profit for the period per share (in zloty per share)	5.73	2.35

As at 31 December 2004 and 31 December 2003 there was no dilutive effect that could have had impact on the above calculation.

21. Segment reporting

Business segments

The Group's activities are divided into two major operating divisions: Refining and Marketing Segment and Chemical Segment.

– The Refining and Marketing Segment includes processing of crude oil, wholesale and retail trading in refinery products.

– The Chemical Segment includes production and sales of petrochemical products by PKN ORLEN and fertilisers and PVC by Anwil SA

Other operations include among others support activities in PKN ORLEN, transport activities and repair and maintenance and construction activities performed by other PKN ORLEN's subsidiaries.

Segment profit and segment assets have been determined before making intersegment adjustments as appropriate. Sales prices between business segments are close to market values. Segment costs have been allocated as appropriate based on rationale, other segment costs not determined, have been included as unallocated corporate expenses, reconciling total segment results to profit from operations.

(AMENDED CONSOLIDATED FINANCIAL STATEMENTS) – in PLN million

Revenues, costs and financial result in segments

	Refining and Marketing for the year ended		Chemical for the year ended		Other operations for the year ended		Eliminations for the year ended		Total for the year ended	
	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003
Revenue										
External sales	25,885	20,717	4,000	3,145	680	550			30,565	24,412
Inter-segment sales	4,321	3,759	1,481	1,400	783	1,103	(6,585)	(6,262)	–	–
Total revenue	**30,206**	**24,476**	**5,481**	**4,545**	**1,463**	**1,653**	**(6,585)**	**(6,262)**	**30,565**	**24,412**
Total costs	**(27,580)**	**(23,161)**	**(4,673)**	**(4,266)**	**(1,398)**	**(1,616)**	**6,585**	**6,261**	**(27,066)**	**(22,782)**
Other operating income	201	187	70	173	55	42			326	402
Other operating costs	(485)	(251)	(75)	(34)	(106)	(73)			(666)	(358)
Result										
Segment result	2,342	1,251	803	418	14	6	–	(1)	3,159	1,674
Unallocated corporate revenue									35	20
Unallocated corporate expenses									(444)	(427)
Profit from operations									**2,750**	**1,267**
Financial income									425	279
Financial expenses									(258)	(377)
Share of net profits of entities consolidated using equity method	–	(1)	76	45	23	6			99	50
Profit before income tax									**3,016**	**1,219**
Income taxes									(565)	(198)
Minority interests									(55)	(34)
Net profit									**2,396**	**987**

Other information in segments

	Refining and Marketing		Chemical		Other operations		Eliminations		Total	
	As at 31 Dec 2004	As at 31 Dec 2003	As at 31 Dec 2004	As at 31 Dec 2003	As at 31 Dec 2004	As at 31 Dec 2003	As at 31 Dec 2004	As at 31 Dec 2003	As at 31 Dec 2004	As at 31 Dec 2003
Segment assets	11,253	11,571	2,948	2,268	1,765	1,968	(161)	(101)	15,805	15,706
Shares in entities consolidated using equity method	4	3	445	394	101	96			550	493
Unallocated assets of the Group									2,662	950
Consolidated assets in total									**19,017**	**17,149**
Segment liabilities	3,362	2,798	263	367	456	369	(154)	(100)	3,927	3,434
Unallocated liabilities									3,027	3,778
Consolidated liabilities in total									**6,954**	**7,212**

All the Group's assets as at 31 December 2004 and 31 December 2003 (except for cash deposited in Czech in Komercni Banka a.s. in Prague amounting to PLN 175m as at 31 December 2004) are located in Poland and Germany, where also the capital expenditures were incurred during the 12 month periods ended 31 December 2004 and 31 December 2003.

Other information in segments – continued

	Refining and Marketing for the year ended		Chemical for the year ended		Other operations for the year ended		Consolidated for the year ended	
	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003
Property, plant, equipment and intangible assets expenditure	715	756	609	534	68	128	1,392	1,418
Property, plant, equipment and intangible assets expenditure unallocated to segments							33	35
Total property, plant, equipment and intangible assets expenditure							**1,425**	**1,453**
Segment depreciation	836	834	225	198	145	168	1,206	1,200
Unallocated assets depreciation							31	36
Total depreciation							**1,237**	**1,236**
Non-cash expenses other than depreciation	**365**	**159**	**28**	**18**	**85**	**41**	**478**	**218**

Geographical segments

As a result of the transaction of acquisition of financial assets in Germany, beginning on 1 March 2003, the Group operates in Poland and in Germany. The following table shows the Group's consolidated sales by geographical market segmental reporting for the year 2004 and 2003.

Sales revenue divided into geographical segments

	Refining and Marketing for the year ended		Chemical for the year ended		Other operations for the year ended		Consolidated for the year ended	
	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003
Export sales*	1,137	771	912	791	21	17	2,070	1,579
Domestic sales:**	**24,748**	**19,946**	**3,088**	**2,354**	**659**	**533**	**28,495**	**22,833**
– in Poland	16,115	13,676	3,088	2,354	659	533	19,862	16,563
– in Germany	8,633	6 270	–	–	–	–	8,633	6 270
External sales total	**25,885**	**20,717**	**4,000**	**3 145**	**680**	**550**	**30,565**	**24,412**

* export sales – sales through companies from Poland

** domestic sales – sales in the territory of the country where Group entities operate

(AMENDED CONSOLIDATED FINANCIAL STATEMENTS) – in PLN million

22. Financial instruments

In the Capital Group derivative transactions were concluded by two entities: PKN ORLEN and Anwil SA.

(a) Transactions within derivatives

The purpose of risk management in the Company is to reduce the volatility of cash flows and financial result using derivatives to hedge the main factors influencing their changeability.

According to "Market risk management policy in PKN ORLEN SA" the reduction of the volatility of cash flows related to the statutory activities is the Company's major goal in terms of market risk management. The Group companies manage the risk to which they are exposed, reduce the changeability of future cash flows and limit the potential losses caused by the occurrence of events which might have negative impact on the companies' results or endanger their continuity of activities. Market risk management includes processes of identification, measurement and definition of risk reduction, taking into consideration aspects of exchange rates, interest rates and goods prices fluctuations.

