



# Annual Report 2006

## **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 motto**

**Whenever you need us.**

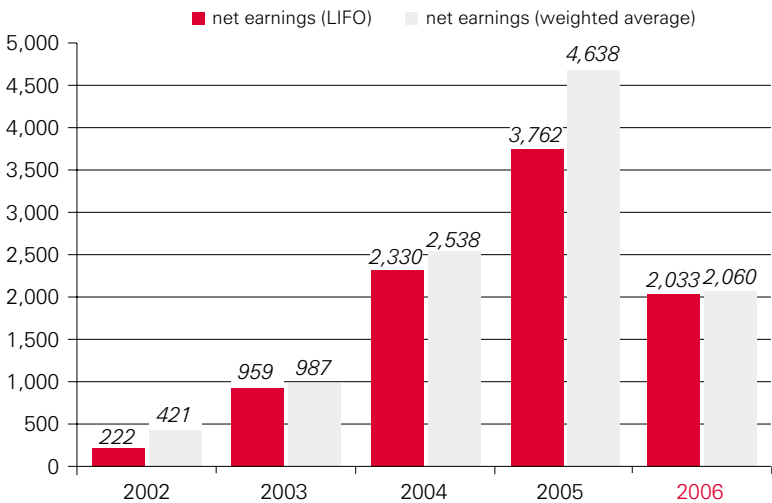
KEY FINANCIAL FIGURES FOR THE YEARS 2000-2006

IFRS

	2000	2001	2002	2003	2004	2005	2006
	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m
Revenues	18,602	17,038	16,902	24,412	30,680	41,188	52,867
EBITDA	2,335	1,706	1,891	2,503	4,037	6,728	4,685
EBIT	1,425	617	731	1,267	2,687	4,948	2,577
Net profit	902	376	421	987	2,538	4,638	2,060
Minority interests	23	15	29	34	55	59	74
Net profit attributable to equity holders of the parent	879	361	392	953	2,482	4,578	1,986
Total assets	14,087	14,383	15,073	17,149	20,869	33,404	45,419
Shareholders' equity	7,766	8,353	8,741	9,937	13,631	19,313	21,583
Net debt <sup>(1)</sup>	2,542	2,549	2,341	2,402	478	3,285	8,129
Net cash provided by operating activities	1,073	2,112	1,292	1,707	3,637	3,664	3,693
CAPEX <sup>(2)</sup>	1,459	1,533	967	1,337	1,824	2,026	1,925
	2000	2001	2002	2003	2004	2005	2006
	PLN	PLN	PLN	PLN	PLN	PLN	PLN
EPS	2.15	0.89	1.00	2.35	5.93	10.84	4.82
CF per share	2.55	5.03	3.07	4.06	8.50	8.57	8.63
Total assets per share	33.53	34.23	35.87	40.75	48.79	78.10	106.19
Book value per share	18.48	19.88	20.80	23.61	31.87	45.15	50.46
Gearing <sup>(3)</sup>	32.70%	30.50%	26.80%	24.20%	3.50%	17.00%	37.70%
ROACE <sup>(4)</sup>	10.80%	4.20%	4.80%	7.90%	16.50%	21.80%	8.00%

NET EARNINGS

IFRS, PLN m



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

2) Purchase of tangible and intangible assets. Data for 2006 ex. PLN 5,729 m Mažeikių Nafta acquisition

3) Gearing = net debt/shareholders' equity

4) ROACE = EBIT/average (shareholders' equity + net debt)

# Calendar of Events 2006

## January

- Announcement of "Value Creation Strategy Update for 2006 – 2009"
- Introduction of the Code of Ethics which defines the common values and standards of conduct in PKN ORLEN
- Participation of PKN ORLEN in the tender for the purchase of a 53.7% shareholding in the Lithuanian company AB Mažeikių Nafta from Yukos International UK BV
- PKN ORLEN awarded first place in the "Giants of Central Europe" ranking
- Participation in the anti-corruption campaign "I Don't Offer or Take Bribes" organised by the Normal Country Movement in cooperation with the Advertising Agencies Association

## February

- The "Bulls and Bears" prize was awarded to PKN ORLEN by the *Parkiet* daily for having the highest quality investor relations
- Presentation of a top class Steinway piano to Rafał Blechacz, winner of the 15<sup>th</sup> International Chopin Competition

## March

- Election of an Ethics Ombudsman to enforce the Code of Ethics
- PKN ORLEN takes first place in the ranking "Pearls of the Polish Stock Market" prepared by the stock market newspaper *Parkiet* in the "Raw Materials and Energy" category
- PKN ORLEN awarded first place in the ranking "Engineer's Company 2005"; the Corporation is judged to be one of the most attractive employers of engineers in the Polish market

## April

- Submission by PKN ORLEN of an offer to the government of Lithuania and Yukos International UK B.V. to purchase a shareholding in the Lithuanian company AB Mažeikių Nafta
- Signing of an agreement with Mitsubishi Chemical Engineering Corporation for the purchase of a licence and base design for terephthalic acid production technology
- PKN ORLEN's fleet cards awarded the title "Fleet Product of the Year 2006" in the national Fleet Awards poll organised by *Flota* magazine and Fleet Management Institute Central – Eastern Europe

## May

- Signing by PKN ORLEN of an agreement with Yukos International UK BV allowing the purchase of a 53.7% controlling shareholding in AB Mažeikių Nafta
- Sponsorship of a series of Chopin Concerts held in Łazienki Królewskie in Warsaw

## June

- Signing by PKN ORLEN of an agreement with the government of Lithuania for the purchase of a 30.66% shareholding in the Lithuanian refinery AB Mažeikių Nafta
- EuroMoney Magazine names PKN ORLEN as the company with the most coherent operational strategy out of all the companies and institutions in the Central and Eastern European fuel industry
- Organisation of Poland's first internet vote of a public company during the General Meeting of Shareholders
- PKN ORLEN awarded the Teraz Polska promotional emblem for the BIO10 diesel produced by Rafineria Trzebinia

## July

- Commencement of the 1<sup>st</sup> edition of the "ORLEN – Safe Roads" programme, a long-term initiative aimed at improving road safety
- Opening of the hundredth petrol station in the economy segment under the BLISKA brand

## August

- Record monthly figures achieved for crude oil processing (1,200,000 tonnes) in the Production Plant in Płock
- Sponsoring of the International Congress of AIESEC 2006 under the slogan "Facing the Future Together", with the participation of students from 95 different countries

## September

- Submission of an application to the European Commission Directorate General for Competition requesting its consent for a merger of the assets of PKN ORLEN and AB Mažeikių Nafta
- Adoption by the Management Board of Unipetrol a.s. of a new strategy for the development of Benzina a.s.

## October

- ORLEN Asphalt Sp. z o.o. starts up ORBITON, one of Europe's largest installations for the production of polymer asphalts, with an output of 500 tonnes per day
- PKN ORLEN wins first prize for "Best Annual Report in 2005" according to International Accountancy Standards, as well as a commendation in the category "Best Utility Value of a Report", in a competition organised by the Institute of Accountancy and Taxes
- The Polish Army grants PKN ORLEN a Quality System Certificate according to the AQAP 2120:2003 standard confirming that it meets the quality requirements for goods and services associated with the production and sale of engine and aviation fuels
- Introduction of a new premium class brand, Benzina Plus, in the Corporation's chain of petrol stations in the Czech Republic
- Sale by PKN ORLEN of an 81.78% shareholding in its subsidiary Unipetrol a.s. – Spolana a.s. to ANWIL SA based in Włocławek

## November

- The European Commission gives its consent for PKN ORLEN to purchase a controlling shareholding in AB Mažeikių Nafta from Yukos International UK. B.V. and the Lithuanian government
- We are awarded the "Patron of Culture" prize in the Polish edition of the ARTS & BUSINESS AWARDS competition in the category "Event of the Year" for our part in organising Rafał Blechacz's concert in his home town of Nakło
- The TELEINFO 100 Report acknowledges PKN ORLEN as being the company with the best IT systems in the energy industry in 2006
- PKN ORLEN is awarded the title "Best Company" in the category "Mergers and Takeovers" in the Polish edition of "Best of European Business", organised under the international sponsorship of the television channel CNN
- Publication in *Rzeczpospolita* of our brand ranking prepared in cooperation with Ernst & Young and AC Nielsen – in 2006 the ORLEN brand was valued at PLN 432.4 million more than the value in 2005
- Signing of credit agreements allowing the takeover of AB Mažeikių Nafta. A consortium of eight Polish and foreign banks provide financing totalling EUR 1.6 billion

## December

- Finalisation of the purchase of a strategic shareholding in AB Mažeikių Nafta. The Corporation purchases a total 84.36% stake from Yukos International UK. B.V. and the Lithuanian government.
- ORLEN Deutschland AG buys 58 petrol stations in Germany
- Sponsoring by PKN ORLEN of "International Musical Festival – Chopin and His Europe" judged the most important event in the field of classical music in Poland in 2006





**ORLEN**

**Polski Koncern Naftowy ORLEN**  
Spółka Akcyjna

# Annual Report 2006



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# The Supervisory Board of PKN ORLEN SA\*

**Zbigniew Macioszek**

Chairman of the Supervisory Board

**Wojciech Pawlak**

Vice-Chairman of the Supervisory Board

**Ryszard Sowiński**

Secretary of the Supervisory Board

**Marek Drac-Tatoń**

Member of the Supervisory Board

**Robert Czapla**

Member of the Supervisory Board

**Konstanty Brochwicz-Donimirski**

Member of the Supervisory Board

**Krzysztof Rajczewski**

Member of the Supervisory Board

**Raimondo Eggink**

Independent Member of the Supervisory Board

**Wiesław Rozłucki**

Independent Member of the Supervisory Board

\* Composition of the Supervisory  
Board as of 7<sup>th</sup> May 2007

# A letter from the Chairman of the Supervisory Board of PKN ORLEN SA

*Ladies and Gentlemen,*

The Supervisory Board has carefully considered all aspects of the operations of PKN ORLEN in 2006, as well as actively participating in devising the best possible solutions for the development of the Company on the basis of constructive dialogue with the Management Board.

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Last year PKN ORLEN finalised the largest transaction not only in its own history, but in the history of the Polish economy: the takeover of the Lithuanian refinery Mažeikių Nafta. This was another important step towards building a position for the Company as a regional leader and further strengthening Poland's energy security.

With great satisfaction we observed the successful implementation of PKN ORLEN's development strategy and the workforce's commitment to improving the Company's effectiveness. Despite a significant downturn in macro-economic indicators, the operational measures we employed allowed us to achieve extremely good financial results for the Group in 2006 and fully realise our cost reduction targets. The ORLEN Group's restructuring process was successfully carried out and a segment management system was put in place. We also continued to consolidate our foreign assets in the Czech company Unipetrol and began the process of integration with the newly-acquired Lithuanian company Mažeikių Nafta. The development strategy being implemented in ORLEN Deutschland also began to bear fruit, thus confirming our faith in our policies.

Last year also saw positive changes in PKN ORLEN's corporate culture. Successes in this area included the implementation of the Code of Ethics and the appointment of an Ethics Spokesman to ensure that the highest ethical standards are observed throughout the Company.

All the changes concerning the Company's operational areas that were implemented in 2006 also led to PKN ORLEN's development. I am sure that we will continue to pursue our strategy of improving effectiveness, concentrating on regional markets, and seeking attractive investment opportunities.

I would like to sincerely thank all the employees of PKN ORLEN for their commitment to ensuring the success of the Company. Let us continue to work together in 2007 on strengthening our position in Central and Eastern Europe and achieving further financial successes. I am sure that this year will bring continued improvement in the effectiveness of our operations, interesting investment projects, and continued growth in value for our Shareholders.



Zbigniew Macioszek  
Chairman of the Supervisory Board  
PKN ORLEN SA

# The Management Board of PKN ORLEN SA

from the left:

**Wojciech Heydel**

Vice-President; Sales

**Krzysztof Szwedowski**

Head of Organisation

**Piotr Kownacki**

President of the Management Board; Chief Executive Officer

**Cezary Filipowicz**

Vice-President; Upstream & Crude Procurement

**Paweł Szymański**

Vice-President; CFO

**Krzysztof Pater**

Head of Production





# A letter from the President of the Management Board of PKN ORLEN SA

*Ladies and Gentlemen,*

In 2006 the staff of the ORLEN Group once again showed great determination and consistency as they strove to achieve the objectives that we had set ourselves in our Company strategy. I am sure that anyone who has witnessed the work of PKN ORLEN this year would agree with me that this was a good year for us. The effects of this hard work are presented in detail later in this report, so I will limit myself to pointing out the most important events and numbers of the year.

One of the key events of 2006 for PKN ORLEN was the purchase of the Lithuanian refinery, Mažeikių Nafta. This complex transaction required careful planning and implementation, as well as effective cooperation with the Polish and Lithuanian governments. Thanks to support from the highest state authorities, including the President and Prime Minister of Poland, we managed to successfully complete the long negotiations and conclude a purchase agreement for the Lithuanian refinery. The transaction was the largest investment in the history of the Corporation and also the largest Polish acquisition ever carried out in a foreign market. We consider it to be a major achievement for PKN ORLEN.

The process of improving the effectiveness of the Company, which we successfully continued in 2006, led to good operational performance and the maintenance of cost discipline throughout the ORLEN Group. Our cost reduction programme allowed us to achieve savings of more than PLN 299 million, an improvement of around 20 percent on the target set for 2006.

The ORLEN Group achieved extremely good financial results last year. Excluding the effect of "negative goodwill" associated with the acquisition of Unipetrol, we generated sales revenues of PLN 52,867 million, an increase of 28.4 percent on 2005, which itself was a record year. Earnings before interest, depreciation and amortisation (EBITDA) amounted to PLN 4,685 million, i.e. not far short of the figure for 2005.

The rapid increase in demand for our refinery products in 2006 allowed all of PKN ORLEN's installations, except the Mažeikių refinery, to operate at full capacity. In the Płock refinery, annual crude oil processing increased by 8 percent compared to the previous year, while our refineries in the Czech Republic increased their production in this period by 3 percent. The refinery segment achieved the highest operating profit figure compared to other segments – PLN 1,490 million. However, due to the reduction of the refinery margin, the narrowing of the Ural-Brent differential, and the strengthening of the zloty against the US dollar, this figure was 49 percent lower than that achieved in 2005.

We were pleased to note a more than seven-fold increase in the profits of the retail segment compared to the previous year. This result (PLN 563 million) was made possible by, among other things, an increase in sales volume and a further improvement in cost effectiveness. We are also



pleased by the contribution of ORLEN Deutschland to this success, which last year achieved a positive financial result for the first time in three years.

The petrochemical segment, due to high sales volume and the consolidation of the Czech company Unipetrol, achieved operating profits 18.7 percent higher than in 2005.

In the chemical segment, our performance improved by more than 50 percent. This excellent result was primarily due to the very satisfactory operating profits of the Anwil Capital Group (more than PLN 243 million), an increase of PLN 86 million compared to last year.

In 2006 the ORLEN Group's operations were severely affected by a series of accidents and breakdowns. For example, the fire at Mažeikių Nafta led to the Company incurring serious losses, both in asset value and through additional operational and financial costs. However, the rapid implementation of appropriate crisis procedures and repair plans allowed us to deal effectively with such incidents.

I would like to extend my sincere thanks to all the staff of the ORLEN Group, without whose dedication and enthusiasm we would have been unable to implement a great many of our strategic objectives. It is your efforts, as much as the work of the Management Board, that have allowed PKN ORLEN to build up and strengthen its position in the economic environment of this part of Europe. I also want to stress the excellent cooperation that we have had from all the trade unions with which we work, especially during the difficult process of the ORLEN Group's restructuring. I would also like to mention the vital contribution of Mr Igor Chalupec, who directed the work of PKN ORLEN's Management Board throughout last year, in achieving the results set out in this report, as well as to thank the Supervisory Board for their meticulous and thorough performance of their duties. Thanks are also due to all the Company's clients and business partners, whose confidence we consider to be our most valuable asset.

I am sure that, by observing the principles of corporate governance, maintaining transparency in our decision-making, and continuing to attend to the needs of all the stakeholders in our business and social environment, we will be able to realise the common goals that make up our vision of the Company's future.

*Your sincerely,*



Piotr Kownacki  
President of the Management Board  
PKN ORLEN SA



# About PKN ORLEN



# About PKN ORLEN

PKN ORLEN is one of the largest oil industry corporations in Central and Eastern Europe. Our primary business constitutes processing crude oil into products such as unleaded petrol, diesel, heating oil, aviation fuel, plastics and petrochemical products.

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We manage seven refineries in Poland, the Czech Republic and Lithuania. Our integrated refinery and petrochemical complex in Plock is one of the most advanced and efficient facilities of its kind in Europe. ORLEN's combined processing capacity in Central and Eastern Europe amounts to 31.7 million tonnes of crude oil per year.

We have the largest network of petrol stations in Central Europe, with outlets in Poland, Germany, the Czech Republic and Lithuania offering our customers products and services of the highest quality. Backing up our retail network is an efficient logistics infrastructure consisting of overground and underground storage facilities and pipeline networks, both our own and leased.

At the end of 2006 a total of 25,123 people were employed in the ORLEN Group, of which 4,773 worked in PKN ORLEN, 4,862 in the

Unipetrol Group in the Czech Republic and 101 in ORLEN Deutschland in Germany.

## 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 motto

Whenever you need us.

## The ORLEN brand

The ORLEN brand has been present in the market since 2000. Today it is synonymous with world class products and a dynamically expanding business that sets industry standards. Since it was introduced it has been the focal point of all the Company's marketing and public relations operations.

on a European scale and is seen as a representative of Polish commerce.

We are rated by international experts as being a modern company with a high degree of technological advancement. The prestigious ranking of the American publisher Forbes for 2006, which assessed 2,000 global companies, put ORLEN in 55<sup>th</sup> place in its ranking of global Oil & Gas Operations. We were also

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In order to create a coherent identity for the companies comprising the ORLEN Group, its 31 subsidiaries use the word ORLEN in their name, while its seven affiliated companies add the phrase "Grupa ORLEN" to their existing names. Solutions of this kind have allowed the ORLEN brand to become an integral part of the image of individual companies, products and services. The brand is represented in the market by ORLEN's network of branded petrol stations, of which there are now 824 in Poland and Germany.

Public opinion (including drivers) unequivocally identifies the ORLEN brand as being one of the leading brands in the Polish market. This is confirmed by the results of surveys, which show that the ORLEN brand enjoys 99% prompted awareness and 85% spontaneous awareness.

Through effective investment, including foreign investment, ORLEN has become a leader

awarded first place in the "Giants of Central Europe" ranking of the largest companies in Central and Eastern Europe.

Our performance in the *Rzeczpospolita* ranking, prepared with the cooperation of Ernst & Young and AC Nielsen, is a direct result of the strategy that we adopted in 2005 of steadily increasing our value, and therefore also the value of our brand. For the last three years the ORLEN brand has been awarded second place in the ranking and is enjoying a steady and substantial increase in its estimated value. In 2006 it was valued at PLN 2,393.9 million, an increase of PLN 432.4 million compared to the figures for the 2005 ranking.

Due to our consistent and effective implementation of our declared aims and objectives and our far-reaching future plans, ORLEN is now one of the strongest, most valuable and highly-rated brands in Poland.





# Our strategy

In January 2006 we updated our "Value Creation Strategy for 2006 - 2009". It now covers all aspects of the Company's operations and is based on three pillars.

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## Pillar I - efficiency enhancement

Pillar I of the strategy involved a number of widening and intensifying processes initiated in 2005. We focused our activities in this area on:

- intensifying our pro-effectiveness measures,
- continuing to pursue effective integration with Unipetrol,
- implementation of a recovery programme for ORLEN Deutschland,
- pursuing further changes in the area of corporate culture.

As part of our policy of furthering the integration of the ORLEN Group, in 2006 we implemented the second stage of the process of integration with Unipetrol by restructuring the Unipetrol Group under the "Partnership" programme (e.g. by selling non-strategic assets, optimising legal structures, and improving corporate governance and the segment management model) and implementing a two brand strategy.

Mažeikių Nafta, which we acquired in December 2006, was also subjected to integration processes. In this case we pursued a "One Company" strategy (i.e. a common management and strategy for key companies) consisting of two elements: creation of a Lithuanian/Polish team and the introduction of segment management. These objectives are being pursued through the introduction of operational streamlining and an investment programme, as well as by exploiting existing synergies within the Group.

As part of our growth strategy we continued to implement the OPTIMA cost optimisation programme. In 2006 the annual plan for savings generated via OPTIMA exceeded the annual plan by 20%, reaching almost PLN 300 million.

In order to support the investment policies that the Company is implementing, which require substantial commitments of capital, we have continued to pursue our policy of disinvestment with the aim of retaining in the



ORLEN Group only those companies that are associated with our basic operations.

In 2006 we also continued the process of restructuring the retail segment, including further reconstruction and deployment of a two brand strategy ("premium" and "economy"), which is enabling us to achieve a higher level of customer satisfaction.

### **Pillar II - strengthening our position in home markets**

PKN ORLEN, as the leader in the Polish and Czech refining and petrochemical markets, is implementing an extensive investment programme aimed at expanding our efficiency and the quality parameters of products and semi-products. By fulfilling all the mandatory technical, quality and environmental standards we aim to set an example for other companies, thus pursuing a strategy of quality leadership.

### **Pillar III - unlimited growth**

The main element of the third pillar of our strategy is non-organic growth via mergers and acquisitions. We are therefore actively seeking potential targets for takeovers, especially in Central and Eastern Europe. We are mainly interested in increasing our activity in the field of crude oil exploration and extraction alongside diversifying sources and supply routes in order to increase our independence as regards raw materials.

The acquisition of Mažeikių Nafta means that we have become the largest company in Central Europe in terms of the basic indicators that characterise the downstream oil industry. We therefore now have a presence in a region characterised by a huge potential for growth and development.

### **Updating our strategy**

Because we are implementing a large number of organic changes (including structural and functional changes) and non-organic changes especially our acquisition of Mažeikių Nafta and planned development of our extraction operations and diversification of raw material supplies, it is necessary to update the Company's strategy. As one of our goals is to continually improve the effectiveness and quality of management, we began work on the update of our strategy as soon as the acquisition of Mažeikių Nafta was completed. We plan to finish the work in mid-2007.



# The retail segment

The ORLEN Group has retail operations in Poland, Germany and the Czech Republic. Following the acquisition of Mažeikių Nafta we are now also present in the Lithuanian market.

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## Strategy

### • Poland

The year 2006 was the second year of the implementation of the "PKN ORLEN Retail Sales Development Plan for Poland 2005 - 2009", which PKN ORLEN announced in March 2005. The key objectives of the plan are to strengthen our market position in the retail market, as well as to achieve an increase in operational effectiveness and build an efficient business organisation.

On the basis of the plan we set up a total of 176 BLISKA economy petrol stations by the end of 2006. The BLISKA stations offer petrol which is cheaper than at premium petrol stations under the ORLEN brand. We believe that our economy line is an effective tool for strengthening our market position and increasing the Company's

share in the domestic retail market. By the end of 2009 we plan to operate around half of PKN ORLEN stations under the BLISKA brand name.

By the end of 2006 we controlled 726 ORLEN brand petrol stations offering products and services of the highest quality by global standards. By implementing a series of marketing and organisational measures we achieved positive indicators in all the brand segments functioning in the ORLEN chain. Increased sales of VERVA premium petrol, attractive new programmes for car fleets, modification of the VITAY programme, and initiation of changes in store presentation and expansion of the non-fuel offer, accompanied by increased profitability, led to ORLEN being perceived in a positive light by its customers.

As a result of the increased number of customers, total sales in the Company's own petrol stations showed a positive trend in 2006 for the first time since 2004, reaching a record level of 15%.

- **Germany**

At the beginning of 2006 we began to implement a new strategy "Fit for Growth", the aim of which is to improve the profitability of our

According to our plan, ORLEN Deutschland will take over around 250 stations in North Germany by 2009, thus securing a 10% share in the market in that region. Our policy of restructuring and extending the chain of petrol stations that now belong to ORLEN's German chain does not preclude an advantageous sale in the event of an attractive offer being put forward.

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business through a series of specific measures. As part of this programme we closed 13 unprofitable petrol stations and rebranded 22 ORLEN stations as economy brand STAR stations. In accordance with the strategy, we discontinued our logistics and distribution operations for heating oil in Germany and sold off the entire infrastructure.

As part of our policy of restructuring and optimising our network of petrol stations, at the end of the year we purchased 58 petrol stations in Germany from Deutsche BP.

- **The Czech Republic**

In October 2006 we adopted a new strategy for our retail operations in the Czech Republic, which mainly involves dividing the network of petrol stations into two brands in order to tailor our offer to the needs of various customer groups. The new BENZINA PLUS premium petrol stations will offer top quality services and a wide range of non-fuel products. The remaining BENZINA stations, following the example of the economy segments in Poland and Germany, will offer quality - attested fuels at competitive prices. In 2007 we plan to mod-

Number of PKN ORLEN petrol stations in Poland in 2005 – 2006

	2005	2006
Own stations	1,367	1,429
Franchised stations	92	158
Affiliated stations	465	345
<b>Total</b>	<b>1,924</b>	<b>1,932</b>

ernise 78 outlets in the Czech Republic and raise their standard to meet the requirements of the BENZINA PLUS brand.

The strategy also involves changes to the Kaucuk and Paramo petrol stations. Depending on the results of pending studies, they will be sold or adapted to meet the requirements of the BENZINA brand. We have

2006, the Group's chain of petrol stations gained 27 outlets under the VENTUS brand. Moreover, in December 2006, ORLEN Deutschland acquired from Deutsche BP an additional 58 stations which will be included in the ORLEN Group's retail network in 2007.

In Poland there were 726 stations operating under the ORLEN brand, and 176 under the BLISKA economy brand. The remainder operated under the logos of Petrochemia Płock.

In 2006 we introduced 48 new petrol stations to the chain (30 ORLEN stations and 18 BLISKA stations), completely modernised 76 outlets (40 ORLEN and 36 BLISKA) and rebranded 92 outlets as BLISKA stations.

In Germany there were 98 petrol stations operating under the ORLEN brand and 396 under the STAR brand. The number of STAR stations include 58 outlets purchased in December 2006 from Deutsche BP, which we plan to operate under the economy brand. ORLEN Deutschland also controlled 33 petrol stations operating next to supermarkets.

In the Czech Republic in 2006, 309 of the 327 petrol stations were operating under the BENZINA brand. The BENZINA PLUS brand was introduced to the Czech Republic market in the 4<sup>th</sup> quarter of 2006. The first effects of the restructuring of the chain will only become apparent during 2007.

planned detailed measures aimed at strengthening the economy brand for 2008 – 2009.

## Number of stations

At the end of 2006 the ORLEN Group controlled a chain of 2,728 petrol stations in Europe, of which 1,932 were located in Poland, 469 in Germany, and 327 in the Czech Republic. As a result of the purchase of a controlling shareholding in the Lithuanian company Mažeikių Nafta at the end of



\* Exchange rate: PLN 4.0233 for 2005 and PLN 3.8991 for 2006

\*\* Exchange rate: CZK 29.51 for 2005 and CZK 28.00 for 2006

	2005	2006
Poland (PLN m / EUR m*)	871 / 217	942 / 242
Germany (EUR m)	143	137
Czech Republic (EUR m**)	69	82
<b>Total (EUR m)</b>	<b>429</b>	<b>461</b>



## Sales volumes

In 2006 PKN ORLEN sold almost 6.2 billion litres of engine fuels in its European retail network, almost 4.2 billion of which were sold through our Polish outlets (an increase of 11% across the whole network, and by 15% at Company-owned stations compared to 2005), over 1.5 billion litres through the retail network in Germany (an increase of 2%)

Average sales of engine fuels per station in the Czech BENZINA chain increased from 1.5 million litres in 2005 to 1.7 million litres in 2006.

## Non-fuel sales

The value of sales of non-fuel products in the ORLEN Group's retail network in 2006 amounted to EUR 461 million, 7% more than in 2005.

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and over 0.5 billion litres in the retail chain in the Czech Republic (an increase of 20%).

Average sales of engine fuels per station in ORLEN's own retail network in Poland amounted to 2.1 million litres in 2006, that is 9% more than in 2005. The average for the Polish network of own and franchised stations (remaining under the full control of PKN ORLEN) amounted to 2.3 million litres in 2006, as much as 10% more than in the previous year.

Average sales of engine fuels per station for the ORLEN Deutschland network reached 3.2 million litres, increasing for another consecutive year by around 100,000 litres. The increased volume was due to the rapid expansion of the network of STAR economy petrol stations.

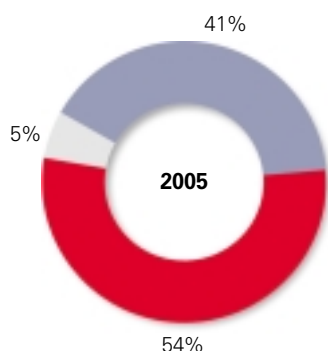
## Market shares

As of the beginning of 2006 we estimated our share in the retail market, on the basis of sales figures relating to the 100 largest entities operating in the retail area as serving around 70% of the retail market. PKN ORLEN's share in the domestic retail market increased from 37.4% at the end of January 2006 to an estimated 39.6% at the end of 2006.

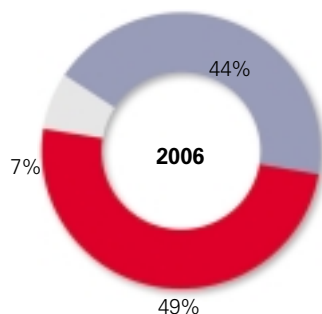
The German ORLEN and STAR petrol station networks achieved a joint 2.5% share in the retail market for fuel in Germany.

The BENZINA chain of petrol stations operating in the Czech Republic controlled an 11.8% share of its retail market in 2006.

Structure of fuel sales in 2005



Structure of fuel sales in 2006



■ **Petrol**  
 ■ **Diesel**  
 ■ **LPG**

\* Exchange rate: PLN 4.0233 for 2005 and PLN 3.8991 for 2006.

## Margins

In 2006 we achieved an overall margin of almost EUR 490 million, while the total margin for our Polish operations amounted to PLN 1,392 million (EUR 357 million\*), that is 17% greater than the figure for the previous year.

The retail margin for petrol, diesel and LPG in Poland amounted to PLN 1,096 billion, an increase of PLN 154 million compared to the previous year. The margin on the sale of non-fuel products and services increased in the same period from PLN 252 million to PLN 297 million.

The retail margin for fuel achieved in Germany and the Czech Republic amounted to EUR 73.8 million (an increase of 3.3% compared to 2005) and EUR 38.5 million (an increase of 18.1%) respectively. The margins on the sale of non-fuel products and services in the German and the Czech markets amounted to EUR 16.8 million and EUR 6 million respectively, an increase of EUR 5.2 million and EUR 3.5 million.

## Fuels

In Poland, 2006 was a full year of sales for the new enriched fuels Verva 98 and Verva ON. The extension of our range of fuels to include premium products was appreciated by our customers, which is demonstrated by our sales fig-

ures and marketing research confirming the high level of awareness of the Verva fuels. The share of sales of Verva fuel in ORLEN petrol stations in 2006 showed a rapid growth tendency – in December 2006 it was 18.6%, an increase of 3.1% compared to December 2005.

On 25 October 2006 we combined the experience of specialists from PKN ORLEN and the Czech company BENZINA to introduce to our BENZINA PLUS stations the best petrol in the European product range of the ORLEN Group – Verva 100. This petrol is a key element of our efforts to strengthen the competitiveness of the chain in the premium segment. It will support the BENZINA PLUS brand in the Czech market and will help distinguish the premium from the economy offer.

## Card programmes

### • DKV / ORLEN

2006 was the second full year of the operation of the DKV / ORLEN co-branded card programme following its start-up in 2004. DKV / ORLEN cards are intended for institutional clients and allow non-cash purchases of fuels, goods, car accessories and road services in around 80,000 petrol stations in Europe. DKV / ORLEN cards are also accepted in certain petrol stations in the Company's German, Czech, and Lithuanian chains. The number of cards issued in 2006 increased by 32% compared to 2005.

### • FLOTA

The FLOTA programme is directed at institutional customers that possess their own means of transport and require an easy-to-use, attractive and economically beneficial system of purchasing fuels and basic road servicing of vehicles.





Fleet cards allow non-cash purchases to be made in ORLEN petrol stations in Poland. In 2006 we adopted a strategy of developing the FLOTA programme over the period 2006-2009 which aims to achieve an increase of up to 20% in the share of sales to corporate clients in the Corporation's overall retail sales. As part of this strategy, as early as March 2006 we introduced a new product to the market that was directed at small and medium-sized companies under

## VITAY

The VITAY Programme is a loyalty programme for individual customers. In 2006 we modified our offer to include the collection of points which can later be exchanged for prizes. Customers receive points for each litre of fuel they buy and for purchasing certain products and services currently being promoted. The range of prizes, which are published in the quar-

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the name "Your Local Discount", for which we concluded over 17,000 agreements over three quarters of 2006. At the same time we prepared two alternative offers for the lorry fleet segment: "Golden Trail" and "Your Local Station". We carried out the piloting for these programmes at the end of 2006, and they were fully implemented at the beginning of 2007. As a result of these measures, the total volume of sales achieved under the FLOTA Programme increased in 2006 by 40% compared to the figure for 2005. In 2006 the volume of fuel sold via FLOTA cards reached 622 million litres, 177.2 million litres more than a year earlier.

terly magazine for the VITAY programme *Szeroka Droga*, was extended.

At the end of 2006 the number of VITAY cards issued exceeded 6.3 million.

## Savings – the OPTIMA Programme (Poland)

The implementation of the cost optimisation programme led to the retail segment generating savings of almost PLN 80 million, equivalent to almost 27% of all the savings in PKN ORLEN in 2006. In 2007 we hope to achieve savings of PLN 67 million in the retail segment.



# The wholesale segment

In 2006 the wholesale segment of the ORLEN Group was made up of the Head Office of PKN ORLEN with five Regional Wholesale Offices, five Regional Market Operators in Poland (known as RORs), Petrolot Sp. z o.o. and ORLEN Gaz Sp. z o.o.

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## Fuels

The total volume of fuels sold by PKN ORLEN in 2006 amounted to 6,807,000 tonnes, an increase of 3.1% compared to 2005. According to estimates, in 2006 PKN ORLEN's share in the domestic fuel market amounted to 54.4%, an increase of 0.2% compared to 2005.

We sold 1,427,000 tonnes via our Regional Market Operators (RORs) and Petrolot.

In addition, in 2006 the ORLEN Group sold 2,567,000 tonnes of fuel through Unipetrol, an increase of 9.3% compared to 2005.

**Total wholesale of fuel sales by PKN ORLEN together with sales to RORs, Petrolot and DODO and DOFO channels 2005-2006 (thousands of tonnes)**

	2005	2006	Change
Petrol	1,898	1,747	-8.0%
Diesel	2,771	3,391	22.4%
Light heating oil	1,562	1,266	-19.0%
JET A-1 (aviation fuel)	372	403	8.3%
<b>Total</b>	<b>6,603</b>	<b>6,807</b>	<b>3.1%</b>

## Total wholesale of fuel sales by RORs and Petrolot in 2005 and 2006 (thousands of tonnes)

	2005	2006	Change
Petrol *	172	206	19.8%
Diesel *	515	658	27.8%
Light heating oil *	253	212	-16.2%
JET A-1 (aviation fuel) **	266	350	31.6%
100 LL (aviation fuel) **	0.6	0.9	50.0%
<b>Total</b>	<b>1,206.6</b>	<b>1,426.9</b>	<b>18.3%</b>

\* sales by RORs

\*\* sales by Petrolot

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## Total wholesale of fuel sales by Unipetrol in 2005 and 2006 (thousands of tonnes)

	2005	2006	Change
Petrol	710	806	13.5%
Diesel	1,515	1,640	8.2%
Light heating oil	54	55	1.8%
JET A-1 (aviation fuel)	68	66	-2.9%
<b>Total</b>	<b>2,347</b>	<b>2,567</b>	<b>9.3%</b>

- Petrol**

In the domestic market in 2006, PKN ORLEN sold 1,471,000 tonnes of petrol, 9.4% less than in 2005. This negative result was mainly caused by a decrease in demand for all kinds of petrol due to the increase in demand for diesel and LPG. The decrease in the sales of petrol was also a result of smaller annual contracts being signed with large domestic and foreign clients as well as competition from private imports.

In 2006 PKN ORLEN's share in the domestic wholesale market for petrol amounted to 60%, 3% less than in 2005.

- Diesel**

The total volume of diesel sold by PKN ORLEN in the domestic market amounted to 3,330,000 tonnes, that is as much as 30.4% more than the figure for last year. The reason why this figure is so high is due to several factors, the most important of

which were the rising demand for diesel, and the resulting marked increase in the scale of annual contracts with large domestic and foreign clients. We managed to meet the rising demand for diesel by increasing the output of our own soft asphalt hydrodesulphurisation installations and by importing finished product, mainly from Germany.