The main purpose of derivative transactions was to stabilize the financial results through minimizing exchange rate risk, to which the Company is exposed.

Thanks to conclusion of derivative transactions, whose characteristics of market changes is adversely correlated with changes in revenues from sale of petrochemical products, the Company, in the year 2004, significantly reduced fluctuations of revenues from sale of above mentioned products. To hedge revenues from sales of petrochemical products the Company make use of currency-interest EUR/PLN swap transactions – they reduce the risk relating the revenues denominated in EUR. In respect to this group of transactions rules of hedge accounting concerning cash flow are applicable since 1 January 2004. The effective part of the hedge in revaluation reserves amounted to PLN 94 million at the end of December 2004 (hedge in total effective), compared to the amount of PLN 53 million in the profit and loss account at the end of December 2003. Profits from hedge instruments adjust the hedged position and as a consequence of that in 2004 the sales revenues included the amount of PLN 61 million.

In 2003 derivatives were presented as assets held for trading. In connection with application of the hedge accounting in the Company beginning from 1 January 2004 the instruments were reclassified to financial assets held for sale.

In June 2004 the Company signed a conditional purchase agreement concerning shares in Unipetrol a.s. with the Czech government bodies. In connection with that the Company decided to hedge CZK/PLN exchange rate on the futures market. Forward exchange rate contracts are the instruments used to minimize foreign exchange rate risk resulting from the future liability corresponding with realization of the above agreement. In respect to this group of transactions rules of hedge accounting are not applicable.

Moreover as at 31 December 2004 there were EUR/PLN swaps with the characteristics of trade instruments in the portfolio of the Company, hedging loan granted to one of the subsidiaries. Taking into account a short-term character of those instruments the Company did not decide to apply the rules of hedge accounting. The loan was eliminated from the consolidated financial statements as at 31 December 2004.

The Company values derivatives at their fair value using models of the financial instruments valuation taking adventage of the widely available data coming from the market. The transactions can be concluded only with reliable partners allowed to take part in transactions as a result of procedures obliging in the Company and within admitted limits. According to the "Market risk management policy in PKN ORLEN SA" conclusion of transactions for speculatory purposes is not allowed. All the concluded transactions are reflected in the physical transactions and hedge risk resulting directly from relevant real transactions or belong to the group of the probable transactions in compliance with IAS 39 and the Decree of the Finance Ministry from 12 December 2001 concerning particular rules of recognition, valuation methods, range of disclosure and the way of presentation of financial instruments with further changes.

Change in fair value of derivatives:

	Financial assets – hedge transactions – derivative instruments	Financial liabilities – hedge transactions – derivatives
Fair value as at 1 January 2004	**53**	**–**
increases	94	–
decreases	–	(17)
Fair value as at 31 December 2004	**147**	**(17)**

(AMENDED CONSOLIDATED FINANCIAL STATEMENTS) – in PLN million

Derivative transactions – continuation

Swap and forward transactions – in the Dominant Company

Company	Type of transaction	Opening transaction date	Period of transaction	Nominal amount (in thousand PLN)	Interest rate**	Exchange rate**
	Instruments for which hedge accounting is applied					
PKN ORLEN	Currency-interest swap (EUR/PLN) depreciated using the straight-line method*	08.10.2003	20.10.2003-29.09.2006	224,136.0	2.4%	4.5
PKN ORLEN	Currency-interest swap (EUR/PLN) depreciated using the straight-line method*	10.10.2003	20.10.2003-29.09.2006	224,284.5	2.4%	4.5
PKN ORLEN	Currency-interest swap (EUR/PLN) depreciated using the straight-line method*	15.10.2003	20.10.2003-29.09.2006	225,720.0	2.4%	4.6
PKN ORLEN	Currency swap (EUR/PLN) depreciated using the straight-line method*	17.12.2003	18.12.2003-30.11.2006	814,968.0	0.0%	5.5
	IInstruments for which hedge accounting is not applied					
PKN ORLEN	Swap EUR/PLN	23.12.2004	23.12.2004-04.02.2005	82,004.0	0.0%	4.1
PKN ORLEN	Swap EUR/PLN	23.12.2004	23.12.2004-14.02.2005	82,114.0	0.0%	4.1
PKN ORLEN	Swap EUR/PLN	23.12.2004	23.12.2004-25.02.2005	82,276.0	0.0%	4.1
PKN ORLEN	Currency forward CZK/PLN	30.11.2004	30.11.2004-28.01.2005	54,790.0	0.0%	0.1
PKN ORLEN	Currency forward CZK/PLN	30.11.2004	30.11.2004-28.01.2005	273,950.0	0.0%	0.1
PKN ORLEN	Currency forward CZK/PLN	30.11.2004	30.11.2004-28.01.2005	54,828.0	0.0%	0.1
PKN ORLEN	Currency forward CZK/PLN	30.11.2004	30.11.2004-28.01.2005	54,828.0	0.0%	0.1
PKN ORLEN	Currency forward CZK/PLN	30.11.2004	30.11.2004-28.01.2005	164,934.0	0.0%	0.1
PKN ORLEN	Currency forward CZK/PLN	30.11.2004	30.11.2004-28.01.2005	54,790.0	0.0%	0.1
PKN ORLEN	Currency forward CZK/PLN	30.11.2004	30.11.2004-28.01.2005	109,580.0	0.0%	0.1
PKN ORLEN	Currency forward CZK/PLN	30.11.2004	30.11.2004-28.01.2005	164,149.2	0.0%	0.1

* Derivatives as at the end of the period are valued at their fair value, whereas every month interest is accrued on not depreciated base value of the financial instruments

** Interest rates and exchange rates rounded to one decimal.

Date of payments of the amount bought forward	Date of payments of the amount sold forward	Amount received by PKN ORLEN SA in 12 month period ended 31 December 2004 (in thousand PLN)	Amount paid by PKN ORLEN SA in 12 month period to 31 December 2004 (in thousand PLN)	Total fair value as at 31 December 2004 (in thousand PLN)	Total fair value as at 31 December 2003 (in thousand PLN)
Last working day of the month	–	61,673	331	146,785	53,028