In 2006 PKN ORLEN's share in the domestic wholesale market for light heating oil amounted to 65%, 3% more than in 2005.

- **JET A-1**

Total sales of aviation fuel achieved by PKN ORLEN in 2006 amounted to 403,000 tonnes, 327,000 tonnes of which were purchased in the domestic market (compared to 256,000 tonnes in 2005), while 76,000 tonnes were



In 2006 PKN ORLEN's share in the domestic wholesale market for diesel amounted to 49%, that is some 3% more than in 2005.

- **Ekoterm Plus**

The 19% fall in the domestic sales of light heating oil to 1,266,000 tonnes, was mainly caused by the high price of the product and plans to equalise customs duty on the product with that of diesel. Other contributing factors were the persistent tendency for institutional clients to defect en masse to alternative energy sources, the exceptionally warm autumn and winter, and the dampening of sales in October and November as a result of restricted supply from PKN ORLEN.

purchased in foreign markets (compared to 117,000 tonnes in 2005). The growth in sales achieved in Poland resulted above all from the Corporation's attractive price terms combined with an increase in air traffic at domestic airports. The need to meet domestic demand for aviation fuel was one of the main reasons why only a limited amount of product was exported.

- **100 LL**

100 LL AVGAS aviation petrol is used for light aircraft powered by piston engines. The main customers for this kind of fuel were flying clubs, pilot training centres and domestic companies that use aircraft in their business activities.



## Liquefied gas

In 2006 we sold, via ORLEN Gaz, almost 333,000 tonnes of all kinds of gas, achieving growth of 15.9% compared to 2005. At the end of 2006 we controlled a 13.3% share in the market, an increase of 1.5% compared to 2005.

## Non-fuel products

In 2006 total wholesale of non-fuel products by PKN ORLEN (including propane-butane liquefied gas) amounted to 3,837,000 tonnes, 27% more than in 2005.

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Total sales of gas by ORLEN Gaz in 2005 and 2006 (thousands of tonnes)

	2005	2006	Change
* Liquefied gas from a gas terminal collected by customers	205	256	25.0%
	37	36	-4.3%
	9	10	10.8%
** An additional 21,000 tonnes of autogas was sold by RORs	36	31	-13.5%
<b>Total</b>	<b>287</b>	<b>333**</b>	<b>15.9%</b>

### • Autogas

According to PKN ORLEN's forecasts, the growth of consumption of liquid gas in Poland for use in engine-powered vehicles was originally estimated at 18% in 2006. However, the growth in sales noted by ORLEN Gaz in the period in question was as high as 25%. The figure achieved in 2006 indicates that ORLEN Gaz has clearly strengthened its market position.

Domestic sales of non-fuel products for 2006 amounted to 3,229,000 tonnes, an increase of 22.5% compared to last year. Export sales in this period reached 608,000 tonnes, i.e. 59.8% more than in 2005.

The increasing growth rate in this segment in 2006 was largely caused by an increase of 169% in export sales of heavy heating oil compared to the previous year. Another factor contributing to

this impressive result were sales of around 43,000 tonnes of heavy diesel fractions and around 18,000 tonnes of the C4 fraction, which we did not offer to our customers in 2005.

Also extremely high compared to the same period last year were sales of petrochemicals

(growth of 65%), mainly of ethylene, propylene, butadiene, benzene, and toluene. The substantial increase in sales volumes was a result of increased production following the modernisation of the Olefin II Plant and the Aromatics Extraction Plant.



Total wholesale of petrochemical products by PKN ORLEN in 2005 and 2006 (thousands of tonnes)

	2005	2006	Change
Phenol	43.3	44.6	3.0%
Acetone	27.0	28.3	4.8%
Ethylene	245.0	508.7	107.6%
Propylene	220.9	386.6	75.0%
Glycols	90.0	112.7	25.2%
Ethylene oxide	13.7	16.0	16.8%
Butadiene	40.1	62.2	55.1%
Benzene	63.2	115.4	82.6%
Orthoxylene	17.6	20.2	14.8%
Paraxylene	27.6	29.6	7.2%
Other petrochemical products	160.7	243.4	51.5%
<b>Total</b>	<b>949.2</b>	<b>1,567.6</b>	<b>65.1%</b>



## Market factors in Poland

In 2006 consumption of all fuels in Poland (petrol, diesel, and light heating oil) amounted to more than 14.5 million tonnes, around 8% more than in 2005. 2006 also saw a substantial increase in the consumption of diesel with an accompanying fall in the consumption of light heating oil and LPG.

By far the largest volumes of engine fuels were imported from Germany, followed by Slovakia, Belarus, Lithuania, and the Czech Republic. In the case of light heating oil, as much as 60% of imports came from Lithuania and 40% from Germany.

## Savings – the OPTIMA Programme (Poland)

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## Fuel imports

Total import of fuels increased in 2006 by an average of 11%, the figure for petrol amounting to 449,000 tonnes, for diesel 2,828,000 tonnes, and for light heating oil 3,734,000 tonnes.

The implementation of the cost optimisation programme in 2006 led to the wholesale segment generating savings of more than PLN 4.5 million, i.e. 12.5% more than planned. In 2007 we plan to achieve savings of almost PLN 8 million in the wholesale segment.

### Demand for particular fuels in Poland in 2005 and 2006 (thousands of tonnes)

	2005	2006	Change
Petrol	4,029	4,069	1%
Diesel	6,836	8,494	24%
Light heating oil	2,534	1,945	-23%
<b>Total</b>	<b>13,398</b>	<b>14,508</b>	<b>8%</b>

### Total import of fuels in 2005 and 2006 (thousands of tonnes)

	2005	2006	Change
Petrol	602	449	-25%
Diesel	2,352	2,828	20%
Light heating oil	419	457	9%
<b>Total</b>	<b>3,373</b>	<b>3,734</b>	<b>11%</b>

### Sources of fuel imports to Poland in 2006

	Petrol	Diesel	Light heating oil
Germany	50%	38%	40%
Slovakia	37%	13%	-
Czech Republic	8%	-	-
Belarus	-	25%	-
Lithuania	4%	11%	60%
Others	1%	13%	-



# The refinery segment

In 2006 the refinery segment of the ORLEN Group comprised, besides the refinery in Płock, ORLEN Asfalt Sp. z o.o., ORLEN Eko Sp. z o.o., and selected production assets of Rafineria Trzebinia SA and Rafineria Nafty Jedlicze SA.

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## Volume of fuel production

In 2006 the companies of the refinery segment processed over 14.1 million tonnes of oil. An additional 4.3 million tonnes were processed by the three Czech refineries of the Unipetrol Group and more than 8 million tonnes by the Lithuanian refinery Mažeikių Nafta, which PKN ORLEN acquired at the end of 2006.

In 2006 we processed in the production plant in Płock a record amount of more than 13.6 million tonnes of crude oil, 8.3% more than in 2005. We achieved this by operating all our installations at maximum capacity. The increase in the quantity of oil processed was driven by market demand and made possible by the production potential of the Olefin II Plant.

The greatest increase (13.5%) was in the area of diesel production, of which we produced almost

0.5 million tonnes more than in the previous year. This was the result of a 24% increase in the consumption of diesel in Poland compared to 2005 and was made possible by using technical means to maximise our diesel production capability.

For a further consecutive year we achieved substantial growth in the area of aviation fuel production. The almost 9% increase was a direct result of an increase in air traffic at domestic airports and the need to meet rising demand for this fuel in Poland. At the same time we decided to decrease production of auto petrol by almost 5% due to a decrease in 2005 in the value of annual contracts concluded with large domestic clients and a background of stable consumption of auto petrol in Poland.

Due to a decrease of more than 20% in domestic demand for light heating oil we further

reduced production of this product. The fall in demand for light heating oil in Poland was brought about by, among other factors, its high price and plans to equalise customs duty for the product with that for diesel. Other significant factors were institutional clients switching to alternative sources of energy and the warm autumn and winter.

after 2009. The production capacity of the new installation is 145.2 tonnes of desulphurised petrol per hour. The technology used in the plant allows for a minimal decrease in the octane numbers of petrol during the desulphurisation process.

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### Investment in fuel quality

In June 2006 we started up the new FCC Naphtha Desulphurisation Plant in the Plock refinery, which enabled us to produce a full range of low-sulphur petrol in accordance with the EU requirements that will come into force

In May and October 2006 we completed the first and second stages of the modernisation of Diesel Hydrodesulphurisation Plant 6. The objective of the project was to prepare the installation for the deeper desulphurisation of feedstock for the production of diesel with a sulphur content of less than 10 mg/kg.

**Production volume of selected refinery products in PKN ORLEN / Unipetrol\* in 2005 and 2006 (thousands of tonnes)**

	2005	2006	Change
Crude oil processing	12,569/4,152	13,612/4,281	8.3%/3.1%
Auto petrol	2,861/715	2,723/781	-4.8%/9.2%
Diesel	3,521/1,528	3,995/1,632	13.5%/6.8%
Light heating oil	1,570/53.7	1,207/54.6	-23.1%/1.6%
Aviation fuel	370/67	402/66	8.6%/-1.5%
Liquefied gas	235/90.6	216/85.3	-8.1%/-5.8%
Total fuels	8,557/2,454.3	8,543/2,618.9	-0.2%/6.7%
Fuel output (%)	68.10/56.2	62.79/57.8	-5.3%/+1.7%
White products yield (%)	79.81/70.8	78.12/72.8	-1.7%/+2.0%
Utilisation ratio (%)	93.1/74.9	100.8/77.1	7.7%/+2.2%

\* Production data concerning the refineries Česka Rafinérská [51% Litvinov (2.8 mt/y) and 51% Kralupy (1.7 mt/y)] and 100% Paramo (1.0 mt/y): Total – 5.5 mt/y

In August 2006 we signed a contract with Technip Italy for the technical design and the supply of equipment and materials for Diesel Hydrodesulphurisation Plant 7 (HON 7). As a result of this project, from 2009 we will only supply the market with oils with a sulphur content of less than 10 ppm, while the amount of crude oil processed will be increased. The installation will produce 2.2 million tonnes of various types of diesel per year.



We also commenced the construction of an installation for stabilising diesel fractions from the Heavy Vacuum Residue Desulphurisation Plant, which will carry out denitrifying, desulphurisation and removal of resins. This project will increase our ability to supply fractions for the production of Ekoterm light heating oil. We plan to start up the plant in the 4<sup>th</sup> quarter of 2007.

We replaced and extended our analytical petrol blending equipment. We also optimised the process of formulating petrol to ensure the highest possible quality.

The Management Board of PKN ORLEN also decided to modernise and improve the Alkylation HF plant, whose production capacity will increase to 280,000 tonnes/year. The aim of the modernisation project is to achieve advanced environmental protection and improve the quality of alkylate to allow increased flexibility in the process of formulating various grades of petrol.

In October 2006 we signed another contract with Technip Netherlands for a new hydrogen plant with a production capacity of 5 t H<sub>2</sub>/h. The plant will produce hydrogen for use in the desulphurisation of diesel fractions from the HON 7 installation and in the installation for stabilising diesel fractions from the Heavy Vacuum Residue Desulphurisation Plant (in accordance with the EU requirements concerning the quality of finished fuels). We plan to start the plant in the 1<sup>st</sup> quarter of 2009.

## Volume of asphalt production

ORLEN Asphalt Sp. z o.o. is the second largest company producing and selling road and industrial asphalt in Poland. Our production and commercial centres are located in Płock and Trzebinia. Our product range includes ordinary road asphalt, modified ORBITON and multi-type BITREX, as well as industrial asphalt, pitches and specific asphalt products.

Volume of asphalt production by ORLEN Asphalt in 2005 and 2006 (tonnes)

	2005		2006	
	Płock	Trzebinia	Płock	Trzebinia
Ordinary road asphalt	513,562	27,443	573,504	40,308
ORBITON modified asphalt	-	33,394	41,375	10,224
Industrial asphalt	25,548	31,781	28,139	19,549
Pitches and specific asphalt products	9,848	611	9,765	499
<b>Total</b>	<b>548,957</b>	<b>93,229</b>	<b>652,782</b>	<b>70,580</b>



Asphalt is also produced by Paramo in the Czech Republic (part of the Unipetrol Group), which in 2006 produced around 143,600 tonnes of asphalt, i.e. 9% less than in 2005.

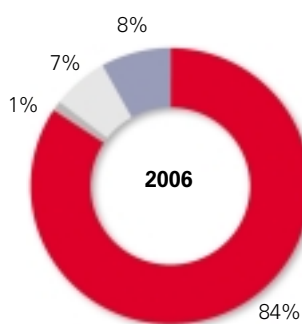
In 2006 in ORLEN Asphalt we started up one of the largest and most advanced plants for the production of ORBITON modified asphalt in Europe, with a production capacity of 70,000 tonnes per year. This means we are properly prepared to

In 2006 PKN ORLEN achieved record sales results. We fully exploited the growing potential of the Polish asphalt market, while including ORLEN Asphalt in the ORLEN Group's segment management brought about a marked improvement in the supply of raw materials to the company.

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Structure of Asphalt Sales  
in 2006



- Ordinary road asphalt
- Pitches and specific asphalt products
- Industrial asphalt
- ORBITON modified asphalt

supply the largest road construction projects in Poland. In its first year of operation the asphalt modification plant exceeded its planned production capacity by 30,000 tonnes, reaching a level of 41,375 tonnes. This was the result of an increase in market demand due to good weather which allowed the construction season to be extended.

### Savings – the OPTIMA Programme (Poland)

Implementing the cost optimisation programme allowed the refinery segment to generate the largest savings in PKN ORLEN, an impressive PLN 101 million, almost 34% of all savings achieved in 2006.



# The petrochemical segment

In 2006 the petrochemical segment of the ORLEN Group consisted of the Production Plant in Płock and the installations of Basell Orlen Polyolefins Sp. z o.o. (BOP), in which PKN ORLEN holds 50% of the shares.

## Production volume

### • Petrochemicals

Following the completion in 2005 of the modernisation of the Olefin II complex, the improved installations now allow the production of 700,000 tonnes of ethylene and 380,000 tonnes of propylene per year. Most of the monomers we produced in Olefin II in 2006 were directed to the polyolefin installations of Basell Orlen Polyolefins (BOP) and installations for the production of polyvinyl chloride in ANWIL Włocławek.

The production of petrochemicals was also carried out by Chemopetrol and Kaucuk, part of the ORLEN - controlled Unipetrol Group. The production figures for particular products

are given in the publication "Unipetrol Fact Book" which is attached to the annual report of Unipetrol. Consolidated production data for the ORLEN Group and Unipetrol is given in "ORLEN Fact Book", which is attached to this report.

## Investments

In order to make full use of the petrol obtained as a result of the increase in the volume of crude oil processing after 2009 (around 15 million tonnes), we continued preparatory work for the construction of installations for the production of paraxylene (PX), with production capacity of 400,000 tonnes, and terephthalic acid (PTA) with a production capacity of 600,000

Production volume of selected petrochemicals in PKN ORLEN in 2005 and 2006 (tonnes)

	2005	2006	Change
Ethylene	312,299	592,780	89.8%
Propylene	245,485	402,741	64.1%
Butadiene	40,880	61,296	49.9%
Benzene	64,787	113,645	75.4%
Toluene	79,017	116,675	47.7%
Paraxylene	27,673	30,623	10.7%
Phenol	43,511	44,538	2.4%
Acetone	27,723	28,252	1.9%
Glycols	88,473	111,015	25.5%
Cooling fluids	12,595	15,619	24.0%
Solvents	14,916	19,203	28.7%
Aromatics	217,588	315,117	44.8%
Sulphur	111,280	123,624	11.1%
Ethylene oxide	13,846	15,882	14.7%

tonnes. We plan to start up the PX and the PTA plants in 2010.

At the end of 2006 we completed the implementation of ELIAS – the system for registering and archiving laboratory data in the production plant. The main task of the system is to improve the efficiency of communication between the refinery and petrochemical installations of the Production Plant and the laboratories. The

annual capacity of the plants is around 820,000 tonnes of polyolefins.

Additional quantities of polyolefins were produced by Chemopetrol, part of the ORLEN controlled Unipetrol Group. In 2006 this company produced 287,000 tonnes of polyethylene (compared to 292,000 tonnes in 2005) and 205,000 of polypropylene (205,000 tonnes in 2005).

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results of laboratory tests are input directly into the system and are therefore immediately accessible to personnel controlling the technological processes. The system is used by laboratory workers and most of the personnel working in the Production Plant.

- **Plastics**

The annual production capacity of the BOP installations amounts to 400,000 tonnes of polypropylene PP (produced using Spheripol technology) and 320,000 tonnes of high density polyethylene HDPE (produced using Hostalen technology). Taking into account the production capacity of installations for producing low density polyethylene LDPE, the

The polyolefins that we produce are distributed using the BOP Logistics Platform, one of the largest and most advanced facilities of its kind in Europe. Products from Plock are widely used in both the consumer market and the industrial market, where they are used in the production of packaging, film, textile products, as well as automobile parts and pipes.

### **Savings – the OPTIMA Programme (Poland)**

Implementing the cost optimisation programme allowed the petrochemical segment to generate savings of PLN 1.2 million in PKN ORLEN.

#### **Production volume of selected petrochemicals in BOP in 2005 and 2006 (thousands of tonnes)**

	2005	2006	Change
LDPE	119	120	0.8%
HDPE	28	245	88.6%
Polypropylene	146	321.1	54.5%





# The chemical segment

In 2006 the chemical segment of the ORLEN Group consisted of ANWIL SA in Włocławek (Poland).

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## Production volume

As a result of the purchase by ANWIL SA in October 2006 of 81.78% of the shares in the Czech company Spolana a.s., the production volumes and product offer of the ORLEN Group's chemical segment was substantially increased. The transaction led to the formation of the largest production and commercial complex in Central and Eastern Europe producing 430,000 tonnes of polyvinyl chloride (PVC) per year.

### • Polyvinyl chloride

The product with the largest share in sales revenues in the ORLEN Group's chemical segment in 2006 was polyvinyl chloride in suspension. The rapid increase in the consumption of polyvinyl chloride in Poland and other countries of Central Europe was largely due to European integration and the resulting acceleration of economic development in the region.

In 2006 the share of ANWIL SA in the domestic market for polyvinyl chloride amounted to 47%, around 6% greater than in 2005. The share of the company in the production of granulated PVC products amounted to 47%, i.e. 3% greater than a year earlier.

Polyvinyl chloride is mainly used in construction, where it is used in the production of pipes, joinery, cable insulation, floor and wall coverings, wallpaper, furniture etc.

- **Sodium hydroxide**

In 2006 we started up a modernised installation in ANWIL SA for the production of chlorine and sodium hydroxide by the membrane method. The completion of this proj-

In 2006 the estimated share of ANWIL SA in the domestic market for sodium hydroxide amounted to 37%, an increase of 6% compared to 2005.

Sodium hydroxide is mainly used in the chemical, paper and food industry, as well as in the production of aluminium.

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ect made us one of the few companies in Central Europe that produces sodium hydroxide using this technology. The production techniques employed made the new installation more economic and environmentally friendly, as well as ensuring very high product quality.

- **Nitrogenous fertilisers**

2006 was another year of good business for the Polish market for nitrogenous fertilisers, the result of an increase in agricultural production, as well as changes in the crop structure and EU funding. ANWIL SA's product range includes ammonium nitrate and CANWIL nitro-chalk.

Production volumes of key products in the chemical segment in 2005 and 2006 (tonnes)

**ANWIL SA**

	2005	2006	Change
Polyvinyl chloride	215,355	275,160	27.8%
PVC processing	66,391	72,884	9.8%
Sodium hydroxide	89,621	173,150	93.2%
Ammonia	431,720	421,720	-2.3%
Nitrogenous fertiliser (calculated by nitrogen)	289,119	286,178	-1.0%

In the fertilising season of 2005/2006 the share of ANWIL SA in the domestic market for nitrogenous fertilisers amounted to 21% (calculated by nitrogen), that is around 1% greater than in the previous season.

### Investments

The most important investment of 2006 was the purchase by ANWIL SA, for more than

nous management of assets with a similar production profile.

In 2006 we completed a three-year project to convert the production of chlorine from diaphragm to membrane technology. The total cost of the project was around PLN 220 million. We also implemented several projects relating to PVC production, storage of nitrochalk, and modernisation of the ammonia production line etc., which allowed us to reduce

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PLN 87 million, of a controlling shareholding in Spolana a.s. The purchase of Czech company strengthened the market position of the ORLEN chemical segment, particularly in the area of PVC production. One of the key tasks of ANWIL SA in the coming years will be to exploit the existing potential of the two companies in order to maximise the benefits of the homoge-

our production costs, improve the quality of our products, and substantially improve the efficiency of the distribution of our products.

#### Production volumes of key products in the chemical segment in 2005 and 2006 (tonnes)

##### Spolana a.s.

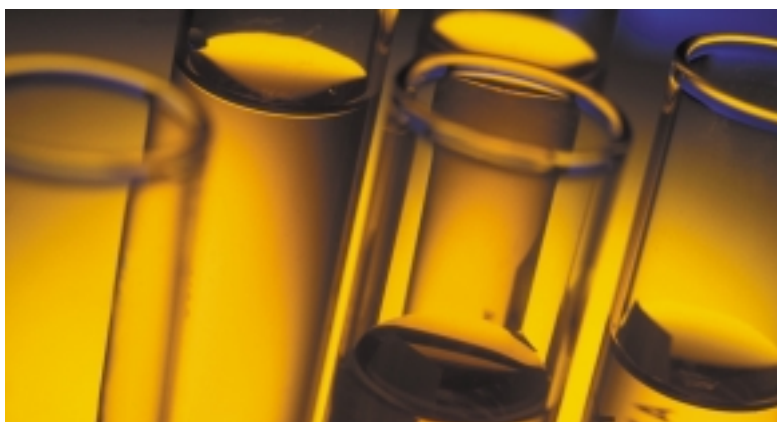
	2005	2006	Change
Polyvinyl chloride	119,022	121,069	1.7%
Sodium hydroxide	107,035	114,462	6.9%
PVC processing	3,336	4,206	26.1%
Caprolactam	47,103	47,437	0.7%
Ammonium sulphate	207,748	209,825	1.0%

### Savings - the OPTIMA Programme (Poland)

At the beginning of 2006 ANWIL SA set about implementing the OPTIMA cost optimisation programme, which had already been deployed at the corporate level. The company drew up a three-year action plan aimed at achieving specific goals via projects designed to:

- improve the cost effectiveness of its operations, and

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- reduce costs, mainly by improving production parameters.

The plan provides for savings totalling PLN 70 million in the operational sphere of the segment in the period 2006 – 2008. Savings achieved in the chemical segment in 2006 amounted to almost PLN 54 million, including savings of almost PLN 34 million resulting from the direct reduction of operational costs.





# The oil segment

In 2006 the operations of the ORLEN Group's oil segment were concentrated in ORLEN Oil Sp. z o.o., which comprehensively managed the production and commercial infrastructure located in Płock, Trzebinia and Jedlicze (Poland).

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In 2006 production increased in all product categories. However, the area of greatest growth compared to 2005 was the lubricants segment, in which production volume increased by more than 21% in 2006. Increased production in this area was a direct result of high sales, both in the domestic market and EU markets. The volume of sales of lubricants planned at the beginning of the year was exceeded at the end of 2006 by more than 8%. It should be stressed that there was growth in sales despite the stabilisation in recent years of the absorbcency of the domestic

market. Our strategic assumptions provide for an increase of 0.7 % in our share of the domestic market for lubricants in 2007.

Compared to 2005 the ORLEN Group increased its total sales of lubricants by 17%. The largest increase, of as much as 30%, was for industrial lubricants, the result of new customers being secured in both the domestic and foreign markets. In 2006 we doubled our exports of lubricants and achieved a four-fold increase in sales of base oils to foreign clients. The largest importers of our products in 2006 were Great Britain, the Czech Republic and Holland.

In 2006 we consistently expanded our sales offer, concentrating mainly on the automotive industry. We introduced more oils from the Platinum range to our product offer, which meet the requirements of automobile manufactures such as Mercedes-Benz, Volkswagen, and BMW. We also added new products to the Platinum range from the area of automobile cosmetics and chemicals. In order to meet the needs of agriculture we also expanded our offer of hydraulic and gear oils to include the Agro range, which is designed for

Production volume in the oil segment in 2005 and 2006 (tonnes)

	2005	2006	Change
Lubricants and base oils	149,464	158,445	6%
Other products	182,770	200,976	10%
<b>Total</b>	<b>332,234</b>	<b>359,421</b>	<b>8%</b>

agricultural machinery and equipment. In 2006 we offered our products via a network of three subsidiaries and nine affiliates.

In 2006 the ORLEN Group also produced 80,575 tonnes of lubricants and base oils (22% more than in 2005) through Paramo, a company belonging to Unipetrol.

### Investments and product development

In 2006 we completed important work for the Corporation associated with the development of technology for new products and the improvement of product quality and production technology.

As regards automotive oils we continued the development work aimed at introducing products to our sales offer that fulfil the latest ACEA 2004 quality specifications and Euro4 exhaust emission requirements. We also conducted research relating to industrial products (mainly products for the mining and railway industries)

aimed at improving product quality and obtaining the latest certificates. In cooperation with the Central Petroleum Laboratory in Warsaw we initiated research into the compatibility of lubricant oils with biofuels used in heavy construction machinery and lorries.

At the end of 2006 we began work aimed at producing top quality engine oils based on ORLEN Oil with confirmed API / ACEA quality categories and endorsements from automotive manufacturers (the Base Oil Interchange Programme) and developing technology for producing gear oils for the automotive industry endorsed by manufacturers (MAN, MB, ZF, Voith).

### Savings – the OPTIMA Programme (Poland)

Implementing the cost optimisation programme allowed the oil segment to generate savings of over PLN 10 million, which is equivalent to almost 3.5% of all the savings achieved in PKN ORLEN in 2006.

Total sales in the oil segment in 2005 and 2006 (tonnes)

	2005	2006	Change
Lubricants and base oils	150,898	153,421	2%
Other products	178,917	192,973	8%
<b>Total</b>	<b>329,815</b>	<b>346,394</b>	<b>5%</b>

Volume of exports in the oil segment in 2005 and 2006 (tonnes)

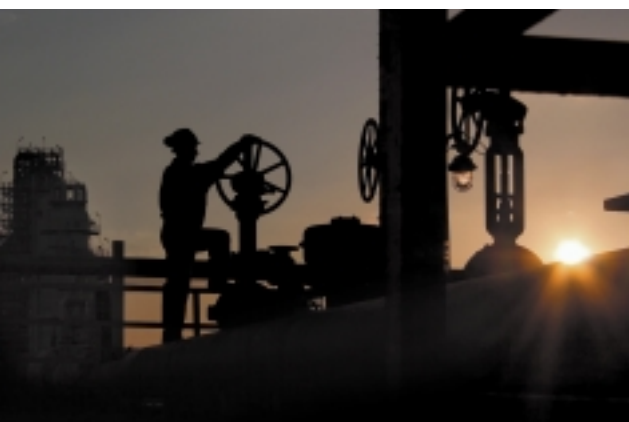
	2005	2006	Change
Lubricants and base oils	25,906	78,981	205%
Other products	4,539	4,489	-1%
<b>Total</b>	<b>30,445</b>	<b>83,470</b>	<b>174%</b>



# Logistics

The ORLEN Group's logistics infrastructure in Poland and the Czech Republic includes land and maritime handling and storage depots, a network of pipelines and rail and road transport.

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## Mandatory reserves

Pursuant to the Regulation of the Minister for the Economy of 19 December 2005, by the end of 2008 we are obliged to amass in Poland an amount of reserves corresponding to 76 days of average daily production, after adding imports and intra-community purchases and deducting exports and extra-community sales.

By the end of 2006 we had amassed 66-days of reserves in Poland. Our fuel reserves are stored in 14 locations in Poland and we keep our crude oil reserves in salt caverns near Inowrocław.

In the Czech Republic mandatory reserves are maintained by the state agency ASMR which is financed from the state budget.

## Pipelines

In Poland we transport fuels via 232 km of our own product pipelines and 570 km of pipelines that belong to PERN Przyjaźń SA. We plan to start up another of our own pipeline sections on the Ostrów Wielkopolski – Wrocław route by 2009, which will allow better access to our products in the Lower Silesia market. The project is expected to involve costs of around PLN 145 million. The share of pipeline transport in the structure of fuel transport amounted to 67% in 2006, that is 2% higher than in the previous year.

In the Czech Republic we use a network of 1,100 km of pipelines belonging to the Czech operator CEPRO, through Unipetrol Rafinerie. The share of pipeline transport in the structure of fuel transport in the Czech Republic amounted to 33% in 2006.

## Storage depots

In 2006 we used 13 surface storage depots in Poland, 11 of which were used in commercial trading and two as handling depots. We also had access to five million m<sup>3</sup> of additional storage volume in IKS Solino. At the end of 2006 we were using seven salt caverns, four of which were used to store crude oil and three for storing fuels.

## Rail transport

In 2006 in Poland we transported 1,578 million tonnes of products by our own rail transport, some 53.5% more than in 2005. The share of our own transport in PKN ORLEN's overall rail transport figures increased from 17.4% in 2005 to 33% at the end of 2006. The total share of rail transport in overall fuel transport was 25% in 2006, 2% less than in the previous year.

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In the Czech Republic, rail transport and the management of rolling stock was handled by Unipetrol Doprava a.s., which in 2006 transported 5,539 million tonnes of products within the Czech Republic, that is 4% less than in 2005. The share of own transport in the overall rail transport figures for the Unipetrol Group grew from 19.8% in 2005 to 23.6% at the end of 2006.



### Road transport

At the end of 2006 transport of fuels to the network of petrol stations in Poland managed by PKN ORLEN was carried out by seven companies belonging to the ORLEN Group. In Germany ORLEN Deutschland stations were served by five transport companies. In the Czech Republic, BENZINA stations were served by Petrotrans, which is 100% owned by BENZINA.

### Savings – the OPTIMA Programme (Poland)

Implementing the cost optimisation programme allowed the logistics segment to generate savings of over PLN 20 million, almost 7% of total savings achieved in PKN ORLEN in 2006.

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### Maritime cargo handling

An important element of the ORLEN Group's logistics resources is its access to the infrastructure of Naftoport, a company that handles crude oil imported to Poland by sea. The total oil handling capacity of Naftoport Sp. z o.o., in which PKN ORLEN owns an 18% shareholding, amounts to 34 million tonnes per year. When we took control of the Lithuanian company Mažeikių Nafta in 2006 we also became the majority shareholder of the cargo handling terminal in Butinge, which is capable of handling around 14 million tonnes of oil per year.

## Logistics infrastructure of PKN ORLEN



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## Logistics infrastructure of Unipetrol





# *S*ocial and community relations

# Social and community relations

In ORLEN we understand social corporate responsibility as the creation of transparent relations with all stakeholders inside and outside of the company. Our aim is to be considerate of employees, business partners, local communities and natural environment.

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## ORLEN – Safe Roads

On the 25 July 2006, the day of St. Christopher the patron saint of drivers, we launched “ORLEN – Safe Roads”, a long-term public benefit programme for the improvement of road safety for all road-users. Our partner in the project was the Safer Driver Foundation.

Our prime objective when devising this programme was to achieve a real improvement in road safety. The main element of the programme in 2006 was a competition for the most interesting and effective initiatives aimed at improving road safety, with prizes worth PLN 500,000. A total of 247 road safety initiatives were sent in from all over Poland, the best of which were selected by the Competition Committee made

up of representatives of the organisers and road traffic experts. The devisors of the best initiatives received their prizes at the Road Safety Gala held on 20 February 2007 in the Royal Castle in Warsaw.

The second major element of the “ORLEN – Safe Roads” programme was a series of film studies entitled “Life Experiment” starring Krzysztof Hołowczyc. The series consisted of six segments presenting various dangers caused by reckless conduct on the roads.

## Patron of sport

In 2006 we once again acted as a sponsor for the most important automotive event in Poland, the Platinum 63 Rally Poland. PKN ORLEN was the main sponsor of the event, while ORLEN Oil was the title sponsor. The rally, which also acts as a round of the Polish and European championships, usually features the top European rally drivers. PKN ORLEN also sponsored the 6<sup>th</sup> edi-

by the Polish Automobile and Motorcycle Federation for the Fair Play award. Jacek Czachor's positive attitude and high placing in the Dakar Rally (he came in 10<sup>th</sup>) was noticed by the media and he was nominated by TVP viewers for the Sportsman of the Month award for January.

Representatives of ORLEN Team achieved successes in the Tunisia Rally, the second round of



tion of the extreme off-road ORLEN Trophy car rally. The three rounds of the rally saw top off-road crews competing in the Rzeszów area, and in Mazury and Małopolska. The Kraków heat of the ORLEN TROPHY also acted as the final round of the European Cup, which meant we were able to see top foreign drivers competing in Poland.

In accordance with a now established tradition, the ORLEN Team took part in the Dakar Rally, which in 2006 followed the Lisbon – Paris route. On this occasion Jacek Czachor became the first Pole to twice finish the special section in the first three. After helping a Dutch competitor who had suffered a serious accident, he was nominated

the FIM World Championship in Off-Road Rallies (for motorcycles) and the second qualifier of the FIA World Cup in Off-Road Rallies (for cars). On their first appearance in Tunisia, Krzysztof Hołowczyc and Jean-Marc Fortin took fourth place in a Nissan Pickup.



## Business leader

In 2006, PKN ORLEN worked to build the image of the Corporation as a business leader in the regions of Central and Eastern Europe. We played an active role in conferences, discussion panels and other important projects concerning the fuel industry and business, social and cultural life both in Poland and abroad.

Programmes. At the conference, the Polish Technological Platform for Biofuels and Biocomponents was presented (of which we are one of the co-founders).

We also took part in the celebrations to mark the 15<sup>th</sup> anniversary of the founding of the Warsaw Stock Exchange and sponsored the WallStreet conference, which each year



We took a leading role in key discussions devoted to energy security in Central and Eastern Europe, for example by participating in the 16<sup>th</sup> Economic Forum in Krynica, and in the conferences "The Future of Energy Security in Europe" (organised by Tischner European University) "Poland's Energy Security in 2006" (organised by *Świat Energii* magazine), and "The POWERPOL 6<sup>th</sup> National Convention on the Energy, Petrochemical, and Gas Industries" sponsored by the Minister for the Economy. PKN ORLEN also actively participated in a debate on energy security in Poland.

PKN ORLEN also plays an active role in the field of alternative energy and supports the idea of increased use of biofuels. For example, we took part in the conference "Inauguration of the 7<sup>th</sup> EU Framework Programme in Poland" organised by the Ministry of Science and Higher Education and the National Contact Point for EU Research

brings together a multitude of individual and financial investors.

Since we entered the Czech market by taking up a majority shareholding in Unipetrol, we have tried to take part in important cultural events in the country. In 2006 we were the main sponsor of the exhibition: "Charles IV, Emperor by the Grace of God – Culture and Art during the Reign of the Last of the Luxembourgs 1347 – 1437", which took place in Prague Castle. We also sponsored the 41<sup>st</sup> International Film Festival in Karlove Vary, a prestigious European film competition and also one of the most important cultural events in the Czech Republic.

As we planned our expansion into the Lithuanian market, we became a strategic partner in the project "Lithuanian Days in Poland", which was organised to celebrate the 15<sup>th</sup> anniversary of diplomatic relations being established between

Lithuania and Poland. The Presidents of Lithuania and Poland acted as honorary patrons for the event.

### Industry events

In 2006 PKN ORLEN played an active role in important events for the petrochemical industry. For example, we were the honorary patron of the

Tennis Tournament. The idea of the tournament is to promote values such as resilience, strength, good health, and good-natured competition, values that are important and prized not just in sport but also in business and daily life. In another initiative we paid tribute to the heroic participants of the June 1976 protests by sponsoring the 30<sup>th</sup> anniversary celebrations of the protests, which started in Płock, Radom and Ursus and eventually affected the entire country,

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11<sup>th</sup> International Exhibition of the Oil and Gas Industries and we sponsored the 2<sup>nd</sup> National Congress of Oil and Gas Industry Workers in Bóbrka and the 5<sup>th</sup> Congress of Technology in Poznań. We also supported the scientific convention of the Polish Chemical Society and the Polish Society of Chemical Engineers in Gdańsk, as well as funding the Ignacy Łukasiewicz Chemistry Competition, which was held in Płock, and the 15<sup>th</sup> edition of the National Chemistry Competition for students of secondary schools, which was organised by the Silesian University of Technology.

### Local partner

We understand the importance of maintaining a close relationship with the local community in Płock. For the twelfth time we sponsored the ORLEN Polish Open International Wheelchair

becoming an important milestone in the process of political and economic transformation. We also took part in the organisation of "Night of Poets" and the exhibition "Kazimierz Górski and his Eagles", which was held in the Municipal Office in Płock, as well as funding the European Picnic and further training for local government personnel in the CIFAL Płock centre. PKN ORLEN also sponsored the Krzysztof Zywer Street Run and the Płock Rowing Association, as well as awarding prizes for the best Masters dissertations and scientific works written by students at the Warsaw University of Technology in Płock.