Derivative transactions – continuation

– in a subsidiary

Subsidiary Anwil SA entered into foreign exchange and interest rate swap in order to hedge the foreign exchange risk arising from foreign currency loan incurred. Data concerning the following swap as at 31 December 2004 and 31 December 2003 are presented in the table below:

Company	Bank	Type of transaction	Opening transaction date	Closing transaction date	Amount bought forward	Amount sold forward	Interest rate for the amount bought forward	Interest rate for the amount sold forward
Anwil SA	Bank Millennium SA	Currency – interest swap	03.01.2003	08.04.2004	12 EUR	49 PLN	6M EURIBOR +0.0%	6M WIBOR +0.05%

Date of payments of interests on the amount bought forward	Date of payments of interests on the amount sold forward	Amount of interests received by Anwil SA in the 12 month period to 31 December 2004	Amount of interests paid by Anwil SA in the 12 month period to 31 December 2004	Fair value as at 31 December 2004	Fair value as at 31 December 2003
every 6 months from 08.10.2003 to 08.04.2004	every 6 months from 08.10.2003 to 08.04.2004	–	–	–	3

In relation to the above transaction concluded by Anwil SA hedge accounting was used according to the rules accepted for cash flow hedges

(AMENDED CONSOLIDATED FINANCIAL STATEMENTS) – in PLN million

(b) Changes of particular categories of financial assets

Changes in particular categories of financial assets (except for cash and cash equivalents) and financial liabilities of the Group in the 12 month periods ended 31 December 2004 and 31 December 2003 are the following:

	Financial assets held for trading	Financial assets held to maturity	Financial assets available for sale	Loans granted and own receivables	Financial liabilities held for trading
1 January 2003	**23**	**42**	**502**	**106**	**3**
increases	**150**	**1,066**	**29**	**38**	**29**
– purchase, creation, drawing	120	1,066	16	37	–
– valuation	5	–	–	–	25
– revaluation	–	–	–	–	–
– reclassification	23	–	–	–	–
– other	2	–	13	1	4
decreases	**(32)**	**(1,093)**	**(19)**	**(122)**	**(5)**
– sale, release, repayment	(8)	(1,070)	(5)	(112)	–
– valuation	(24)	–	–	–	–
– revaluation	–	–	(3)	–	–
– reclassification	–	(23)	–	–	–
– other	–	–	(11)	(10)	(5)
31 December 2003 roku	**141**	**15**	**512**	**22**	**27**
Balance sheet items					
Long term investments	–	1	512	21	–
Short term receivables	–	–	–	–	–
Short term investments	52	14	–	1	–
Other financial assets	89	–	–	–	–
Short term liabilities	–	–	–	–	27
Total	**141**	**15**	**512**	**22**	**27**

	Financial assets held for trading	Financial assets held for maturity	Financial assets available for sale	Loans granted and own receivables	Financial liabilities held for trading
1 January 2004	**141**	**15**	**512**	**22**	**27**
increases	**1,959**	**3,464***	**211**	**2**	**15**
– purchase, creation, drawing	1,938	3,455	23	–	–
– valuation	4	–	–	–	12
– revaluation	–	6	109	–	–
– reclassification	–	1	79	–	–
– other	17	2	–	2	3
decreases	**(2,008)**	**(2,437)***	**(53)**	**(13)**	**(38)**
– sale, release, repayment	(1,911)	(2,436)	–	–	–
– valuation	–	–	(42)	–	–
– revaluationi	–	–	–	–	–
– reclassification	(79)	(1)	–	–	(26)
– other	(18)	–	(11)	(13)	(12)
31 December 2004	**92**	**1,042**	**670**	**11**	**4**
Balance sheet items					
Long term investments	–	3	523	11	–
Short term receivables	–	–	–	–	–
Short term investments	85	1,039	–	–	–
Other financial assets	7	–	147	–	–
Short term liabilities	–	–	–	–	4
Total	**92**	**1,042**	**670**	**11**	**4**

* in accordance with IAS 7 increases/decreases in cash flow statement were presented net

Value of long term financial assets available for sale are carried at cost less impairment charges purchase price as at 31 December 2003 and 31 December 2004 amounted respectively to PLN 512 and 523 million and included mainly shares and stakes with no active market.

The Group presents derivative transactions with positive fair value as financial assets held for trade and derivative transactions with negative fair value as financial liabilities held for sale.

Value of other financial assets available for sale valued at fair value as at 31 December 2004 includes hedging instruments of PKN ORLEN.

Fair value of financial assets held for trading as at 31 December 2004 included among others derivatives and embedded derivatives amounting to PLN 7 million and securities possessed by a subsidiary in the amount of PLN 85 million.

The value of short term financial assets held till maturity as at 31 December 2004 amounted to PLN 1,039 million and included among others transactions “buy-sell back” concerning treasury bonds and bills in the Company in the amount of PLN 1,017 million.

(AMENDED CONSOLIDATED FINANCIAL STATEMENTS) – in PLN million

23. Costs by kind

	Year ended 31 December 2004	Year ended 31 December 2003
Raw materials and energy	12,408	11,005
Cost of goods bought for resale*	10,594	7,537
External services	1,799	1,789
Payroll and benefits (staff costs)	1,073	1,055
Depreciation and amortisation	1,237	1,236
Taxes and charges	262	263
Other	986	595
	28,359	**23,480**
Adjusted by:		
Change in inventories, deferred and accrued costs	(78)	188
Internal costs	(105)	(101)
Operating costs	**28,176**	**23,567**

* Increase in value of cost of goods bought for resale in the period of 12 months ended 31 December 2004 in comparison to 2003 results among others from purchase of activity in Germany from 28 February 2003 , which deals with resale of goods.

24. Financial income and expenses, net

	Year ended 31 December 2004	Year ended 31 December 2003
Interest expense	(60)	(111)
Foreign exchange losses	(6)	(185)
Interest income	69	62
Foreign exchange gains	252	81
Profit from sale of shares, securities	14	33
Dividends received	69	49
Other financial costs	(171)	(27)
Total	**167**	**(98)**

25. Income tax

	Year ended 31 December 2004	Year ended 31 December 2003
Current income tax charge	(678)	(379)
Deferred tax	113	181
Total	**(565)**	**(198)**

The Group does not constitute a tax group under Polish legislation. Therefore, each company in the Group is a separate taxpayer.