We continued to sponsor the Wisła Płock SSA football club. In the 2006 season Wisła won the Polish Cup and the Polish Supercup, while the handball section once again won the Champion of Poland title.

## The ORLEN Gift of the Heart Foundation

PKN ORLEN is the main source of funds for the ORLEN Gift of the Heart Foundation, which was set up in 2001. Every year the Foundation provides substantial grants for charity work and to support the underprivileged and public welfare institutions. In 2006 the Foundation reached out to around 250 Family Children's Homes. The

tions and institutions that conduct activities that are related to its basic objectives. Most of these were for initiatives related to healthcare, rehabilitation and recreation. Donations were also awarded to projects associated with education and national heritage protection. In January 2006 the Management Board donated through the Foundation PLN 0.5m to the casualties and bereaved families following the catastrophe at the Chorzów Exhibition Centre in southern Poland.

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Foundation also organised and financed a summer camp for 260 children and their guardians, as well as financing the publication of a book entitled "Reclaiming Family Children's Homes – the 4<sup>th</sup> Summary of the Experiences of Family Children's Homes in Poland" and organising, in cooperation with the Aleksander Gieysztor Humanities Academy, a scientific conference devoted to Family Children's Homes. The Foundation continued to support schools and elementary schools running educational programmes on the principles of road traffic and conduct on the road by funding competition prizes and donating reflectors and first aid kits. It also took part in the "ORLEN – Road Safety" campaign. Over 180 pupils and students from deprived families received scholarships from the Foundation. The Children's Burns Centre received financial support, including funding for the purchase of a special respirator. The Foundation also gives out donations, on an ongoing basis, to those in need and to organisa-

The Foundation supported 80 persons, of which 73 were children and youngsters who received social and educational stipendiary funding that is continuing in 2007. In March 2007, the Foundation was granted the status of a public benefit organisation.

## Internal communication

In 2006 we focused our efforts on shaping a corporate culture based on honesty, partnership, respect and responsibility, and building a sense of commitment amongst employees and stronger identification with the Corporation.

The main goal of the measures we undertook was to provide all our staff with complete and reliable information concerning the social and economic matters which are of greatest importance to PKN ORLEN, so that they can follow and actively participate in them. By exploiting

synergies in our internal media (the corporate newspaper ORLEN Ekspres, the ORLEN Studio radio station, and the Intranet), we were able to ensure that a more coherent message is sent out to the workforce. This also enabled more effective use of all our communication tools and faster access to required information, which allowed a wider group of employees to be involved in strategic projects. Efficient communication also played an important supporting

We attach particular importance to management communication. We prepared special training for the Corporation's managers in this area, and information about strategic projects such as changing corporate culture was supported with additional informational materials that facilitated the cascading process.

The Intranet is the fastest tool for information exchange. We therefore try to involve the staff in



role for the Company's key policies. For example, it allowed the significance of the takeover process and further measures related to that process to be clarified, and fears and stress stemming from these changes to be minimised. Open communication and dialogue conducted during the restructuring process allowed these difficult measures to be effectively implemented. Interactive forms of communication were also set up on an independent basis (discussion forums, question boxes, special information lines). This meant that all employees had access to the information they needed and were able to obtain answers to any questions they had.

For several years we have been monitoring the process of communication and corporate culture. Regular audits allow us to respond rapidly to the needs of our employees, adapt channels of communication to suit their needs, and take whatever action is necessary.

its creation as much as possible, engaging a wide range of personnel in the editing process. As a result of this cooperation, the service is user-friendly and allows easy access to information and documents.

The recently activated extranet, a communication platform for companies in the ORLEN Group, is a new and extremely important tool for improving the efficiency of information flows. The extranet allows companies to share their knowledge and experience, enabling effective coordination of joint projects and quicker response to companies' needs.

The annual industry event Chemist's Day gives us an opportunity both to integrate our workforce through fun and sporting events, and allow them to find out more about those parts of the Corporation that not many people have access to on a day-to-day basis. "ORLEN Open Days"



allowed employees to visit the production plant in Płock and learn more about how it operates.

Integration of the workforce strengthens their ties with the Corporation and allows better mutual understanding, which in turn leads to good business relations. For this reason we provide our employees with the opportunity to take part in sporting and charitable events. This year various projects were organised under the Staff

## PKN ORLEN's values

The year 2006 represented a breakthrough in the building of a social dimension in the Corporation, with the introduction of the Code of Ethics, the result of hard work and determination on the part of the entire workforce founded on the belief that the code is necessary for the achievement of business objectives in the context of the pursuit of the common good.

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Voluntary Work Initiative for those who wished to lend a hand to those in need, for which 400 employees volunteered. These included the renovation of two Children's Homes in Trzcianka and Góra near Jarocin, the provision of Christmas presents for children in Family Children's Homes, and a competition (organised for the third year running) to design a Christmas card for the Corporation, all of which were hugely rewarding for both our employees and the beneficiaries.

Corporate sporting events within the ORLEN Group also proved extremely popular amongst the workforce. These included football matches, runs, and tennis and table tennis tournaments, all of which did much to promote company integration. This year a record number of employees took part in the sporting events organised by the Corporation and the finalists went on to represent PKN ORLEN in the European Corporate Games. In 2006 we won three gold and two silver medals at this event.

The Code of Ethics includes regulations concerning the conduct of business operations, contacts with society and the local community, and cooperation in a broad sense with all the Corporation's partners. The document sets down standards for the work and conduct of employees based on ethics and law. Honesty, transparency and professionalism towards our business and social partners are among the obligations set out in the Code of Ethics.

At the beginning of March 2006 we carried out a democratic election for an Ethics Ombudsman from among five candidates, in which 48% of the workforce took part. The Ethics Ombudsman is not only responsible for enforcing the Code of Ethics, but also for guaranteeing the safety of employees and assisting in shaping an organisational culture based on the values of PKN ORLEN. The Ethics Ombudsman deals with various matters, from problems relating to interpersonal relationships to matters requiring new systemic solutions.



## PKN ORLEN and corporate governance

The first declaration concerning the observance by PKN ORLEN of the principles of corporate governance was published on 25 June 2004. The Management Board of the time adopted most of the 48 principles of corporate governance (nine principles were excluded). The declaration was then approved by the

Meeting of Shareholders, the Supervisory Board and the Management Board.

In order to achieve maximum involvement of those interested in the operations of the Company we organise internet broadcasts from sessions of the General Meeting of Shareholders with the possibility of casting votes on-line. We regularly inform the capital market of our financial results and the degree

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Supervisory Board and the General Meeting of Shareholders.

One of the principle aims of the Management Board appointed in October 2004 was for the Corporation to implement all of the principles of corporate governance as soon as possible. On 29 June 2005, the Management Board of PKN ORLEN recommended to the General Meeting of Shareholders that it adopt all the principles of corporate governance for implementation. However, Principle No. 20 concerning independent members of the Supervisory Board was not approved by the Company's Shareholders, and on 30 June 2005 the PKN ORLEN published an appropriate declaration regarding this matter.

After that, measures were undertaken to adapt the Company's internal regulations and procedures. Priority was given to amending the Company Statute and the Rules of the General

to which we have implemented strategic, investment or acquisition projects. We also regularly present both short and long-term development plans.

As a result of these measures we have advanced up the corporate governance rankings. According to the results of the third ranking of stock exchange listed companies based on the assessments of institutional investors and published by the Polish Institute of Directors, for the past three years we have been one of the leaders in the market. In 2006 we were awarded a four-star rating (in 2005 we received a two-star rating and in 2003 a one-star rating).

We also took part in projects in which we were able to emphasise the values that guide PKN ORLEN in its operations. These include taking part in the debate "Corporate Governance and Ethics in Business" during the conference

"Newsweek's Most Valued Companies" organised by Newsweek in April.

In February 2006 we also received from the Parkiet daily newspaper a "Bulls & Bears" Award for achieving the highest standards in IR.

We would like to set an example for other Polish companies to follow, not just with regard to business success but also ethical

## STAFF

### Staff management strategy

In 2006 we continued to implement the staff management strategy approved by PKN ORLEN for 2005 – 2009. The following key tasks were implemented:



and transparent operational principles. That is why we support the anti-corruption campaign "I Don't Offer or Take Bribes" organised by the Normal Country Movement in cooperation with the Advertising Agencies Association. As part of this initiative, free car stickers were distributed at almost 1,500 of our petrol stations bearing the logo and slogan of the campaign. We were also the exclusive sponsor of the Tischner Debates organised by the Erasmus of Rotterdam Chair of Social Sciences and Humanities and the Institute for Human Sciences in Vienna. The debates dealt with subjects relating to the legacy of Father Tischner: humanitarianism and man's place in the modern world.

- as part of restructuring – the introduction of transparent communication between the employer and the employees of restructured areas and implementation of the provisions of the Restructuring Agreement,
- integration of the ORLEN Group in Poland and abroad and designation of appropriate staff for the integration project with the Mažeikių Refinery,
- inclusion of a further group of employees in the incentive system Management by Objectives (MBO), including the development and implementation of individual bonus systems for selected areas,
- negotiations with trade unions and the introduction of uniform regulations for the Company Benefit Fund for the entire ORLEN Group,
- application of new IT tools in order to develop effective reporting and data flow between PKN ORLEN and the ORLEN Group companies,

- development of appropriate communication within the Corporation and ORLEN Group, and evaluation and development of resources.

## Headcount

As of 2006 there were 25,123 people employed in the ORLEN Group\*, of which 4,773\*\* were employed in PKN ORLEN, 4,862 in the Unipetrol Group and 101 in ORLEN Deutschland.

In 2006 a total of 838 employees left PKN ORLEN, of which over 36% (308 people) left via employee-initiated contract termination under the Voluntary Redundancy Programme, which was implemented as part of the restructuring process. A total of 325 people left Unipetrol and 27 persons left ORLEN Deutschland.

\* Consolidated companies

\*\* Headcount excluding persons absent from work for an extended period

In 2006 PKN ORLEN employed 243 people, 33 people were employed by the Unipetrol Group, and 10 by ORLEN Deutschland.

## Education

In 2006 the largest group of PKN ORLEN employees were those with secondary and tertiary education. Compared to 2005 the number of employees with secondary education decreased by 3.4% to 2,132, while the number of employ-

ees with tertiary education increased by 5.2% to 2,116 compared to 2005.

As regards the age of the workforce, in 2006 the largest group of PKN ORLEN employees were those aged 31-40 (1,437 people). Other large groups were the 41-50 (1,427 people) and 51-60 (1,274 people) age brackets. Of all the people employed in the Company in 2006, women accounted for 25.8% (1,232) and men for 74.2% (3,541). The proportions had changed slightly compared to the figures for 2005 (women – 27.3%, men – 72.7%).

## Recruitment

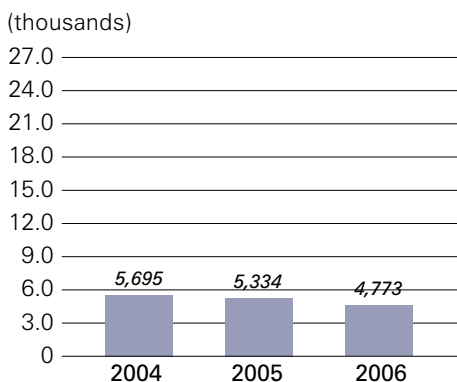
In 2006 we organised over 260 recruitment processes for various positions – from worker positions to specialist and key managerial positions. Special care was required in recruiting personnel for new positions created as a result of the development of new structures in the Company.

In 2006 recruitment processes were carried out using the following diagnostic tools:

- structured interviews based on competencies / interviews with the candidate and employee,
- psychological, psychometric and skill tests,
- samples of work,
- Assessment / Development Centre sessions.

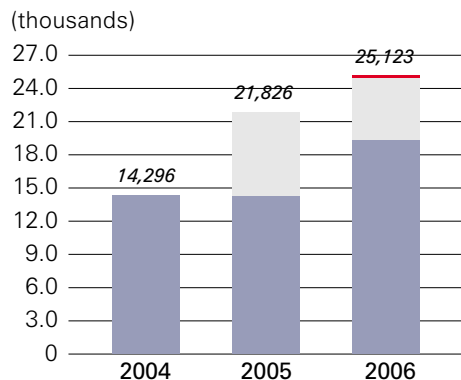
When selecting tools to assess candidates we consider their reliability, accuracy as well as the

Employment in PKN ORLEN in 2004 – 2006



■ PKN ORLEN  
■ Unipetrol Group  
■ ORLEN Deutschland

Employment in the ORLEN Group (including consolidated companies) in 2004 – 2006



recommendations of leading consulting companies and the Polish Psychological Society.

potential to determine the level of their particular competencies and key skills, as well as areas where development is required.

### Graduate positions and training

In 2006 we continued our co-operation with Employment Offices from all over the country in organising graduate trainee positions. As part of our trainee programme we organised 150

### Competency Development Programme

In 2006, as part of our Competency Development Programme, we carried out a process

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traineeships for secondary school and university graduates, eventually employing almost 30% of the trainees we took on. In view of our staff rejuvenation policy, we expect the proportion of trainees employed in 2007 to increase, particularly in the production area.

We are also implementing a student work experience programme in co-operation with universities. In 2006 we took on 268 students in work experience positions. Students can obtain experience in many areas of the Company, both in our Head Office and in regional offices all over the country.

### Assessment Centre/Development Centre

A major factor improving the efficiency of our staff policy in 2006 was the introduction of Assessment Centre/Development Centre methodology as a permanent diagnostics tool. The aim of this approach is to assess employee

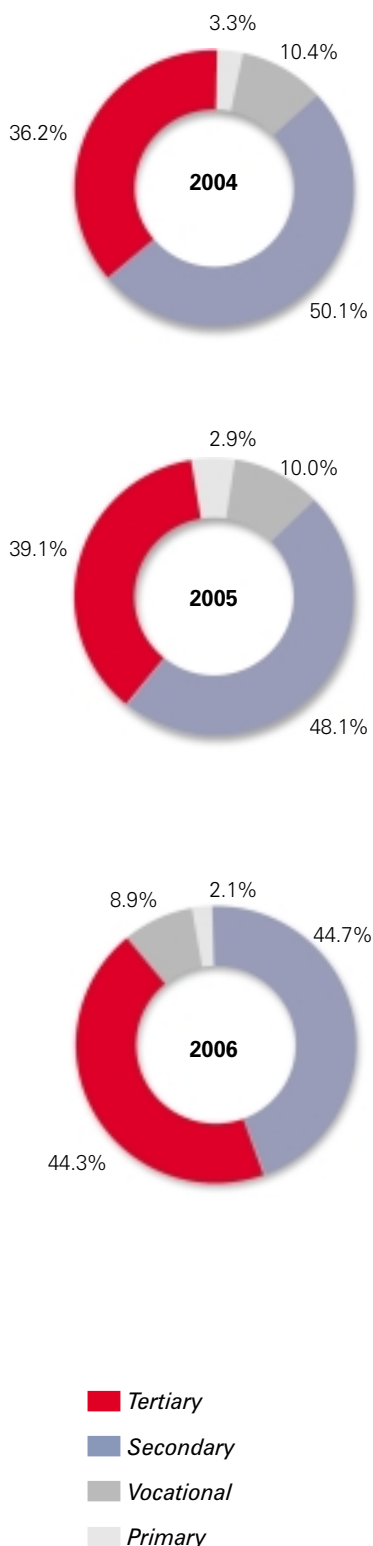
of employee assessment involving evaluation and planning of the development of the workforce's professional competency based on Company values. The programme focuses on employees, their knowledge, skills, needs and aspirations, thus supporting the current and future business goals of the Company.

### Talent Management

In 2006 we continued the Talent Management project that we initiated in 2005. The goal of the project is to identify and train future middle level managerial staff. Project participants are provided with an assessment of their professional potential, on the basis of which individual career paths are developed. We also offer the possibility of participating in several specially designed development projects. As a result of the programme we have developed a modern system of career path management, related to the achievement of business needs.



Employee educational levels in 2004 – 2006



## Business Academy

In 2006 we completed the first edition of the Business Academy project, which was initiated in November 2005. The programme is directed at the managerial staff of PKN ORLEN and companies in the ORLEN Group. The goal of the programme is to prepare employees for the challenges facing modern managers, unify the work standards of senior management, and develop a strong corporate culture based on uniform principles and values. In 2006 a total of 268 persons participated in the programme. In December 2006 the second edition of the Business Academy was launched, which involves 209 people in PKN ORLEN and companies in the ORLEN Group, including Unipetrol, ORLEN Deutschland and Mažeikių Nafta.

## Training

Our training policy is an integral element of staff management. Its assumptions are related to specific goals of the Corporation and are selected to facilitate the individual development of employees. In 2006 a total of 7,356 people took part in closed and open training, language courses, training to raise qualifications, and conferences and seminars.

## Management by Objectives (MBO)

The Management by Objectives System implemented in mid-2005 is directed at key employees of the ORLEN Group. Its goal is to support the strategy of increasing the value of the Corporation and to improve the effectiveness of the bonus system. In 2006 the annual system covered a total of 355 employees, 324 persons being covered by the quarterly system. The result was an improvement in effectiveness and control over bonus funds.

## The Adaptation Programme

The Adaptation Programme, developed and implemented in 2006, is aimed at new employ-

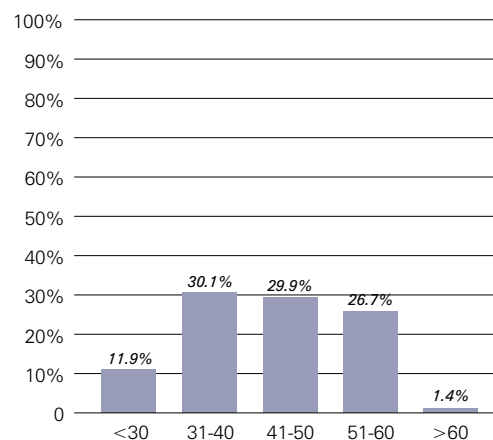
ees as well as persons changing their position within PKN ORLEN. The goal of the programme is to prepare new employees for new conditions, duties, and a new environment as well as to encourage the development of loyal attitudes to the Company.

The Adaptation Programme promotes the development of desirable employee attitudes and improvement of work effectiveness and quality. For employees this means that the level of stress associated with starting a new job and taking on new duties is reduced, they are able to more easily deal with the organisational aspect of the company, and regular feedback is provided facilitating correct performance of their tasks.

## Social benefits

In 2006 we provided social benefits from the Company Social Benefit Fund created as a result of centralisation, which currently provides social care for around 31,000 persons. In 2006 we provided a total of 31,318 social benefits, including the partial funding of holidays, non-repayable compassionate allowances, housing loans, partial funding of sports and recreational activities, preventive and rehabilitation treatment and integration events.

Employment structure in 2006 by age





## ENVIRONMENTAL PROTECTION

The principles of our ecological activities are set out in the Company's Environmental Policy, which is based on a philosophy of balanced development with complete respect for the natural environment.

Key measures undertaken in 2006 to implement the above principles were:

- environmentally-friendly production, i.e. adhering to environmental standards and environmental security,
- responsibility for the environmental specifications of marketed products,
- restoration of threatened elements of the environment.

Consistency in implementing these goals allowed us to maintain environmental standards specified in current permits and uphold environmental quality standards around the production plant in Plock, despite the growth in production. There was also a major reduction of pollution from the storage and distribution facilities of the company as a result of large scale modernisation measures, including the air-tight sealing of more storage depots and petrol stations.

In 2006 we continued to implement tasks specified in the Integrated Permit obtained in 2005, which confirms the required use of BAT techniques and

adherence to environmental standards outside areas to which we hold legal titles.

As in previous years, in 2006 the transposition of EU regulations into Polish legislation required that PKN ORLEN undertake a series of major tasks. The most important new regulation concerned the inclusion of our Refinery and Thermal Power Plant installations, along with six compa-

nies of the ORLEN Group, in the EU system of trading in CO<sub>2</sub> emission rights.

As part of the Responsible Care programme we carried out a natural compensation project for the woods around the production plant in Plock, as well as continuing to implement the restitution programme for the peregrine falcon that we signed up to in 2002.

### Environmental Policy

PKN ORLEN's environmental policy is guided by the Environment Management System implemented by the Company, which covers the areas of production, storage and wholesale.

In 2006, the BVQI Office conducted a re-certification audit aimed at assessing the compliance of the Management System with the requirements of the new PN-EN ISO 14001:2005 stan-



dard. As a result, the Environment Management System certificate was maintained and prolonged for the next three years.

### Investments in environmental protection

In 2006 capital outlays related to environmental protection in the refinery and petrochemical

### Responsible Care

In 2006 PKN ORLEN took part for the tenth time in the "Responsible Care" programme initiated by the Canadian Chemical Industry Association. At present, companies accounting for over 85% of world chemical production are signed up to the programme. Among major initiatives undertaken under the programme in 2006 were:



complex in Plock amounted to over PLN 150 million and accounted for 37% of total investment outlays on the production plant in Plock. The investments were related to measures aimed at reducing the environmental damage caused by production, storage and distribution processes as well as further improvement of fuel quality.

We implemented 603 environmental measures at petrol stations belonging to our network, at storage depots and in separate plants. These measures were mostly related to further adaptation of petrol stations to new regulations and construction of new stations fully equipped with ecological equipment and systems protecting the local environment from pollution. Outlays associated with these measures were 8% higher than in 2005.

- co-operation with NGOs and the local administration in the area of environmental protection, including the Regional Centre of Ecological Education, and participation in the restitution program for the peregrine falcon in Poland (in 2006 three chicks were hatched in a box on the chimney of the Thermal Power Plant in Plock; since the beginning of the programme a total of 14 falcon chicks have hatched),
- environmental education of employees of the Corporation and the local community, including ongoing updating of the "Environmental Protection Manual for Employees of PKN ORLEN SA",
- preventative healthcare measures for employees of the Corporation and their families.

We also implemented several investment projects, including:

- construction of the first stage of the liquid sewage utilisation system,
- modernisation of structures generating intensive acoustic activity,

- construction and modernisation of technological systems for the desulphurisation of products,
- modernisation of the system of collecting data from air monitoring stations.

In 2006 we completed a two-year investment project associated with the hydrodesulphurisation of cracked petrol. The desulphurisation process will allow around 1,500 tonnes of sulphur per year to be removed from petrol, thus

odours generated in extreme weather conditions. In the affected areas we measured pollution intensity and tried to identify the source of the odours. Studies of pollution intensity around the plant confirm we have adhered to environmental standards with respect to all measured pollutants.

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reducing atmospheric emissions of sulphur dioxide from car engines by approx. 3,000 tonnes per year.

### The Company Environmental Inspectors

The work of the Company Environmental Inspectors reflects our concern to ensure the control and full monitoring of production processes that may affect the environment. The tasks of the inspectors also include the monitoring of the functioning of the refinery and petrochemical complex by handling the complaints of local communities concerning temporary polluting factors and clarifying the source of any complaints. In 2006 there were 18 such interventions, mainly concerning temporary

### Air protection

Control measurements of emissions performed in 2006 did not reveal any breach of the permitted levels set out in the Integrated Permit. The 8% increase in the quantity of crude oil processing compared to 2005 and commissioning of new and intensified production installations resulted in increased emissions of substances produced by fuel combustion. There was also a reduction of CO<sub>2</sub> emissions of about 20% resulting from the improvement of control processes, as well as a reduction of average sulphur and benzene content in the engine fuels we produced. Technological and investment projects led to a marked increase in the quantity of recovered sulphur by about 10% compared to 2005, which was therefore prevented from being emitted into the environment in the form of sulphur dioxide.

In 2006 there was also a reduction in pollution emissions in the Company's distribution and commercial facilities. This was due to the technological adaptation of both petrol stations and storage bases to technical requirements relating to environmental protection. Both newly-constructed and comprehensively modernised petrol stations are fully compliant with the relevant technical requirements.

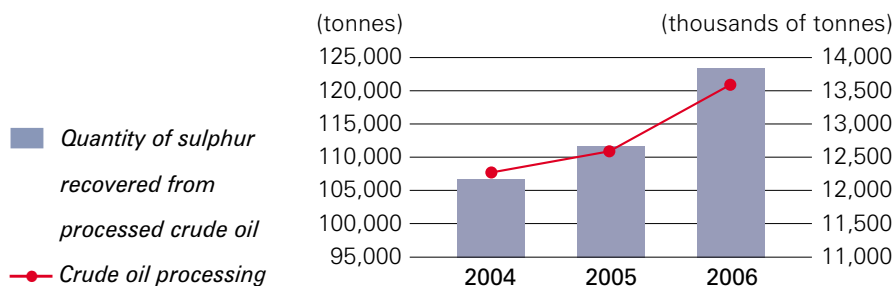
In 2006, for the second consecutive year, we took part in the national system of trading in CO<sub>2</sub> emission rights. The system covers two installations at the plant in Plock (the Refinery and Thermal Power Plant) and six installations run by companies in the ORLEN Group. The National Distribution Plan for CO<sub>2</sub> Emission Rights approved by the Regulation of the Council of Ministers of 27 December 2005 specifies the number of rights allotted to each installation for the accounting period 2005 – 2007 as well as average annual values, which for the Refinery amount to 2,548 million mg, and for the Thermal Power Plant 3,170 million mg of CO<sub>2</sub>. In 2006 all the installations were granted the required permits to participate in the system and their 2005 reports were positively verified.

## The Green Project

In 2006 we continued the tree planting project in the area around the production plant in Plock that we started a year earlier. The plan provides for land to be prepared for the planting of 16,000 trees. The goal of the project is to provide natural compensation for trees and bushes that were cleared during construction work as well as to promote environmentally-friendly behaviour among the Company's employees.

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Quantity of sulphur recovered from processed crude oil vs. volume of crude oil processing.









# The ORLEN Group

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

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## Structure of the ORLEN Group

As of the end of 2006 PKN ORLEN held direct shareholdings in 80 companies, including:

- 47 subsidiary companies (a shareholding of over 50%),
- 2 co-related companies (a shareholding of over 50%),
- 4 affiliated companies (a shareholding of 20% – 50%),
- 27 minority interests (a shareholding of below 20%).

In 2006 we implemented a new management structure in the ORLEN Group based on the principles of segment management in order to improve operational effectiveness within the expanding and developing ORLEN Group.

We distinguished six business segments: Refinery, Oils, Wholesale, Retail, Petrochemicals and Chemicals, managed by executive directors who have taken over some of the duties of the management board, as well as assuming the task of coordinating the relevant business area

within the ORLEN Group as a whole, in accordance with existing procedures and regulations. All the companies in the ORLEN Group have been assigned to specific segments, support functions and departments.

## Sale of shareholdings in companies in the ORLEN Group

In 2006 we continued the process of restructuring the ORLEN Group by withdrawing capital involvement that was not related directly to the key business operations of the Corporation. In 2006 we completed the sale of interests in three companies:

- exercise of a put option on shares in AW SA Holland II BV – on 28 December 2005 PKN ORLEN requested that Kulczyk Holding conclude a sale agreement pursuant to an option right provided for in the Additional Agreement of 14 November 2002. On 27 February 2006 the Promised Sale Agreement between PKN ORLEN and Kulczyk Holding SA was concluded. When

the conditions specified in the Promised Sale Agreement had been satisfied, the title to the shares in AW SA Holland II BV was transferred from PKN ORLEN to Kulczyk Holding SA,

- sale of a 100% stake in SAMRELAKS Małocice Sp. z o.o.,
- sale of a 96.57% stake in Zakład Budowy Aparatury SA.

The total value of the transactions concluded in 2006 amounted to PLN 92,894,620; the book value of the sold shareholdings of PLN 72,696,430 generated gross profits of PLN 17,198,190. The revenues thus generated will help to finance the development of the key businesses of the Corporation.

Disinvestment processes will be continued in 2007, including the sale of shareholdings in two telecommunications companies, a hotel services company, a trading company, a storage company, and a mobile telephone company.

## Capital investments

In 2006 the ORLEN Group was expanded to include seven new companies in which we hold direct interests. These are: AB Mažeikių Nafta, ORLEN Upstream, ORLEN Prewencja Sp. z o.o., ORLEN Księgowość Sp. z o.o., Etylobenzen Płock Sp. z o.o., ORLEN Holding Malta Limited and ORLEN Insurance Ltd.

On 15 December 2006 the transaction to purchase a strategic shareholding in the Lithuanian company Mažeikių Nafta was finalised. The shareholding accounts for 84.36% of the company's share capital. We also took over corporate control of Mažeikių Nafta, one of the largest companies and employers in Lithuania. Mažeikių Nafta is the only oil refinery in the Baltic States to hold a dominant position in the markets of Lithuania, Latvia and Estonia. The output of the refinery is approx. 10 million tonnes of oil per year.

The business of ORLEN Upstream includes crude oil and natural gas extraction, and geological and exploration operations. Our shares account for 100% of the company's share capital.

The business of ORLEN Prewencja is related to industrial health and safety, fire protection, civil defence and environmental protection requirements. We are the sole shareholder in the company.

ORLEN Księgowość provides accounting and book-keeping and data processing services. The company also provides business and management consulting, recruitment services, financial and cash intermediary services, and debt recovery services. We are the sole shareholder in the company.

The business of Etylobenzen Płock involves the production and sale of organic chemicals. Following the agreements signed in October 2006 and April 2007 with DWORY SA PKN ORLEN has become the owner of 100% of the share capital in Etylobenzen Płock Sp. z o.o.

ORLEN Holding Malta Limited invests in shares in other companies, joint ventures, consortia and syndicates. We hold 99.5% of the company's shares.

The business of ORLEN Insurance Ltd. includes insurance of the assets of the ORLEN Group. We hold one share in the company, the remaining shares being held by ORLEN Holding Malta Limited.



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## THE AREAS OF CAPITAL INVESTMENT

### Unipetrol a.s.

The Unipetrol Group is one of the largest chemical sector companies in the Czech Republic. It is involved in crude oil processing, fuel distribution, and petrochemical production. The Unipetrol Group is comprised of the following companies:

On 27 October 2006 the Unipetrol Group sold 81.78% of the shares in Spolana a.s. to ANWIL SA, a member of the ORLEN Group.

Other entities belonging to the Unipetrol Group are:

- Lovochemie – a major producer of industrial fertilisers and other non-organic chemicals,
- Aliachem – a group of enterprises involved in organic and non-organic chemistry and



- Česká Rafinérská a.s. – a joint venture with foreign capital (AgipPetroli, Conoco and Shell), the largest crude oil processor in the Czech Republic;
- Paramo a.s. – the largest producer and supplier of automotive fuels, diesel, industrial oils and other chemicals;
- Chemopetrol a.s. – a major supplier of semi-finished products for the chemical, plastics and pharmaceutical operations of domestic chemical companies;
- Benzina a.s. – the largest distributor and seller of fuels in the Czech Republic;
- Unipetrol Trade a.s. – a company providing transportation services in Europe;
- Unipetrol Rafinerie a.s. – the largest buyer of crude oil in the Czech Republic and a seller of refinery products.

plastics production,

- a group of companies involved in distribution, R & D and services.

#### Shareholding structure as of 31.12.2006

PKN ORLEN	62.99%
Others	37.01%

#### Financial data

Sales revenues	PLN 13,049,689,000
Share capital	PLN 2,453,459,000
Workforce as of 31.12.2006	4,862
Net profit	PLN 25,843,000
Equity capital	PLN 5,965,060,000

## THE REFINERY SEGMENT

### ORLEN Asphalt Sp. z o.o.



ORLEN Asphalt is the second largest producer and seller of road and industrial asphalt in Poland. The company has two production and trading centres in Płock and in Trzebinia, which supply products to clients all over Poland.

100% of production capacity in the peak months of the construction season.

Because of the ORLEN Group's acquisition of Unipetrol a.s., 2006 saw continued cooperation in the optimisation of trading policies and exploitation of synergy effects in asphalt sales between ORLEN Asphalt and the Czech company Paramo a.s.

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The company's product range includes ORBITON ordinary and modified road asphalts, multi-type BITREX asphalts and industrial asphalts, pitches and specific asphalt products.

In 2006 Polish Industry Magazines awarded ORLEN Asphalt the Company of the Year Construction Award for the second time.

In 2006 the company started up an installation to produce ORBITON modified asphalt with output of 500 tonnes per day and 70,000 tonnes per year (one of the largest and most advanced plants in Europe). In the first year of its operations the installation fulfilled its planned production capacity.

#### Shareholding structure as of 31.12.2006

PKN ORLEN	82.46%
Rafineria Trzebinia	17.54 %

In 2006 the company achieved record-breaking sales figures and fully exploited the growing potential of the Polish asphalt market. The implementation of segment management in the ORLEN Group improved access to raw materials, which allowed the utilisation of

#### Financial data

Sales revenue	PLN 694,428,000
Share capital	PLN 60,635,000
Workforce as of 31.12.2006	136
Net profit	PLN 71,039,000
Equity capital	PLN 143,858,000



**ORLEN Eko Sp. z o.o.**

The core business of ORLEN Eko is thermal neutralisation of hazardous and other waste generated at technological installations of the production plant in Płock and by other entities.

The company operates on the basis of the Integrated Permit issued by the Governor of the Province of Mazovia, and is also carrying out an

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investment project provided for in the Adjustment Programme involving the modernisation of a waste incineration plant. The project is being carried out according to a technical and financial schedule agreed with the Governor of the Province of Mazovia.

The project has received a grant of PLN 19,504,500 from the Sectoral Operational Programme "Increasing the Competitiveness of Enterprises", Action 2.4. – support for enterprises adjusting their operations to environmental protection requirements.

PKN ORLEN is the sole shareholder in ORLEN Eko.

**Financial data**

Sales revenues	PLN 14,555,000
Share capital	PLN 22,000,000
Workforce as of 31.12.2006	21
Net profit	PLN 1,582,000
Equity capital	PLN 79,065,000





## Rafineria Trzebinia SA

Rafineria Trzebinia is one of the oldest refineries in Poland. In 2005 the company started production in a new segment: the production of biofuels. The start up of production and distribution of ON Bio, a mixture of mineral diesel fuel and biodiesel obtained from vegetable oils, guarantees the availability of liquid biofuels in Poland's retail market. In 2006 this product was

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awarded the Teraz Polska emblem by the Polish Promotional Emblem Foundation.

When the Ministry of Finance issued, with effect from 1<sup>st</sup> January 2007, amendments to the tax regulations specifying the amounts of excise tax relief on bio-components, Rafineria Trzebinia suspended its production and sales of ON Bio biofuel and work on an investment programme to expand its existing biofuel production capabilities, as economic analysis showed that the legal changes would result in the company suffering losses. The production of ON Bio will therefore remain suspended until new amendments are introduced that will justify the resumption of production.

The Company holds shares in seven subsidiary and affiliated companies.

### Shareholding structure as of 31.12.2006

PKN ORLEN	77.15%
State Treasury	9.19%
Others	13.65%

### Financial data\*

Sales revenues	PLN 1,118,389,000
Share capital	PLN 42,995,000
Workforce as of 31.12.2006	743
Net profit	PLN 38,622,000
Equity capital	PLN 459,962,000

\* Consolidated data for the Rafineria Trzebinia Capital Group

## Rafineria Nafty Jedlicze SA



Rafineria Nafty Jedlicze is a leader in the production of heating and lubricating oils. Founded over 100 years ago, it is one of the oldest refineries in Poland.

The business operations of the company include:

- regeneration and purchase of used oil and the production of base oil from regeneration;

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- production of heating oils, including Ekoterm Plus light heating oil, for PKN ORLEN;
- production and sale of fuels.

For almost 40 years the company has specialised in the regeneration of used oils. It is therefore a leader in terms of environmental protection measures.

In the second half of 2007 the company will commence production of a wide range of organic solvents, which will be produced in the installation now under construction using catalytic hydrogen processes.

The Company holds shares in 9 subsidiary companies.

### Shareholding structure as of 31.12.2006

PKN ORLEN	75%
State Treasury	10%
Others	15%

### Financial data\*

Sales revenues	PLN 360,572,000
Share capital	PLN 88,210,000
Workforce as of 31.12.2006	574
Net profit	PLN - 824,000
Equity capital	PLN 175,915,000

\* Consolidated data on the Rafineria Nafty Jedlicze Capital Group



## AB Mažeikių Nafta

Mažeikių Nafta has been operating since 1980 and is one of the largest companies in Lithuania. Mažeikių Nafta owns the only crude oil refinery in the Baltic States and therefore has a dominant position in the markets of Lithuania, Latvia and Estonia. The output of the refinery is around 10 million tonnes of crude oil per year.

The logistics facilities of Mažeikių Nafta are as follows:

- a sea terminal in Butinge,
- four storage depots,
- two pumping stations close to Birzai and Joniskis,
- pipelines totalling 500 km.