The reconciliation between the reported income tax expense and the theoretical amount arising by applying the statutory income tax rates is as follows:

	Year ended 31 December 2004	Year ended 31 December 2003
Profit before income tax	**3,016**	**1,219**
Income tax calculated respectively in 2004 and 2003 using obligatory rate (19% and 27% in Poland; 40% in Germany)	(573)	(231)
Change in tax rates	–	104
Difference in tax rates between Poland and Germany (40%)	(21)	–
Permanent differences (including depreciation of goodwill and negative goodwill)	25	18
Other	4	(89)
Income tax expense for the year	**(565)**	**(198)**
Effective tax rate	19%	16%

The net deferred tax liability as at 31 December 2004 and 31 December 2003 consists of the following:

	31 December 2004	31 December 2003
Deferred tax assets:		
Deferred tax on environmental charges	90	77
Jubilee and retirement costs provisions	30	30
Unrealised foreign exchange loss	–	10
Deferred tax due to impairment of fixed assets	39	–
Impairment of long term investments	46	–
Deferred tax in respect to other provisions	29	–
Other	26	52
Deferred tax assets – total	**260**	**169**
Deferred tax liabilities:		
Investment tax allowance	(188)	(225)
Capitalisation of borrowing costs	(47)	(86)
Difference between tax and accounting carrying amount concerning fixed assets	(73)	(60)
Unrealised foreign exchange gains	(61)	–
Revaluation of assets to fair value relating to acquisition of majority stake of Anwil SA	(11)	(20)
Difference in contribution in kind – BOP	(19)	(19)
Deferred tax due to impairment of fixed assets	(44)	–
Other	(4)	(37)
Deferred tax liabilities – total	**(447)**	**(447)**
Net deferred tax liability	**(187)**	**(278)**

As the companies in the Group are not subject to group taxation and relief, the deferred tax assets and liabilities in the individual companies must be evaluated on a standalone basis. As a result, the consolidated balance sheets reflect deferred tax assets of PLN 42 million as at 31 December 2004 and PLN 15 million as at 31 December 2003 and deferred tax liabilities of PLN 229 million as at 31 December 2004 and PLN 293 million as at 31 December 2003.

According to Polish tax regulations, taxpayers could have reduced the taxable income by the costs of purchasing qualifying fixed assets acquired in a given tax year (investment tax allowance deduction). In addition, the taxable income could have been further reduced in the following year by 50% of the previous year deduction (investment tax allowance bonus).

(AMENDED CONSOLIDATED FINANCIAL STATEMENTS) – in PLN million

Resulting from changes in income tax law, the above described tax incentives have been only available in year 2002 in relation to the continued investment projects begun before 2001. In all other cases, the investment incentives are no longer available. Investment tax allowance bonus earned due to investment tax allowance in 2002 was deducted from tax in the year ended 31 December 2003.

26. Sales of shares and stakes in subsidiaries and associates

In 2004 the Group sold shares and stakes in 9 subsidiaries and associates.

The total influence of those transactions on financial statements amounted to:

Selling price	46
Value of net assets of sold companies	32
Transaction result	14
Proceeds from sale of financial assets	46
Cash and cash equivalents	(5)
Inflow of cash net	41

27. Leases

Lease agreements and other operating agreements are mainly in respect of the lease of buildings, computer equipment and vehicles. The lease expenses in 2004 were at the same level as in 2003 and amounted to PLN 4 million.

Future minimum lease payments under non-cancellable agreement on operating leases as at 31 December 2004 and 31 December 2003 were as follows:

	31 December 2004	31 December 2003
up to 1 year	2	5
from 1 to 5 years	2	3
above 5 years	–	–
Total minimum lease payments	**4**	**8**

28. Commitments resulting from capital expenditures

As at 31 December 2004 future liabilities resulting from signed contracts amount to PLN 486 million and authorised by the Management Board and not yet contracted investment expenditures in following years will amount to PLN 4,985 million. These amounts do not include investments in UNIPETROL, which is described in details in Note 34c.

As at 31 December 2003 future liabilities resulting from signed contracts amounted to PLN 1,011 million and approved by the Management Board and covered by contracts investment expenditures in further years will amounted PLN 3,663 million.

29. Related party transactions

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

In 2004 the Group companies did not grant any advances, loans, borrowings, guarantees and suretees as well as any other agreements obligating to pay in favour of the Company and its related companies to managing and supervising persons and their relatives.

As at 31 December 2003 the Group companies did not show any loans granted to Management Board, Supervisory Board or their families.

In the 12 month periods ended 31 December 2004 and 31 December 2003 members of Management Board, Supervisory Board, their spouses, siblings, descendants and their other relatives have not entered into any significant transactions with the Company.

(b) Transaction with the related entities through the Supervising persons

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

	Sales	Purchase	Receivables	Liabilities	Dividend paid
Legal persons*	365,036	383,647	20,667	33,046	48,150
Natural persons	2,455				

* Transactions in the period of acting members of the key management by persons supervising the Company

In the period presented in the financial statements 23 persons acted as Members of the Supervisory Board. The Company did not gain detailed statement from 1 former Member of the Supervisory Board.

(c) Transaction with the related entities through the Managing persons

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

(AMENDED CONSOLIDATED FINANCIAL STATEMENTS) – in PLN million

(d) Transactions between the Company and its related parties were conducted on normal commercial terms and were as follows:

	Entities accounted for using equity method
Sales	
Year ended 31 December 2004	857
Year ended 31 December 2003	780
Purchases	
Year ended 31 December 2004	151
Year ended 31 December 2003	138
Short term receivables	
31 December 2004	90
31 December 2003	103
Short term payables gross	
31 December 2004	21
31 December 2003	30

The above transactions with related entities include sales and purchases of petroleum products as well as purchases of maintenance, transportation and other services. The prices used in transaction approximate market levels.

30. Contingencies and risks

(a) Guarantees and other contingent liabilities

1. guarantees and sureties

   The Group entities granted guarantees and sureties. The amounts of such guarantees and other contingent liabilities were PLN 295 million (including PLN 167 million to associates and a joint-venture company) and PLN 107 million (including PLN 100 million to associated companies and a joint venture) respectively as at 31 December 2004 and 31 December 2003.