Mažeikių Nafta uses three main distribution channels for its fuel products: the local Lithuanian market (1.6 million tonnes of products), land export to the markets of Latvia, Poland, Ukraine and Estonia (1.7 million tonnes of products) and by sea to Western Europe and the USA (4.7 million tonnes). Exports to Western Europe and the USA pass through a terminal owned by Klaipėdos Nafta (owned by the government of Lithuania). The products exported by Mažeikių Nafta are also carried by rail to four terminals in Estonia, nine in Latvia, four in Poland and 16 on the Ukraine-Belarus border. Mažeikių Nafta exports about 80% of its oil products.

The Mažeikių Nafta Capital Group is currently composed of eight companies:

- UAB Uotas, along with its subsidiary Ventus Nafta,
- UAB Juodeikių Nafta,
- UAB Mažeikių Nafta Trading House with its subsidiaries: UAB Mažeikių Nafta Trading House Latvia, UAB Mažeikių Nafta Trading House Estonia, and UAB Mažeikių Nafta Trading House Poland.

Mažeikių Nafta is also a minority shareholder in UAB Naftelf (a joint venture with the French company Corelf), which is involved in the sale

of aviation fuel as well as related machinery and equipment.

In 2001 a modernisation programme was initiated in Mažeikių Nafta involving capital outlays in the period up to 2005 of USD 132 million. Modernisation outlays for the period up to 2008 will amount to USD 746 million, while total investments up to 2009 will amount to USD 1.2 billion. The main goals of the project



are to upgrade fuel quality to the requirements of EU standards, increase the share of white products in overall production, increase alkylation capability, construct a polypropylene installation with a capacity of 300,000 tonnes and take over and modernise a thermal-electric power station. It is hoped that the programme will increase the profitability of the company by USD 41 million in 2007 and 2008 and by over USD 176 million in 2009 and subsequent years.

### Shareholding structure as of 31.12.2006

PKN ORLEN	84.2%
The Lithuanian government	10%
Others	5.8%

### Financial data

Sales revenues	PLN 13,286,418,000
Share capital	PLN 529,379,000
Workforce as of 31.12.2006	3.858
Net profit	PLN 224,184,000
Equity capital	PLN 7,751,623,000



## THE PETROCHEMICAL SEGMENT

### Basell Orlen Polyolefins Sp. z o.o.

Basell Orlen Polyolefins (BOP) is a Polish joint venture company specialising in the production of polyolefins. The company was set up in March 2003 by Basell Europe Holdings BV and PKN ORLEN. The partners hold 50% of the shares each.

refinancing of liabilities of the company contracted in the course of the original financing of the project. The new loan provides the company with better flexibility with respect to operating decisions, it cancels a majority of the existing repayment collateral (including shareholders' support) and provides for major financial savings. The new financing demonstrates the confidence of banks in the future financial results of the company and the BOP Group.



The annual production capacity of BOP is 400,000 tonnes of polypropylene, which it manufactures using Spheripol technology owned by Basell, and 320,000 tonnes of high density polyethylene, which is manufactured using Hostalen technology, also licensed by Basell. The annual output of the BOP plants is around 820,000 tonnes of polyolefins, including the production capacity of the low density polyethylene installation.

The BOP Logistics Platform is among the largest and most advanced facilities of its kind in Europe. As a result of BOP's integration with Basell, products from Plock are available in Poland as well as in Basell's distribution network all over Europe.

On 18 December 2006 BOP signed a short-term and working capital loan agreement totalling EUR 320 million. The loan is for the

In 2006 Basell Orlen Polyolefins won the title "Changer of Polish Industry", the sixth edition of a project conducted by the Polish Society for the Support of Enterprise, publisher of the business monthly Nowy Przemysł. The programme is aimed at supporting positive transformations in Poland's economy.

The products of BOP and Basell are part of the range of products offered by Basell Orlen Polyolefins Sprzedaż Sp. z o.o. (BOPS), in which BOP holds a 100% shareholding. BOPS is mainly responsible for operations associated with the sale and marketing of polyolefins available in Basell's network and materials manufactured by BOP in Plock. It is also responsible for integrating Poland's polyolefins market with the European market. BOPS has an extensive sales network, as well as client service channels and technical servicing capability for clients in Poland.



The products offered by BOPS are widely used in both the consumer and industrial markets e.g. in the production of packaging, film, and textile products as well as automotive parts and pipes.

In 2006 BOPS became a member of PlasticsEurope, a sectoral association that represents the interests of European plastics producers, and a member of the Polish branch of



the PlasticsEurope Polska Society. The membership of PlasticsEurope accounts for around 90% of plastics manufacturers, whose business it promotes in Poland and the European Union.

#### Shareholding structure as of 31.12.2006

PKN ORLEN	50%
Basell Europe Holdings BV	50%

#### Financial data\*

Sales revenues	PLN 2,737,113,000
Share capital	PLN 907,398,000
Workforce as of 31.12.2006	431
Net profit	PLN 94,965,000
Equity capital	PLN 1,206,604,000

\* Consolidated data on the BOP Capital Group



## THE CHEMICAL SEGMENT

### ANWIL SA



In 2006 the chemical segment of the ORLEN Group consisted of ANWIL SA in Włocławek. As a result of the purchase by ANWIL SA in October 2006 of 81.78% of the shares in the Czech company Spolana a.s., the production volumes and product offer of the ORLEN Group's

In 2006 the company received numerous prizes and awards in recognition of its efforts to achieve better economic effects and consolidate its position in the sector. The most prestigious of these are the Teraz Polska emblem and slogan awarded for the company's CANWIL nitro-chalk by the Polish Promotional Emblem Foundation and the Fifth Diamond for the Golden Statue for the Leader of Polish Business.

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chemical segment was substantially increased. The transaction led to the formation of the largest production and commercial complex in Central and Eastern Europe producing 430,000 tonnes of polyvinyl chloride (PVC) per year.

ANWIL SA is Poland's only producer of suspended polyvinyl chloride and a major manufacturer of this product in Central and Eastern Europe. It is also one of the largest domestic producers of nitrogenous fertilisers.

The company's key projects in 2006 included the expansion and modernisation of its chlorine and soda lye production facilities. As a result of this project, ANWIL SA acquired a complete, modern production line for polyvinyl chloride with high technological specifications.

The chemical segment of the Corporation also includes the Czech company Spolana a.s., in which an 81.78% stake was acquired by ANWIL SA in October 2006.

The company holds shares in 10 subsidiary and affiliated companies

#### Shareholding structure as of 31.12.2006

PKN ORLEN	84.79%
Koncern Energetyczny ENERGIA	4.15%
State Treasury	5.56%
Others	5.5%

#### Financial data\*

Sales revenues	PLN 1,980,117,000
Share capital	PLN 134,925,000
Workforce as of 31.12.2006	3,480
Net profit	PLN 198,005,000
Equity capital	PLN 1,791,666,000

\* Consolidated data on  
ANWIL SA Capital Group

## THE OIL SEGMENT

### ORLEN Oil Sp. z o.o.



ORLEN Oil is a leading Polish producer and distributor of lubricants. Its product range includes a wide variety of products for both automotive and industrial applications. These include:

- the latest Platinum oils for automotive applications with quality specifications that surpass EU and US standards,
- industrial oils (hydraulic, compressor, transmission, and hardening oils),
- technological oils (emulsifying, anti-adhesive, and processing oils),
- plastic lubricants,
- operational fluids,
- Platinum IMPACT cosmetics and automotive chemicals,
- solvents,
- oil bases.

A major factor in the development of ORLEN Oil is a concept that takes account of the directions of organisational changes within the ORLEN Group which provide for concentration of the Group's oil assets around the company. In particular:

- continued operations not only on the basis of the two PKN ORLEN owned production centres in Płock and Trzebinia but also by renting the Oil and Lubricants Production Unit from Rafineria Nafty Jedlicze as an organised part of an undertaking,
- consolidation of oil operations around ORLEN Oil, including the relevant Czech assets, mainly the oil-related part of Paramo a.s.

In May 2006 the company was awarded the prestigious Product of the Year prize for its new engine oil: Platinum MaxEnergy Euro4 5W/30, which was developed for advanced car engines that meet the Euro4 exhaust gas requirements.

The prize was awarded during the 13<sup>th</sup> International Fair – Petrol Station 2006.

The Company holds shares in 13 subsidiaries and affiliated companies.

Work is continuing on implementing the concept: "Restructuring of the Southern Assets of the PKN ORLEN SA Capital Group", which concerns oil segment companies. The concept pro-

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vides for optimisation and consolidation of the production and sale of engine and lubricating oils within the ORLEN Group.

#### Shareholding structure 31.12.2006

PKN ORLEN	51.69%
Rafineria Trzebinia	43.84%
Rafineria Nafty Jedlicze	4.47%

#### Financial data\*

Sales revenues	PLN 708,858,000
Share capital	PLN 75,093,000
Workforce as of 31.12.2006	513
Net profit	PLN 64,072,000
Equity capital	PLN 236,679,000

\* Consolidated data on the ORLEN Oil Capital Group

## THE RETAIL SEGMENT

### ORLEN Deutschland AG



ORLEN Deutschland is a company with its registered office in Elmshorn, which manages a network of 469 petrol stations under the ORLEN and STAR logos. The petrol stations offer products and services whose quality



meets the stringent requirements of the European market.

The company was set up as a result of an investment made by PKN ORLEN in December 2002 in a network of petrol stations in northern Germany. The Company acquired 494 stations operating under the brands: BP, ARAL and Eggert, thus taking over about 3% of the volume of the German market, equivalent to approximately 7% of the fuel market in northern Germany.

The decision to invest in the north German market was made when macro- and micro-economic forecasts were optimistic and there was no indication of the drop in fuel consumption in the German market that occurred in 2004 and 2005. As a result of this trend, the financial results of ORLEN Deutschland in 2004-2005 deviated from the original assumptions concerning the investment.

In October 2005 a restructuring and further development plan for ORLEN Deutschland was prepared and approved. The key measures of the plan are:

- improvement of the cost structure in all areas of operation,
- maintenance of sales volumes despite the shrinking fuel market in Germany,
- closing or restructuring of loss-making stations,
- possible acquisition of additional petrol stations or networks – provided the company achieves positive financial results.

Measures undertaken under the company's restructuring plan in 2006 included:

- closure of 24 loss-making fuel stations
- maintenance of sales volumes despite the shrinking fuel market in Germany and the smaller number of stations
- acquisition of 58 stations from Deutsche BP, located in northern Germany, for EUR 7.6 million

As a result in 2006 we:

- improved by 0.29 c/l the overall structure of operating expenses calculated in eurocents per litre of sold fuel (c/l)
- achieved EBIT of approx. EUR 7.1 million according to IFRS
- greatly improved its SVA ratios and improved its creditworthiness

PKN ORLEN is the sole shareholder of ORLEN Deutschland.

#### Financial data

Sales revenues	PLN 8,858,996,000
Share capital	PLN 283,020,000
Workforce as of 31.12.2006	101
Net profit	PLN 27,098,000
Equity capital	PLN 347,933,000

## THE WHOLESALE SEGMENT

### ORLEN Gaz Sp. z o.o.



ORLEN Gaz is Poland's largest company in the LPG market. Operating since 1995, its business involves the sale and distribution of LPG (propane, butane and propane-butane mixture). The gas sold by the company meets the

In 2006 the company modified its strategy, focusing on ensuring that it is able to diversify its gas supply sources by constructing LPG- handling border terminals, establishing much larger storage facilities and modernising filling plants.

PKN ORLEN is the sole shareholder of ORLEN Gaz.

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requirements of Polish standard PN C-96008 and the EU standard EN-589.

The company manages 13 well-located branches and thousands of LPG retail outlets. The distribution network guarantees customers comprehensive service with respect to delivery of bulk gas and gas in cylinders, and the fitting and rental of autogas, heating and industrial installations. Customers are offered top quality products delivered punctually and reliably, supported by reliable servicing. They also benefit from the knowledge that they are using a truly environmentally-friendly source of energy.

#### Financial data

Sales revenues	PLN 755,451,000
Share capital	PLN 25,024,000
Workforce as of 31.12.2006	171
Net profit	PLN 14,368,000
Equity capital	PLN 67,184,000



## Fuel companies – Regional Market Operators (RORs)

The ROR companies were set up in 1996 – 2001. Their business operations include wholesale of solid, liquid and gas fuels as well as transportation and storage services. The companies are also involved to a small extent in the retail sales of fuels in their own petrol stations.

the ORLEN Group. The new strategy involves focusing the operations of the companies on the wholesale of fuels while discontinuing retail sales.

In 2006 the process of transferring fuel stations belonging to the companies to the Corporation's retail network was completed. Another assumption of the new ROR model is restructuring of assets that are unrelated to

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The ROR group comprises five companies located all over the country:

- ORLEN PetroCentrum Sp. z o.o. in Plock,
- ORLEN PetroProfit Sp. z o.o. in Niemce near Lublin,
- ORLEN Morena Sp. z o.o. in Gdańsk,
- ORLEN PetroZachód Sp. z o.o. in Poznań,
- ORLEN PetroTank Sp. z o.o. in Wieleńka.

In 2006 work was continued on restructuring and introducing a new model for the functioning of the ROR companies, as provided for by the strategy approved earlier by PKN ORLEN to take full control of the companies by acquiring shares from minority shareholders. In 2006 PKN ORLEN purchased minority stakes in ORLEN PetroZachód. The goal of the new ROR model is to optimise the business of the companies, taking advantage of synergy effects for

basic operations in order to improve efficiency. These measures will serve as a tool for reordering the structure of the ROR sales distribution channel.

In 2006 the RORs purchased 776,992 tonnes of engine fuels from PKN ORLEN, including 205,750 tonnes of petrol and 571,242 tonnes of diesel. Sales achieved by the ROR companies in 2006 accounted for about 15% of PKN ORLEN's total wholesale (excluding JET A-1 fuel and Ekoterm).



## Petrolot Sp. z o.o.



The business of Petrolot involves the sale of JET A-1 aviation fuels, 100 LL aviation petrol and provision of aircraft refuelling services at domestic airports (the largest of which are: Warsaw, Kraków, Katowice, Poznań, and Gdańsk) and at flying club airfields.

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In 2006 the company's main source of revenue was the sale of JET A-1 aviation fuel, which accounted for 94% of overall revenues. Other revenue is generated from the sale of automotive fuels, aviation petrol and rental of office space. The suppliers of JET A-1 fuel were PKN ORLEN and LOTOS Partner, while 100 LL aviation petrol was supplied by the Refinery Industry R & D Centre in Płock. The company's largest client is Polish Airlines LOT SA (PLL LOT), which accounts for around 57% of sales of JET A-1 aviation fuel.

### Shareholding structure as of 31.12.2006

PKN ORLEN	51%
PLL LOT	49%

### Financial data

Sales revenues	PLN 841,933,000
Share capital	PLN 20,039,000
Workforce as of 31.12.2006	232
Net profit	PLN 11,952,000
Equity capital	PLN 50,882,000

## LOGISTICS – SUPPORT FOR BUSINESS SEGMENTS

### Inowrocławskie Kopalnie Soli "Solino" SA



Inowrocławskie Kopalnie Soli "Solino" is a major logistics operator in the area of crude oil and fuel storage and a leading exporter of highly-processed salt products to European markets.

of the number and capacity of its storage caverns, PMRiP Góra is one of the largest underground storage facilities in Europe. In 2006 two new bore-holes were opened in the salt mine in Mogilno.

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The company's business involves the underground storage of crude oil and liquid fuels in salt excavations as well as the production of industrial brine and the processing of evaporated salt. The company is also the largest brine producer in Poland, which it extracts in modern fully-automated drilled mines in Góra and Mogilno. The company also packages salt and salt products.

In 2006 work was continued on Stage III of the construction of the Underground Crude Oil and Fuel Storage Facility (PMRiP) in Góra. As per the plan, by the end of the year storage capacity of almost 5 million m<sup>3</sup> was delivered. The PMRiP facility in Góra consists of seven fuel storage caverns for crude oil and three for fuels. In terms

#### Shareholding structure as of 31.12.2006

PKN ORLEN	70.54%
State Treasury	25.19%
Others	4.27%

#### Financial data

Sales revenues	PLN 113,588,000
Share capital	PLN 30,779,000
Workforce as of 31.12.2006	293
Net profit	PLN 11,334,000
Equity capital	PLN 91,144,000

## Transportation companies

The ORLEN Group includes 8 transportation companies:

- the railway company ORLEN KolTrans Sp. z o.o.
- the road transport companies:
  - ORLEN Transport Płock Sp. z o.o.
  - ORLEN Transport Kraków Sp. z o.o.

## Road transportation companies

The road transportation companies were set up as part of the restructuring of the Road Transportation Sections of Petrochemia Płock SA (one company) and Centrala Produktów Naftowych SA. These companies' business involves the road transportation of liquid fuels

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- ORLEN Transport Kędzierzyn Koźle Sp. z o.o.
- ORLEN Transport Nowa Sól Sp. z o.o.
- ORLEN Transport Szczecin Sp. z o.o.
- ORLEN Transport Słupsk Sp. z o.o.
- ORLEN Transport Olsztyn Sp. z o.o.

and oil-related products over the entire country. The transportation companies ensure the timely delivery of fuel to around 1,430 stations owned by PKN ORLEN.

In 2006 a concept was approved for the transformation of the transportation companies, which involved consolidating them into a single entity responsible for supplying fuels to all the petrol stations owned by PKN ORLEN. The concept will be implemented in 2007.

The companies will be merged by transferring all of the assets of the companies taken over to a new joint stock company. The consolidation will result in an improvement of cost effectiveness, greater transportation potential, economies of scale, and the optimisation of transport routes and parking.



## ORLEN KolTrans Sp. z o.o.

ORLEN KolTrans was set up in 2000 by separating supporting services from PKN ORLEN as part of restructuring.

The company provides services involving:

- servicing of rail tankers,
- servicing of railway sidings,
- filling of railway and road tankers,
- railway transportation services,

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- ongoing repairs of rolling stock,
- cleaning of tankers, road tankers and structures.

As part of the consolidation of railway operations around ORLEN KolTrans, in July 2006 PKN ORLEN rented its Forwarding Plant to the company. This process is aimed at integrating operations related to railway dispatch, siding services, tanker management and railway transportation.

In 2006 the company was awarded the certificates "Fair Play Company 2006" and "Business Leopards 2006" in recognition of its efforts.

### Shareholding structure as of 31.12.2006

PKN ORLEN	9.85%
Others	0.15%


### Financial data

Sales revenues	PLN 80,596,000
Share capital	PLN 40,859,000
Workforce as of 31.12.2006	267
Net profit	PLN 4,146,000
Equity capital	PLN 45,835,000

## The structure of the ORLEN Group as of 31.12.2006

Refining segment companies	Petrochemical segment companies	Chemical segment companies	Oil segment companies	Retail segment companies	Wholesale segment companies	Logistics companies
ORLEN Asfalt Sp. z o.o. 82.5%	Basell ORLEN Polyolefins Sp. z o.o. 50%	ANWIL SA 84.8%	ORLEN Oil Sp. z o.o. 51.7%	ORLEN Deutschland AG 100%	ORLEN Gaz Sp. z o.o. 100%	IKS „Solino” SA 70.5%
ORLEN Eko Sp. z o.o. 100%	Etylobenzen Plock Sp. z o.o. 51%		Paramo a.s. 3.7%	ORLEN Budonafit Sp. z o.o. 100%	ORLEN Morena Sp. z o.o. 100%	Naftoport Sp. z o.o. 14.1%
Rafineria Nafty Jedlicze SA 75%				ORLEN Centrum Serwisowe Sp. z o.o. 96.7%	ORLEN PetroCentrum Sp. z o.o. 100%	ORLEN KolTrans Sp. z o.o. 99.9%
Rafineria Trzebinia SA 77.2%				Motell Sp. z o.o. 35%	ORLEN PetroProfit Sp. z o.o. 100%	ORLEN Transport Kędzie.Koźle Sp. z o.o. 98.4%
AB Mażekkių Nafta 84.2%					ORLEN PetroTank Sp. z o.o. 90%	ORLEN Transport Kraków Sp. z o.o. 98.4%
					ORLEN PetroZachód Sp. z o.o. 100%	ORLEN Transport Nowa Sól Sp. z o.o. 96.8%
					Petrolot Sp. z o.o. 51%	ORLEN Transport Olsztyn Sp. z o.o. 94.9%
					SHIP-SERVICE SA 60.9%	ORLEN Transport Plock Sp. z o.o. 97.6%
					Chemiepetrol GmbH 20.0%	ORLEN Transport Słupsk Sp. z o.o. 97.1%
						ORLEN Transport Szczecin Sp. z o.o. 99.6%
Support functions companies						
Crude oil purchasing & exploration	Organisation & Human Resources	Purchasing & cost management	Planning, controlling & finance management	ORLEN Group companies	Equity investment companies	Audit & safety companies
ORLEN Automatyka Sp. z o.o. 52.4%	ORLEN Laboratorium Sp. z o.o. 94.9%	Petrotel Sp. z o.o. 75%	ORLEN Księgowość Sp. z o.o. 100%	Polkomtel SA 19.6%	Unipetrol a.s. 63%	ORLEN Ochrona Sp. z o.o. 100%
ORLEN Wir Sp. z o.o. 51%	WISŁA Plock SSA 100%		ORLEN Powiernik Sp. z o.o. 100%	NOM Sp. z o.o. 35%	Spolana a.s. 13.4%	
ORLEN Projekt SA 51%	Plocki Park Przemysłowo-Technologiczny SA 50.0%		ORLEN Holding Malta Ltd. 99.5%	Petromor Sp. z o.o. 51.3%		
ORLEN Upstream Sp. z o.o. 100%	ORLEN Administracja Sp. z o.o. 100%			Poilen Sp. z o.o. 25%		
	ORLEN Prewencja Sp. z o.o. 100%			Other 26 entities		
	ORLEN Medica Sp. z o.o. 100%					





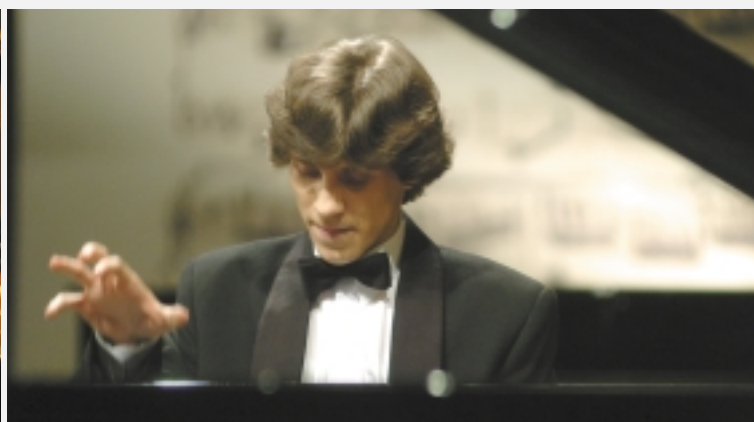
# A few words on Chopin



# A few words on Chopin

PKN ORLEN has always done its best to perceive and support the needs of society. This includes taking care of our national heritage, one important example of which is the work of the great Polish composer Frederick Chopin.

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*Rafał Blechacz  
– won the 15<sup>th</sup>  
International  
Frederick Chopin Piano  
Competition in Warsaw*

Our adventure with Chopin's music started at the end of 2004 when we co-funded the purchase of the valuable manuscript Etude in C# minor op. 10 No. 4 by Frederick Chopin. Having brought the manuscript to Poland in February 2005, we donated it to the Frederick Chopin Museum in Warsaw.

In subsequent years we helped organise the 15<sup>th</sup> Frederick Chopin International Piano Competition, granting a scholarship and a top class Steinway piano to the winner of the competition, Rafał Blechacz, one of the finest pianists in the world. We also sponsored a series of Chopin concerts and festivals. One of them, "The International Music Festival – Chopin and His Europe", was awarded first place in the Polityka ranking and was acknowledged as being the most important event in the field of classical music in 2006. Together with the Frederick Chopin Institute in Warsaw we organised a concert to mark the occasion

of Frederick Chopin's birthday, which included two performances featuring the accomplished pianists Rafał Blechacz and Piotr Anderszewski. We also sponsored the Requiem Concert held to mark the anniversary of the death of Frederick Chopin.

Below is a historical account of the creation of Frederick Chopin's magnificent Etudes, and one of them in particular – Etude in C# minor Op. 10 No. 4.

## **Purchase of the autograph of Etude in C# minor op. 10 No. 4. by Frederick Chopin**

On 31 January 2005 the manuscript of Etude in C# minor op. 10 No. 4. by Frederick Chopin was formally presented to the Frederick Chopin Museum in Warsaw, its purchase having been funded by PKN ORLEN. This 173-

year-old document, purchased at Sotheby's auction house in London, is the only known autograph of this work in the world. The museum's collections now include manuscripts of nine of the twelve etudes comprising Opus 10. Only six of these are original autographs, while two are manuscript copies drawn up by another person. The autograph we purchased is a three-page working manuscript containing the full notation of the piece

of collector Zeune-Spitta. In 1908 the autograph was sold at the Stargardt auction house in Berlin. In 1934 it was auctioned again, this time at the Heck auction house in Vienna. In the beginning of the 1950s it was part of the fine collection of Louis Koch in Germany, after which it was probably transferred to Switzerland, to the collections of Rudolf and Gisela Flörsheim. It was only in

*Manuscript of the  
C# minor Op. 10 No. 4  
Etude by Frederick Chopin*

*Castle Square  
in Warsaw  
– Canaletto's drawing*



with corrections and Chopin's comments. It is also bears a date: 6 August 1832, which is thought to be the date when the work was completed (the adjacent manuscript, Etude in E major op. 10 No. 3, bears the same date). The Frederick Chopin Society is currently transferring the collections of the Frederick Chopin Museum to the Frederick Chopin Institute, which is run by the Ministry of National Heritage.

November 1997, more than forty years later, that it appeared at auction again, at Stargardt in Berlin. The buyer, Dr Matthew Malerich from California, was the last owner of the autograph before it was purchased at Sotheby's in December 2004 by the Frederick Chopin Museum in Warsaw, with the help of PKN ORLEN.

### The history of Chopin's autograph

Let us now consider the history of Etude in C# minor op. 10 No. 4. The first owner of the autograph was a student of Frederick Chopin, Friederika Müller, an Austrian pianist to whom Chopin gave the manuscript as a gift in 1841. Subsequently, the document was included in the collection of the German pianist Eduard Franck, after which it passed into the hands

### Following the trail – the creation of Etudes Op. 10

The period when Etude in C# minor Op. 10 No. 4 and the other eleven etudes from Opus 10 were created was a time of extensive travelling for Frederick Chopin and perhaps the most eventful period of his life. The period 1829-1831 had a critical effect on the development of the young composer. When Chopin began Opus 10 he was a 19-year-old living in Warsaw, and he was

composing in the pre-romantic, drawing-room style known as *brilliant*. At this time his fame did not reach beyond the borders of his homeland, and he was just beginning to consider embarking on an international career. Three years later Frederick Chopin was in Paris, the series of twelve Etudes was finished, and he was well-known and highly-regarded all over Europe and a fully-fledged romantic composer.

Theatre at which he performed his Concerto in E minor op.11 and Fantasia in A major on Polish Airs op.13, which were enthusiastically received by both audience and critics. A few days before his departure, one of his friends held a wild farewell party in his parents' house (taking advantage of their temporary absence). The assembled company danced and sang until the early hours of the morning.



Łazienki Królewskie,  
19<sup>th</sup> century



Panorama of Vienna,  
19<sup>th</sup> century

### Warsaw successes

The beginning of 1830 saw Chopin performing many successful concerts in Poland and composing prolifically. At this time he had probably already written Etudes No. 8-11 from Opus 10 (F major No. 8, F minor No. 9, A flat major No. 10 and E flat major No. 11), as well as other major works including both the F minor and E minor Piano Concertos. He was also leading a lively social life and was generally in good spirits. As he wrote to Tytus Wojciechowski, one of his friends: "I started [writing] a polonaise with an orchestra. It has 'gun, it has a 'ginning, but doesn't yet have a beginning". He has also performed well-received concerts in the Kärntnertortheater in Vienna. Eventually he decided to leave the country for a long spell to embark on a career on the international stage. In October 1830 he gave a farewell concert in the National

### Travels and trials – Vienna

On 2 November 1830, Chopin left his homeland never to return, although he was not yet aware of that fact (interestingly, this same date appears on the first two Etudes of Opus 10 dated by the composer, C major No.1 and A minor No. 2). Via Kalisz the composer headed for Wrocław, where he gave a public concert, and then to Dresden and Prague, reaching his goal, Vienna, three weeks later. His arrival coincided with the outbreak of the November Uprising. This was a traumatic experience for the now twenty-year-old artist, particularly since all his closest friends had gone to war. "If only I could, I would employ all the tones sent to me by my blind, furious, charged emotions to render at least part of the songs whose fragmented echoes still reverberate somewhere around the banks of the Danube, that were sung by Jan's [Sobieski]



army [...] I curse my departure." His first instinct was a desire to return to his country to fight, but those closest to him managed to dissuade him. However, although he met a few influential musicians and lived in a prestigious tenement house on Kohlmarkt, he did not enjoy the kind of success he had been confident of achieving. He felt isolated: "The people here are not my people [...] all is superficial, mediocre, it kills me". He experienced

Philharmonische Verein. From there he continued to Stuttgart, where he experienced what were perhaps the most difficult moments of his life: shortly after his arrival he received a message informing him of the collapse of the uprising and the capitulation of Warsaw. He had no idea what fate had befallen his family. Isolated and distraught he wrote in the pages of his so-called Stuttgart diary: "The enemy has invaded my homeland. [...] Oh God, if you

*Panorama of Paris,  
19<sup>th</sup> century*

*Panorama of Stuttgart,  
19<sup>th</sup> century*



strong patriotic sentiments, writing "I am not learning anything here that is essentially Viennese [...] my piano has only played mazurkas". It was probably at this time that he produced the first sketches of Ballad in G minor op. 23, Scherzo in B minor op. 20, and Mazurkas op. 17. Although he eventually played a concert at the Kärntnertortheater, it met with little enthusiasm. The young artist began to think more and more about leaving for Paris – at that time the most important artistic centre in Europe. In July 1831, eight months after arriving in Vienna, he decided to leave this unyielding city.

exist, why do you not take vengeance! Are Moscow's crimes not enough for you – or are you a Muscovite yourself?! [...] and I sit here idle – I sit here with empty hands – sometimes I just moan, fret at the piano, despair". It is at this time that Chopin produced what were probably his most dramatic works of that period – Etude in C minor op. 10 No. 12, the "revolutionary etude", and the main outline of Scherzo in B minor. Etude in C# minor op. 10 No. 4 also had a romantic, tempestuous character, so it is possible that Chopin also started work on that piece at this time.

### Stuttgart Diary

Via Linz and Salzburg, where he stopped for a while to look around Mozart's birthplace, Chopin travelled to Munich, where he performed a successful concert at the

### First successes – Paris

Finally, in September 1831, Chopin arrived in Paris. Although he was initially still an unknown artist, his situation quickly changed. From his first public appearance in Paris on 26 February 1832 he began to win the admi-



ration of many reviewers and the lively interest of other eminent musicians of that time. One newspaper reported: "Listening to his muse and refusing to model his work on that of any other artist, he [...] revitalises the art of the piano", while Felix Mendelssohn-Bartholdy extols: "His method of playing the piano is completely new, the most original and the most artistic of all contemporary methods". Unfortunately, Chopin's financial situation was not keeping pace with his reputation and he complained: "I am making my way in the world, but I only have a ducat in my pocket". However, following the praise of the reviewers Chopin began to gain popularity among the Parisian public. "He attracts the attentions of all the French ladies and provokes jealousy in the men. He is now so much in fashion that soon we will all be wearing gloves à la Chopin", wrote Antoni Orłowski. The artist himself admitted in one of his letters that: "I am under siege from all sides. I have entered the highest echelons of society, I sit amongst ambassadors, princes, and ministers. [...] This is exactly what I need most at this time, after all this is the source of good taste; after all, if you've been heard in the English or Austrian embassy of course you must be enormously talented".

Another key factor in his success was new, closer friendships with the most important musicians of the day. These included, apart from the previously mentioned Feliks Mendelssohn-Bartholdy (author of the still popular Wedding March from the music written for Shakespeare's *Midsummer Night's Dream*), Franz Liszt, to whom Chopin dedicated the soon to be completed series of Etudes op. 10, Hector Berlioz, the accomplished pianists Friedrich Kalkbrenner and Ferdynand Hiller, the cellist Auguste Franchomme, and a little later also Heinrich Heine, Vincenzo Bellini, and Giacomo Meyerbeer. Chopin was also warmly received by Polish expatriates

such as Adam Czartoryski, Joachim Lelewel, Józef Bem, Walenty Radziwiłł, Julian Niemcewicz, Juliusz Słowacki, Adam Mickiewicz, and the poets Stefan Witwicki and Bohdan Zaleski. He was also accepted in 1832 into the Polish Literary Society that brought together Polish artists living abroad. Chopin often visited the Polish Club on Rue Godot de Mauroy, and was also a frequent guest at meetings in private houses. Juliusz Słowacki said of one of these soirées: "The guests were bored stiff from ten till two o'clock in the morning, but at the end Chopin got drunk and played some lovely improvisations on the piano".

## Mutual inspiration: Chopin and Liszt

A particularly important relationship for Chopin at this time was his friendship with the eminent Hungarian romantic composer living in Paris, Franz Liszt, to whom he dedicated the entire series of Etudes op. 10. Liszt, admired above all for his piano work, was considered the best musician in Europe. Liszt pulled off such outstanding performances of Opus 10 that Chopin himself declared: "I would like to steal from him his interpretation of my own pieces". However, according to one famous anecdote, when Chopin first gave Liszt the sheet music for Etudes, shortly afterwards the Hungarian pianist left Paris for a few weeks. It turned out that the greatest piano player of his time, who was able to play new pieces at sight, without any prior preparation, had met his match for the first time – Chopin's Etudes were simply too difficult! Liszt therefore shut himself away in his house and worked on his interpretation, only performing it publicly a few weeks later. Liszt was hugely impressed by the Etudes. In a famous quote from 1884, he said of Chopin's Etudes op. 10: "I have known them by heart for fifty years".

The playing style of the two musicians was quite different. Chopin astonished audiences with a style that was full of dynamic nuances and delicacy, while Liszt was unrivalled in the charisma of his performances: his playing electrified the audience and was charged with wild energy and almost devoid of any physical limitations. The fascination of the musicians was mutual, and concerned both piano playing and composing. They performed together

Chopin managed to negotiate an exclusive contract with him, and Schläsinger was also the first to publish the later works of the Polish composer. A little later in the same year, the works were published in Germany and England by Friedrich Kirstner in Leipzig and Wessla & Co. in London, which led to Chopin's work becoming far more widely known in Europe.

*Frederick Chopin portrait*

*Franz Liszt portrait*

*Panorama of Paris,  
19<sup>th</sup> century*



at many concerts in Paris. Chopin seemed to be partially influenced by the style of the Hungarian virtuoso's works, while Liszt, clearly inspired by Chopin's originality, in subsequent years composed pieces that displayed a greater degree of innovation than before.

Surviving Chopin by almost 40 years, Franz Liszt eventually wrote the first ever book about Chopin. Published in 1852, it was the starting point for a series of later biographies about Poland's most eminent composer.

### The ideal work

The Etudes op. 10 were published by one of the most influential publishers in Europe, Maurice Schläsinger, in Paris in June 1833.

Chopin's 12 Etudes op. 10 are musical works of unparalleled accomplishment and were unrivalled by other European piano composers of the time. According to many experts, no composer before or after Chopin has created works that come close to the Etudes, in terms of either artistic expression or precision of construction. Tadeusz A. Zieliński, one of Chopin's biographers, writes: "In Chopin, individuality coexists with a mastery of composing technique. Although he was a wonderful improviser with a rich imagination, when he was composing a work he also ensured that it was logical and polished each detail of the piece. The beauty of his thematic ideas is therefore always accompanied by perfection of construction worthy of the greatest masters of form".

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#### East Retail Region

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fax +48 (41) 349 03 26

#### South Retail Region

(Provinces of: Lower Silesia, Opole, Silesia, Małopolska and Podkarpacie)  
ul. Chorzowska 50, 40-121 Katowice  
tel. +48 (32) 731 57 00  
fax +48 (32) 731 57 01

### Regional Wholesale Offices (Poland)

#### Central Wholesale Region

ul. Chemików 7, 09-411 Płock  
tel. +48 (24) 365 53 81  
fax +48 (24) 365 54 48

#### South Wholesale Region

ul. Fabryczna 22, 32-540 Trzebinia  
tel. +48 (32) 618 07 00  
fax +48 (32) 618 07 13

#### North Wholesale Region

ul. Długi Targ 30, 80-830 Gdańsk  
tel. +48 (58) 323 23 42,  
fax +48 (58) 323 23 93

#### East Wholesale Region

ul. Zemborzycka, 20-445 Lublin  
tel. +48 (81) 536 52 00  
fax +48 (81) 536 52 24

#### West Wholesale Region

ul. Średzka 10/12, 61-023 Poznań  
tel. +48 (61) 873 69 01  
fax +48 (61) 829 91 72



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