2. other contingent liabilities

   – PLN 454m – pledge on shares of Basell Orlen Polyolefins Sp. z o.o.

   – PLN 26m – guarantee hedging agreements to "Lokum" Sp. z o.o. located in Szczucin

   – PLN 14m – related to cession of rights for collateral

   – PLN 14m – related to claim of legal entities

   – PLN 5m – related to letter of credit

   – PLN 4m – related to careless execution of trade agreements

   – PLN 5m – other contingent liabilities.

(b) Tax allowances – investment incentives

During the period 1997-2002 the Group companies took advantage of the investment tax allowances described earlier in Note 25. Under the terms of this scheme, the Group companies have taken current deductions equal to PLN 2,009 million in respect of investments in qualifying assets. During the period 1998-2003 the Group companies have also utilised additional investment tax bonuses relating to these capital investments. These deductions and bonuses have reduced the tax charges of the Group by PLN 300 million and PLN 174 million, respectively, during the period 1998-2003 as follows.

Financial Year	Tax allowance	Tax bonus
1998	111	63
1999	95	46
2000	62	38
2001	28	12
2002	4	13
2003	–	2
Total	**300**	**174**

The above described allowances and bonuses are conditional. According to the tax regulations taxpayers are obliged to reverse an entitlement for all investment allowances, i.e. the are obliged to increase a tax basis or decrease the amount of the presented loss by tax deductions if within 3 years, any of the following circumstances arise:

(i) 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 the case of VAT, any outstanding payments may not exceed 3% of output VAT,

(ii) 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 regulations regarding state-owned companies, the commercialisation and privatisation of state-owned companies, the Commercial Code and Cooperative Law,

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

(iv) the taxpayer is put into liquidation or is declared bankrupt,

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

Additionally, taxpayer can recognise tax deductions, if defined conditions, including the lack of outstanding tax liabilities, are met before any deductions are recognised. If the conditions were not met at the moment in which the tax incentives deductions were recognised, tax authorities may deny a claim to tax allowances. The Act for the amendment of the Corporate Income Tax Act of 20 November 1998 (Journal of Law dated 27 November 1998 with further amendments), stipulates that taxpayers do not lose such a right if it corrects their tax returns and settle the outstanding payments with penalty interest due, within the period prescribed by regulations. In this case, the above implications described in point (i) are not applicable.

(AMENDED CONSOLIDATED FINANCIAL STATEMENTS) – in PLN million

(c) Excise tax – contingent liability of Rafineria Trzebinia SA

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

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

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

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

(d) Power transfer fee – settlements with Zakład Energetyczny Płock SA

According to the paragraph 36 of the Decree of Ministry of Economy dated 14 December 2000 relating to detailed methods of determination and computation of tariffs and electricity settlement regulations (Journal of Law No, 1 dated 15 January 2001), the method of calculation of system fee, constituting an element of a power transfer fee was changed. According to the paragraph 37 of the Decree a different method of power transfer fee settlement has been allowed. Following the decision of the Chairman of the Electricity Regulation Office the electricity sale agreement between Zakład Energetyczny Płock SA ("ZEP SA") and PKN ORLEN SA was signed. The agreement did not determine contentious issues concerning transfer fees for the period from 5 July 2001 to 30 June 2002, as it was regarded as a civil case to be settled by an appropriate court. Zakład Energetyczny Płock SA called on PKN ORLEN SA to a compromise agreement, and the District Court in Warsaw called PKN ORLEN as a co-defendant in a court case Polskie Sieci Energetyczne against Zakład Energetyczny Płock SA. The Company's Management estimated the claim and in 2002 set up an accrual in the amount of PLN 8 million for liability to ZEP SA, and created provision for that purpose in the amount of PLN 10 million.

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

(e) Anti-trust proceedings

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

According to the decision of the Chairman of the Office for Protection of Competition and Consumer ("OPCC") from 21 March 2005, an anti-trust proceeding was started in connection with a suspicion that PKN ORLEN SA in Plock concluded an agreement with the Grupa Lotos SA in Gdansk which limited competition on the domestic sale market of gasoline Universal 95 through an unanimous decision to give up production and distribution of gasoline Universal 95 and eliminating the competition on the domestic sale market of gasoline Universal 95 as well as excluding the risk of the market take-over by the competition. Relating to the received letter PKN ORLEN SA released a statement on put charges and gave replies to questions set by OPCC through the letter no DP/69/2005/10 from 11 April 2005 signed by Vice President Janusz Wisniewski. Replies to the further questions made by OPCC is prepared. The deadline for sending replies is 5 May 2005.

Taking into account the fact that the proceedings concerning an agreement concluded between PKN ORLEN SA and the Grupa Lotos SA on giving up production of gasoline Universal 95 is in very initial phase there is no reason to create a provision in the Company's balance sheet.

On 21 March 2005 the Company received a letter in which the Chairman of OPCC asked to be provided with information concerning the market of monoethylene glycols and "Petrygo" radiator liquid in years 2000-2004. The letter concerns the proceedings in the area of setting prices for antifreeze liquid to radiators "Petrygo" and prices for monoethylene glycols. In these proceedings OPCC issued a decision imposing penalty in the amount of PLN 40m. The Company appealed to Anti-Trust Court against the negative decision of OPCC. On 13 August 2001 the Anti-Trust Court annulled fully the decision of OPCC, which accused PKN ORLEN of applying monopolistic practice, annulling at the same time the cash penalty, in 2001 due to this fact the provision was fully released. OPCC applied on 4 October 2001 to the Supreme Court to annul the verdict. On 10 July 2003 the Supreme Court investigated the application of OPCC to annul the verdict of the District Court from 13 August 2001. The case was conducted again by District Court in Warsaw and Anti-Trust Court, which on the hearing on 21 July 2004 pronounced the judgment again revoking the complaint decision of OPCC.

Due to the received letter PKN ORLEN SA gave replies on questions of OPCC on 11 April 2005. Simultaneously OPCC approved prolongation of the period for giving repliess up to 6 May 2005 concerning determining the proper geographical market of monoethylene glicole.

In both proceedings PKN ORLEN is represented by the Legal Office COMPER on the base of the authority admitted by the Management Board of the Company.

These financial statements do not include provisions relating to the above proceeding as in the opinion of the Management Board of PKN ORLEN based on an independent legal opinion charging the Company with an obligation to pay the cash penalty is unlikely.

(f) Employees compensation plan

On 23 December 2002 an agreement between the Company and trade unions operating within the Company was signed. The goal of this agreement was regulating the situation of employees in case of introducing restructuring activities in PKN ORLEN. The Company guarantees employment for its workers till finishing the restructuring process, but the period was not clearly defined). If the obligation is not settled by the Company, redundant employees will be paid compensations according to the following rules:

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

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

(g) Shield programs

Due predicted programs relating to restructuring of employment in the Company the shield programs including among others additional compensations connected with redundancy from the reasons not dependant on an employee are introduced.

As a result of the above the Company has created a provision in costs of 2004 in the amount of PLN 70 million.

(h) Claims and disputes in front of a court

In accordance with the Agreement signed on 20 December 2002, Tankpol Sp z o.o ("Tankpol") transferred to PKN ORLEN due to cession, 40% of shares held in ORLEN PetroTank Sp z o.o. ("Petrotank") in exchange for receivables from Tankpol. On 30 October 2003 a legal case was filed against PKN ORLEN for compensation for PLN 70 million or return of the ceded shares. On 26 January 2004 Tankpol modified its claim for repayment of PLN 36 million or return of the ceded shares. Together with the claim, Tankpol presented a new valuation of Petrotank amounting to PLN 232 million. On 22 January 2004 Tankpol approached the Company with a compromise offer, stating, that the claim will be revoked if PKN ORLEN pays PLN 33 million. On 18 February 2004 during the first hearing the court suspended the legal proceeding for the period of three months, in order to allow parties to reach a compromise. At the hearing on 7 September 2004 the both sides applied unanimously to suspended a hearing for another 3 months, which met the Court approbate. However despite carried negotiations there was no agreement reached. On 8 December 2004 Tankpol applied to take the suspended procedure. On 23 February 2005 a further hearing took place, during which the Regional Court declined applications of both sides concerning interviewing witnesses and postponed making sentence till 9 March 2005. On 9 March 2005 the Court, taking into account the complexity of the case, decided to make a sentence on 22 March 2005. On 22 March 2005 the Court made a sentence rejecting a claim of Tankpol sp. z o.o. The sentence does not finished proceedings because Tankpol may appeal against it. In the Company's Management view, based on the independent legal opinion obtained, the final outcome of the above claim should not have a material impact on the presented financial results or the settlement balances.

(i) Polish regulations on taxation

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

There are no formal procedures in Poland concerning the ultimate level of taxation charge. Tax settlements may be subject to tax control during the subsequent 5 years, from the end of the tax year, in which the tax liability reached its maturity. There is a risk that the tax authorities may have a different opinion from presented by the Company as to the interpretation of the law, what might have a significant impact on the Company's tax liabilities.

(j) Fixed assets located on the land with unsettled legal status

The Group possess and presents in its assets a number of fuel station and other objects that are located on sites with unregulated legal status. Net book value of fixed assets attributed to a land with unsettled legal status as at 31 December 2004 amounts to PLN 19m and as at 31 December 2003 PLN 25m.

(k) Disposal of stake in NOM Sp. z o. o.

On 20 May 2003, the Management Board of the Company submitted a put option execution declaration for all Niezalezny Operator Miedzystrefowy Sp. z o.o. ("NOM") shares owned by PKN ORLEN SA to Polskie Sieci Energetyczne SA ("PSE"). The "put" price amounted to PLN 111.5 million and was calculated as a sum of par value of the shares sold and a cumulative investment premium calculated according to the Agreement dated 8 June 2000 regulating the cooperation between the NOM shareholders.

On 20 October 2003, PSE filed a suit to the Court of Arbitration of the Polish Chamber of Commerce in Warsaw, regarding the determination of the invalidity of the shares sales agreement.

Due to the carrying on arbitrage proceedings the Company provided in the standalone financial statements for the period ended 31 December 2004 prepared on 31 March 2005 an allowance in the amount of PLN 44.6 million for receivable from PSE on the grounds of the received legal opinions as at that date.

On 26 April 2005 the Company received a sentence of the Arbitration Court of the Polish Chamber of Commerce. The sentence of the arbitration court is unfavourable for the Company. As a consequence the estimations of the Management Board in relation to the assessment of the risk of non-collection of the above receivable was changed. As a result the Company provided an allowance for the remaining balance of the disputed receivable from PSE in an additional amount of PLN 66.9 million up to the amount of PLN 111.5 million. Till the date of the preparation of the consolidated financial statements the sentence of the Arbitrage Court with explanation was not delivered to the Company.

(l) Pledge on Basell Orlen Polyolefins Sp. z o.o. ("BOP") shares

Pursuant to the registered share pledge agreement dated 19 December 2003, PKN ORLEN established for the benefit of Kredyt Bank SA located in Warsaw acting as the Security Agent (the "Security Agent") a registered pledge, and as the temporary security until the date of entering the registered pledge into pledge register an ordinary pledge (i.e., a pledge under Article 327 et seq. of the Civil Code), in respect of all the shares held by PKN ORLEN in the share capital of the BOP ("Joint-Venture Company"), that is 907,398 shares with a nominal value of PLN 500 each, which represent 50% of the share capital of the Joint-Venture Company, and entitle the shareholder to exercise 50% of the voting rights at the Shareholders' Meeting of the Joint-Venture Company. The condition for the effective establishment of the registered pledge is the entry of such pledge into the pledge register held by the applicable court. Upon registration of the registered pledge the ordinary pledge shall expire.

The pledge established pursuant to the share pledge agreement dated 19 December 2003, provides a security for repayment of present and future pecuniary claims of the pledgee under the Hedging Intercreditor Agreement up to the maximum amount of EUR 750,000,000.

On 23 January 2004 the entry to the pledge register in respect of all the shares of the BOP held by the Company was made.

The liability connected with a loan as at 31 December 2004 amounted to EUR 168,200,000.

As at the date of the preparation of the financial statements, in opinion of the Management Board of the Company there are no presumptions indicating the risk of the lack of possibility of repayment of the above liability by BOP.

(m) Tax review in ORLEN Oil Sp. z o.o.

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

(n) Tax review in Rafineria Nafty Jedlicze SA

On 17 December 2004 the Supervisory Board of Rafineria Nafty Jedlicze SA took a resolution to carry out tax audit for the period from 2000 till the present date, including control of correctness of procedures and control of settling tax liabilities by the company as well as preparation of "forensic report" for the period from 2000 till the present date. As at the date of preparation of the consolidated financial statements the works were not completed and their result was not known.

(o) Other risks

As described in Note 17 of additional information and explanations, provision for land reclamation costs was shown by the Group in balance sheet as at 31 December 2004 on the base of independent experts' analyses, taking into account legislation and current practices in this area. Potential future changes in regulations and practices concerning environmental protection may influence the amount of provision in the future periods.

31. Remuneration, together with remuneration from profit paid to the Management Board and the Supervisory Board

Management Board remuneration include salaries, annual bonuses and cash equivalent for unutilized holiday.

Management Board and Supervisory Board remuneration was as follows (in thousands):

	Year ended 31 December 2004	Year ended 31 December 2003
Management Board*	45,159	12,679
Supervisory Board	882	856
Total	**46,041**	**13,535**

* includes remuneration of former Management Board Members

32. Employment structure

Average employment by category was as follows:

	Year ended 31 December 2004	Year ended 31 December 2003
Blue collar workers	7,457	8,852
White collar workers	6,995	7,534
	14,452	**16,386**

Employment level as of 31 December 2004 and 31 December 2003 amounted to 14,296 and 15,133 persons, respectively.

33. Post balance sheet events

1. On 19 January 2005 PKN ORLEN SA received from PETROVAL SA a notice concerning holding up realization by PETROVAL SA of the term contract from 21 December 2002 on deliveries of crude oil due to force majeure. According to the notice of PETROVAL SA the lack of the possibility of delivering crude oil by the company Yukos is an event explaining the usage of the force majeure clause and it is impossible to assess how long the situation will take place. The Management Board of PKN ORLEN announced that above mentioned situation, due to previously undertaken activities, will cause no threat of the continuity of the supply of the Company with crude oil. Deliveries of the raw material will be realized according to the plan of the demand thanks to realization of term contracts and supplementing spot deliveries.
2. On 30 March 2005 the Management Board was informed on the resignation dated 30 March 2005 of Krzysztof Zyndul from the position of the member of the Supervisory Board of PKN ORLEN. The reason for the resignation was appointment of Krzysztof Zyndul to the position of the Undersecretary in the Ministry of Treasury.
3. On 14 April 2005 sales agreement concerning 24 shares at the nominal value of PLN 589,000 each and at a total nominal value of PLN 14,136,000 constituting as at the date of the signature of the agreement, 30.77% of the share capital Przedsiebiorstwo Przeladunku Paliw Plynnych "Naftoport" Sp. z o.o. ("Naftoport") between PKN ORLEN as a seller and PERN "Przyjazn" SA ("PERN") as a buyer. The most important decisions of the agreement were as follows:

- Selling price of one stake amounts to PLN 2,820,512.82
- Total selling price of 24 stakes amounts to PLN 67,692,307.68
- Hedge of settlement of the amount will be a pledge on sold stakes.

The agreement was concluded under the condition of satisfying all the following conditions at the same time:

a. obtaining unconditional approval of the Head of OPCC of concentration through the purchase of PERN stakes or not making decision on this case before the deadline, in which the decision is to be taken. According to information received from PERN the company obtained an approval of the Head of OPCC on 24 January 2005

b. giving permission by the Stakeholders of the company Naftoport expressed in the form of resolution to sell stakes – the condition was satisfied on 24 January 2005

c. statements of the stakeholders on not taking advantage of the pre-emptive right in case of purchasing stakes – the condition was fulfilled on 21 January 2005.

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

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

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

a. PERN "Przyjaźń" SA	–	67.95%
b. Grupa LOTOS SA	–	8.97%
c. Port Północny	–	3.85%
d. J&S Services Ltd.	–	1.28%

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

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

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

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

34. Additional information

(a) Proceedings concerning the Company

Due to proceedings carried out by the investigation bodies, in the opinion of Management Board there are no premises for claiming that these proceedings concern issues, which may have material impact on the fair presentation and correctness of the consolidated financial statement of the Group for the year ended 31 December 2004. These proceedings are not carried out against the Company.

(b) Restructuring of the southern assets

Rafineria Nafty Jedlicze, Rafineria Trzebinia and ORLEN Oil are subject to the project "Restructuring of the southern assets of the Capital Group PKN ORLEN". The project assumes optimalization and consolidation of production and the sale of fuels, engine oils, lubricants and paraffins in the Capital Group of PKN ORLEN. In the firs half year of 2005 the Management Board of PKN ORLEN will take decision concerning the further operations of the southern assets.

As of the date of the above consolidated financial statement preparation, no results of the potential restructuring activities, which may have material impact on the presented financial data of the Group as of 31 December 2004 are known to the Management Board.

(c) Transaction of purchasing of shares of UNIPETROL

On 4 June 2004 PKN ORLEN signed following agreements:

- between the National Property Fund of the Czech Republic ("NPF") and the Company on the purchase of 62.99% shares of Unipetrol a.s. for the amount of CZK 11,3 billion ("Unipetrol Share Purchase Agreement"), on condition that all the relevant consents are obtained from the regulating bodies,
- between the Czech Consolidation Agency and the Company on the purchase of 9.76% shares and receivables belonging to certain entities constituting part of the Capital Group of UNIPETROL for the amount of CZK 1.75 billion in total

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

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

35. Transformation for IFRS purposes

The Group companies maintain their accounts in accordance with the accounting principles and practices employed by enterprises in Poland as is required by the Accounting Act dated 29 September 2004 and related regulations. The financial statements set out above reflect certain adjustments not reflected in the companies statutory books to present these financial statements in accordance with IFRS effective for 2004, except for non-compliance with IAS 29, IAS 16 and IFRS 1 as specified in Note 3.

The adjustments to the consolidated financial statements prepared under Polish Accounting Standards ("PAS") are set out below:

	Net profit for the year ended 31 December 2004	**Net profit for the year ended 31 December 2003**
PAS basis consolidated	2,589	1,026*
Distributions from profit for social activity	(4)	(4)
Borrowing costs capitalisation, less depreciation	(198)	(68)
Amortisation of CPN goodwill	(11)	(10)
IFRS treatment of negative goodwill	16	17
Change of accounting policy in financial statements prepared under PAS	26	(12)
Increase of shares in net assets of the company Anwil SA resulting from the purchase of own shares by Anwil SA to redeem	(72)	–
Other	11	(15)
Deferred tax on the above	39	53
IFRS Consolidated	**2,396**	**987**

	Net assets	
	31 December 2004	**31 December 2003**
PAS basis consolidated	11,450	9,156*
Distribution from profit for social activity	–	–
Borrowing costs capitalisation less depreciation	260	458
Goodwill on CPN, net	51	62
IFRS treatment of negative goodwill	(38)	(54)
Change of accounting policy in financial statements prepared under PAS	–	(26)
Other	10	1
Deferred tax on the above	(48)	(87)
IFRS Consolidated	**11,685**	**9,510**

* restated data due to change of foreign exchange rate estimate used in presenting monetary assets and liabilities in foreign currencies.

(a) Distribution from profit for social activity

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 financial costs

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

In these financial statements financial costs are subject to capitalisation in accordance with allowed alternative treatment of IAS 23 "Borrowing costs" presented in Note 4(j).

(c) Goodwill on shares purchased from former CPN employees

The acquisition of CPN's employee shares was recorded for IFRS purposes under the acquisition method of accounting. As a result the Company recognised goodwill of PLN 107 million on the acquisition of the 19.43% CPN shares held by the employees, which is depreciated during the period of 10 years.

For PAS, the acquisition of CPN, including the acquisition of the minority shares was presented using pooling of interests' method.

(d) IFRS treatment of negative goodwill

According to PAS, before the amended Accounting Act came into force, the Group released negative goodwill to income during two to five years period subsequent to acquisition. In the IFRS financial statements negative goodwill is recognised in a manner presented in Note 4(d).

(e) Deferred tax effects

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

(f) Increase of shares in net assets of Anwil SA

As a consequence purchasing in 2004 by Anwil SA own shares in order to redeem there was an increase of shares of the Company in net assets of Anwil SA by 8,21%. The transaction was recognized in total as other financial income in the amount of PLN 71,183 thousand. According to IFRS 3 the transaction was presented as a decrease of minority interest in correspondence to the result of the previous years.

(g) IFRS treatment of revenues

In accordance with PAS, the Company and certain of its subsidiaries included excise tax charged and fuel charged on the oil product manufactured in their revenues and selling expenses.

For the purpose of consolidated financial statements prepared under IFRS amounts of excise tax and fuel charge of respectively PLN 10,276 million were eliminated from the revenues and costs of sales in the period of 12 months ended 31 December 2004 and 9,309 million for the period of 12 months ended 31 December 2003.

36. Other

These amended consolidated financial statements were authorised by the Management Board of the Company at premises of the Company on 5 May 2005.

Supplementary information

Qal

Qal is a low-freezing, ready-to-use cooling fluid, providing long durability and high purity. Qal is a fluid optimised for European weather conditions and temperatures, i.e. from Summer heat through to freezing Winters. It can be applied across all types of fluid cooled engines.

Qal was awarded the gold medal at Brussels Eureka 2002 and silver medal at the Salon International des Inventions 2003 in Geneva.

Ekoterm Plus

Light Heating Oil is a product of the highest quality, which meets worldwide standards both for its exploitation parameters and environment protection requirements. It is characterized by a very low sulphur content and high ignition temperature, ensuring comfort of use and safety.

EKOTERM PLUS is an ideal fuel for central heating boilers in detached houses, hospitals, schools, etc.

EKOTERM PLUS was awarded the European Medal by the Office of the Commitee for European Integration and Business Central Club.

Platinum

Platinum oils are oils of the highest quality destined for use in cars with gasoline and diesel engines, and for use in all climates. They ensure an excellent degree of lubrication for engines working in extreme conditions, including professional sports drivers and high performance driving. They contribute to better engine performance and high temperature resistance, thus increasing engine life. Platinum Maxpower SL/CF 5W/50 is a fully synthetic oil produced according to New Extreme Synthe Technology – a unique formula, based on the most advanced technology, for the creation of the highest quality synthetic and semi-synthetic oils.

Petrygo Q

A ready-to-use cooling fluid for all types of engine cooling systems. It can also be used in all types of cooling systems as well as central heating systems. In 2004 Petrygo Q replaced the old type fluid marketed under the name of Petrygo.

Orbiton

Orbiton road bitumen is produced from asphalts modified with thermoplastic rubber. It is used in road engineering for constructing bitumen layers. Road bitumens modified with termoplastic rubber are used in the most demanding heavy traffic conditions.

EUROSUPER 95

Thanks to special additives of the highest quality, Eurosuper 95 provides for excellent engine care. Eurosuper 95 additives significantly limit deposit formation, thus reducing the risk of damage to the engine.

SUPER PLUS 98

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

Ekodiesel Plus 50

Ekodiesel Plus 50 contains 700% less sulphur than is required in the European Union. Ekodiesel Plus 50 has also a higher factor of combustion quality, guaranteeing easier cold starting and better performance due to the higher cetane number, which is responsible for the anti-knock properties. These parameters demonstrate the high quality of our diesel oil and guarantee unfailing use.

LPG

PKN ORLEN is currently Poland's largest manufacturer of liquefied gas. PKN ORLEN's liquified petroleum gas has very good combustion parameters and excellent environmental quality.

VITAY

The VITAY scheme is a loyalty scheme for individual customers. Each purchase from our network station entitles the customer to a number of points, which may then be redeemed by card holders for prizes (fuel or other gifts). Over 5 million customers have already signed up to the VITAY scheme.

FLOTA

The FLOTA scheme is a scheme for corporate customers who operate their own means of transportation and wish to take advantage of an easy-to-use, business friendly and economical fuelling system together with a basic road service. Fleet cards support non-cash transactions for the purchase of fuel, goods and services at our stations.

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Pictures from the CPN, Petrochemia Płock and PKN ORLEN archive used in the publication